

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2020

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



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Chapel Hill

We have completed a financial statement audit of The University of North Carolina at Chapel Hill for the year ended June 30, 2020, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Chapel Hill (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the UNC Investment Fund, LLC, which represent 54.21 percent and 2.18 percent, respectively, of the assets and revenues of the University.
- The financial statements of the UNC Intermediate Pool, LLC, which represent 4.08 percent and 0.16 percent, respectively, of the assets and revenues of the University.
- The financial statements of the UNC Management Company, Inc., which represent 0.12 percent and 0.60 percent, respectively, of the assets and revenues of the University.

- The financial statements of The University of North Carolina at Chapel Hill Foundation, Inc., which represent 1.45 percent and 1.01 percent, respectively, of the assets and revenues of the University.
- The financial statements of The Kenan-Flagler Business School Foundation, which represent 0.61 percent and 0.95 percent, respectively, of the assets and revenues of the University.
- The financial statements of the UNC Health Foundation, Inc., The Educational Foundation Scholarship Endowment Trust, or The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., the University's discretely presented component units.

The financial statements listed above were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University's blended and discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Chapel Hill, and its discretely presented component units, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 9, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the University) for the fiscal year ended June 30, 2020, with comparative information for the fiscal year ended June 30, 2019. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

The University is a constituent institution of the 17-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The University is a global higher education leader known for innovative teaching, research, and public service. Now in its third century, the University, at the time of this publication, offers 74 bachelor's, 104 master's, 65 doctorate, and seven professional degree programs through 14 schools and the College of Arts and Sciences. A total of 30,101 undergraduate, graduate, and professional students learn from a faculty of 3,887.

The financial reporting entity for the financial statements is comprised of the University and its component units. Certain component units are reported as if they were part of the University, and others are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A in the notes to the financial statements provides detailed information on the financial reporting entity.

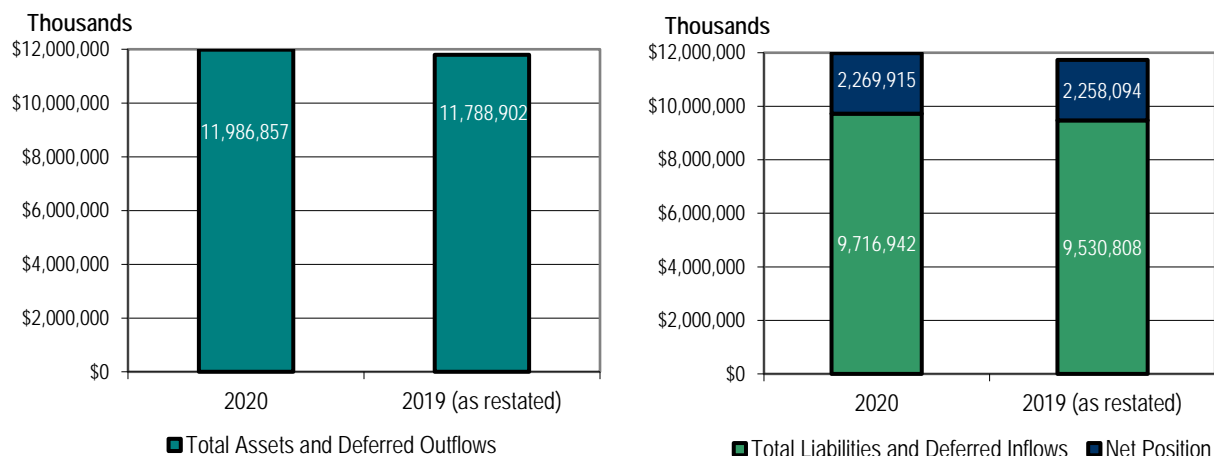
Financial Overview

The University maintained its solid financial position at June 30, 2020. The current ratio at June 30, 2020 was 3.6 times, compared to 3.5 times at June 30, 2019. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources, was \$2.3 billion at June 30, 2020, consistent with \$2.3 billion (as restated) at June 30, 2019. The University's total assets and deferred outflows of resources were \$12.0 billion, and the total liabilities and deferred inflows were \$9.7 billion at June 30, 2020.

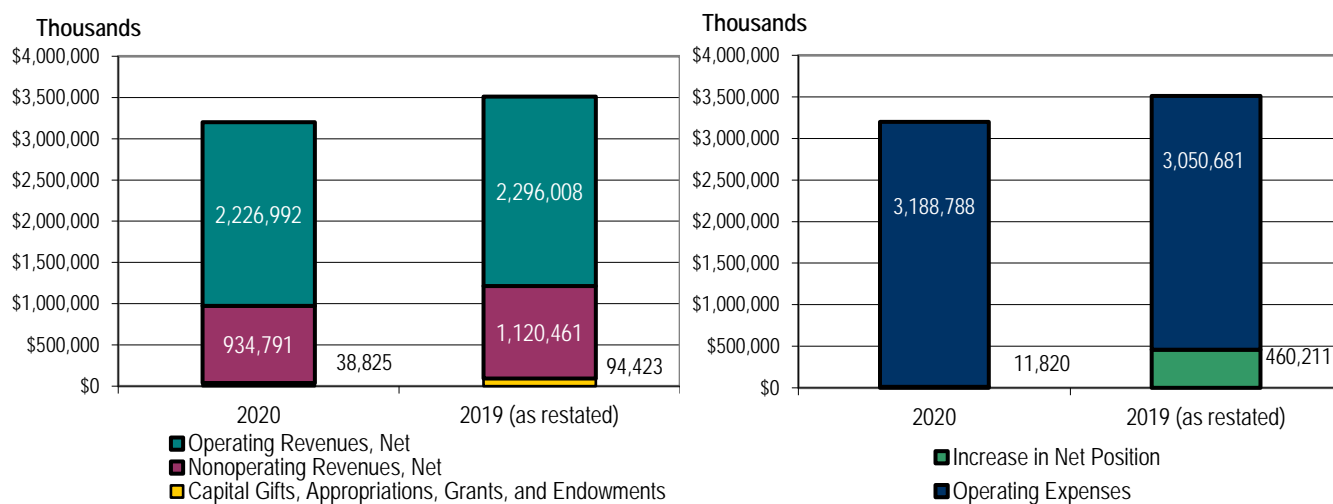
MANAGEMENT'S DISCUSSION AND ANALYSIS

A comparison of the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2020, and June 30, 2019, respectively, along with the major components of the changes in net position for the two fiscal years is presented below:

STATEMENT OF NET POSITION



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION



Net position increased 0.5% at June 30, 2020, from the prior year's restated balance.

Using the Financial Statements

The University's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. These statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

The University's financial statements include the following financial statements with related note disclosures:

- *Statement of Net Position for the University*
- *Statement of Revenues, Expenses, and Changes in Net Position for the University*
- *Statement of Cash Flows for the University*
- *Statement of Financial Position for Component Units of the University*
- *Statement of Activities for Component Units of the University*

Management's Discussion and Analysis provides information regarding the Statement of Net Position for the University and the Statement of Revenues, Expenses, and Changes in Net Position for the University.

Condensed Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, and includes all assets and deferred outflows of resources, liabilities and deferred inflows of resources, segregating the assets and liabilities into current and noncurrent components. The following table summarizes the University's Statement of Net Position on June 30, 2020 and June 30, 2019:

CONDENSED STATEMENT OF NET POSITION (Dollars in Thousands)

	2020	2019 (as restated)	Percent Change
Assets:			
Current Assets	\$ 1,734,944	\$ 1,681,983	3.1
Noncurrent Assets:			
Endowment, Restricted, and Other Investments	6,279,015	6,195,624	1.3
Capital Assets, Net	3,050,507	3,122,915	(2.3)
Other Noncurrent Assets	253,777	251,080	1.1
Total Assets	11,318,243	11,251,602	0.6
Total Deferred Outflows of Resources	668,614	537,300	24.4
Liabilities:			
Current Portion of Long-Term Liabilities	96,795	99,647	(2.9)
Other Current Liabilities	389,910	375,970	3.7
Noncurrent Liabilities:			
Funds Held in Trust for Pool Participants	4,062,395	3,917,847	3.7
Long-Term Liabilities, Net	4,009,613	3,757,114	6.7
Other Noncurrent Liabilities	178,451	136,668	30.6
Total Liabilities	8,737,164	8,287,246	5.4
Total Deferred Inflows of Resources	979,778	1,243,562	(21.2)
Net Position:			
Net Investment in Capital Assets	1,682,287	1,728,392	(2.7)
Restricted	2,423,067	2,413,804	0.4
Unrestricted	(1,835,439)	(1,884,102)	(2.6)
Total Net Position	\$ 2,269,915	\$ 2,258,094	0.5

Current Assets and Liabilities

As derived from the Statement of Net Position, working capital was \$1.2 billion at June 30, 2020, compared to \$1.2 billion at June 30, 2019. Working capital is defined as current assets less current liabilities. Current assets were \$1.7 billion at June 30, 2020, consistent with \$1.7 billion at June 30, 2019.

Endowment, Restricted, and Other Investments

Investment assets - Total endowment, restricted, and other investments were \$6.3 billion at June 30, 2020. Of the \$6.3 billion invested, approximately \$3.0 billion are assets not owned by the University and not part of the University's reporting entity, but rather are owned by other UNC System campuses and their affiliates who have elected to pool their assets with the University's through the UNC Investment Fund, LLC. These funds are classified as funds held in trust for pool participants in the University's financial statements.

The total invested assets of \$6.3 billion represents an increase of 1.3% from June 30, 2019. This increase is the net result of funds added to investments, realized and unrealized investment earnings, scheduled payouts, and fund withdrawals.

Endowment management - The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund or CHIF), further detailed in Note 1A. It is expected that all or substantially all of the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund or UNCIF), an investment pool organized by the Chapel Hill Investment Fund to allow the University, along with other constituent institutions of the UNC System and affiliated organizations, to pool investment resources.

Endowment distribution - The CHIF investment objective is to earn a long-term real (i.e. inflation-adjusted) rate of return of approximately 5.5% per year. This objective is intended to support the Chapel Hill Investment Fund's distribution policy providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors, and the distribution rate generally has ranged between 4.0% and 6.0% based on the beginning market value of the Chapel Hill Investment Fund. For the fiscal year ended June 30, 2020, the distribution rate was 4.8%.

Recognizing that severe market declines periodically occur, a University Statutory Endowment policy (established pursuant to *North Carolina General Statute* 116-36) addresses the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and if appropriate, pursue alternative funding for essential activities and consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value.

Endowment performance - For fiscal year 2020, the UNC Investment Fund recorded a 2.3% investment return, compared to the prior year's return of 7.7%. While the UNCIF's fiscal year 2020 return failed to exceed the primary long-term objective of earning a real rate of return of at least 5.5% plus inflation (which amounted to 6.2% in fiscal year 2020), the UNCIF's return did, however, exceed the Strategic Investment Policy Portfolio (SIPP) return of 2.1% in fiscal

year 2020. Moreover, for the year, five of the UNCIF's seven primary asset classes generated positive returns and four exceeded their respective SIPP benchmarks.

Over a longer-term time horizon, UNCIF's five year annualized performance of 6.3% surpassed its SIPP return of 5.6%, but did not meet the primary objective of earning an average annual rate of return of at least 5.5% plus inflation, net of all fees, over a rolling five-year period (which amounted to 7.1% for the period). The UNCIF's 10-year annualized return of 8.5% also surpassed its SIPP return of 8.0% and met the primary return objective of earning an average annual rate of return of at least 5.5% plus inflation, net of all fees, over a rolling ten-year period (which was 7.2% for the period). Over the last three-, five- and ten-year periods, the UNCIF's performance ranked in the top quartile of the BNY Mellon Endowment & Foundation universe.

Capital Assets and Debt Management

Overall, capital assets, net declined \$72.4 million. This decrease was driven by a change in the useful life of the University's ERP system along with a decrease in the amount of capital gifts received during the current year.

A summary of changes in capital assets is disclosed in Note 6. Capital assets, net of accumulated depreciation and amortization, at June 30, 2020, and June 30, 2019, were as follows:

Capital Assets (Dollars in Thousands)	2020	2019	Percent Change
Capital Assets:			
Construction in Progress	\$ 114,740	\$ 101,562	13.0
Land and Other Nondepreciable Assets	237,295	229,289	3.5
Buildings, Net	1,984,676	2,011,186	(1.3)
General Infrastructure, Net	480,212	505,842	(5.1)
Machinery, Equipment, and Computer Software, Net	233,584	275,036	(15.1)
Total	\$ 3,050,507	\$ 3,122,915	(2.3)

Capital financing - During fiscal year 2020, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all, or a portion of the funding, through the issuance of long-term bonds.

During fiscal year 2020, the University issued \$10.0 million in commercial paper debt to fund the Media and Communications Studio project for the Athletics Department, Division of Laboratory Animal Medicine (Division of Comparative Medicine) renovations, the Kenan Labs renovation for Applied Physics, and the Translational Research Building. The balance of commercial paper debt was \$35.0 million at June 30, 2020, and \$25.0 million at June 30, 2019.

Debt management - The University maintains a combination of variable and fixed-rate debt, consistent with its debt management policy. Additional details on rates and maturity can be found in Note 10 – Long-Term Liabilities.

The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The *debt service to operations ratio* provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. The *expendable resources to debt ratio* measures unrestricted and restricted expendable net position to funded debt and serves as a relative indicator of financial health, or cushion. The

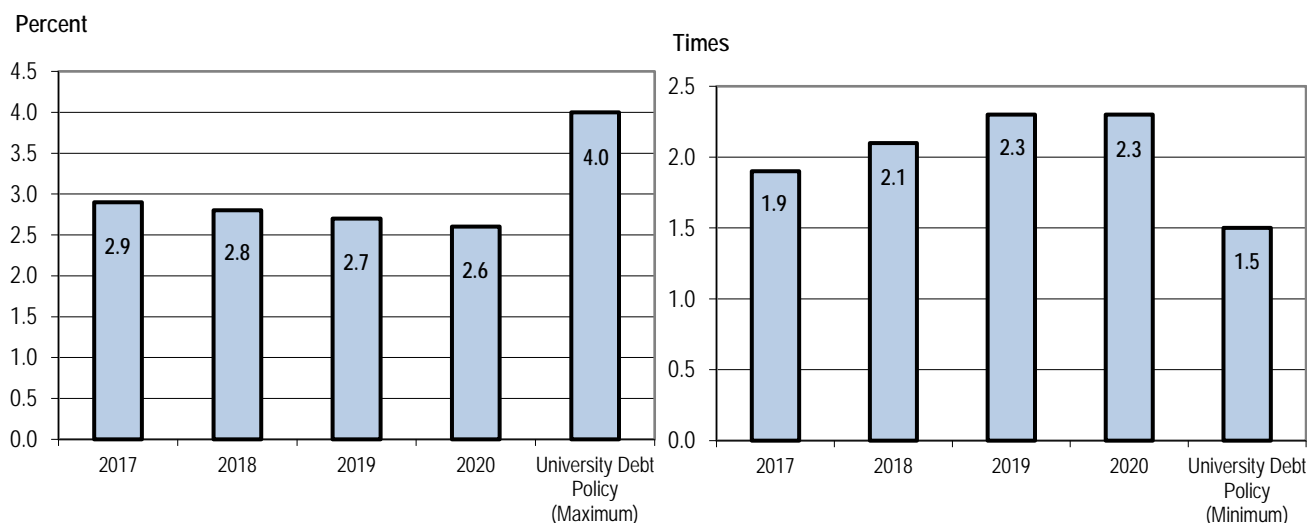
unrestricted net position included in this calculation excludes the impact of the net pension and net OPEB liabilities since these do not have an impact on the University's ability to pay debt. Please see Note 13 for additional information. Each ratio is compared to the University's debt policy standard. At June 30, 2020, the *expendable resources to debt ratio* was 2.3 times, and the *debt service to operations ratio* was 2.6%. Results of both ratios comply with the University's debt policy and indicate healthy coverage of debt requirements.

As a function of its debt management strategy, the University retained a balance of \$261.1 million in unrestricted cash and investments for the purposes of payment of debt related obligations to include certain bullet maturities. No formal board designation, external requirement, or mandatory sinking fund exists to otherwise restrict the use of these funds as of June 30, 2020.

The University continues to maintain its long-term bond ratings of Aaa/AAA/AAA from Moody's Investor Services, Standard & Poor's Global Ratings, and Fitch Ratings, respectively.

DEBT SERVICE TO OPERATIONS

EXPENDABLE RESOURCES TO DEBT



Other Noncurrent Assets and Liabilities

Excluding investments and capital assets discussed above, other noncurrent assets were \$253.8 million at June 30, 2020, and \$251.1 million at June 30, 2019, as restated, reflecting a 1.1% increase, primarily driven by a reclassification from cash surrender value of life insurance caption to investments. Other noncurrent assets include restricted cash and cash equivalents, receivables, notes receivable, investments in joint ventures, beneficial interest in assets held by others, and the net other postemployment benefits asset.

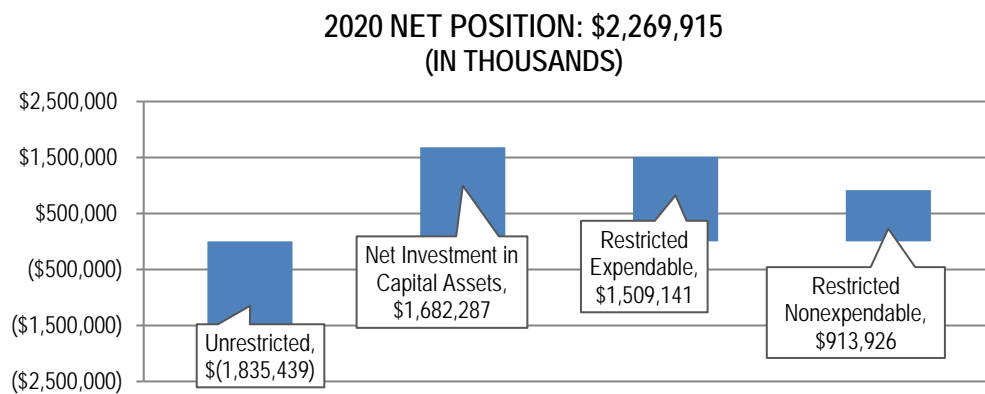
Total noncurrent liabilities were \$8.3 billion at June 30, 2020, and \$7.8 billion at June 30, 2019. These include net OPEB liability of \$2.2 billion at June 30, 2020 and \$1.9 billion at June 30, 2019, as well as funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their affiliates of \$4.1 billion at June 30, 2020, and \$3.9 billion at June 30, 2019. These two items are the primary reasons for the increase. For more information on the change in OPEB amounts, refer to Notes 10 and 17.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources were \$668.6 million at June 30, 2020, and \$537.3 million at June 30, 2019, reflecting a 24.4% increase driven primarily by increases in deferred outflows related to OPEB. This is due to a change in the University's proportionate share of contributions. Deferred inflows of resources were \$1.0 billion at June 30, 2020, and \$1.2 billion at June 30, 2019, reflecting a 21.2% decrease driven primarily by changes in actuarial assumptions for deferred inflows related to OPEB.

Net Position

Net position represents the value of the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University's net position was steady at \$2.3 billion at June 30, 2020, and \$2.3 billion (as restated) at June 30, 2019.



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

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations. The statements for the fiscal year ended June 30, 2020 and the prior year are summarized as follows:

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Dollars in Thousands)

	2020	2019 (as restated)	Percent Change
Operating Revenues:			
Student Tuition and Fees, Net	\$ 400,349	\$ 424,391	(5.7)
Grants and Contracts	887,343	866,141	2.4
Sales and Services, Net	926,106	995,348	(7.0)
Other Operating Revenues	13,195	10,128	30.3
Total Operating Revenues	2,226,993	2,296,008	(3.0)
Operating Expenses	3,188,788	3,050,681	4.5
Operating Loss	(961,795)	(754,673)	27.4
Nonoperating Revenues (Expenses):			
State Appropriations	534,766	543,274	(1.6)
Student Financial Aid	44,316	43,302	2.3
Noncapital Contributions, Net	314,963	273,851	15.0
Investment Income, Net	95,460	206,536	(53.8)
Interest and Fees on Debt	(51,302)	(51,052)	0.5
Other Nonoperating Revenues (Expenses)	(3,411)	104,550	(103.3)
Net Nonoperating Revenues	934,792	1,120,461	(16.6)
Income (Loss) Before Other Revenues	(27,003)	365,788	(107.4)
Capital Appropriations	1,452	4,060	(64.2)
Capital Contributions	20,629	62,823	(67.2)
Additions to Permanent Endowments	16,743	27,540	(39.2)
Increase in Net Position	11,821	460,211	(97.4)
Net Position – July 1	2,258,094	1,851,379	22.0
Restatements		(53,496)	
Net Position – June 30	\$ 2,269,915	\$ 2,258,094	0.5

Fiscal year 2019-2020 revenues and other changes total \$3,255,322 and expenses total \$3,243,501.

Fiscal year 2018-2019 revenues and other changes total \$3,561,944 and expenses total \$3,101,733.

Operating Revenues

Operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Student tuition and fees (net) for fiscal year 2020 decreased 5.7% over the prior year. This reduction is a result of the global pandemic during Spring 2020 which caused the cancellation of Executive Education programs along with lower enrollment for the Executive MBA program and the online Master in Accountancy program during the fiscal year.

Revenues and expenditures from sponsored projects remained steady in FY 2020 as compared to FY 2019. In terms of research funding, faculty secured \$1.05 billion in sponsored program funding in fiscal year 2020. That is a substantial increase from fiscal year 2019 where we received \$941 million. Consequently, there is still an upward trajectory for overall research activity at UNC. Sponsored project funding comes in the form of grants and contracts awarded

by federal and state agencies, foundations, nonprofit organizations, corporations, and associations, with the federal government providing the majority of the awards. Securing sponsored program funding has become an increasingly competitive endeavor, particularly as federal funding becomes more and more competitive. A key factor in dealing with such competitive pressures is diversifying funding sources and bringing in more awards from foundations and private industry.

The National Institutes of Health (NIH) remained the University's single largest funding source, with awards totaling \$523 million, which was up from the fiscal year 2019 total of \$473 million. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (dentistry, medicine, nursing, pharmacy, and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts and Sciences.

The University's other top funders were the National Science Foundation, \$53.2 million; the U.S. Agency for International Development (USAID) at \$36.3 million; and the U.S. Dept. of Education at \$25.1 million. The University's multidisciplinary research centers and institutes within the Vice Chancellor's Division continue to play a growing role in bringing research funding to North Carolina, accounting for approximately \$169.7 million, which is up from the FY19 total of \$146.4 million, and represents approximately 16%, of the total awards in fiscal year 2020.

Sales and services (net) decreased 7.0% in fiscal year 2020 which includes the revenues of campus auxiliary operations such as student housing, campus health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional healthcare clinics. The revenue component of sales and services from the professional healthcare clinics decreased 3.1% as a direct result of the COVID-19 pandemic which caused many clinics to close in March. Also, as students left campus for the semester in March 2020, partial refunds were issued for housing, parking, dining, and spending on campus was curbed.

Operating Expenses

The University's operating expenses were \$3.2 billion for the fiscal year ended June 30, 2020, an increase of 4.5% from the prior year.

Operating Expenses by Natural Classification (Dollars in Thousands)

	2020	2019	Percent Change
Salaries and Benefits	\$ 1,802,250	\$ 1,716,743	5.0
Supplies and Services	1,018,615	1,013,233	0.5
Scholarships and Fellowships	106,483	88,821	19.9
Utilities	81,722	89,640	(8.8)
Depreciation/Amortization	179,718	142,244	26.3
Total Operating Expenses	\$ 3,188,788	\$ 3,050,681	4.5

Salaries and benefits increased 5.0% with additional hiring in the medical area along with increases in pension and OPEB expenses. Scholarships and fellowships increased 19.9% due to new activity along with a reduction in scholarship allowance due to student refunds issued due to COVID-19. Depreciation and amortization increased 26.3% due to a change in the useful life of the University ERP system to ten years.

Nonoperating Revenues and Expenses

State appropriations, noncapital contributions, and investment income (net) are considered nonoperating because they are not generated by the University's principal, ongoing operations. State appropriations are provided to help fund operating expenses.

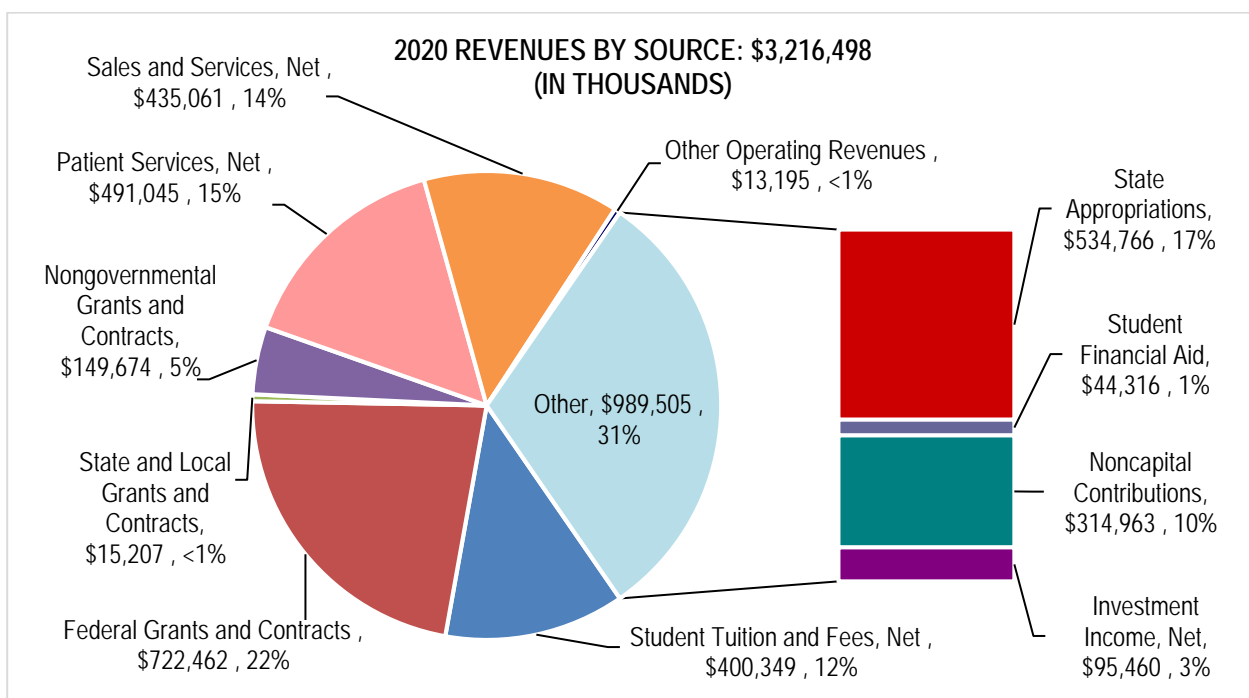
State appropriations revenue totaled \$534.8 million for fiscal year 2020, a decrease of 1.6% from the \$543.3 million received during the prior year. In fiscal year 2019, the University received a higher one time special appropriation including allocations for Area Health Education Centers, legislative state increases and enrollment growth allocation.

Investment returns decreased \$111.1 million, which reflects the market downturn in fiscal year 2020. Refer to the Endowment Performance subsection in the Endowment, Restricted, and Other Investments section for additional discussion and analysis. Investment income includes investment yield and realized and unrealized gains and losses, net of investment management fees.

Other nonoperating revenues decreased \$108.0 million, which directly relates to component unit activity in fiscal year 2019.

Total Operating and Nonoperating Revenues

Operating and nonoperating revenues such as state appropriations, noncapital grants, noncapital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and nonoperating revenues, which total \$3.2 billion for fiscal year 2020. As seen in the chart, the University has a diversified revenue base.



Other Changes in Net Position

Capital contributions decreased from \$62.8 million to \$20.6 million in fiscal year 2020. This decrease is driven by gifts from the Educational Foundation to Athletics in the previous fiscal

year including the field hockey stadium, locker room renovations, and Finley fields improvements.

Economic Outlook

The University of North Carolina at Chapel Hill remains a financially sound institution, even as it navigates the challenges wrought by the pandemic, with a robust and diverse revenue base, a healthy endowment, strong tradition of private giving, prudent expense management, high demand for admission, and a commitment to excellence.

After beginning the fall semester with a hybrid approach to in-person and online instruction, the University made the decision to pivot to remote instruction for all undergraduate students. Graduate, professional and health affairs schools were not impacted by this change. Students were able to cancel their residence hall leases without penalty. Residents who had hardships, such as lack of access to reliable internet access, international students or student-athletes had the option to remain on campus. In response to the transition to online instruction, the University focused on expense reduction in auxiliary areas such as athletics, housing, dining, and parking.

The pandemic is expected to continue to have a significant and uncertain impact on the University's operation, but there are plans to transition back to a hybrid on-campus approach in Spring 2021 with different modes of instruction. Residence halls will be filled at single occupancy levels with ample quarantine and isolation rooms throughout campus.

As a result of the COVID-19 pandemic, the University received \$4.5 million from the State of North Carolina COVID-19 Recovery Act to cover increased costs for online coursework, implementation of a digital learning accelerator, providing sanitation and other expenses for ongoing campus operations, and covering necessary eligible expenses for students and employees. These funds must be spent by December 2020. In addition, the University was awarded \$29.0 million to allocate to the NC Policy Collaboratory for the development of countermeasures for COVID-19, a vaccine for COVID-19, community testing initiatives, and other research to address health and economic impacts of COVID-19.

The University received \$8.6 million for the student portion of the Higher Education Emergency Relief Fund (HEERF) to provide emergency financial aid grants to students for expenses related to the disruption of campus operations. In addition, the University received \$8.6 million to cover any costs associated with significant changes to the delivery of instruction due to the Pandemic.

Tuition rates for the ensuing fiscal year 2021 remain consistent with Academic Year 2020 rates for all resident and non-resident students. The University continues to return a portion of tuition revenue to students in the form of need-based aid and combined with other sources, continues to provide financial aid to meet 100% of documented need for undergraduate students.

State appropriations for fiscal year 2021 are budgeted to be \$531.3 million. Initiatives funded by the UNC System such as faculty recruitment and retention, campus scholarship awards, department-based research, and other programs may increase the state appropriations budget during the 2021 fiscal year.

Sponsored awards are a proven and reliable source in support of the University's research mission. The University's research enterprise has doubled in the last decade. It directly

supports more than 10,000 positions statewide. In a 2018 report titled *The Top American Research Universities*, the University was ranked one of the top six public universities. The report, produced by the Center for Measuring University Performance, assessed areas such as research, private support, faculty strength, and advanced training. Strong financial support from North Carolina's elected officials has helped build the infrastructure that enabled this growth, also having strong collaborative ties to Duke University and NC State University in the Research Triangle Park region.

Philanthropic efforts continued to show strength and momentum in fiscal year 2020, with new cash and commitments totaling \$565 million, the University's third best year ever. Over 60,000 alumni and friends contributed to the Campaign for Carolina in support of the University's mission.

Transformative commitments included funds to expand facilities for programs dedicated to sports medicine, sport-related traumatic brain injury and concussion research, and to create the Stallings-Evans Sports Medicine Complex; a \$25 million gift to name the UNC Hussman School of Journalism and Media; a \$15 million gift to UNC Athletics in honor of the late Jim Komen, Sr. to support student-athletes' lifelong success and to name a new football practice facility; and \$20 million raised by a donor challenge to support the Morehead-Cain scholarship program. The University's annual day of giving, GiveUNC, received more than \$7.7 million, its best performance ever.

Donors also gave to special funds established to respond to the COVID-19 pandemic. These benefited students facing financial hardships, UNC Health's personnel on the frontlines, and researchers pursuing vaccines and treatments.

Investment income provides an important distribution of earnings in support of the University's mission. Approximately \$3.6 billion is invested with the UNC Investment Fund. The achievement of investment objectives cannot be realized unless a substantial portion of assets are invested in securities which are subject to market volatility. The UNC Investment Fund does not seek to eliminate risk, but to balance volatility and expected return. This strategy requires investments in different asset classes with proper diversification in order to minimize the probability of loss while generating investment returns sufficient to meet program objectives. As it relates to the Fund, diversification is primarily achieved through the strategic asset allocation at the aggregate level and then augmented by strategies mandated with individual investment managers.

Since asset allocation is the fundamental driver of risk and return, the framework of the UNC Investment Fund has been designed to optimize risk-adjusted returns in support of achieving long-term objectives. The UNC Investment Fund has established ranges or bands for each respective asset class in order to provide a controlled framework for managing risk. Asset allocations are adjusted periodically, in accordance with policy objectives, to reflect market conditions and align assets with planned performance expectations. Asset allocations represent the best estimate at a given measurement date for supporting long-term expected rate of return objectives.

Given the general risks and uncertainties in financial markets, the UNC Investment Fund's strategy tends to focus on capital preservation and downside protection as an overall approach. Many financial asset classes are currently quite expensive on a historical basis suggesting that their forward-looking return profiles may be muted. It is due to these factors that the UNC Investment Fund tends to favor those investment opportunities that provide more modest returns with less volatility rather than more aggressive strategies. Current market

conditions require greater flexibility and prudent investing to preserve and protect capital while incrementally generating return in a risk-efficient manner. Actual investment experience and expectations will vary depending upon the current state environment, time horizon, and other factors.

According to Moody's Investor Service Outlook - Higher Education – US, March 2020, the outlook for higher education has changed to negative from stable due to the negative financial impact of the coronavirus pandemic. Universities will see an immediate revenue decline and face rising expenses. Brand strength and revenue diversity are expected to ease some of the pressures for large research universities. The University's ability to grow the base and mix of its revenue is an important part of its financial and operational strategy. The University's mixture of funding sources includes student tuition, state appropriations, federal, state, and other research awards, philanthropy, sales from clinical and business operations, and investment returns. This diversity of resources provides flexibility for the University to withstand funding fluctuations.

The University faces significant pressure on its ability to manage expenses while maintaining the competitive salaries and benefits needed to attract top faculty. Continued effective leadership and commitment to financial health will fortify the University as it continues to thrive. While it is not possible to predict future results, management is actively pursuing strategies to ensure that the University's financial position will remain strong and steady while remaining dedicated to the University's mission.



FINANCIAL STATEMENTS

The University of North Carolina at Chapel Hill
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 588,144,959
Restricted Cash and Cash Equivalents	290,713,383
Short-Term Investments	343,492,030
Restricted Short-Term Investments	153,062,306
Receivables, Net (Note 5)	226,300,955
Due from State of North Carolina Component Units	84,157,646
Inventories	21,356,355
Notes Receivable, Net (Note 5)	5,367,032
Other Assets	22,349,807
	<hr/>
Total Current Assets	1,734,944,473

Noncurrent Assets:

Restricted Cash and Cash Equivalents	140,890,256
Receivables, Net (Note 5)	57,535,259
Endowment Investments	2,415,818,783
Restricted Investments	3,829,378,385
Other Investments	33,817,326
Notes Receivable, Net (Note 5)	33,462,455
Investment in Joint Ventures (Note 22)	17,455,745
Beneficial Interest in Assets Held by Others	1,445,302
Net Other Postemployment Benefits Asset	2,987,331
Capital Assets - Nondepreciable (Note 6)	352,035,814
Capital Assets - Depreciable, Net (Note 6)	2,698,471,623
	<hr/>
Total Noncurrent Assets	9,583,298,279
	<hr/>
Total Assets	11,318,242,752

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	157,129,612
Deferred Loss on Refunding	9,883,702
Deferred Outflows Related to Pensions	139,747,208
Deferred Outflows Related to Other Postemployment Benefits (Note 17)	361,853,511
	<hr/>
Total Deferred Outflows of Resources	668,614,033

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	167,871,534
Due to State of North Carolina Component Units	15,571,812
Due to University Component Units	10,972,592
Deposits Payable	13,283,392
Funds Held for Others	1,133,012
Unearned Revenue	128,673,104
Interest Payable	3,092,818
Obligations Under Reverse Repurchase Agreements	14,312,000
Short-Term Debt (Note 9)	35,000,000
Long-Term Liabilities - Current Portion (Note 10)	96,794,518
	<hr/>
Total Current Liabilities	486,704,782

The University of North Carolina at Chapel Hill
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:

U. S. Government Grants Refundable	21,320,811
Funds Held in Trust for Pool Participants	4,062,395,359
Hedging Derivative Liability	157,129,612
Long-Term Liabilities, Net (Note 10)	4,009,613,407

Total Noncurrent Liabilities	8,250,459,189
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Total Liabilities	8,737,163,971
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows for Irrevocable Split-Interest Agreements	20,156,298
Deferred Inflows Related to Pensions	659,085
Deferred Inflows Related to Other Postemployment Benefits (Note 17)	958,962,763

Total Deferred Inflows of Resources	979,778,146
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NET POSITION

Net Investment in Capital Assets	1,682,287,193
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Restricted:

Nonexpendable	913,925,586
Expendable	1,509,141,486

Unrestricted	(1,835,439,597)
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Total Net Position	\$ 2,269,914,668
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The accompanying notes to the financial statements are an integral part of this statement.

***The University of North Carolina at Chapel Hill
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2020***

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 14)	\$ 400,348,766
Patient Services, Net (Note 14)	491,044,506
Federal Grants and Contracts	722,461,787
State and Local Grants and Contracts	15,207,330
Nongovernmental Grants and Contracts	149,674,143
Sales and Services, Net (Note 14)	435,061,393
Interest Earnings on Loans	7,504,049
Other Operating Revenues	5,690,411
Total Operating Revenues	<u>2,226,992,385</u>

OPERATING EXPENSES

Salaries and Benefits	1,802,250,379
Supplies and Services	1,018,614,534
Scholarships and Fellowships	106,483,355
Utilities	81,722,034
Depreciation/Amortization	179,717,871
Total Operating Expenses	<u>3,188,788,173</u>
Operating Loss	<u>(961,795,788)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	534,765,894
Student Financial Aid	44,316,294
Federal Aid - COVID-19	5,834,424
Noncapital Contributions, Net (Note 14)	314,962,706
Investment Income (Net of Investment Expense of \$24,885,190)	95,460,153
Interest and Fees on Debt	(51,302,015)
Federal Interest Subsidy on Debt	2,143,055
Other Nonoperating Expenses	(11,389,104)
Net Nonoperating Revenues	<u>934,791,407</u>
Loss Before Other Revenues	(27,004,381)
Capital Appropriations	1,452,000
Capital Contributions	20,629,312
Additions to Endowments	16,743,402
Total Other Revenues	<u>38,824,714</u>
Increase in Net Position	11,820,333

NET POSITION

Net Position - July 1, 2019, as Restated (Note 25)	<u>2,258,094,335</u>
Net Position - June 30, 2020	<u><u>\$ 2,269,914,668</u></u>

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

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,265,111,335
Payments to Employees and Fringe Benefits	(1,873,344,193)
Payments to Vendors and Suppliers	(1,111,501,771)
Payments for Scholarships and Fellowships	(106,483,355)
Loans Issued	(5,367,559)
Collection of Loans	5,787,994
Interest Earned on Loans	7,951,905
Other Payments	(37,485,208)
Net Cash Used by Operating Activities	(855,330,852)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	534,765,894
Student Financial Aid	44,316,294
Federal Aid - COVID-19	5,834,424
Noncapital Contributions	330,669,785
Additions to Endowments	16,743,402
William D. Ford Direct Lending Receipts	168,533,773
William D. Ford Direct Lending Disbursements	(168,533,773)
Related Activity Agency Receipts	611,124,146
Related Activity Agency Disbursements	(374,030,372)
Payments for Annuities and Life Income Payable Under Split-Interest Agreements	(8,513,613)
Net Cash Provided by Noncapital Financing Activities	1,160,909,960

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	10,000,000
Capital Appropriations	1,452,000
Capital Contributions	13,564,590
Acquisition and Construction of Capital Assets	(106,852,532)
Principal Paid on Capital Debt and Leases	(32,288,219)
Interest and Fees Paid on Capital Debt and Leases	(51,322,816)
Federal Interest Subsidy on Debt Received	2,143,055
Net Cash Used by Capital Financing and Related Financing Activities	(163,303,922)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,129,965,235
Investment Income	100,429,728
Purchase of Investments and Related Fees	(5,175,126,047)
Change in Obligations under Reverse Repurchase Agreements	3,744,000
Net Cash Provided by Investing Activities	59,012,916
Net Increase in Cash and Cash Equivalents	201,288,102
Cash and Cash Equivalents - July 1, 2019	818,460,496
Cash and Cash Equivalents - June 30, 2020	\$ 1,019,748,598

The University of North Carolina at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (961,795,788)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	179,717,871
Allowances and Write-Offs	574,162
Other Nonoperating Expenses	(11,389,104)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	13,989,737
Inventories	(1,466,151)
Other Assets	21,096
Notes Receivable, Net	314,932
Net Other Postemployment Benefits Asset	(887,159)
Deferred Outflows Related to Pensions	45,540,980
Deferred Outflows Related to Other Postemployment Benefits	(130,054,541)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(14,561,881)
Unearned Revenue	13,175,094
Net Pension Liability	13,102,693
Net Other Postemployment Benefits Liability	259,171,145
Compensated Absences	12,457,603
Deposits Payable	(1,407,244)
Workers' Compensation Liability	(642,233)
U.S. Government Grants Refundable	(5,677,333)
Deferred Inflows Related to Pensions	(2,988,228)
Deferred Inflows Related to Other Postemployment Benefits	(262,526,503)
Net Cash Used by Operating Activities	<u><u>\$ (855,330,852)</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 374,501
Assets Acquired through a Gift	7,064,722
Change in Fair Value of Investments	(3,418,179)
Loss on Disposal of Capital Assets	(4,274,384)
Amortization of Bond Premiums/Discounts	407,564

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

The University of North Carolina at Chapel Hill Foundations
Statement of Financial Position
June 30, 2020

Exhibit B-1

	The University of North Carolina at Chapel Hill Arts and Sciences Foundation Incorporated	The Educational Foundation Scholarship Endowment Trust	UNC Health Foundation Incorporated
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 29,965,661	\$ 13,124,276	\$ 37,806,098
Promises to Give, Net	35,969,865	10,019,027	6,654,389
Contribution Receivable from Split-Interest Agreements		4,990,552	
Accounts Receivable	1,202,698		
Receivable from UNC Foundation			4,154,576
Other Receivables	2,986,372		
Other Current Assets			411,444
Total Current Assets	70,124,596	28,133,855	49,026,507
Property and Equipment:			
Capital Assets, Net	6,216,976		454,814
Other Assets:			
Investments	277,794,444	254,891,081	348,836,643
Promises to Give, Net			6,746,866
Split-Interest Agreements	2,577,274		
Cash Surrender Value of Life Insurance		1,230,479	
Other Assets			3,319,808
Total Other Assets	280,371,718	256,121,560	358,903,317
Total Assets	\$ 356,713,290	\$ 284,255,415	\$ 408,384,638
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 56	\$ 0	\$ 1,399,115
Annuities Payable		36,677	
Current Portion of Loan Payable	154,667		
Total Current Liabilities	154,723	36,677	1,399,115
Long-Term Liabilities:			
Loan Payable	2,217,071		
Liabilities Under Charitable Remainder Trusts			55,421
Total Long-Term Liabilities	2,217,071		55,421
Total Liabilities	2,371,794	36,677	1,454,536
NET ASSETS			
Without Donor Restrictions:			
Undesignated			8,639,867
Designated by the Board for Endowment			9,930,632
Invested in Property and Equipment			454,814
Total Net Assets Without Donor Restrictions	61,233,864		19,025,313
With Donor Restrictions	293,107,632	284,218,738	387,904,789
Total Net Assets	354,341,496	284,218,738	406,930,102
Total Liabilities and Net Assets	\$ 356,713,290	\$ 284,255,415	\$ 408,384,638

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

The University of North Carolina at Chapel Hill Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2020

Exhibit B-2

	The University of North Carolina at Chapel Hill Arts and Sciences Foundation Incorporated	The Educational Foundation Scholarship Endowment Trust	UNC Health Foundation Incorporated
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 24,000,510	\$ 5,576,292	\$ 26,484,306
Donated Support	3,700,015		
Change in Value of Split-Interest Agreements	(285,954)		(106,968)
Contributed Services			4,251,983
Actuarial Adjustment of Annuities Payable		1,818	
Endowment Investment Return Designated for Current Operations		11,744,334	
Other Contributions		1,618,969	
Total Support	27,414,571	18,941,413	30,629,321
Revenue:			
Interest and Dividends			5,443,320
Net Unrealized and Realized Gains on Investments	4,045,614		9,661,962
Investment Income	202,670		
Other Income			416,159
Total Revenue	4,248,284		15,521,441
Total Support and Revenue	31,662,855	18,941,413	46,150,762
EXPENSES			
Program Services	20,405,834	12,579,484	27,645,774
Supporting Services:			
Fundraising	3,164,712	242,845	5,341,824
Membership Development		145,707	
Management, Administrative, and General	637,390	395,267	3,726,761
Total Supporting Services	3,802,102	783,819	9,068,585
Bad Debt	31,896		
Total Expenses and Bad Debt	24,239,832	13,363,303	36,714,359
OTHER CHANGES			
Endowment Investment Return in Excess of Amounts Designated for Current Operations	24,239,832	(8,456,364)	36,714,359
CHANGES IN NET ASSETS			
Without Donor Restrictions	2,394,597		1,468,672
With Donor Restrictions	5,028,426	(2,878,254)	7,967,731
Total Changes in Net Assets	7,423,023	(2,878,254)	9,436,403
Net Assets - Beginning of Year, as Restated	346,918,473	287,096,992	397,493,699
Net Assets - End of Year	\$ 354,341,496	\$ 284,218,738	\$ 406,930,102

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Units - Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment Fund), UNC Intermediate Pool, LLC (UNC Intermediate Pool), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), WUNC Public Radio, LLC (WUNC), Carolina Research Ventures, LLC (Research Ventures), and HVPV Holdings, LLC (HVPV), component units of the University, are reported as if they were part of the University.

The Chapel Hill Investment Fund was established in January 1997 and is classified as a governmental external investment pool. The fund is governed by a board consisting of eight to 11 ex-officio directors and two to four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Operations, and the Vice Chancellor for University Development. The UNC-Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Chapel Hill Investment Fund Board. The ex-officio directors of the Chapel Hill Investment Fund may elect one or two directors by unanimous written consent. The Chapel Hill Investment Fund supports the University by operating an investment fund for certain eligible charitable, nonprofit

foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because members of the Board of Directors of the Chapel Hill Investment Fund are officials or appointed by officials of the University and the Chapel Hill Investment Fund's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC Investment Fund was organized by the Chapel Hill Investment Fund to allow the University, the UNC System, other constituent institutions of the UNC System, and certain eligible affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured, and managed by the Management Company. The membership interests are offered only to eligible government entities or tax-exempt organizations that are controlled by or support the University, the UNC System, or other constituent institutions of the UNC System. The Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2020, the Chapel Hill Investment Fund membership interest was approximately 55% of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment Fund have been blended with those of the University.

The UNC Intermediate Pool was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants. The University is the controlling member. The UNC Intermediate Pool is classified as a governmental external investment pool. Eligible participants in the fund include not only the University but also the UNC System, its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund. Because the University is the organizer and controlling member of the UNC Intermediate Pool, the financial statements of the UNC Intermediate Pool have been blended with those of the University.

The Management Company is organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors.

The ex-officio directors consist of the Chancellor, the Vice Chancellor for Finance and Operations, the Chair of the University Board of Trustees, the Chair of the Board of Directors of the Chapel Hill Investment Fund, and the President of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC-Chapel Hill Foundation is governed by a 19-member board consisting of nine ex-officio directors and ten elected directors. Ex-officio directors include the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Operations, and the Vice Chancellor for University Development (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The ten remaining directors are elected as members of the UNC-Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC-Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC-Chapel Hill Foundation are officials or appointed by officials of the University and the UNC-Chapel Hill Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

On July 1, 2019, the operations of The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc. merged with the UNC-Chapel Hill Foundation. Information regarding the merger, including the reason for the combination, is available in the UNC-Chapel Hill Foundation's financial statements.

The Business School Foundation is governed by a board consisting of four ex-officio directors and four or more elected directors. Ex-officio directors include the Dean of the Kenan-Flagler Business School (Business School), as well as the Business School's Chief Financial Officer, Associate Dean of Academic Affairs, and Associate Dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

WUNC is governed by a board consisting of nine members. Seven members of the board, at least two of which are current or previous members of the Board of Trustees of the University, are appointed by the Board of Trustees of the University. The remaining two board members

are the University's Vice Chancellor of Communications and the General Manager of the noncommercial educational radio station WUNC-FM. The purposes of WUNC are to support the University by holding FCC licenses of noncommercial radio stations and operating and conducting programming of those radio stations and NC Public Radio, WUNC-FM, furthering the University's efforts to extend knowledge-based and educational services to the citizens of North Carolina and to enhance the quality of life for the people of the State. Because members of the Board of Directors of WUNC are officials or appointed by officials of the University and the primary purpose of WUNC is to benefit the University, its financial statements have been blended with those of the University.

Research Ventures is governed by a board consisting of six designated members and six at-large members. Designated members include the Chief Financial Officer of the University, the Chief Executive Officer of the UNC Management Company, Inc., two members of the Board of Trustees of the University, and two individuals appointed by the Chief Executive Officer of the UNC Health Care System. Five at-large members are elected by the designated members, and one is appointed by UNC Health Care. Research Ventures supports the educational mission of the University by performing functions to carry out the purposes of the University including creating, acquiring, holding, and disposing of investments on behalf of the University in businesses that commercialize technology and inventions created at the University or through use of University resources. Carolina Research Venture Investment Fund, LLC is a component unit of Research Ventures and is included in its financial statements. Because a majority number of the Board of Directors are officials or appointed by officials of the University, and Research Ventures' primary purpose is to benefit the University, the financial statements of Research Ventures have been blended with those of the University.

HVPV is governed by the University as a sole member of HVPV. All decisions with respect to the management of the business and affairs of HVPV are made by the University. The University directs, manages, and controls the business of HVPV. HVPV was formed for the sole benefit of the University and its purposes include holding an investment in limited partnership interests of a venture capital partner and promoting the business thereof. Because the University has complete authority to make decisions, and HVPV's primary purpose is to benefit the University, the financial statements of HVPV have been blended with those of the University.

Separate financial statements for the University's blended component units may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Condensed combining information regarding blended component units is provided in Note 23.

Discretely Presented Component Units - UNC Health Foundation, Inc. (UNC Health Foundation), previously known as The Medical Foundation

of North Carolina, Inc., The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation), and The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust) are legally separate nonprofit, tax-exempt corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The UNC Health Foundation is governed by a board of up to 33 elected directors. The board also includes five ex-officio directors. The Dean of the UNC School of Medicine and CEO of UNC Health Care, the Vice Chancellor for University Development and the Associate Dean for Medical Alumni Affairs (UNC School of Medicine) all have voting rights. The President of UNC Health Foundation and the President of UNC Hospitals do not. Historically, the University's School of Medicine has been the major recipient of financial support from the UNC Health Foundation rather than UNC Hospitals. Although the University does not control the timing or amount of receipts from the UNC Health Foundation, the majority of resources or income that the UNC Health Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the Medical Foundation can only be used by, or for the benefit of the University, the UNC Health Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of five ex-officio directors, 30 elected directors and such number of emeritus directors determined from time to time by the Board of Directors. Staggered terms are set for the elected directors by the Board of Directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts and Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which provides that The Educational Foundation, Inc. appoints and designates the voting members of the Investment Committee as Trustees of the Trust. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to The Educational Foundation, Inc. is then forwarded by The Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the

majority of the contributions that the Educational Foundation Trust receives and invests is restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are private, nonprofit organizations that report their financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial statements for these differences.

During the year ended June 30, 2020, the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust distributed \$51,431,021 to the University for both restricted and unrestricted purposes. Complete financial statements for the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on

deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Investments for which a readily determinable fair value does not exist include investments in hedge funds and limited partnerships. These investments are carried at net asset value (NAV) per share as provided by the respective fund managers of these investments or third party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the NAV of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services, as well as charges to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. Receivables also include amounts due from the federal government, state and local governments, 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. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost or average cost.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery and Equipment	3-30 years
General Infrastructure	10-75 years
Computer Software	3-20 years

The University's historic property, artwork, and literary collections are capitalized at cost, acquisition value, or fair value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pools more fully described in Note 2. The assets associated with this liability are included in restricted investments, cash, and other similar asset accounts.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, bonds from direct placements, notes from direct borrowings, and capital leases payable. Other long-term

liabilities include: compensated absences, annuities and life income payable, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 16 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 17 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 13 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- O. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- P. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers.

These institutional auxiliary operations include activities such as utility services, telecommunications, central stores, printing and copy centers, postal services, and repairs and maintenance services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$785,220,225, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2020 was \$555,081. The carrying amount of the University's deposits not with the State Treasurer was \$233,973,292, and the bank balance was \$421,216,373. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned

to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2020, \$163,062,606 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments

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

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

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

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

Investments of the University's component units, UNC-Chapel Hill Foundation, UNC Management Company, Chapel Hill Investment Fund, UNC Intermediate Pool, UNC Investment Fund, and Business School Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

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

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of an investment. The University does not have a formal policy for foreign currency risk.

Temporary Investment Pool (Temporary Pool) - The Temporary Pool is a fixed income portfolio managed by the Management Company and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, participant activity is recorded on a cost basis in the UNC-Chapel Hill Money Market System. This is the official means of recording activity in the Temporary Pool. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Bank of New York Mellon is the custodian for the Temporary Pool and provides the University with monthly statements defining income and fair value information. Investments of the Temporary Pool are generally highly liquid and include (but are not limited to) U.S. government securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the Chapel Hill Investment Fund.

Participants' cash balances are automatically invested in the Temporary Pool. Income distribution is calculated based on the Average Daily Balance (ADB) and distributed monthly. The rate earned by an account is dependent upon its account classification. The rates are set by policy and approved by the Vice Chancellor for Finance and Operations.

The following table presents the Temporary Pool investments by type and investments subject to interest rate risk at June 30, 2020:

Temporary Pool Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 91,759,750	\$ 15,233,250	\$ 76,526,500	\$ 0	\$ 0
U.S. Agencies	61,717,898	868,199	26,034,005	2,629,519	32,186,175
Collateralized Mortgage Obligations	1,378,233				1,378,233
Asset-Backed Securities	1,008,334				1,008,334
Money Market Mutual Funds	4,824,346	4,824,346			
Total Debt Securities	160,688,561	\$ 20,925,795	\$ 102,560,505	\$ 2,629,519	\$ 34,572,742
Other Securities					
Domestic Stocks	30,000				
Total Temporary Pool Investments	\$ 160,718,561				

The University has elected to invest \$125,492,823 of Temporary Pool assets in the Chapel Hill Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of the Temporary Investment Pool are included in those for the Chapel Hill Investment Fund.

At June 30, 2020, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 61,717,898	\$ 0	\$ 61,717,898	\$ 0	\$ 0	\$ 0	\$ 0
Collateralized Mortgage Obligations	1,378,233		17,572	40,983	192,047	232,926	894,705
Asset-backed Securities	1,008,334					524,228	484,106
Money Market Mutual Funds	4,824,346	4,824,346					
Totals	\$ 68,928,811	\$ 4,824,346	\$ 61,735,470	\$ 40,983	\$ 192,047	\$ 757,154	\$ 1,378,811

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Since a separate annual financial report of the Temporary Investment Pool is not issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2020, are as follows:

Statement of Net Position
June 30, 2020

	Amount
Assets:	
State Treasurer Investment Fund	\$ 55,000,047
Accrued Investment Income	460,441
Chapel Hill Investment Fund	125,492,823
Investments	160,718,561
Total Assets	341,671,872
Total Liabilities	0
Net Position As Held in Trust for All Pool Participants:	
Internal Portion	232,336,873
External Portion	109,334,999
Total Net Position	\$ 341,671,872

Statement of Operations and Changes in Net Position
June 30, 2020

	Amount
Increase in Net Position from Operations:	
Revenues:	
Investment Income	\$ 8,069,361
Expenses:	
Investment Management	(22,552)
Net Increase in Net Position Resulting from Operations	8,046,809
Distributions to Participants:	
Distributions Paid and Payable	(8,046,809)
Share Transactions:	
Net Share Purchases	(226,963,242)
Total Decrease in Net Position	(226,963,242)
Net Position:	
Beginning of Year	568,635,114
End of Year	\$ 341,671,872

UNC Intermediate Pool, LLC - The UNC Intermediate Pool, LLC (UNC Intermediate Pool) was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants with the University being the controlling member. The UNC Intermediate Pool is classified as a governmental external investment pool. Eligible participants in the pool include not only the University but also the University of North Carolina System (UNC System), its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the pool.

Ownership of the UNC Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a fair value basis. The UNC Intermediate Pool is not registered with the SEC and is not subject to any formal oversight beyond that provided by UNC Management Company as well as an Oversight Committee of University employees appointed by the Chancellor of the University. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the UNC Intermediate Pool. The audited financial statements for the UNC Intermediate Pool, LLC may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Bank of New York Mellon is the custodian for the UNC Intermediate Pool and provides the University with monthly statements providing income and fair value information. UNC Intermediate Pool investments are comprised of (but not limited to) shares in mutual funds, money market accounts, and the UNC Investment Fund.

As of June 30, 2020, the University's membership interest was approximately 54% of the UNC Intermediate Pool's total membership interests. An affiliated organization, not included in the University's reporting entity, held the remaining 46% membership interest. This external portion of the UNC Intermediate Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The following table presents the UNC Intermediate Pool investments by type and investments subject to interest rate risk at June 30, 2020:

UNC Intermediate Pool

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 5,640,850	\$ 0	\$ 0	\$ 5,640,850	\$ 0
U.S. Agencies	14,468,553				14,468,553
Mortgage Pass Throughs	1,993,694				1,993,694
Collateralized Mortgage Obligations	47,514,690			11,804,091	35,710,599
Asset-Backed Securities	45,814,565			3,920,865	41,893,700
Debt Mutual Funds	242,191,733	14,111,159	108,219,149	84,171,539	35,689,886
Money Market Mutual Funds	34,782,926	34,782,926			
Domestic Corporate Bonds	6,572,376	50,200		6,401,720	120,456
Foreign Corporate Bonds	9,580,289			7,965,055	1,615,234
Foreign Government Bonds	3,046,332			1,856,060	1,190,272
Total Debt Securities	411,606,008	\$ 48,944,285	\$ 108,219,149	\$ 121,760,180	\$ 132,682,394
Other Securities					
Foreign Stocks	431,288				
Credit Based Commingled Funds	48,654,058				
Total UNC Intermediate Pool Investments	\$ 460,691,354				

The University has elected to invest \$147,556,180 of assets of the UNC Intermediate Pool in the UNC Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of UNC Intermediate Pool investments are included in those for the UNC Investment Fund.

At June 30, 2020, investments in the UNC Intermediate Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 14,468,553	\$ 0	\$ 14,468,553	\$ 0	\$ 0	\$ 0	\$ 0
Mortgage Pass Throughs	1,993,694		418,505	1,575,189			
Collateralized Mortgage Obligations	47,514,690	981,338	4,141,138	947,269	10,213,152	22,682,961	8,548,832
Asset-backed Securities	45,814,565	1,901,343	2,646,058	1,341,587	7,217,040	21,712,529	10,996,008
Debt Mutual Funds	242,191,733		7,331,158	53,206,501	177,587,730	4,066,344	
Money Market Mutual Funds	34,782,926	34,782,926					
Domestic Corporate Bonds	6,572,376				349,291	6,182,518	40,567
Foreign Corporate Bonds	9,580,289		412,588	1,034,090	2,271,961	5,860,150	1,500
Foreign Government Bonds	3,046,332		648,429	622,082	1,775,821		
Totals	\$ 405,965,158	\$ 37,665,607	\$ 30,066,429	\$ 58,726,718	\$ 199,414,995	\$ 60,504,502	\$ 19,586,907

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund) - Chapel Hill Investment Fund is a North Carolina nonprofit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a fair value basis. The external portion of the Chapel Hill Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The Chapel Hill Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund Board of Directors (See Note 1A).

The Chapel Hill Investment Fund is the primary participant of UNC Investment Fund, LLC (UNC Investment Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and fair value, applicable realized gains and losses and

expenses. The Chapel Hill Investment Fund uses a unit basis to determine each participant's fair value and to distribute the Fund's earnings according to the Fund's spending policy. There are no involuntary participants in the Chapel Hill Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Chapel Hill Investment Fund. The audited financial statements for the Chapel Hill Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Chapel Hill Investment Fund consists of an approximate 55% membership in the UNC Investment Fund categorized below.

UNC Investment Fund, LLC (UNC Investment Fund) - The UNC Investment Fund is a nonprofit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. As previously noted, the Chapel Hill Investment Fund, with an approximate 55% membership interest as of June 30, 2020, is the predominant member of the UNC Investment Fund.

The University's reporting entity portion of the Chapel Hill Investment Fund and the Management Company's portion of the UNC Investment Fund are characterized as the internal portion. Other affiliated organizations in the Chapel Hill Investment Fund, in addition to other members of the UNC Investment Fund not included in the University's reporting entity, are characterized as the external portion. The external portion of the UNC Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the UNC Investment Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a fair value basis.

The UNC Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund as the controlling member (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the UNC Investment Fund and provides investment management and administrative services.

The Bank of New York Mellon is the custodian for the UNC Investment Fund and provides the University with monthly statements defining income and fair value information. The UNC Investment Fund uses a unit basis to determine each member's fair value and to distribute the fund's earnings. The University has not provided or obtained any legally binding guarantees

during the period to support the value for the UNC Investment Fund investments. The audited financial statements for the UNC Investment Fund may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The following table presents the UNC Investment Fund investments by type and investments subject to interest rate risk at June 30, 2020:

UNC Investment Fund

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 32,556,725	\$ 0	\$ 13,750,350	\$ 8,109,556	\$ 10,696,819
U.S. Agencies	59,368,790		2,512,927	2,781,562	54,074,301
Collateralized Mortgage Obligations	54,397,424		1,857,251	1,488,096	51,052,077
Asset-Backed Securities	32,223,298		5,716,665	5,002,379	21,504,254
Money Market Mutual Funds	295,511,844	295,511,844			
Domestic Corporate Bonds	3,459,997	1,015,445	684,812	1,026,930	732,810
Total Debt Securities	477,518,078	\$ 296,527,289	\$ 24,522,005	\$ 18,408,523	\$ 138,060,261
Other Securities					
Domestic Stocks	255,528,269				
Foreign Stocks	10,203,778				
Real Estate Investment Trust	37,288,155				
Long/Short Hedge Funds	1,148,243,794				
Diversifying Hedge Funds	611,461,329				
Hedge Funds in Liquidation	9,423,236				
Long Only Hedge Funds	1,432,434,399				
Credit Based Commingled Funds	148,649,128				
Private Equity Limited Partnerships	2,284,339,783				
Real Assets Limited Partnerships	369,057,372				
Total UNC Investment Fund Investments	\$ 6,784,147,321				

At June 30, 2020, investments in the UNC Investment Fund had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 59,368,790	\$ 0	\$ 49,486,512	\$ 0	\$ 268,364	\$ 1,186,726	\$ 8,427,188
Collateralized Mortgage Obligations	54,397,424	2,701,500		125,917	1,571,247	18,748,679	31,250,081
Asset-Backed Securities	32,223,298				2,092,229	19,888,490	10,242,579
Money Market Mutual Funds	295,511,844	295,511,844					
Domestic Corporate Bonds	3,459,997		514,435	2,296,745		478,440	170,377
Totals	\$ 444,961,353	\$ 298,213,344	\$ 50,000,947	\$ 2,422,662	\$ 3,931,840	\$ 40,302,335	\$ 50,090,225

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Foreign Currency Risk: The UNC Investment Fund holds foreign currency investments which are presented in U.S. dollars. At June 30, 2020, the UNC Investment Fund's exposure to foreign currency risk is as follows:

Investment	Currency	Amount (U.S. Dollars)
Private Equity Limited Partnerships	Euro	\$ 117,161,998
Real Assets Limited Partnerships	Euro	2,178,703
Hedge Funds	Euro	19,630,875
Total Euro		138,971,576
Private Equity Limited Partnerships	British Pound Sterling	50,230,680
Real Assets Limited Partnerships	British Pound Sterling	398,999
Total British Pound Sterling		50,629,679
Private Equity Limited Partnerships	Canadian Dollar	5,741,546
Private Equity Limited Partnerships	Australian Dollar	9,350
Total		\$ 195,352,151

Investment Derivatives: At June 30, 2020, the UNC Investment Fund is invested in foreign currency forward contracts with a fair value of \$604,133 and in U.S. dollar equity futures with a fair value of \$5,686,001. Disclosures are provided for these investments in Note 11 Derivative Instruments.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2020, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 143,377	\$ 0	\$ 30,927	\$ 112,450	\$ 0
U.S. Agencies	105			105	
Mortgage Pass Throughs	9,585			62	9,523
Asset Backed Securities	35,627				35,627
Debt Mutual Funds	6,419,813		589,821	5,829,992	
Money Market Mutual Funds	504,466	504,466			
Foreign Government Bonds	30,100		30,100		
Total Debt Securities	7,143,073	\$ 504,466	\$ 650,848	\$ 5,942,609	\$ 45,150
Other Securities					
Equity Mutual Funds	10,594,667				
Domestic Stocks	12,742,004				
Foreign Stocks	75,078				
International Mutual Funds	7,621,120				
Investments in Real Estate	9,993,274				
Gifted Life Insurance	2,331,321				
Real Estate Investment Trust	74,721				
Private Equity Limited Partnerships	16,693,711				
Total Non-Pooled Investments	\$ 67,268,969				

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2020, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 105	\$ 0	\$ 0	\$ 0	\$ 0	\$ 105
Mortgage Pass Throughs	9,585					9,585
Asset Backed Securities	35,627				35,627	
Debt Mutual Funds	6,419,813	2,885,479	20,029	44,762	1,132,448	2,337,095
Money Market Mutual Funds	504,466	504,466				
Foreign Government Bonds	30,100				30,100	
Totals	<u>\$ 6,999,696</u>	<u>\$ 3,389,945</u>	<u>\$ 20,029</u>	<u>\$ 44,762</u>	<u>\$ 1,198,175</u>	<u>\$ 2,346,785</u>

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Foreign Currency Risk: At June 30, 2020, the University had nominal direct exposure to foreign currency risk in non-pooled investments.

Total Investments - The following table presents the total investments at June 30, 2020:

Investment Type	Amount
Debt Securities	
U.S. Treasuries	\$ 130,100,702
U.S. Agencies	135,555,346
Mortgage Pass Throughs	2,003,279
Collateralized Mortgage Obligations	103,290,347
Asset-Backed Securities	79,081,824
Debt Mutual Funds	248,611,546
Money Market Mutual Funds	335,623,582
Domestic Corporate Bonds	10,032,373
Foreign Corporate Bonds	9,580,289
Foreign Government Bonds	<u>3,076,432</u>
Total Debt Securities	<u>1,056,955,720</u>
Other Securities	
Equity Index/Mutual Funds	10,594,667
International Mutual Funds	7,621,120
Investment in Real Estate	9,993,274
Real Estate Investment Trusts	37,362,876
Long/Short Hedge Funds	1,148,243,794
Diversifying Hedge Funds	611,461,329
Hedge Funds In Liquidation	9,423,236
Long Only Hedge Funds	1,432,434,399
Credit Based Commingled Funds	197,303,186
Private Equity Limited Partnerships	2,301,033,494
Real Assets Limited Partnerships	369,057,372
Gifted Life Insurance	2,331,321
Domestic Stocks	268,300,273
Foreign Stocks	<u>10,710,144</u>
Total Other Securities	<u>6,415,870,485</u>
Total Investments	<u>\$ 7,472,826,205</u>

Total investments as reported in the University's financial statements:

	Amount
University Statement of Net Position	
Short-Term Investments	\$ 343,492,030
Restricted Short-Term Investments	153,062,306
Endowment Investments	2,415,818,783
Restricted Investments	3,829,378,385
Other Investments	33,817,326
Subtotal	<u>6,775,568,830</u>
Component Units	
Investments of UNC Investment Fund Held for Component Units that are Discretely Presented in Accompanying Financial Statements	<u>697,257,375</u>
Total Investments	<u>\$ 7,472,826,205</u>

The University's reporting entity, including the three discretely presented component units, comprises approximately 47% of the UNC Investment Fund.

Component Unit - Investments of the University's discretely presented component unit, the UNC Health Foundation are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the UNC Health Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Carrying Value
Money Market Funds	\$ 9,552,405
Common Stock and ETF	2,486,761
Hatteras Venture Partners V, LP and other Alternatives	19,059,984
Mutual Funds - Equity Oriented	68,270,750
Mutual Funds - Credit Oriented	53,751,076
Government Securities and Corporate Fixed Income	31,143,817
Total Investments	<u>\$ 184,264,793</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments and derivatives are recorded at fair value as of June 30, 2020. 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 or liabilities 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 or liability, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund and the discretely presented component units' portion of the UNC Investment Fund, within the fair value hierarchy at June 30, 2020:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	\$ 130,100,702	\$ 130,100,702	\$ 0	\$ 0
U.S. Agencies	135,555,346		135,555,346	
Mortgage Pass Throughs	2,003,279		2,003,279	
Collateralized Mortgage Obligations	103,290,347		103,290,347	
Asset-backed Securities	79,081,824		79,081,824	
Debt Mutual Funds	248,611,546	248,611,546		
Money Market Mutual Funds	335,623,582	335,623,582		
Domestic Corporate Bonds	10,032,373		10,032,373	
Foreign Corporate Bonds	9,580,289		9,580,289	
Foreign Government Bonds	3,076,432		3,076,432	
Total Debt Securities	1,056,955,720	714,335,830	342,619,890	
Other Securities				
International Mutual Funds	7,621,120	7,621,120		
Equity Mutual Funds	10,594,667	10,594,667		
Investments in Real Estate	9,993,274			9,993,274
Domestic Stocks	268,300,273	259,491,124		8,809,149
Foreign Stocks	10,710,144	10,044,494	665,650	
Gifted Life Insurance	2,331,321			2,331,321
Real Estate Investment Trust	37,362,876	37,362,876		
Total Other Securities	346,913,675	325,114,281	665,650	21,133,744
Total Investments by Fair Value Level	1,403,869,395	\$ 1,039,450,111	\$ 343,285,540	\$ 21,133,744
Investments Measured at the Net Asset Value (NAV)				
Long/Short Hedge Funds	1,148,243,794			
Diversifying Hedge Funds	611,461,329			
Hedge Funds in Liquidation	9,423,236			
Long Only Hedge Funds	1,432,434,399			
Credit Based Commingled Hedge Funds	197,303,186			
Private Equity Limited Partnerships	2,301,033,494			
Real Assets Limited Partnerships	369,057,372			
Total Investments Measured at the NAV	6,068,956,810			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	785,220,225			
Total Investments Measured at Fair Value	\$ 8,258,046,430			
Derivative Instruments				
Hedging Derivative Instruments				
Pay-Fixed Interest Rate Swaps	\$ (157,129,612)	\$ 0	\$ (157,129,612)	\$ 0
Investment Derivative Instruments				
Pay-Fixed Interest Rate Swap	(1,842,562)		(1,842,562)	
U.S. Dollar Equity Futures	5,686,001	5,686,001		
Foreign Currency Forwards	604,133		604,133	
Total Derivative Instruments	\$ (152,682,040)	\$ 5,686,001	\$ (158,368,041)	\$ 0

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured

and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing. Domestic stocks classified in Level 3 of the fair value hierarchy primarily represent equity interest in start-up technology companies and are valued based on 409A valuations or recent valuations from the companies themselves.

Investments in Real Estate - Investments in real estate classified in Level 3 of the fair value hierarchy are valued using a combination of recent appraisals, historical appraisals, or tax assessed market value.

Gifted Life Insurance - Gifted Life Insurance policies classified in Level 3 of the fair value hierarchy are valued at the cash surrender value of the policies.

Derivative Instruments - Investment derivatives classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Interest rate swaps in the hedging and investment derivatives categories classified in Level 2 of the fair value hierarchy are valued based on present value using discounted cash flows. Foreign currency forward investment derivatives are classified as Level 2 and are transacted over-the-counter and valued directly from underlying exchange listed exchange rates.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2020.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Hedge Funds ^{A(b)}	\$ 1,148,243,794	\$ 27,976,672	From Weekly to 3+ Years	1 to 365 Days
Diversifying Hedge Funds ^{A(c)}	611,461,329		From Weekly to 3+ Years	1 to 365 Days
Hedge Funds in Liquidation ^{A(e)}	9,423,236		From Weekly to 3+ Years	1 to 365 Days
Long Only Equity Hedge Funds ^{A(a)}	1,432,434,399		From Weekly to 3+ Years	1 to 365 Days
Credit-Based Commingled Hedge Funds ^{A(d)}	197,303,186		From Weekly to 3+ Years	1 to 365 Days
Private Equity Limited Partnerships ^B	2,301,033,494	957,560,440	Not Eligible	10-15 Years
Real Assets Limited Partnerships ^C	369,057,372	367,694,566	Not Eligible	10-15 Years
Total Investments Measured at the NAV	<u>\$ 6,068,956,810</u>			

A. Hedge Funds - For hedge funds, a combination of the following asset strategies is used:

(a) *Long Biased Equity* - Long biased equity managers are characterized by managers who adopt an investment strategy to primarily hold long positions in publicly listed equity securities to gain equity market exposure

globally. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(b) *Long/Short Equity* - Long/short equity managers are characterized by a manager's ability to buy and/or sell short individual securities that they believe the market has mispriced relative to their fundamental intrinsic value. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(c) *Diversifying Strategies* - Diversifying strategy managers use strategies that tend to be uncorrelated with major equity market indices. Diversifying strategies managers may use derivatives such as fixed income and equity futures both as a hedging tool and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets.

(d) *Fixed Income/Credit-Based Commingled Strategies* - Fixed income fund managers include credit-based commingled hedge funds and generally use strategies that are focused on income generation and provide diversification to the portfolio. They may use futures and options on global fixed income and currency markets and can enter into various swap agreements. These vehicles are used purely to hedge exposure to a given market or to gain exposure to an illiquid market.

(e) *Hedge Funds in Liquidation* - Hedge funds in liquidation represent funds that are either in the process of being terminated or have received notice of termination.

- B. Private Equity Limited Partnerships** - Private equity managers typically invest in equity investments and transactions in private companies (i.e., companies that are not publicly listed on any stock exchange). Private equity investments are illiquid and expected to provide higher returns than public equity investments over the long term, as well as controlling volatility.

The energy subsection of the private equity strategy is primarily used to hedge against unanticipated inflation. This can include direct energy investments, energy security investments, and limited partnerships. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

- C. Real Assets Limited Partnerships** - Real estate managers primarily serve as a hedge against unanticipated general price inflation but are also a source of current income. Investments in this area include private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public Real Estate Investment Trusts (REIT's) that provide a more liquid means of gaining exposure to the asset class.

Component Units - Discretely presented component units' financial data are reported in separate financial statements because of their use of different reporting models. Complete financial statements including applicable disclosures for the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTE 4 - ENDOWMENT INVESTMENTS

Substantially all of the investments of the University's endowment funds are pooled in the Chapel Hill Investment Fund. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI) unless the Board determines otherwise. Each year's distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund's average fair value for the previous year.

To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2020, accumulated income and appreciation of \$794,348,122 was available in the University's pooled endowment funds of which \$626,594,329 was restricted to specific purposes including scholarships and fellowships, research, library acquisitions, professorships, departmental, and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 9,630,446	\$ 4,073,130	\$ 5,557,316
Patients	177,502,955	101,755,625	75,747,330
Accounts	58,449,036	7,562	58,441,474
Intergovernmental	55,346,245	5,397,505	49,948,740
Pledges	33,017,504	1,550,216	31,467,288
Investment Earnings	3,005,572		3,005,572
Interest on Loans	1,067,447		1,067,447
Other	1,065,788		1,065,788
Total Current Receivables	\$ 339,084,993	\$ 112,784,038	\$ 226,300,955
Noncurrent Receivables:			
Pledges	\$ 59,010,521	\$ 1,475,262	\$ 57,535,259
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,666,569	\$ 55,167	\$ 2,611,402
Falcon Therapeutics	750,000		750,000
Institutional Student Loan Programs	2,101,067	95,437	2,005,630
Total Notes Receivable - Current	\$ 5,517,636	\$ 150,604	\$ 5,367,032
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 16,009,852	\$ 294,600	\$ 15,715,252
Self-Help Ventures Fund	3,000,000		3,000,000
Institutional Student Loan Programs	15,354,832	607,629	14,747,203
Total Notes Receivable - Noncurrent	\$ 34,364,684	\$ 902,229	\$ 33,462,455

Pledges are receivable over varying time periods ranging from one to 10 years and have been discounted based on a projected interest rate of 1.80% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

Fiscal Year	Amount
2021	\$ 33,017,505
2022	17,971,356
2023	15,441,473
2024	12,714,186
2025	5,134,473
2026-2030	10,726,545
Total Pledge Receipts Expected	95,005,538
Less Discount Rate Amount Representing Interest (1.8% Rate of Interest)	2,977,513
Present Value of Pledge Receipts Expected	92,028,025
Less Allowance for Doubtful Accounts	3,025,478
Pledges Receivable, Net	\$ 89,002,547

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land	\$ 70,703,507	\$ 0	\$ 0	\$ 70,703,507
Art, Literature, and Artifacts	156,408,154	8,006,338	532	164,413,960
Construction in Progress	101,562,172	78,054,545	64,876,147	114,740,570
Other Intangible Assets	2,177,777			2,177,777
Total Capital Assets, Nondepreciable	330,851,610	86,060,883	64,876,679	352,035,814
Capital Assets, Depreciable:				
Buildings	3,303,960,430	61,761,253	3,984,954	3,361,736,729
Machinery and Equipment	463,394,732	24,899,311	8,703,991	479,590,052
General Infrastructure	988,143,274	3,739,753		991,883,027
Computer Software	121,695,640			121,695,640
Total Capital Assets, Depreciable	4,877,194,076	90,400,317	12,688,945	4,954,905,448
Less Accumulated Depreciation/Amortization for:				
Buildings	1,292,774,861	85,457,265	1,171,377	1,377,060,749
Machinery and Equipment	267,933,789	27,936,730	7,243,184	288,627,335
General Infrastructure	482,301,065	29,370,192		511,671,257
Computer Software	42,120,800	36,953,684		79,074,484
Total Accumulated Depreciation/Amortization	2,085,130,515	179,717,871	8,414,561	2,256,433,825
Total Capital Assets, Depreciable, Net	2,792,063,561	(89,317,554)	4,274,384	2,698,471,623
Capital Assets, Net	\$ 3,122,915,171	\$ (3,256,671)	\$ 69,151,063	\$ 3,050,507,437

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2020, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 73,157,040
Accounts Payable - Capital Assets	9,103,360
Accrued Payroll	66,940,957
Contract Retainage	2,543,111
Intergovernmental Payables	14,284,504
Investment Derivatives Liability	1,842,562
Total Accounts Payable and Accrued Liabilities	\$ 167,871,534

NOTE 8 - REVERSE REPURCHASE AGREEMENTS

Under the University's authority to purchase and sell securities, it has entered into fixed coupon reverse repurchase (reverse repurchase) agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The value of the

securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$6,121,554.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University's practice is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. The University's investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

NOTE 9 - SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Draws	Repayments	Balance June 30, 2020
Commercial Paper Program	\$ 25,000,000	\$ 10,000,000	\$ 0	\$ 35,000,000

The University manages a commercial paper ("CP") program under the issuer name of the Board of Governors of the University of North Carolina that provides up to \$500,000,000 in short-term financing for the University's and North Carolina State University's ("NCSU") capital improvement programs. Under this CP program, the University is authorized to issue up to \$400,000,000 and NCSU is authorized to issue up to \$100,000,000.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of outstanding commercial paper for the University under this program to \$250,000,000. This resolution does not impact NCSU. Contingent liquidity needs for the entire CP program are provided by the University and supported by a pledge of the University's available funds.

During the fiscal year, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all or a portion of the funding, through the issuance of long-term bonds. On July 9, 2019, the University issued \$5,000,000 of taxable commercial paper to fund the Media and Communications Studio project for the Athletics Department, Division of Laboratory Animal Medicine (Division of Comparative Medicine) Renovations, Kenan Labs Renovation for Applied Physics, and the Translational Research Building. On September 17, 2019, the University issued \$5,000,000 of taxable commercial paper to fund the Media and

Communications Studio project for the Athletics Department, Division of Laboratory Animal Medicine (Division of Comparative Medicine) Renovations, the Kenan Labs Renovation for Applied Physics, and the Translational Research Building.

Terms of Debt Agreements - Commercial paper balances held by the University are held under the University's General Revenue Pledge (General Revenue 2002A). The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the commercial paper, must declare the commercial paper immediately due and payable, whereupon it will, without further action, become due and payable.

NOTE 10 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 1,279,980,000	\$ 0	\$ 29,890,000	\$ 1,250,090,000	\$ 53,235,253
Revenue Bonds from Direct Placements	30,000,000			30,000,000	30,000,000
Plus: Unamortized Premium	758,493		490,997	267,496	
Less: Accretion of Discount on Capital Appreciation Bonds	(1,415,832)		(898,561)	(517,271)	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	1,309,322,661		29,482,436	1,279,840,225	83,235,253
Notes from Direct Borrowings	56,126,692		1,911,913	54,214,779	3,304,971
Capital Leases Payable	988,836	374,501	486,306	877,031	463,103
Total Long-Term Debt	1,366,438,189	374,501	31,880,655	1,334,932,035	87,003,327
Other Long-Term Liabilities					
Annuities and Life Income Payable	47,515,479	5,577,678	8,513,613	44,579,544	944,243
Employee Benefits					
Compensated Absences	184,271,383	119,795,890	107,338,287	196,728,986	6,302,048
Net Pension Liability	316,120,760	13,102,693		329,223,453	
Net Other Postemployment Benefits Liability	1,926,872,329	259,171,145		2,186,043,474	
Workers' Compensation	15,542,666	1,047,639	1,689,872	14,900,433	2,544,900
Total Other Long-Term Liabilities	2,490,322,617	398,695,045	117,541,772	2,771,475,890	9,791,191
Total Long-Term Liabilities, Net	\$ 3,856,760,806	\$ 399,069,546	\$ 149,422,427	\$ 4,106,407,925	\$ 96,794,518

Additional information regarding capital lease obligations is included in Note 12.

Additional information regarding the net pension liability is included in Note 16.

Additional information regarding the net other postemployment benefits liability is included in Note 17.

Additional information regarding worker's compensation is included in Note 18.

B. Revenue Bonds Payable and Bonds from Direct Placements - The University was indebted for revenue bonds payable and bonds from direct placements for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2020	Accretion on Capital Appreciation Bonds	Principal Outstanding June 30, 2020	See Table Below
General Revenue Bonds Payable	2001B	5.230%*	12/01/2025	\$ 54,970,000	\$ 42,140,000	\$ 0	\$ 12,830,000	
	2001C	0.100%*	12/01/2025	54,970,000	42,140,000		12,830,000	
	2009B	5.757%**	12/01/2039	112,805,000			112,805,000	
	2012B	4.775%*	12/01/2041	100,000,000			100,000,000	
	2012C	2.285%-3.596%	12/01/2033	127,095,000	30,435,000		96,660,000	
	2014	2.355%-3.847%	12/01/2034	265,600,000	12,495,000		253,105,000	
	2016C	1.505%-3.327%	12/01/2036	400,950,000	17,060,000		383,890,000	
	2017	2.814%-3.326%	12/01/2038	110,225,000			110,225,000	
	2019A	4.195%*	12/01/2041	100,000,000			100,000,000	
	2019B	3.664%*	12/01/2034	50,925,000			50,925,000	
Total General Revenue Bonds				1,377,540,000	144,270,000		1,233,270,000	
Utilities System	1997	5.50%	08/01/2021	30,379,142	67,315,000	53,238,587	16,302,729	(1)
General Revenue Bonds from Direct Placements	2012D	1.400%	06/01/2042	30,000,000			30,000,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				\$ 1,437,919,142	\$ 211,585,000	\$ 53,238,587	\$ 1,279,572,729	
Plus: Unamortized Premium							267,496	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net							\$ 1,279,840,225	

* For variable rate debt, interest rates in effect at June 30, 2020 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

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

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

Ref	Revenue Source	Total Future Revenues Pledged	For the Year Ended June 30, 2020			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Utilities Revenue	\$ 16,820,000	\$ 27,608,325	\$ 8,415,000	\$ 0	7%

C. Notes from Direct Borrowings - The University was indebted for notes from direct borrowings for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2020	Principal Outstanding June 30, 2020
Real Property Purchase	Bank of America	3.55%	02/14/2024	\$ 9,250,000	\$ 7,205,344	\$ 2,044,656
Real Property Purchase	Nationwide	4.26%	02/01/2037	55,300,000	4,443,169	50,856,831
Line of Credit	Bank of America	1.11%	04/30/2021	1,313,292		1,313,292
Total Notes from Direct Borrowings				\$ 65,863,292	\$ 11,648,513	\$ 54,214,779

On July 1, 2009, the UNC-Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the "Borrowers";

individually, the “Foundation”, former, or “Real Estate Holdings”, the latter), entered into a loan agreement with Bank of America, N.A. for \$45.8 million to fund the acquisition of student housing and rental real property.

In December 2011, Real Estate Holdings formed a new North Carolina limited liability company called Granville Towers, LLC (the Company). Real Estate Holdings is the sole manager and member of the Company and transferred the Granville Towers condominium unit to the single purpose Company (that purpose being to own and operate Granville Towers). On December 15, 2011, the Company obtained a \$36.5 million loan from Aviva Life and Annuity Company. The proceeds were used to pay down the original Bank of America \$45.8 million loan, decreasing the outstanding balance to \$9.3 million.

On February 14, 2014, the Borrowers executed a modification agreement with Bank of America, N.A. with respect to the original loan amount of \$45.8 million which had an outstanding balance of \$9.3 million. The loan was paid down by \$4.3 million, and the remaining \$5.0 million was refinanced at a fixed rate of 3.55% for the term with no change to the provision whereby the University Foundation and the Corporation are joint obligors to the Bank. The final maturity date is February 14, 2024. Interest and principal payments are made monthly.

The Granville Towers-University Square financing contains a cross-default provision and two related covenant requirements. The first covenant requires that the Foundation and Holdings shall maintain on a consolidated basis, unrestricted, unencumbered liquid assets of not less than \$5,000,000. The second covenant involves the annual calculation of a Cash Flow Coverage Ratio wherein the ratio of Cash Flow is evaluated against the sum of the current portion of long-term debt and the current portion of capitalized lease obligations, plus interest expense on all obligations. The Cash Flow Coverage Ratio maintained must be at least 1.2 as defined above. The Bank waived the cash flow coverage ratio requirement for June 30, 2020. Additionally, the Foundation shall not have outstanding or incur any direct or contingent liabilities or lease obligations (other than (1) liabilities owed to the Bank, including any borrowings under the Foundation's current line of credit with the Bank (the "Line of Credit"), (2) liabilities with respect to split interest agreements placed with the Borrower, (3) rent and expenses associated with a Permitted Lease, (4) liabilities with respect to accrued operating expenses, and (5) liabilities with respect to the principal amount outstanding under the Refinancing), in excess of \$5,000,000 in the aggregate, or become liable for the liabilities of others, without the Bank's written consent.

The balance on the Granville Towers-University Square note was \$2.6 million as of June 30, 2019. In fiscal year 2020, the Foundation paid down \$0.6 million on the note. A balance of \$2.0 million remains on the note as of June 30, 2020.

On January 30, 2017, Granville Towers LLC obtained a loan from Nationwide Life Insurance Company (the “Lender”) in the amount

of \$55.3 million. The proceeds were used to pay the outstanding principal of \$33.5 million Aviva Life and Annuity Company note and related financing expenses. The remaining balance of the proceeds are being used to acquire or improve or protect an interest in real property which interest in real property is the only security for the loan or the fair market value of such interest in real property is at least equal to 80% of the principal amount of the loan.

The principal and interest payments for the note to the Lender are made in two hundred forty (240) consecutive monthly installments, calculated with an amortization period of twenty-five (25) years, the sum of \$299,891 paid on the 1st day of March 2017, and on the first day of each month thereafter until the first day of February 2037, on which date the entire balance of principal and interest then unpaid is due and payable. The interest rate is calculated at the rate of 4.26% per annum. The loan carries a default rate up to 5.0 percentage points higher than the rate of interest otherwise due. The loan contains a cross-default provision and is secured by a first deed of trust on the Granville Towers Property in addition to certain assignments to include leases, rents, and profits derived from the property and with certain exceptions, carries limited recourse to the University Foundation and Real Estate Holdings.

The balance on Granville Towers note was \$52.3 million as of June 30, 2019. In fiscal year 2020, the Foundation paid down \$1.4 million on the note. A balance of \$50.9 million remains on the note as of June 30, 2020.

The UNC-Chapel Hill Foundation Inc. (the "Foundation"), part of the University's reporting entity, has a line of credit agreement issued by Bank of America, N.A. to finance the costs of projects approved by the Board of Directors of the Foundation. On November 10, 2016, the Foundation increased the commitment amount of the line of credit from \$4.0 million to \$7.0 million. On April 27, 2018, the \$7.0 million line of credit was amended and renewed. Advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 95 basis points. An unused commitment fee is due each quarter calculated as 24 basis points of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due.

Under the terms of the line of credit, the Foundation shall not incur any additional indebtedness without the prior written consent of the Bank. Once the note for Granville Towers-University Square has been paid in full, the Foundation may incur additional indebtedness of up to \$10,000,000, in the aggregate, without the consent of the Bank.

The direct borrowing line of credit contains a cross-default provision and a covenant requirement that the Foundation's Total Unrestricted Net Assets as of the end of each fiscal year shall be at least \$15,000,000. Under the line of credit, the principal and accrued but unpaid interest may be declared

immediately due and payable upon the terms and conditions as provided in the Line of Credit Agreement in the event of default.

Outstanding draws against the line of credit totaled \$1.3 million at June 30, 2019. In fiscal year 2020, the Foundation maintained the balance on the line of credit leaving an available balance of \$5.7 million at June 30, 2020. The line of credit commitment has a maturity date of April 30, 2021. The June 30, 2020 outstanding balance of \$1.3 million is included in current liabilities.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2020, are as follows:

Fiscal Year	Annual Requirements						
	Revenue Bonds Payable			Revenue Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest	Principal	Interest
2021	\$ 30,755,000	\$ 34,830,143	\$ 10,114,198	\$ 0	\$ 420,000	\$ 3,304,971	\$ 2,215,240
2022	32,295,000	34,436,169	10,029,117		420,000	2,074,562	2,120,225
2023	32,150,000	33,911,020	9,939,436		420,000	2,160,913	2,033,873
2024	32,955,000	33,259,881	9,844,986		420,000	2,051,270	1,944,817
2025	33,825,000	32,549,540	9,745,341		420,000	1,731,292	1,867,399
2026-2030	196,425,000	147,931,247	48,059,256		2,100,000	9,852,127	8,141,327
2031-2035	477,605,000	96,642,157	46,767,449		2,100,000	12,186,273	6,314,533
2036-2040	214,080,000	21,683,567	32,664,963		2,100,000	20,853,371	2,274,824
2041-2045	200,000,000	1,370,505	9,065,872	30,000,000	805,000		
Total Requirements	\$ 1,250,090,000	\$ 436,614,227	\$ 186,230,618	\$ 30,000,000	\$ 9,205,000	\$ 54,214,779	\$ 26,912,238

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.12% at June 30, 2020.

Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.10% at June 30, 2020.

Interest on the variable rate General Revenue Bonds 2012B is calculated at 0.51% at June 30, 2020.

Interest on the variable rate Bond from Direct Placement held under the General Revenue Bond 2012D is calculated at 1.40% at June 30, 2020.

Interest on the variable rate General Revenue Bonds 2019A is calculated at 0.46% at June 30, 2020.

Interest on the variable rate General Revenue Bonds 2019B is calculated at 0.46% at June 30, 2020.

Interest rates on General Revenue Bonds 2001 Series B and Series C are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

Interest rate on General Revenue Bonds 2012 Series B is based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 40 basis points.

Interest rates on General Revenue Bonds 2019 Series A and B are based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 35 basis points.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 11 - Derivative Instruments.

*Computed using $(5.240\% - 0.130\%) \times (\$11,040,000 \text{ notional amount} - \text{annual swap reduction})$; $(4.375\% - 0.109\%) \times (\$150,000,000 \text{ notional amount})$; and $(3.314\% - 0.109\%) \times (\$100,000,000 \text{ notional amount})$.

The fiscal year 2021 principal requirements exclude demand bonds classified as current liabilities (see Note 10.E).

For the 2012B, 2019A, and 2019B bonds disclosed below, the University entered into standby liquidity agreements in the amount of \$100 million with TD Bank, N.A. on September 18, 2019, \$100 million with Bank of America, N.A. on September 1, 2018 (effective September 19, 2018), \$100 million with Branch Banking and Trust Company on September 19, 2018, and \$100 million with TD Bank, N.A. on September 19, 2017. As of September 18, 2019, the \$100 million standby liquidity agreement previously held with Royal Bank of Canada was replaced with the \$100 million standby liquidity agreement with TD Bank, N.A. Under each

standby liquidity agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or commercial paper bonds) delivered for purchase. Under each standby liquidity agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days' prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each standby liquidity agreement in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by S&P Global Ratings (S&P), Fitch Ratings (Fitch) or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency's ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

Facility Fee						
S&P	Fitch	Moody's	Bank of America, N.A.	Branch Banking and Trust Company	TD Bank, N.A. dated September 19, 2017	TD Bank, N.A. dated September 18, 2019
AA+ or higher	AA+ or higher	Aa1 or higher	0.30%	0.30%	0.26%	0.23%
AA	AA	Aa2	0.30%	0.40%	0.31%	0.23%
AA-	AA-	Aa3	0.30%	0.50%	0.36%	0.28%
A+	A+	A1	0.40%	0.60%	0.46%	0.33%
A	A	A2	0.55%	0.70%	0.56%	0.38%
A-	A-	A3	0.75%	0.85%	1.56%	0.48%
BBB+	BBB+	Baa1	Default Pricing***	0.85%	1.56%	0.58%
BBB	BBB	Baa2	Default Pricing***	0.85%	1.56%	0.68%
BBB-	BBB-	Baa3	Default Pricing***	0.85%	1.56%	Base Rate*
Below Investment Grade	Below Investment Grade		Default Pricing***	0.85%	1.56%	Default Rate**

* Per annum rate of interest equal to the greater of (a) the Federal Funds Rate plus 2.00% and (b) the Prime Rate

** Per annum rate of interest equal to the greater of (a) the Base Rate plus 3.00% and (b) 7.00% or otherwise permitted under applicable law

*** An increase of an additional 1.50% over the Facility Fee Rate otherwise in effect immediately prior (Max. 2.25%)

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each standby liquidity agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding.

The standby liquidity agreement with TD Bank, N.A. (dated September 18, 2019), Branch Banking and Trust Company, TD Bank, N.A. (dated September 19, 2017), and Bank of America, N.A., expire on September 18, 2024, September 19, 2023, September 19, 2022, and September 17, 2021 respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2020, no purchase drawings had been made under the standby liquidity agreements.

General Revenue, Series 2012B

The 2012B Bond has a maturity date of December 1, 2041 and carries an index tender date for the new Index Mode of November 9, 2022. The 2012B bond bears interest at the index rate, which is the rate per-annum determined monthly equal to 67.0% of One Month LIBOR plus an applicable spread of 0.40% (40 basis points).

The Series 2012B Bond is in Index Mode and is subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date, to and including such index tender date, at a redemption price equal to 100% of the principal amount called for redemption, plus accrued interest, if any, to the date of redemption. In addition, and also at the discretion of the University during the period beginning six months prior to the index tender date for such 2012B Bonds, the interest rate can be reset which would trigger a redemption requirement and a remarketing.

If the funds available to purchase the 2012B Bonds tendered on an index tender date are not sufficient to pay the purchase price, a Delayed Remarketing Period will commence on such index tender date and the failure to purchase tendered bonds will not constitute an event of default under the Indentures. The Delayed Remarketing Period will continue to (but not include) the earlier of (a) the date on which all such 2012B Bonds are successfully remarketed or (b) the date on which all of such 2012B Bonds have been deemed to have been paid and are no longer outstanding.

During a Delayed Remarketing Period for a Series of 2012B Bonds, unless the 2012B Bonds of such Series have been remarketed, the 2012B Bonds of such Series shall be subject to special mandatory redemption. Beginning with the first such June 1 or December 1 that occurs not less than six months following the date of commencement of the applicable Delayed Remarketing Period and ending on the sixth June 1 or December 1, the 2012B Bonds shall be repaid in six equal (or as equal as possible) semiannual installments on the special mandatory redemption date established herein. The final installment will be due and payable no later than the sixth special mandatory redemption date after the commencement of the applicable Delayed Remarketing Period.

The Annual Requirements schedule presents the 2012B Bonds as amortizing to full maturity. In the event of a failed remarket, the 2012B bonds would become due in six semiannual payments as set forth in the Delayed Remarketing Period, to be fully paid off in a period of three years after the respective index tender date established herein. Under the failed remarket scenario total principal payments would increase by \$16,666,667, \$33,333,333, \$33,333,333, and \$16,666,667 in fiscal years 2023, 2024, 2025, and 2026, respectively.

General Revenue, Series 2019AB

On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2019AB on February 21, 2019. The 2019A Bonds have a maturity date of December 1, 2041 and the 2019B Bonds carry a mandatory sinking fund redemption in the principal amount of \$10,025,000 on December 1, 2033 and have a maturity date of December 1, 2034. However, both Series 2019A and 2019B Bonds are issued initially in the Index Mode extending to the initial index tender date of December 1, 2021. While in this mode, the bonds will bear interest at the index rate, which will be the rate per-annum determined monthly equal to 67.0% of One Month LIBOR plus an applicable spread of 0.35% (35 basis points).

In the event of a failed remarket of the 2019AB bonds beyond December 1, 2021, the bond payments would equal \$25,154,167, \$50,308,333, \$50,308,333, and \$25,154,167 in fiscal years 2022, 2023, 2024, and 2025, respectively.

- E. Demand Bonds** - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue, Series 2001B and 2001C

In 2001, the University issued two series of variable rate demand bonds in the amount of \$54.97 million (2001B) and \$54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; Housing System, Series 2000; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand

with a seven-day notice and delivery to the University's Remarketing Agents; J.P. Morgan Securities, Inc. (2001B) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into standby liquidity agreements in the amount of \$100 million with TD Bank, N.A. on September 18, 2019, \$100 million with Bank of America, N.A. on September 1, 2018 (effective September 19, 2018), \$100 million with Branch Banking and Trust Company on September 19, 2018, and \$100 million with TD Bank, N.A. on September 19, 2017. As of September 18, 2019, the \$100 million standby liquidity agreement previously held with Royal Bank of Canada was replaced with the \$100 million standby liquidity agreement with TD Bank, N.A. Under each standby liquidity agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or commercial paper bonds) delivered for purchase. Under each standby liquidity agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days' prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each standby liquidity agreement in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by S&P Global (S&P), Fitch Ratings (Fitch) or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency's ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

Facility Fee						
S&P	Fitch	Moody's	Bank of America, N.A.	Branch Banking and Trust Company	TD Bank, N.A. dated September 19, 2017	TD Bank, N.A. dated September 18, 2019
AA+ or higher	AA+ or higher	Aa1 or higher	0.30%	0.30%	0.26%	0.23%
AA	AA	Aa2	0.30%	0.40%	0.31%	0.23%
AA-	AA-	Aa3	0.30%	0.50%	0.36%	0.28%
A+	A+	A1	0.40%	0.60%	0.46%	0.33%
A	A	A2	0.55%	0.70%	0.56%	0.38%
A-	A-	A3	0.75%	0.85%	1.56%	0.48%
BBB+	BBB+	Baa1	Default Pricing***	0.85%	1.56%	0.58%
BBB	BBB	Baa2	Default Pricing***	0.85%	1.56%	0.68%
BBB-	BBB-	Baa3	Default Pricing***	0.85%	1.56%	Base Rate*
Below Investment Grade	Below Investment Grade		Default Pricing***	0.85%	1.56%	Default Rate**

* Per annum rate of interest equal to the greater of (a) the Federal Funds Rate plus 2.00% and (b) the Prime Rate

** Per annum rate of interest equal to the greater of (a) the Base Rate plus 3.00% and (b) 7.00% or otherwise permitted under applicable law

*** An increase of an additional 1.50% over the Facility Fee Rate otherwise in effect immediately prior (Max. 2.25%)

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each standby liquidity agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding.

The standby liquidity agreement with TD Bank, N.A. (dated September 18, 2019), Branch Banking and Trust Company, TD Bank, N.A. (dated September 19, 2017), and Bank of America, N.A., expire on September 18, 2024, September 19, 2023, September 19, 2022, and September 17, 2021 respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2020, no purchase drawings had been made under the standby liquidity agreements.

General Revenue, Series 2012D

On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II - Carolina Student Athlete Center for Excellence". On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30.0 million and extending the maturity to June 1, 2042. All other terms listed below remained the same.

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The

University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days' prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days' prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of commercial paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum. As of June 30, 2020, no accrued interest payable remained for the 2012D direct placement bond. With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

- F. Terms of Debt Agreements** - The University's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Revenue Bonds Payable - Bonds held by the University to include General Revenue 2001BC, General Revenue 2009B, General Revenue 2012BC, General Revenue 2014, General Revenue 2016C, General Revenue 2017, and General Revenue 2019AB are all held under the University's General Revenue Pledge. The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal, premium or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds immediately due and payable, whereupon they will, without further action, become due and payable.

The University's Series 1997 Utility System bond issue includes capital appreciation bonds with an original issue amount of \$30,379,142. The Series 1997 Utility System bond matures on August 1, 2021. The utility bonds carry a maintenance reserve requirement as well as a sinking fund requirement. As of June 30, 2020, the sinking fund was fully funded for the August 1, 2020 maturity due of \$8.4 million and the maintenance reserve was fully funded in the amount of \$4.7 million. In addition and in accordance with the Bond Resolution, the Board has agreed to generate revenues that will be sufficient to pay the current expenses and to provide an amount equal to (1) not less than 1.15 times the amount required to be deposited in the sinking fund for the then current bond year and (2) moneys needed to be deposited in the other funds and accounts created under the Bond Resolution (maintenance reserve fund). Failure to remedy a covenant, agreement, or conditions contained within the bond resolution following 30 days written notice by the Paying Agent to the University would constitute an event of default whereby Bondholders holding not less than a majority of the aggregate principal amount of the Bonds then outstanding, declare the principal of all of the Bonds then outstanding and the interest accrued thereon, to be due and payable immediately. Both the maintenance reserve and the sinking fund are held in a restricted position as of June 30, 2020 on deposit with the Trustee.

Revenue Bonds from Direct Placements - On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II — Carolina Student Athlete Center for Excellence".

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D Bond is held under the University's General Revenue Pledge. The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal, premium or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds immediately due and payable, whereupon they will, without further action, become due and payable.

Notes from Direct Borrowings - The Granville Towers-University Square financing contains a cross-default provision and two related covenant requirements. The first covenant requires that the Foundation and Holdings shall maintain on a consolidated basis, unrestricted, unencumbered liquid assets of not less than \$5,000,000. The second covenant involves the annual calculation of a Cash Flow Coverage Ratio wherein the ratio of Cash Flow is evaluated against the sum of the current portion of long-term debt and the current portion of capitalized lease

obligations, plus interest expense on all obligations. The Cash Flow Coverage Ratio maintained must be at least 1.2 as defined above. The Bank waived the cash flow coverage ratio requirement for June 30, 2020. Additionally, the Foundation shall not have outstanding or incur any direct or contingent liabilities or lease obligations (other than (1) liabilities owed to the Bank, including any borrowings under the Foundation's current line of credit with the Bank (the "Line of Credit"), (2) liabilities with respect to split interest agreements placed with the Borrower, (3) rent and expenses associated with a Permitted Lease, (4) liabilities with respect to accrued operating expenses, and (5) liabilities with respect to the principal amount outstanding under the Refinancing), in excess of \$5,000,000 in the aggregate, or become liable for the liabilities of others, without the Bank's written consent. In the event of default and upon declaration by the bank the balance of the loan as well as any accrued but unpaid interest would become immediately due and payable. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due. A balance of \$2.0 million remains on the note as of June 30, 2020.

The Granville Towers loan contains a cross-default provision and is secured by a first deed of trust on the Granville Towers Property in addition to certain assignments to include leases, rents, and profits derived from the property and with certain exceptions, carries limited recourse to the University Foundation and Real Estate Holding. The carrying value of the Granville Towers Property at June 30, 2020 was \$34,557,025. In the event of default and upon declaration by the bank the balance of the loan as well as any accrued but unpaid interest would become immediately due and payable. The interest rate is calculated at the rate of 4.26 percent per annum. The loan carries a default rate up to 5.0 percentage points higher than the rate of interest otherwise due. A balance of \$50.9 million remains on the note as of June 30, 2020.

The UNC-Chapel Hill Foundation Inc. (the "Foundation"), part of the University's reporting entity, has a line of credit agreement issued by Bank of America, N.A. to finance the costs of projects approved by the Board of Directors of the Foundation. Under the terms of the line of credit, the Foundation shall not incur any additional indebtedness without the prior written consent of the Bank. Once the note payable for Granville Towers-University Square has been paid in full, the Foundation may incur additional indebtedness beyond the line of credit of up to \$10,000,000, in the aggregate, without the consent of the Bank.

The direct borrowing line of credit contains a cross-default provision and a covenant requirement that the Foundation's Total Unrestricted Net Assets as of the end of each fiscal year shall be at least \$15,000,000. Under the line of credit, the principal and accrued but unpaid interest may be declared immediately due and payable upon the terms and conditions as provided in the Line of Credit Agreement in the event of default. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due. The June 30, 2020 outstanding balance of \$1.3 million is included in current liabilities.

G. Capital Appreciation Bonds - The University's Series 1997 Utility System bond issue includes capital appreciation bonds with an original issue amount of \$30,379,142. These bonds are recorded in the amount of \$16,302,729 (\$84,135,000 ultimate maturity less \$517,271 discount less \$67,315,000 principal paid) which is the accreted value at June 30, 2020.

H. Annuities Payable - The University participates in irrevocable split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries are calculated using the 2012 IAR mortality table, thus taking into consideration beneficiary's age and the amount of the gift.

NOTE 11 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2020 are as follows:

		Change in Value		Value at June 30, 2020	
Type	Notional Amount	Classification	Increase (Decrease)	Classification	Asset (Liability)
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap	\$ 100,000,000	Deferred Outflow of Resources	\$ (15,074,394)	Hedging Derivative Liability	\$ (43,973,012)
Pay-Fixed Interest Rate Swap	150,000,000	Deferred Outflow of Resources	(32,384,931)	Hedging Derivative Liability	(113,156,600)
Total			<u>\$ (47,459,325)</u>		<u>\$ (157,129,612)</u>
Investment Derivative Instruments					
Pay-Fixed Interest Rate Swap 2001B Bonds	\$ 11,040,000	Investment Income	\$ (389,690)	Accounts Payable	(1,842,562)
U.S. Dollar Equity	256,950,130	Investment Income	35,681,744	Other Assets	5,686,001
Foreign Currency	(96,970,219)	Investment Income	3,627,795	Other Assets	604,133
Total			<u>\$ 38,919,849</u>		<u>\$ 4,447,572</u>

Hedging derivative instruments held at June 30, 2020 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable-Rate Debt	\$ 100,000,000	12/1/2007	12/1/2036	Pay 3.314%, Receive 67% 1 Mo. LIBOR
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable-Rate Debt	\$ 150,000,000	12/1/2011	12/1/2041	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University were provided by a financial advisor. The method used by the financial advisor calculates the future net settlement payments required by the swap and assumes that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve on hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Hedging Derivative Risks

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2020. The fair values are calculated as of June 30, 2020. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

Basis Risk: The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

Termination Risk: The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

Investment Derivative Risks

Credit Risk: At June 30, 2020, non-exchange traded investment derivatives reported as assets expose the University to credit risk as follows:

Investment Derivative Instrument	Value	Counterparty	Collateral Held	Counterparty Credit Ratings	
				S&P/Fitch	Moody's
Foreign Currency Forwards	\$ 604,133	JP Morgan Chase & Co	\$ 0	A-/AA-	A2
Total Exposure to Credit Risk ⁽¹⁾	\$ 604,133		\$ 0		

(1) The value total represents the maximum risk of loss that would be recognized at the reporting date if all counterparties failed to perform as contracted, without respect to any collateral or netting arrangement.

The University does not have a formal policy regarding requiring collateral or other security to support investment derivative instruments subject to credit risk. The University does not have a formal policy regarding entering into master netting arrangements.

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate

changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of \$1,842,562 as of June 30, 2020. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2020. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2020, SIFMA was 0.13%. The interest rate swap has a notional amount of \$11,040,000 and matures November 1, 2025.

Foreign Currency Risk: Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure to fluctuations in the exchange rates of foreign currencies. Forward contracts based in foreign currency obligate the buyer to purchase an asset (or seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The University's foreign currency investment derivatives are presented in U.S. dollars. See Note 2 - Deposits and Investments for further information about the University's exposure to foreign currency risk.

NOTE 12 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 481,201
2022	302,632
2023	<u>117,634</u>
Total Minimum Lease Payments	901,467
Amount Representing Interest (1.8% - 3.9% Rates of Interest)	<u>24,436</u>
Present Value of Future Lease Payments	<u>\$ 877,031</u>

Machinery and equipment acquired under capital lease amounted to \$1,692,307 at June 30, 2020.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$360,655 at June 30, 2020.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment, buildings, and land. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 27,409,734
2022	25,437,970
2023	22,887,006
2024	19,800,442
2025	17,233,285
2026-2030	33,702,005
2031-2032	<u>773,816</u>
Total Minimum Lease Payments	<u>\$ 147,244,258</u>

Rental expense for all operating leases during the year was \$32,264,437.

NOTE 13 - NET POSITION

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (190,135,330)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(2,787,915,503)</u>
Effect on Unrestricted Net Position	(2,978,050,833)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>1,142,611,236</u>
Total Unrestricted Net Position	<u>\$ (1,835,439,597)</u>

See Notes 16 and 17 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 14 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Change in Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	\$ 543,856,472	\$ 142,579,450	\$ 928,256	\$ 0	\$ 400,348,766
Patient Services, Net	\$ 1,118,259,499	\$ 0	\$ (11,525,649)	\$ 638,740,642	\$ 491,044,506
Sales and Services:					
Sales and Services of Auxiliary Enterprises	\$ 401,170,772	\$ 12,181,184	\$ 0	\$ 0	\$ 388,989,588
Other Sales and Services	46,071,805				46,071,805
Total Sales and Services, Net	\$ 447,242,577	\$ 12,181,184	\$ 0	\$ 0	\$ 435,061,393
Nonoperating Revenues:					
Noncapital Contributions, Net	\$ 314,889,336	\$ 0	\$ (73,370)	\$ 0	\$ 314,962,706

NOTE 15 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 605,459,283	\$ 152,926,506	\$ 0	\$ 56,677	\$ 0	\$ 758,442,466
Research	348,058,203	261,508,630		180,655		609,747,488
Public Service	72,647,015	71,254,437		165,392		144,066,844
Academic Support	92,135,516	47,501,730		79,002		139,716,248
Student Services	23,829,837	13,358,978		19,757		37,208,572
Institutional Support	121,903,810	72,026,135		95,009		194,024,954
Operations and Maintenance of Plant	48,597,947	32,247,013		72,139,261		152,984,221
Student Financial Aid			106,483,355			106,483,355
Auxiliary Enterprises	489,618,768	367,791,105		8,986,281		866,396,154
Depreciation/ Amortization					179,717,871	179,717,871
Total Operating Expenses	\$ 1,802,250,379	\$ 1,018,614,534	\$ 106,483,355	\$ 81,722,034	\$ 179,717,871	\$ 3,188,788,173

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$1,127,185 provided by the CARES Act – Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid – COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 14.

NOTE 16 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were \$30,364,507, and the University's contributions were \$65,637,943 for the year ended June 30, 2020.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An

electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2020, the University reported a liability of \$329,223,453 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 3.17570%, which was an increase of 0.00055 from its proportion measured as of June 30, 2018, which was 3.17515%.

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

Valuation Date	12/31/2018
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 626,603,814	\$ 329,223,453	\$ 79,759,230

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2020, the University recognized pension expense of \$120,952,381. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 27,539,162	\$ 659,085
Changes of Assumptions	35,080,052	
Net Difference Between Projected and Actual Earnings on Plan Investments	6,310,751	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	5,179,300	
Contributions Subsequent to the Measurement Date	65,637,943	
Total	\$ 139,747,208	\$ 659,085

The amount of \$65,637,943 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2021	\$ 51,304,503
2022	13,536,316
2023	6,401,712
2024	2,207,649
Total	\$ 73,450,180

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for

the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in ORP. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2020, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$1,447,792,464, of which \$730,507,368 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$43,830,442 and \$49,966,704, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$2,037,148.

NOTE 17 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits

for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 18. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The University's contributions to the RHBF were \$80,006,887 for the year ended June 30, 2020.

2. Disability Income

Plan Administration: As discussed in Note 18, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes

employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

will cease, and the employee will commence retirement under TSERS or the ORP.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The University's contributions to DIPNC were \$1,236,582 for the year ended June 30, 2020.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2020, the University reported a liability of \$2,186,043,474 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 6.90922%, which was an increase of 0.14546 from its proportion measured as of June 30, 2018, which was 6.76376%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of \$2,987,331 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 6.92313%, which was an

increase of 0.00921 from its proportion measured as of June 30, 2018, which was 6.91392%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.5% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

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

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility

in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.50%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

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

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)				
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)	
RHBF	\$ 2,597,809,028	\$ 2,186,043,474	\$ 1,856,339,244	
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)	
DIPNC	\$ (2,530,196)	\$ (2,987,331)	\$ (3,431,519)	

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage

point lower or 1-percentage point higher than the current healthcare cost trend rates:

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	\$ 1,800,040,777	\$ 2,186,043,474	\$ 2,693,574,686
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	\$ (2,992,592)	\$ (2,987,331)	\$ (2,982,415)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the University recognized OPEB contra-expense of \$56,001,542 for RHBF and expense of \$2,828,272 for DIPNC, resulting in a total OPEB contra-expense of \$53,173,270. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0	\$ 3,051,785	\$ 3,051,785
Changes of Assumptions	105,071,542	330,926	105,402,468
Net Difference Between Projected and Actual Earnings on Plan Investments	1,455,731	569,012	2,024,743
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	170,131,046		170,131,046
Contributions Subsequent to the Measurement Date	80,006,887	1,236,582	81,243,469
Total	\$ 356,665,206	\$ 5,188,305	\$ 361,853,511

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 110,204,130	\$ 0	\$ 110,204,130
Changes of Assumptions	657,220,478	306,487	657,526,965
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	191,112,627	119,041	191,231,668
Total	\$ 958,537,235	\$ 425,528	\$ 958,962,763

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBFB and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBFB	DIPNC
2021	\$ (233,125,751)	\$ 1,205,627
2022	(233,125,751)	840,825
2023	(232,915,279)	609,246
2024	(12,165,891)	373,721
2025	29,453,756	523,744
Thereafter	(26,968)	(26,968)
Total	\$ (681,878,916)	\$ 3,526,195

NOTE 18 - RISK MANAGEMENT

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

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 \$2,000,000 per employee, \$2,000,000 per

occurrence, and \$10,000,000 annual aggregate through a contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

UNC Investment Fund, LLC (Blended Component Unit) Liability Insurance

- The UNC Investment Fund is exposed to various risks of loss related to, without limitation, torts, theft of assets, and errors and omissions. The Management Company is a separate legal entity from the University of North Carolina System and the University. However, the Management Company's employees conduct UNC Investment Fund's affairs. Therefore, certain exposures to loss are handled by the purchase of commercial insurance by the Management Company. This insurance is independent of the risk management programs of the University of North Carolina System and the University.

Fire and Other Property Loss - The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund, such as housing units or athletic facilities, are charged for the coverage. The University has opted to purchase additional coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

Employee Dishonesty and Computer Fraud - The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the State's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, and study abroad health insurance.

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

Liability Insurance Trust Fund - The University participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and The University of North Carolina at Chapel Hill Faculty Physicians (UNC Faculty Physicians), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, UNC Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with UNC Hospitals. Only UNC Faculty Physicians and UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer (each serving at the pleasure of the appointer); and nine members appointed by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of \$100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2019 through June 30, 2020, the Trust Fund provided coverage on an occurrence basis of \$3,000,000 per individual and \$7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing

commercial reinsurance, participants contributed approximately \$10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2020, the Trust Fund purchased a direct insurance policy to cover the first \$1,000,000 per occurrence and \$3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to \$30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2020, University assets in the Trust Fund totaled \$18,174,273, while University liabilities totaled \$15,887,144 resulting in net position of \$2,287,129.

Additional disclosures about the funding status and obligations of the Trust Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from the University of North Carolina Health Care System, 5221 Paramount Parkway, Suite 230, Morrisville, NC 27650.

State Health Plan - University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 17, Other Postemployment Benefits, for additional information regarding retiree health benefits.

Death Benefit Plan of North Carolina - Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. 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.

Disability Income Plan - Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North

Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 17, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$97,044,092 at June 30, 2020.

The UNC Investment Fund has entered into agreements with hedge funds, private equity limited partnerships, and real assets limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2020, the UNC Investment Fund had approximately \$1,337,073,849 in unfunded committed capital. There was also unfunded committed capital related to other private equity investments outside of the UNC Investment Fund noted above in the amount of \$16,157,829 as of June 30, 2020.

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

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at June 30, 2020 are as follows:

Purpose	Amount
Pledges to Permanent Endowments	\$ 47,879,220

NOTE 20 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, actions were taken by the University in March 2020 to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of students, faculty, and staff.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the University, these programs included (1) the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, (2) the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges, (3) the Provider Relief Fund (PRF) administered by the U.S. Department of Health and Human Resources made directly to health care providers, and (4) additional funding for the Disaster Relief Fund (DRF) administered by the Federal Emergency Management Agency (FEMA).

The revenues from these programs are not significant to the University and are contingent upon meeting the terms and conditions of the programs and signed agreements with the funding agencies, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue caption of the financial statements:

Nonoperating Revenue:

Federal Aid - COVID-19 - This caption includes funds received from the CARES Act, other than the CRF funds appropriated in House Bill 1043, and the FEMA DRF funds, as follows:

The HEERF funds provided include: (1) a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19, and (2) an institutional allocation to cover costs associated with significant changes to the delivery of instruction due to COVID-19 including the recovery of revenue lost due to those changes. The HEERF funds must be expended within one year of the grant award notification date.

The PRF funds provided include distributions to reimburse the University's Faculty Practice for health care-related expenses or lost revenues not otherwise reimbursed that are directly attributable to COVID-19.

The FEMA DRF funds are provided for emergency protective measures and related management costs related to the COVID-19 emergency and are on-going throughout the emergency event.

NOTE 21 - RELATED PARTIES

There are 12 separately incorporated nonprofit foundations associated with the University. These foundations are The Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead-Cain Scholarship Fund, UNC Eshelman School of Pharmacy Foundation, The School of Media and Journalism Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Incorporated, UNC Law Foundation, Inc., and Carolina for Kibera, Inc.

Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of these organizations, except for support from each organization to the University. This support totaled \$20,055,307 for the year ended June 30, 2020.

NOTE 22 - INVESTMENT IN JOINT VENTURES

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method and valued at \$9,895,456. The University is partners with Michigan State University, U.S. NSF's National Optical-Infrared Astronomy Research Laboratory, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.1-meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University 16.7% of observing time until 2025. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Vascular Access Center, a joint venture accounted for under the equity method and valued at \$535,813. The University is partners with Capital Nephrology and Durham Nephrology and has a 40.0% share. This joint venture provides dialysis services to patients in Orange, Durham and Wake counties. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Behavioral Health Alliance, a joint venture accounted for under the equity method and valued at \$410,159. The University is partners with Wake Forest Baptist Medical Center and East Carolina University and has a 33.3% share. The joint venture specializes in managed mental health benefit plans serving the Winston-Salem and Charlotte

areas. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270 or by calling (919) 962-1370.

The University is a member of Qura Therapeutics, a joint venture accounted for under the equity method and valued at \$3,309,757. The University entered into this joint-venture, an equal partnership agreement, in May 2015 with GSK. In mid-October 2018 GSK transferred their shares to ViiV Healthcare. The terms and conditions of the May 2015 agreement remain the same. The University and ViiV, through Qura Therapeutics, provides financial and material support to the partnership. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of TRO Ventures, LLC, a joint venture accounted for under the equity method and valued at \$1,843,160. The University is partners with UNC Hospitals and Rex Healthcare, Inc. The University has a 31.85% share of TRO Ventures, LLC. The joint venture provides radiation therapy services to patients in Raleigh and Wake County, North Carolina and the surrounding areas. The audited financial statements may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of WR Imaging, LLC, a joint venture accounted for under the equity method and valued at \$1,461,400. The University is partners with Rex Hospital, Inc. The University has a 2.0% share of WR Imaging, LLC. The joint venture provides outpatient imaging services to patients in Wake County and the surrounding areas, including through the engagement of professional clinical services provided by the University's School of Medicine Department of Radiology. The audited financial statements may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2020, is presented as follows:

Condensed Statement of Net Position June 30, 2020

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
ASSETS								
Current Assets	\$ 1,213,468,157	\$ 344,742,409	\$ 0	\$ 53,389,999	\$ 36,105,593	\$ 87,238,315	\$ 0	\$ 1,734,944,473
Capital Assets, Net	2,950,422,459			97,551,322		2,533,656		3,050,507,437
Other Noncurrent Assets	3,080,703,292	6,488,635,478	3,642,447,354	433,370,039	573,464,607	160,845,379	(7,846,675,307)	6,532,790,842
Total Assets	7,244,593,908	6,833,377,887	3,642,447,354	584,311,360	609,570,200	250,617,350	(7,846,675,307)	11,318,242,752
TOTAL DEFERRED OUTFLOWS OF RESOURCES	668,614,033							668,614,033
LIABILITIES								
Current Liabilities	439,445,464	15,618,747	2,328,673	8,647,122	1,334,533	12,949,308	6,380,935	486,704,782
Long-Term Liabilities, Net	3,889,875,168			114,453,860		5,284,379		4,009,613,407
Other Noncurrent Liabilities	1,018,298,379					9,490,149	3,213,057,254	4,240,845,782
Total Liabilities	5,347,619,011	15,618,747	2,328,673	123,100,982	1,334,533	27,723,836	3,219,438,189	8,737,163,971
TOTAL DEFERRED INFLOWS OF RESOURCES	962,496,367			17,281,779				979,778,146
NET POSITION								
Net Investment in Capital Assets	1,635,103,702			44,649,835		2,533,656		1,682,287,193
Restricted - Nonexpendable	604,955,472	6,817,759,140	3,640,118,681	202,789,162	608,235,667	106,180,960	(11,066,113,496)	913,925,586
Restricted - Expendable	1,289,331,762			151,351,708		68,458,016		1,509,141,486
Unrestricted	(1,926,298,373)			45,137,894		45,720,882		(1,835,439,597)
Total Net Position	\$ 1,603,092,563	\$ 6,817,759,140	\$ 3,640,118,681	\$ 443,928,599	\$ 608,235,667	\$ 222,893,514	\$ (11,066,113,496)	\$ 2,269,914,668

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2020

	The University of North Carolina at Chapel Hill	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	UNC Intermediate Pool, LLC	Other Blended Component Units*	Eliminations	Total
OPERATING REVENUES								
Student Tuition and Fees, Net	\$ 395,348,766	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,000,000	\$ 0	\$ 400,348,766
Grants and Contracts	887,343,260							887,343,260
Sales and Services, Net	893,827,590			12,347,850		19,930,459		926,105,899
Other Operating Revenues	12,436,016					758,444		13,194,460
Total Operating Revenues	2,188,955,632			12,347,850		25,688,903		2,226,992,385
OPERATING EXPENSES								
Operating Expenses	2,920,804,628	1,648,333	38,501,015	12,931,907	119,560	35,938,757	(873,898)	3,009,070,302
Depreciation/Amortization	178,195,510			1,424,319		98,042		179,717,871
Total Operating Expenses	3,099,000,138	1,648,333	38,501,015	14,356,226	119,560	36,036,799	(873,898)	3,188,788,173
Operating Income (Loss)	(910,044,506)	(1,648,333)	(38,501,015)	(2,008,376)	(119,560)	(10,347,896)	873,898	(961,795,788)
NONOPERATING REVENUES (EXPENSES)								
Investment Income, Net	72,039,199	195,581,317	93,448,687	8,554,698	9,084,092	4,839,824	(288,087,664)	95,460,153
Other, Net	790,347,159	(57,463,947)	(54,180,946)	1,350,496	9,055,403	18,264,519	131,958,570	839,331,254
Net Nonoperating Revenues (Expenses)	862,386,358	138,117,370	39,267,741	9,905,194	18,139,495	23,104,343	(156,129,094)	934,791,407
Income (Loss) Before Other Revenues	(47,658,148)	136,469,037	766,726	7,896,818	18,019,935	12,756,447	(155,255,196)	(27,004,381)
Capital Appropriations	1,452,000							1,452,000
Capital Contributions	20,629,312							20,629,312
Additions to Endowments	12,390,506					4,353,406	(510)	16,743,402
Total Other Revenues (Expenses)	34,471,818					4,353,406	(510)	38,824,714
Increase (Decrease) in Net Position	(13,186,330)	136,469,037	766,726	7,896,818	18,019,935	17,109,853	(155,255,706)	11,820,333
NET POSITION								
Net Position, July 1, 2019, as Restated	1,616,278,893	6,681,290,103	3,639,351,955	436,031,781	590,215,732	205,783,661	(10,910,857,790)	2,258,094,335
Net Position, June 30, 2020	\$ 1,603,092,563	\$ 6,817,759,140	\$ 3,640,118,681	\$ 443,928,599	\$ 608,235,667	\$ 222,893,514	\$ (11,066,113,496)	\$ 2,269,914,668

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

Condensed Statement of Cash Flows
June 30, 2020

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units*	Total
Net Cash Used by Operating Activities	\$ (832,411,117)	\$ (14,750,582)	\$ (8,169,153)	\$ (855,330,852)
Net Cash Provided by Noncapital Financing Activities	1,131,608,779	11,425,081	17,876,100	1,160,909,960
Net Cash Used by Capital and Related Financing Activities	(155,368,846)	(7,562,618)	(372,458)	(163,303,922)
Net Cash Provided (Used) by Investing Activities	54,836,909	5,327,667	(1,151,660)	59,012,916
Net Increase (Decrease) in Cash and Cash Equivalents	198,665,725	(5,560,452)	8,182,829	201,288,102
Cash and Cash Equivalents, July 1, 2019	708,490,022	61,091,124	48,879,350	818,460,496
Cash and Cash Equivalents, June 30, 2020	<u>\$ 907,155,747</u>	<u>\$ 55,530,672</u>	<u>\$ 57,062,179</u>	<u>\$ 1,019,748,598</u>

*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

NOTE 24 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2020, the University implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

GASB Statement No. 89 establishes accounting requirements for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement have been applied prospectively.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018.

NOTE 25 - NET POSITION RESTATEMENTS

As of July 1, 2019, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2019 Net Position as Previously Reported	\$ 2,311,590,041
Restatements:	
Blending the University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.	12,766,203
Removing Previous Blended - The University of North Carolina at Chapel Hill Law Foundation, Inc.	<u>(66,261,909)</u>
July 1, 2019 Net Position as Restated	<u>\$ 2,258,094,335</u>

NOTE 26 - SUBSEQUENT EVENTS

The Board of Governors, on behalf of the University, anticipates issuing a \$30.0 million special obligation General Revenue Bond later in fiscal year 2020-21 to fund the purchase of real property improvements for athletics facilities from the Educational Foundation, Inc. The General Revenue Bond was approved by a resolution of the Board on January 25, 2019. The specific terms of the transaction are to be determined at a later date.



REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Seven Fiscal Years*

Exhibit C-1

Teachers' and State Employees' Retirement System	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	3.17570%	3.17515%	3.11981%	3.09361%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 329,223,453	\$ 316,120,760	\$ 247,539,484	\$ 284,334,716
Covered Payroll	\$ 507,759,996	\$ 498,130,872	\$ 480,647,184	\$ 460,471,749
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	64.84%	63.46%	51.50%	61.75%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%
	2016	2015	2014	
Proportionate Share Percentage of Collective Net Pension Liability	3.12227%	3.22422%	3.20010%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 115,061,832	\$ 37,801,432	\$ 194,278,679	
Covered Payroll	\$ 451,281,663	\$ 457,366,996	\$ 460,281,538	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.50%	8.27%	42.21%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%	

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years

Exhibit C-2

Teachers' and State Employees' Retirement System	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 65,637,943	\$ 62,403,703	\$ 53,698,508	\$ 47,968,589	\$ 42,133,165
Contributions in Relation to the Contractually Determined Contribution	65,637,943	62,403,703	53,698,508	47,968,589	42,133,165
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 506,075,117	\$ 507,759,996	\$ 498,130,872	\$ 480,647,184	\$ 460,471,749
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 41,292,272	\$ 39,745,192	\$ 38,341,452	\$ 33,975,672	\$ 23,308,729
Contributions in Relation to the Contractually Determined Contribution	41,292,272	39,745,192	38,341,452	33,975,672	23,308,729
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 451,281,663	\$ 457,366,996	\$ 460,281,538	\$ 456,662,258	\$ 472,793,699
Contributions as a Percentage of Covered Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

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

The University of North Carolina at Chapel Hill
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2020

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
Teachers' and State Employees' Retirement System	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

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

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

The University of North Carolina at Chapel Hill

Required Supplementary Information

**Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**

Last Four Fiscal Years*

Exhibit C-3

Retiree Health Benefit Fund	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	6.90922%	6.76376%	6.36069%	7.24839%
Proportionate Share of Collective Net OPEB Liability	\$ 2,186,043,474	\$ 1,926,872,329	\$ 2,085,455,588	\$ 3,153,296,023
Covered Payroll	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	181.38%	168.16%	190.99%	297.95%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset	6.92313%	6.91392%	6.80968%	6.66043%
Proportionate Share of Collective Net OPEB Asset	\$ 2,987,331	\$ 2,100,172	\$ 4,162,076	\$ 4,163,127
Covered Payroll	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.25%	0.18%	0.38%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	116.23%	116.06%

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

The University of North Carolina at Chapel Hill
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit C-4

Retiree Health Benefit Fund	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 80,006,887	\$ 75,566,063	\$ 69,324,559	\$ 63,440,899	\$ 59,265,733
Contributions in Relation to the Contractually Determined Contribution	80,006,887	75,566,063	69,324,559	63,440,899	59,265,733
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 55,554,649	\$ 53,247,759	\$ 51,582,373	\$ 47,027,478	\$ 46,527,281
Contributions in Relation to the Contractually Determined Contribution	55,554,649	53,247,759	51,582,373	47,027,478	46,527,281
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,011,924,390	\$ 986,069,611	\$ 973,252,321	\$ 940,549,560	\$ 949,536,347
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%
Disability Income Plan of North Carolina	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 1,236,582	\$ 1,687,281	\$ 1,604,205	\$ 4,149,319	\$ 4,339,098
Contributions in Relation to the Contractually Determined Contribution	1,236,582	1,687,281	1,604,205	4,149,319	4,339,098
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 4,148,890	\$ 4,338,706	\$ 4,282,310	\$ 4,890,858	\$ 4,937,589
Contributions in Relation to the Contractually Determined Contribution	4,148,890	4,338,706	4,282,310	4,890,858	4,937,589
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,011,924,390	\$ 986,069,611	\$ 973,252,321	\$ 940,549,560	\$ 949,536,347
Contributions as a Percentage of Covered Payroll	0.41%	0.44%	0.44%	0.52%	0.52%

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

***The University of North Carolina at Chapel Hill
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2020***

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 17 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.5%. Disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

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

Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Chapel Hill (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2020. Our report includes a reference to other auditors who audited the financial statements of the UNC Investment Fund, LLC, UNC Intermediate Pool, LLC, UNC Management Company, Inc., The University of North Carolina at Chapel Hill Foundation, Inc., The Kenan-Flagler Business School Foundation, and the University's discretely presented component units, as described in our report on the University's financial statements. The financial statements of the University's blended and discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with those entities.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 9, 2020

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North Carolina Office of the State Auditor at 919-807-7666



This audit required 1,674 hours at an approximate cost of \$174,096.