

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## NORTH CAROLINA STATE UNIVERSITY

RALEIGH, 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



**NCOSA**  
The Taxpayers' Watchdog

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



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

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

## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina State University 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 black ink 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**

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**

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Board of Trustees  
North Carolina State University  
Raleigh, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 financial statements of the NC State Investment Fund, Inc., which represent 23 percent and 1 percent, respectively, of the assets and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc. or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those statements 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 North Carolina State University Foundation, Inc. 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 North Carolina State University, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 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

November 11, 2020



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of North Carolina State University (University).

## Financial Highlights

The University's net position increased by \$130.2 million to \$747.7 million in fiscal year 2020. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources. The negative unrestricted net position balance decreased by \$27.9 million mainly due to fluctuations in Pension and OPEB reporting. Net investment in capital assets increased \$72.7 million due to increases in capital projects. Restricted nonexpendable net position increased \$12.3 million driven mainly by the increase in gifts for professorships and the State matching for professorships. Restricted expendable net position increased \$17.2 million, driven by the increase in capital projects due to the construction of several large projects during the year.

Revenues decreased by \$22.0 million or 1.3%, to \$1.65 billion in fiscal year 2020. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. The coronavirus pandemic (COVID-19) significantly impacted revenue especially in the areas of auxiliaries. See Note 18 for more information related to the impact of COVID-19. Decreases in sales and services and investment income due to the effects of COVID-19 and falling market rates were the major factors in the decrease which was partially offset due to increases in tuition and fees and noncapital contributions.

Expenses grew 2.9% in 2020, up \$45.0 million over fiscal year 2019 expenses. Expenses represent amounts paid or accrued for operating or nonoperating purposes. Student financial aid, instruction, institutional support, depreciation, and academic support showed the largest increases, while auxiliaries and research showed the largest decreases.

## Using the Financial Statements

The University's financial statements are 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. 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.

The 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 University blends two component units as if they were part of the University, and two entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.



The University's three financial statements are used to evaluate financial position as of June 30<sup>th</sup> and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other postemployment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

### **Comparative Condensed Financial Statement Information**

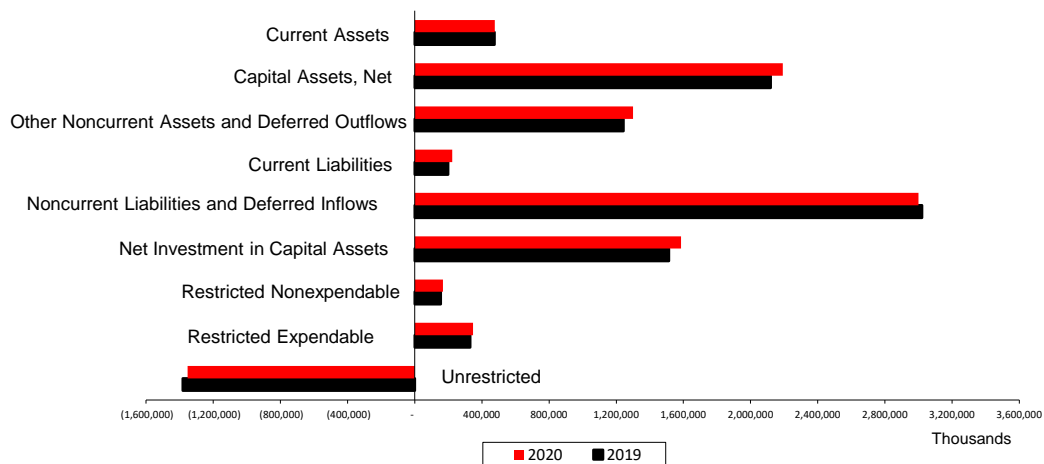
#### **Statement of Net Position**

The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2020. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2020 and as of June 30, 2019.

	2020	2019	Changes
<b>Assets</b>			
Current Assets	\$ 476,358,676	\$ 474,267,240	\$ 2,091,436
Capital Assets, Net	2,192,499,078	2,119,308,245	73,190,833
Other Noncurrent Assets	979,672,252	947,235,217	32,437,035
<b>Total Assets</b>	<b>3,648,530,006</b>	<b>3,540,810,702</b>	<b>107,719,304</b>
<b>Deferred Outflows of Resources</b>			
Deferred Outflows Related to Asset Retirement Obligations	13,233,188	13,422,816	(189,628)
Deferred Outflows Related to Pensions	97,915,354	127,152,516	(29,237,162)
Deferred Outflows Related to OPEB	209,717,948	154,715,862	55,002,086
<b>Total Deferred Outflows of Resources</b>	<b>320,866,490</b>	<b>295,291,194</b>	<b>25,575,296</b>
<b>Liabilities</b>			
Current Liabilities	222,501,207	198,117,957	24,383,250
Noncurrent Liabilities			
Long-Term Liabilities	2,064,541,181	1,940,714,846	123,826,335
Other Noncurrent Liabilities	409,388,964	404,821,241	4,567,723
<b>Total Liabilities</b>	<b>2,696,431,352</b>	<b>2,543,654,044</b>	<b>152,777,308</b>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows Related to Pensions	469,260	2,224,500	(1,755,240)
Deferred Inflows Related to OPEB	524,814,028	672,712,265	(147,898,237)
<b>Total Deferred Inflows of Resources</b>	<b>525,283,288</b>	<b>674,936,765</b>	<b>(149,653,477)</b>
<b>Net Position</b>			
Net Investment in Capital Assets	1,585,204,046	1,512,479,420	72,724,626
Restricted			
Nonexpendable	167,457,853	155,181,523	12,276,330
Expendable	347,050,005	329,816,454	17,233,551
Unrestricted	(1,352,030,048)	(1,379,966,310)	27,936,262
<b>Total Net Position</b>	<b>\$ 747,681,856</b>	<b>\$ 617,511,087</b>	<b>\$ 130,170,769</b>

The following graph illustrates the assets, deferred outflows, liabilities, deferred inflows and net position of the University as of June 30, 2020 as compared to June 30, 2019 balances.



Assets totaled \$3.65 billion, an increase of \$107.7 million over the prior year. This change in assets includes an increase in current assets of \$2.1 million, an overall increase in net capital assets of \$73.2 million and an increase in other noncurrent assets of \$32.4 million.

Current assets increased by \$2.1 million in fiscal year 2020. This increase was primarily the result of an increase in accounts receivable of \$2.3 million driven by increase in non-student accounts receivable and an increase in due from university component unit of \$2.9 million related to money for the plant sciences building. This was offset by a decrease of \$1.0 million in cash and cash equivalents made up of increases in debt service of \$10.0 million which were offset by decreases of \$13.3 million in contracts and grants overhead. Due from primary government and due from the state of North Carolina component units decreased \$2.5 million due to decreases in contracts and grants receivable and decreases in the grant received directly from Golden LEAF.

The increase in net capital assets of \$73.2 million is due largely to an increase in spending on construction projects, driven by several large projects such as Fitts-Woolard Hall, Plant Sciences Building, and Carmichael addition.

The \$32.4 million increase in other noncurrent assets is made up primarily of increases in restricted cash and endowment investments which was partially offset by a decrease in noncurrent investments. Restricted cash increased \$35.5 million due to increases in capital improvements allotments and investments. Endowment investments increased \$6.7 million due to increases in the long-term investment fund. Noncurrent investments decreased \$8.6 million due to sales of investments exceeding purchases.

The deferred outflows of resources for the University's asset retirement obligations, the deferred outflows for pensions and deferred outflows for OPEB are shown in a separate section of the financial statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013, established deferred sections of the financial statements. The deferred outflow for the asset retirement obligation is the University's obligation and cost to retire the nuclear reactor on campus. The deferred outflows for pensions and OPEB accounts reflect the University's allocated portion of deferred outflows for the TSERS cost-sharing pension plan and the State's OPEB plans. Amounts in these accounts are amortized over time as pension and OPEB expenses. Deferred outflows of resources increased \$25.6 million in current year primarily relating to pension and OPEB. The \$29.2 million decrease in the deferred outflows of pensions and the \$55.0 million increase in deferred outflows of OPEB are due to changes in the pension and OPEB contributions and the University's proportionate share of contributions to the plans.

Liabilities totaled \$2.70 billion, an increase of \$152.8 million over the prior year. The increase in liabilities is attributable to an increase in current liabilities of \$24.4 million, an increase in other noncurrent liabilities of \$4.6 million, and an increase in noncurrent long-term liabilities of \$123.8 million.

Current liabilities totaled \$222.5 million. These liabilities include accounts payable and accrued liabilities, payables to other entities, unearned revenue, interest payable and the current portion of University debt. The current liabilities increase of \$24.4 million was primarily caused by increases in short term debt of \$24.9 million due to increases in construction projects and increases in unearned revenue of \$3.6 million due to contract and grants projects. This was

offset by decreases in accounts payable of \$5.0 million due to decreases in contract and grants payables and decrease in auxiliaries overall spending relating to COVID-19.

Noncurrent liabilities totaled \$2.47 billion, and include deposits payable, funds held for other entities, funds held in trust in the investment pool, unearned revenue, and long-term liabilities. The primary factors in the \$128.4 million increase in noncurrent liabilities was long-term liabilities and funds held in trust for pool participants. Long-term liabilities increased by \$123.8 million, primarily due to an increase in net OPEB liability of \$135.5 million and an increase in the net pension liability for the Teachers' and State Employees' Retirement System (TSERS) plan of \$12.7 million which was the result of the difference between the projected and actual investment earnings in both plans. Revenue bonds decreased \$19.7 million and notes from Direct Borrowings decreased \$4.5 million, both due to annual principal payments. Funds held in trust for pool participants increased \$6.1 million due to change in fair value of investments.

Deferred inflows for pensions and deferred inflows for OPEB, are required by the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) and are shown in a separate section in the financial statements. This \$525.3 million deferred inflows of resources is another allocation of TSER's cost-sharing pension plan balances and OPEB plan balances. The \$149.7 million decrease in deferred inflows is driven by the lower pension and OPEB liabilities related to the difference between projected and actual investment earnings. These deferred inflows for pensions and OPEB are amortized over time as pension expense and OPEB expense.

Net position totaled \$747.7 million, an increase of \$130.2 million over the prior year. The negative unrestricted net position balance decreased by \$27.9 million mainly due to fluctuations in Pension and OPEB reporting. Net investment in capital assets increased \$72.7 million due to increases in capital projects. Restricted nonexpendable net position increased \$12.3 million driven mainly by the increase in gifts for professorships and the State matching for professorships. Restricted expendable net position increased \$17.2 million, driven by the increase in capital projects due to the construction of several large projects during the year.

In fiscal year 2018, the University implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). As a result of this new accounting and reporting change, participants in the State's OPEB plans, including the University, were allocated a proportionate share of the OPEB plan's net OPEB liabilities/assets, deferred outflows of resources, deferred inflows of resources, and OPEB benefit expense, specifically for the Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). Previous years and current year amounts were based on the allocated proportionate shares from the State's plans as determined by actuarial valuation and the deferred outflows for current contributions as determined by the participating entity.

Significant to this reporting change was that the OPEB for the RHBF resulted in a significant decrease in the University's unrestricted net position. To understand the continuing impact of the GASB 75 change as of June 30, 2020 and the effect of reporting the proportionate share of the RHBF as well as the University's proportionate share of the State's pension plan on unrestricted net position, see Note 11 "Net Position". As reported in Note 11, the total impact from reporting the RHBF as well as the pension plan obligations at June 30, 2020 was a negative \$1.68 billion. The difference between the net effect amount reported in Note 11 and

the unrestricted net position reported on financial statements (a negative \$1.35 billion) is a positive \$331.4 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units, and also includes any operating state funds authorized for carryforward.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 2.1 times compared to 2.4 times in the prior year. The University's total assets are more than the University's liabilities with a ratio 1.4 times as compared to 1.4 times in the prior year. These financial ratios are indicators of the University's financial strength and its ability to meet current and long-term obligations.

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

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2020. The activity balances are classified as operating, nonoperating, or other revenues, expense, gains or losses. Activities classified as operating include all revenues of the University except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital contributions, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital appropriations, capital contributions, and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2020, and June 30, 2019.

	2020	2019	Changes
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 356,776,551	\$ 343,851,837	\$ 12,924,714
Federal Appropriations	25,194,404	28,197,987	(3,003,583)
Grants and Contracts	309,604,381	313,640,309	(4,035,928)
Sales and Services, Net	249,151,047	270,041,526	(20,890,479)
Other	18,774,879	19,539,014	(764,135)
<b>Total Operating Revenues</b>	<b>959,501,262</b>	<b>975,270,673</b>	<b>(15,769,411)</b>
<b>Operating Expenses</b>			
Salaries and Benefits	995,783,702	945,930,602	49,853,100
Supplies and Services	397,007,015	430,189,793	(33,182,778)
Scholarships and Fellowships	69,261,379	45,860,068	23,401,311
Utilities	30,466,634	34,269,987	(3,803,353)
Depreciation/Amortization	107,917,072	100,283,057	7,634,015
<b>Total Operating Expenses</b>	<b>1,600,435,802</b>	<b>1,556,533,507</b>	<b>43,902,295</b>
Operating Loss	(640,934,540)	(581,262,834)	(59,671,706)
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	522,902,154	522,482,253	419,901
Student Financial Aid	51,177,545	49,547,118	1,630,427
Other Noncapital Aid, Grants, and Gifts	89,476,649	81,510,256	7,966,393
Investment Income	20,020,661	41,460,883	(21,440,222)
Other	(14,210,012)	(18,358,018)	4,148,006
<b>Net Nonoperating Revenues</b>	<b>669,366,997</b>	<b>676,642,492</b>	<b>(7,275,495)</b>
<b>Income Before Other Revenue</b>	<b>28,432,457</b>	<b>95,379,658</b>	<b>(66,947,201)</b>
Capital Appropriations, Grants, and Gifts	86,874,221	65,918,646	20,955,575
Additions to Permanent Endowments	14,864,091	11,597,714	3,266,377
<b>Increase in Net Position</b>	<b>130,170,769</b>	<b>172,896,018</b>	<b>(42,725,249)</b>
Beginning Net Position	617,511,087	444,615,069	172,896,018
<b>Ending Net Position</b>	<b>\$ 747,681,856</b>	<b>\$ 617,511,087</b>	<b>\$ 130,170,769</b>

Fiscal Year 2019-2020 total revenues are \$1,751,163,654 and total expenses are \$1,620,992,885.

Fiscal Year 2018-2019 total revenues are \$1,748,931,975 and total expenses are \$1,576,035,957.

## Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenues/expenses for the fiscal year 2020 and 2019, and the consistency of relationships between the two years.

### Operating and Nonoperating Revenues

Title	% to Total 2020	% to Total 2019
State Appropriations	32%	31%
Research Contracts and Grants	19%	19%
Student Tuition and Fees	22%	20%
Sales and Services	15%	16%
Noncapital Grants and Gifts	8%	8%
Federal Appropriations	1%	2%
Other	3%	4%
Total	100%	100%

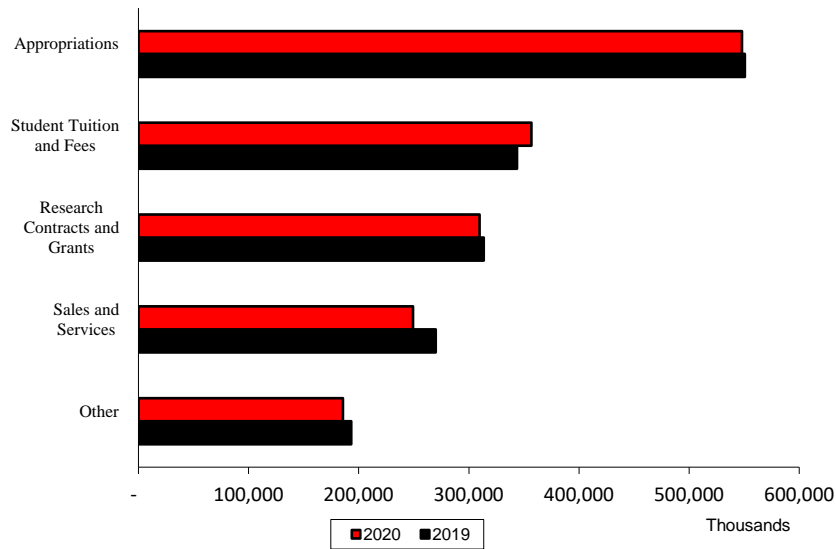
### Operating and Nonoperating Expenses

Title	% to Total 2020	% to Total 2019
Instruction	30%	30%
Research	18%	19%
Public Service	8%	9%
Auxiliary Enterprises	11%	12%
Operations & Maintenance of Plant	5%	5%
Academic Support	6%	6%
Institutional Support	7%	7%
Depreciation/Amortization	7%	6%
Student Financial Aid	5%	3%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

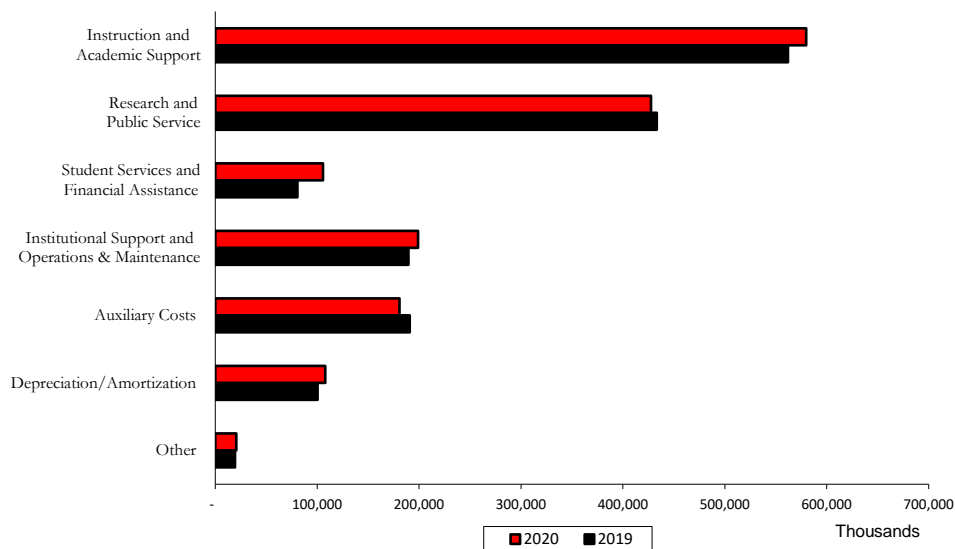


The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

### Operating and Nonoperating Revenues



### Operating and Nonoperating Expenses



Total revenues (operating, nonoperating, and other) increased \$2.2 million or 0.1% compared to the prior year. Other revenue increased \$24.2 million mainly due to increases in capital gifts relating to Fitts-Woolard Hall and the Plant Sciences Building. Operating revenue decreased \$15.8 million mainly due to decreases in sales and services of \$20.9 million as a result of the COVID-19 impact. Research contracts and grants decreased by \$4.0 million, mostly in state and local and nongovernmental contracts and grants and federal appropriations decreased \$3.0 million. This was offset by a \$12.9 million increase in student tuition and fees as

enrollment increased 2.3% in 2020. Nonoperating revenue decreased \$6.2 million. Investment income decreased \$21.4 million due to falling market rates which was offset by an increase of \$8.9 million in federal aid relating to COVID-19 and an increase in other nonoperating revenue of \$5.2 million due to money received by NC Department of Transportation for property needed for a road expansion.

Total expenses (operating and nonoperating) increased \$45.0 million or 2.9% compared to the prior year. Salaries and benefits increased \$49.9 million mainly due to an increase in pension expense of \$33.5 million and increases in EHRA (Exempt from the Human Resource Act) employee regular pay of \$16.4 million due to new positions. Scholarship and fellowships increased \$23.4 million mainly due to money received for COVID-19 relief under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Since the purpose of the student aid was not for educational or scholarship purposes, it was not included in the scholarship discounting adjustment which was \$8.5 million less than the prior year. Depreciation increased \$7.6 million. Supplies and services decreased \$33.2 million, driven by decreases in travel, education equipment, items for resale, capital outlay, and service agreements due to COVID-19 shutdown. Research, instruction, and auxiliary enterprise showed the largest decreases in supplies and services.

### **Capital Assets and Long-Term Debt Activities**

#### **Capital Assets**

As shown in the following table, the University increased its net capital assets by \$73.2 million during fiscal year 2020.

	2020	2019	Changes
Land and Permanent Easements	\$ 78,542,761	\$ 77,037,303	\$ 1,505,458
Construction in Progress	216,068,020	138,639,796	77,428,224
Computer Software in Development	545,042	-	545,042
Buildings	2,423,773,093	2,379,610,247	44,162,846
Machinery and Equipment	433,703,642	414,796,798	18,906,844
General Infrastructure	250,178,267	233,595,721	16,582,546
Computer Software	34,854,345	32,315,054	2,539,291
Total Capital Assets	3,437,665,170	3,275,994,919	161,670,251
Accumulated Depreciation/Amortization	(1,245,166,092)	(1,156,686,674)	(88,479,418)
Net Capital Assets	\$ 2,192,499,078	\$ 2,119,308,245	\$ 73,190,833

During fiscal year 2020, the University continued construction on new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing and NC bonds and certificates of participation. In addition to costs incurred, the University had \$119.7 million in outstanding commitments for construction as of June 30, 2020.

A major renovation of the D. H. Hill Jr. Library was completed featuring the new Academic Success Center. The Academic Success Center will facilitate degree completion by providing students access to free services including academic peer mentoring, undergraduate and

graduate writing support, one-on-one and group tutoring, academic advising, career counseling, and wellness coaching.

Construction on the Reedy Creek Equine Farm building was completed and will be home to state-of-the-art horse reproductive services. This is part of a greater investment by the College of Veterinary Medicine in advanced equine care and into the equine industry which has a \$3.44 billion yearly impact on the state's economy.

The newly redesigned and renovated Albright Sports Medicine Center adds amenities and equipment to ensure the health, safety and well-being of University football players. Upgrades include all new equipment, renovated exam rooms, a hydrotherapy area, and a Vision Therapy area, which helps with visual clarity, depth perception, coordination, ocular motility, peripheral vision, visual reaction time, and visual concentration.

### Long-Term Debt Activities

The University incurs long-term debt to finance construction projects and to purchase or lease equipment. As shown in the following table, the University decreased its long-term debt during fiscal year 2020.

	2020	2019	Changes
Revenue Bonds	\$ 458,738,438	\$ 478,399,566	\$ (19,661,128)
Notes from Direct Borrowings	56,706,394	61,211,497	(4,505,103)
Capital Leases Payable	196,456	344,644	(148,188)
Total Long-term Debt	<u>\$ 515,641,288</u>	<u>\$ 539,955,707</u>	<u>\$ (24,314,419)</u>

Long-term debt decreased \$24.3 million, driven by \$19.7 million decrease in revenue bonds and \$4.5 million decrease in notes from direct borrowings due to regular principal payments.

### Economic Factors That Will Affect the Future

Like the rest of the nation, the State of North Carolina's economy has been significantly impacted by the COVID-19 Pandemic in both fiscal year 2020 and in the current year, 2021. The unemployment rate for the State in mid-summer 2020 was a very high 8.5%, but was down from historic highs of 12.9% in the spring 2020. Bolstering both the state budget and those who are unemployed have been higher levels of unemployment benefits.

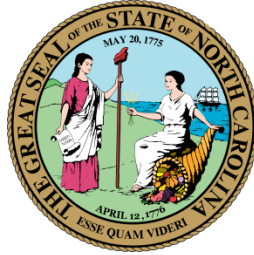
A protracted negotiation process in the North Carolina legislature in late fiscal 2019 and early fiscal 2020 delayed implementation of a budget for the State for Fiscal Year 2019-2020. However, for both fiscal 2020 and for the current year, 2021, The University of North Carolina System is running on a continuing budget resolution with support roughly equal to prior years. The state's rainy day fund, along with significant Federal support, allowed it to enter fiscal 2021 with the same allocation to the UNC System as the prior year. We expect this budget situation to remain unchanged until the State has a chance to assess current year revenues, including income tax filing delayed from April 15, 2020 to July 15, 2020, as well as any additional support that might be forthcoming from the Federal Government.

The University has completed, or is completing, two major building projects on campus that were partially funded by the State through the Connect NC Bonds. One is the fourth engineering building on Centennial Campus, Fitts-Woolard Hall, and the other is the transformational Plant Sciences Building. Together, they accounted for approximately \$300 million of new construction activity. Other new projects are pending the identification of funding sources. To finance a portion of three new buildings (the two above and the Carmichael Wellness Facility), the University issued special obligation revenue bonds in July 2020 to take advantage of historically low interest rates. The revenue bonds were rated "AA" and "Aa1" by two major rating agencies, an affirmation of existing ratings and the stable outlook. While the rating agencies cited key strengths of exceptional demand, good financial performance and policies, moderately low debt burden, and support from "AAA" rated North Carolina, they also noted the challenges associated with the COVID-19 Pandemic and remote delivery of education.

For fall semester 2020, the University ended up with its second biggest freshmen class and an enrollment of over 36,000 students. While undergraduate enrollment held steady, the University did lose some ground in the enrollment of international graduate students with associated revenue down about 5%. The most significant financial impact has come from a steep reduction in on-campus auxiliary revenues in areas such as housing and dining, transportation and athletics. The University is focused on (1) balancing operations in these areas and taking the action necessary to achieve financial balance; (2) serve remaining students on campus and; (3) ensure the continuation of future activities. The UNC System remains committed to affordability and access, and the University's low student charges continue to result in a rating as one of the nation's best values in higher education.

The University enjoys a diversified base of revenues, comprised of four major sources of tuition and fees, state appropriations, grants and contracts, and sales and services. While sales and services have been most hurt by the pandemic, research activity continues to be strong, state support is flat for the time being, and tuition and fees are flat but relatively stable. The University continues to press ahead on raising gifts and completing its \$1.7 billion campaign, having reached a goal of \$1.75 billion in gifts and pledges by June 30, 2020. In this environment, gifts and endowment cannot make up the difference between revenue lost and the costs of providing education, but these other resources will help to make the future more promising since so much of the support is directed to student financial aid, professorships, and programs that will enhance the University's future.

Fiscal year 2020-2021 is the base year of a new strategic plan for the University, and the University is hard at work preparing these goals. Information about the Strategic Plan that ended in 2020 and the associated progress can be found at <https://strategicplan.ncsu.edu/pathway-to-the-future/>.



# **FINANCIAL STATEMENTS**

**North Carolina State University**  
**Statement of Net Position**  
**June 30, 2020**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 220,534,500
Restricted Cash and Cash Equivalents	148,579,526
Receivables, Net (Note 5)	82,185,022
Due from Primary Government	8,377,997
Due from State of North Carolina Component Units	2,954,690
Due from University Component Units	3,511,005
Inventories	7,422,638
Notes Receivable, Net (Note 5)	2,793,298
	<hr/>
Total Current Assets	476,358,676

Noncurrent Assets:

Restricted Cash and Cash Equivalents	186,603,131
Endowment Investments	379,562,144
Restricted Investments	241,475,339
Other Investments	165,577,760
Notes Receivable, Net (Note 5)	4,762,105
Net Other Postemployment Benefits Asset	1,691,773
Capital Assets - Nondepreciable (Note 6)	295,155,823
Capital Assets - Depreciable, Net (Note 6)	1,897,343,255
	<hr/>
Total Noncurrent Assets	3,172,171,330
	<hr/>
Total Assets	3,648,530,006

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Asset Retirement Obligations	13,233,188
Deferred Outflows Related to Pensions (Note 14)	97,915,354
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	209,717,948
	<hr/>
Total Deferred Outflows of Resources	320,866,490

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	64,522,683
Due to Primary Government	10,491,280
Due to State of North Carolina Component Units	1,513,081
Unearned Revenue	62,166,313
Interest Payable	4,912,873
Short-Term Debt (Note 8)	50,046,168
Long-Term Liabilities - Current Portion (Note 9)	28,848,809
	<hr/>
Total Current Liabilities	222,501,207

**North Carolina State University**  
**Statement of Net Position**  
**June 30, 2020**

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

Noncurrent Liabilities:

Deposits Payable	3,227,224
Funds Held for Others	52,314,418
Unearned Revenue	68,976,396
U.S. Government Grants Refundable	3,295,698
Funds Held in Trust for Pool Participants	281,575,228
Long-Term Liabilities, Net (Note 9)	2,064,541,181

Total Noncurrent Liabilities	2,473,930,145
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Total Liabilities	2,696,431,352
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions (Note 14)	469,260
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	524,814,028

Total Deferred Inflows of Resources	525,283,288
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**NET POSITION**

Net Investment in Capital Assets	1,585,204,046
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Restricted:

Nonexpendable	
Scholarships and Fellowships	13,546,967
Endowed Professorships	136,843,099
Departmental Uses	11,364,257
Loans	5,703,530

Expendable	
Scholarships and Fellowships	37,413,692
Research	30,131,460
Endowed Professorships	102,750,878
Departmental Uses	66,804,126
Loans	999,000
Capital Projects	83,740,799
Debt Service	20,876,464
Other	4,333,586

Unrestricted	(1,352,030,048)
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Total Net Position	\$ 747,681,856
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The accompanying notes to the financial statements are an integral part of this statement.



**North Carolina State University**  
**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 12)	\$ 356,776,551
Federal Appropriations	25,194,404
Federal Grants and Contracts	171,873,320
State and Local Grants and Contracts	46,642,360
Nongovernmental Grants and Contracts	91,088,701
Sales and Services, Net (Note 12)	249,151,047
Interest Earnings on Loans	236,963
Other Operating Revenues, Net (Note 12)	18,537,916
Total Operating Revenues	<u>959,501,262</u>

**OPERATING EXPENSES**

Salaries and Benefits	995,783,702
Supplies and Services	397,007,015
Scholarships and Fellowships	69,261,379
Utilities	30,466,634
Depreciation/Amortization	107,917,072
Total Operating Expenses	<u>1,600,435,802</u>
Operating Loss	<u>(640,934,540)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	522,902,154
State Aid - Coronavirus Relief Fund	509,300
Student Financial Aid	51,177,545
Federal Aid - COVID-19	8,947,941
Noncapital Contributions	80,019,408
Investment Income (Net of Investment Expense of \$2,165,243)	20,020,661
Interest and Fees on Debt	(20,557,083)
Federal Interest Subsidy on Debt	1,148,712
Other Nonoperating Revenues	5,198,359
Net Nonoperating Revenues	<u>669,366,997</u>
Income Before Other Revenues	28,432,457
Capital Appropriations	903,051
Capital Contributions	85,971,170
Additions to Endowments	14,864,091
Total Other Revenues	<u>101,738,312</u>
Increase in Net Position	130,170,769

**NET POSITION**

Net Position - July 1, 2019	<u>617,511,087</u>
Net Position - June 30, 2020	<u>\$ 747,681,856</u>

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

**North Carolina State University**  
**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	\$ 942,273,398
Payments to Employees and Fringe Benefits	(1,022,856,705)
Payments to Vendors and Suppliers	(431,972,540)
Payments for Scholarships and Fellowships	(69,261,379)
Loans Issued	(46,517)
Collection of Loans	1,814,962
Interest Earned on Loans	245,008
Other Receipts	18,537,916
Net Cash Used by Operating Activities	<u>(561,265,857)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	522,902,154
State Aid - Coronavirus Relief Fund	509,300
Student Financial Aid	51,177,545
Federal Aid - COVID-19	8,947,941
Noncapital Contributions	81,474,343
Additions to Endowments	14,864,091
William D. Ford Direct Lending Receipts	112,615,528
William D. Ford Direct Lending Disbursements	(114,078,583)
Related Activity Agency Receipts	115,158,524
Related Activity Agency Disbursements	(113,210,489)
External Participation in Investment Fund Receipts	12,470,000
External Participation in Investment Fund Disbursements	(11,862,178)
Net Cash Provided by Noncapital Financing Activities	<u>680,968,176</u>

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

Proceeds from Capital Debt	330,086,168
Capital Appropriations	903,051
Capital Contributions	82,844,744
Proceeds from Sale of Capital Assets	7,021,590
Proceeds from Insurance on Capital Assets	300,125
Acquisition and Construction of Capital Assets	(184,148,902)
Principal Paid on Capital Debt and Leases	(327,500,069)
Interest and Fees Paid on Capital Debt and Leases	(23,254,629)
Federal Interest Subsidy on Debt Received	1,148,712
Net Cash Used by Capital Financing and Related Financing Activities	<u>(112,599,210)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	34,806,210
Investment Income	10,226,945
Purchase of Investments and Related Fees	(17,669,836)
Net Cash Provided by Investing Activities	<u>27,363,319</u>
Net Increase in Cash and Cash Equivalents	34,466,428
Cash and Cash Equivalents - July 1, 2019	<u>521,250,729</u>
Cash and Cash Equivalents - June 30, 2020	<u>\$ 555,717,157</u>

**North Carolina State University**  
**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	\$ (640,934,540)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	107,917,072
Other Nonoperating Income	1,532,809
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(2,330,330)
Due from Primary Government	1,335,031
Inventories	(499,751)
Notes Receivable, Net	1,795,608
Net Other Postemployment Benefits Asset	(509,773)
Deferred Outflows Related to Asset Retirement Obligations	189,628
Deferred Outflows Related to Pensions	29,237,162
Deferred Outflows Related to Other Postemployment Benefits	(55,002,086)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(4,920,019)
Due to Primary Government	(314,293)
Due to State of North Carolina Component Units	820,840
Unearned Revenue	2,076,754
Net Pension Liability	12,743,739
Net Other Postemployment Benefits Liability	135,480,306
Compensated Absences	1,925,388
Deposits Payable	(785,970)
Workers' Compensation Liability	(1,395,972)
Pollution Remediation Payable	(92,104)
Asset Retirement Obligation	118,121
Deferred Inflows Related to Pensions	(1,755,240)
Deferred Inflows Related to Other Postemployment Benefits	(147,898,237)
Net Cash Used by Operating Activities	<u><u>\$ (561,265,857)</u></u>

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

Assets Acquired through the Assumption of a Liability	\$ 2,515,216
Assets Acquired through a Gift	269,705
Assets Acquired through a Trade-in	93,627
Change in Fair Value of Investments	762,702
Notes Receivable Converted to Stock	57,500
Amortization of Bond Premiums	(2,042,659)
Increase in Receivables Related to Nonoperating Income	2,856,722

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

**North Carolina State University Foundations**  
**Statement of Financial Position**  
**June 30, 2020**

**Exhibit B-1**

	<b>North Carolina State University Foundation, Inc.</b>	<b>The North Carolina Agricultural Foundation, Inc.</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 33,678,612	\$ 22,780,653
Intermediate Investments	7,255,128	19,222,670
Long-Term Investments	400,874,525	102,407,518
Assets Held in Charitable Trusts and Annuities	2,847,186	686,684
Donated Property and Land	3,286,350	32,068,277
Receivables, Net	221,149	3,678,084
Pledges Receivable/Promises	15,226,627	5,579,389
Property and Equipment, Net	6,066,799	55,452
Other Assets	268,721	18,243
	<hr/>	<hr/>
Total Assets	<u>\$ 469,725,097</u>	<u>\$ 186,496,970</u>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 567,673	\$ 163,951
Due to University	-	3,511,005
Due to Others	216,798	51,048
Life Income Funds Payable	4,755,774	4,210,034
Deferred Revenue	2,653	10,254
Funds Held for Others	88,651	-
	<hr/>	<hr/>
Total Liabilities	<u>5,631,549</u>	<u>7,946,292</u>
<b>NET ASSETS</b>		
Without Donor Restrictions	16,144,016	4,034,685
With Donor Restrictions	447,949,532	174,515,993
	<hr/>	<hr/>
Total Net Assets	<u>464,093,548</u>	<u>178,550,678</u>
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 469,725,097</u>	<u>\$ 186,496,970</u>

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

**North Carolina State University Foundations**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit B-2**

	<b>North Carolina State University Foundation, Inc.</b>	<b>The North Carolina Agricultural Foundation, Inc.</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Revenues and Gains:		
Contributions	\$ 2,290	\$ 121,053
Donated Services and Salaries	1,250,000	1,374,000
Net Investment Income (Loss)	(26,538)	143,779
Interest and Dividends	633,106	708,942
Other Income	1,821,067	47,001
Net Assets Released from Restrictions: Program or Time Restrictions	27,862,158	24,212,631
Total Revenue and Gains	31,542,083	26,607,406
Expenses:		
Scholarships and Fellowships	10,705,945	2,466,889
University Support	9,500,268	9,483,487
Capital Support	2,829,745	-
University Facilities Support	-	11,977,366
Administrative	599,573	317,000
Fund Raising	5,840,272	2,087,895
Other	2,066,452	-
Total Expenses	31,542,255	26,332,637
Increase (Decrease) in Net Assets Without Donor Restrictions	(172)	274,769
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	18,874,093	13,861,897
Grant Revenue	-	745,680
Change in Pledges Receivables	(1,046,604)	(423,002)
Donated Property	760,000	9,296
Disposal of Other Assets	-	(1,828,641)
Net Investment Income	6,917,632	1,750,278
Royalties	-	441,007
Change in Value of Split Interest Agreements and Trusts	(427,395)	1,505,444
Interest and Dividends	1,229,191	400,558
Other Income	5,447,367	10,774,718
Net Assets Released from Restrictions: Program or Time Restrictions	(27,862,158)	(24,212,631)
Increase in Net Assets With Donor Restrictions	3,892,126	3,024,604
Increase in Net Assets	3,891,954	3,299,373
Net Assets at Beginning of Year	460,201,594	175,251,305
Net Assets at End of Year	\$ 464,093,548	\$ 178,550,678

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

The accompanying financial statements present all funds belonging to the University and its component 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 NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of eight ex officio directors and eight elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a five member Board of Directors appointed based on their positions held with North Carolina State University. Additional members of the board may be appointed by the Chancellor of North Carolina State University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002 to construct, own and operate a golf course located on the North Carolina State University Centennial Campus. In addition, the



Corporation formed NC State Upfit, LLC on October 27, 2006 to develop, construct, own, finance, manage, and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007 to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007 and changed its name to Bell Tower Holdings, LLC on December 14, 2009. The purposes of Bell Tower Holdings, LLC are to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008 the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012 to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. On September 27, 2016 the Corporation established the Wolfpack Investor Network, LLC (WIN) to connect the NC State alumni network with the NC State entrepreneurial community. C2I, LLC was formed on December 21, 2018 to act as an intermediary between the University and private parties in connection with certain real estate operations, execute innovation space management agreements, and procure resources for enhanced innovation activation and programming. On February 19, 2020, NC State Research, LLC was formed to manage, operate, host and oversee research related operations, unity, activities, and initiatives of North Carolina State University faculty, departments, centers and institutes, as well as federal agencies. Because the Corporation's Board consists of University employees and members appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund, and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

Condensed combining information regarding blended component units is provided in Note 20.

**Discretely Presented Component Units** - The North Carolina State University Foundation, Inc. (Foundation) and The North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation and Agricultural Foundation are legally separate, tax-exempt component units of the University. These entities act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundation and Agricultural Foundation 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 their financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2020, the Foundation distributed \$21,866,536 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2020, the Agricultural Foundation distributed \$24,097,728 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

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

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

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are

recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

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

Domestic stocks are reported at cost since there are no readily determinable fair values. These investments consist of technology transfer stocks and the Wolfpack Investor Network's Seed Capital Endowment Fund stocks.

The Kamphoefner art collection, a gift to the Endowment Fund in 1979, is recorded at estimated fair value as of the date of donation. Mineral rights were a gift to the Endowment Fund in 1987. The most recent sale from 2016 was used to adjust the value per acre.

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.

Restricted investments include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through the Investment Fund.

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore which uses the retail inventory method, and the physical plant, which uses the moving weighted average method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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	10-50 years
Machinery and Equipment	4-22 years
General Infrastructure	15-75 years
Computer Software	2-15 years

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Short-term Debt** - Short-term debt refinanced on a long-term basis (e.g., commercial paper) is reported as a current liability.

- K. **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 pool more fully described in Note 2.
- L. **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, revenue bonds from direct placement, notes from direct borrowings, and capital leases. Other long-term liabilities include: pollution remediation, asset retirement obligations, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds 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. Losses on refunding and issuance costs on bonds are not material to the accompanying financial statements and are expensed in the year 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 14 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 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- M. **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.

**N. Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent 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. Deferred inflows of resources represent 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.

**O. 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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

**P. 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.

**Q. 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.

**R. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, the Creamery, Telecommunications, Physical Plant, and Motor Pool. In addition, the University has other miscellaneous sales and service units that operate 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 \$553,175,752, 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 \$448,428. The carrying amount of the University's deposits not with the State Treasurer was \$2,092,977, and the bank balance was \$9,254,203. 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 follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain



endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2020, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$8,451,811.

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

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds 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 Endowment Fund, including those invested in the Investment Fund, a University component unit, 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.

**Investment Fund** - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund's internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University's reporting entity represent the Investment Fund's external participants. The external portion of the Investment Fund is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants." The Investment Fund includes the Long-Term Investment Pool (LTIP) and the Intermediate Term Fund (ITF) which was established on July 3, 2014 for the collective investment of the participants' excess operating funds.

Oversight of the Investment Fund is provided by its Members Board and Board of Directors. The Members Board is responsible for providing governance and oversight to the Investment Fund. The Members Board has chosen not to make individual security or manager selection decisions. The Board of Directors' primary role is to oversee all aspects of the investment program, including development and approval of the Investment Policy Statement and any changes made to it after its initial adoption, in a prudent manner with regard to preserving principal while providing reasonable returns. An Investment Committee of the Board of Directors is responsible for oversight of the ITF.

Bank of New York Mellon is the custodian for the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Investment Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund's investments. The annual financial report for the Investment Fund may be

obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695 or by calling (919) 513-7149 or at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund>.

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

<b>Investment Fund</b>				
Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Collective Investment Funds	\$ 122,338,630	\$ 92,911,493	\$ 7,250,060	\$ 22,177,077
Debt Mutual Funds	188,133,889	-	188,133,889	-
<b>Total Debt Securities</b>	<b>310,472,519</b>	<b>\$ 92,911,493</b>	<b>\$ 195,383,949</b>	<b>\$ 22,177,077</b>
Other Securities				
UNC Investment Fund	899,069,416			
Private Equity Limited Partnerships	27,754,484			
<b>Total Investment Fund</b>	<b>\$ 1,237,296,419</b>			

At June 30, 2020, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P rating):

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below	Unrated
Collective Investment Funds	\$ 122,338,630	\$ 7,250,060	\$ 21,374,017	\$ -	\$ 803,060	\$ 92,911,493
Debt Mutual Funds	188,133,889	-	-	116,529,837	27,925,709	43,678,343
<b>Totals</b>	<b>\$ 310,472,519</b>	<b>\$ 7,250,060</b>	<b>\$ 21,374,017</b>	<b>\$ 116,529,837</b>	<b>\$ 28,728,769</b>	<b>\$ 136,589,836</b>

**UNC Investment Fund, LLC** - At June 30, 2020, the University's investments include \$899,069,416, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

***Non-Pooled Investments***

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 75	<u>\$ 75</u>
Other Securities		
Domestic Stocks	408,111	
Collections and Mineral Rights	<u>65,134</u>	
<b>Total Non-Pooled Investments</b>	<u>\$ 473,320</u>	

At June 30, 2020, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and S&P ratings):

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 75</u>	<u>\$ 75</u>

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

Investment Type	Amount
Debt Securities	
Collective Investment Funds	\$ 122,338,630
Debt Mutual Funds	188,133,889
Money Market Mutual Funds	75
Other Securities	
UNC Investment Fund	899,069,416
Private Equity Limited Partnerships	27,754,484
Domestic Stocks	408,111
Collections and Mineral Rights	<u>65,134</u>
<b>Total Investments</b>	<u>\$ 1,237,769,739</u>

Total investments include \$451,154,496 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

### NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments 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 in active markets that a government can access at the measurement date.
Level 2	Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Collective Investment Funds	\$ 122,338,630	\$ 122,338,630	\$ -	\$ -
Debt Mutual Funds	188,133,889	188,133,889	-	-
Money Market Mutual Funds	75	75	-	-
Total Investments by Fair Value Level	310,472,594	\$ 310,472,594	\$ -	\$ -
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	27,754,484			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	553,175,752			
UNC Investment Fund	899,069,416			
Total Investments as a Position in an External Investment Pool	1,452,245,168			
Total Investments Measured at Fair Value	\$ 1,790,472,246			

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

**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.

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

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
Private Equity Limited Partnerships	\$ 27,754,484	\$ 57,241,211	N/A	N/A

**Private Equity Limited Partnerships** - Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity, and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

#### NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional

Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements, or applicable State of NC law. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances, and therefore, the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long-term investment pool (for a twenty quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2020, net appreciation of \$214,597,115 was available to be spent, of which \$186,789,649 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

## NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,334,138	\$ 1,520,262	\$ 813,876
Student Sponsors	1,909,749	-	1,909,749
Accounts	17,353,113	1,009,717	16,343,396
Intergovernmental	41,201,997	-	41,201,997
Grant Sponsors	21,573,823	-	21,573,823
Interest on Loans	554,847	518,337	36,510
Federal Interest Subsidy on Debt	305,671	-	305,671
<b>Total Current Receivables</b>	<b>\$85,233,338</b>	<b>\$ 3,048,316</b>	<b>\$82,185,022</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 2,483,105	\$ 12,365	\$ 2,470,740
Institutional Student Loan Programs	323,327	769	322,558
<b>Total Notes Receivable - Current</b>	<b>\$ 2,806,432</b>	<b>\$ 13,134</b>	<b>\$ 2,793,298</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,470,216	\$ 760,787	\$ 4,709,429
Institutional Student Loan Programs	221,264	168,588	52,676
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 5,691,480</b>	<b>\$ 929,375</b>	<b>\$ 4,762,105</b>



**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 and Permanent Easements	\$ 77,037,303	\$ 1,505,458	\$ -	\$ 78,542,761
Construction in Progress	138,639,796	146,927,470	69,499,246	216,068,020
Computer Software in Development	-	3,084,333	2,539,291	545,042
<b>Total Capital Assets, Nondepreciable</b>	<b>215,677,099</b>	<b>151,517,261</b>	<b>72,038,537</b>	<b>295,155,823</b>
Capital Assets, Depreciable:				
Buildings	2,379,610,247	52,916,701	8,753,855	2,423,773,093
Machinery and Equipment	414,796,798	32,917,738	14,010,894	433,703,642
General Infrastructure	233,595,721	16,582,546	-	250,178,267
Computer Software	32,315,054	2,539,291	-	34,854,345
<b>Total Capital Assets, Depreciable</b>	<b>3,060,317,820</b>	<b>104,956,276</b>	<b>22,764,749</b>	<b>3,142,509,347</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	811,655,367	71,317,659	7,371,497	875,601,529
Machinery and Equipment	242,606,405	27,318,399	12,066,157	257,858,647
General Infrastructure	79,252,564	5,941,033	-	85,193,597
Computer Software	23,172,338	3,339,981	-	26,512,319
<b>Total Accumulated Depreciation/Amortization</b>	<b>1,156,686,674</b>	<b>107,917,072</b>	<b>19,437,654</b>	<b>1,245,166,092</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>1,903,631,146</b>	<b>(2,960,796)</b>	<b>3,327,095</b>	<b>1,897,343,255</b>
<b>Capital Assets, Net</b>	<b>\$ 2,119,308,245</b>	<b>\$ 148,556,465</b>	<b>\$ 75,365,632</b>	<b>\$ 2,192,499,078</b>

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

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 15,767,708
Accounts Payable - Capital Assets	23,533,983
Accrued Payroll	6,134,281
Contract Retainage	7,537,696
Other	11,549,015
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 64,522,683</b>

**NOTE 8 - SHORT-TERM DEBT - COMMERCIAL PAPER PROGRAM AND LINE OF CREDIT**

The University has available Commercial Paper Program financing for short-term debt credit up to \$100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2020, \$50,000,000 in Taxable Commercial Paper was outstanding. The outstanding commercial paper



contains a provision that 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 to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

The NC State University Partnership Corporation (Corporation), through the NC State University Centennial Development LLC, has available a Line of Credit, from TowneBank, up to \$300,000 for operations at the Lonnie Poole Golf Course. The line is unsecured and must maintain a zero balance for at least 30 consecutive days during each twelve months. As of June 30, 2020, \$46,168 was outstanding. The outstanding Line of Credit contains an event of default provision that if the Corporation is unable to make any payment when due, all commitments and obligations of the Lender immediately will terminate and, at Lender's option, all indebtedness immediately will become due and payable. Also, upon default, the interest rate on the Line of Credit will be increased by an additional 3% margin, subject to the maximum interest rate limitations under applicable law.

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	\$ 330,000,000	\$ 305,000,000	\$ 50,000,000
Partnership Corporation - Line of Credit	135,631	86,168	175,631	46,168
<b>Total Short-Term Debt</b>	<b>\$ 25,135,631</b>	<b>\$ 330,086,168</b>	<b>\$ 305,175,631</b>	<b>\$ 50,046,168</b>

**Unused Line of Credit** - The NC State University Partnership Corporation, through the NC State University Centennial Development LLC, has an unused portion of their Line of Credit in the amount of \$253,832.

**NOTE 9 - 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	\$ 407,045,000	\$ -	\$ 13,250,000	\$ 393,795,000	\$ 13,790,000
Revenue Bonds from Direct Placement	42,082,297	-	4,368,469	37,713,828	4,296,318
Plus: Unamortized Premium	29,272,269	-	2,042,659	27,229,610	-
Total Revenue Bonds, Net	478,399,566	-	19,661,128	458,738,438	18,086,318
Notes from Direct Borrowings	61,211,497	-	4,505,103	56,706,394	4,987,707
Capital Leases	344,644	52,677	200,865	196,456	138,463
Total Long-Term Debt	539,955,707	52,677	24,367,096	515,641,288	23,212,488
Other Long-Term Liabilities					
Pollution Remediation Payable	4,491,719	-	92,104	4,399,615	104,190
Asset Retirement Obligations	13,727,880	118,121	-	13,846,001	-
Employee Benefits					
Compensated Absences	83,438,129	46,835,581	44,910,193	85,363,517	3,742,516
Net Pension Liability	221,659,379	12,743,739	-	234,403,118	-
Net Other Postemployment Benefits Liability	1,093,258,395	135,480,306	-	1,228,738,701	-
Workers' Compensation	12,393,723	1,667,703	3,063,676	10,997,750	1,789,615
Total Other Long-Term Liabilities	1,428,969,225	196,845,450	48,065,973	1,577,748,702	5,636,321
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 1,968,924,932</b>	<b>\$ 196,898,127</b>	<b>\$ 72,433,069</b>	<b>\$ 2,093,389,990</b>	<b>\$ 28,848,809</b>

Additional information regarding capital lease obligations is included in Note 10.

Additional information regarding the net pension liability is included in Note 14.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

Additional information regarding worker's compensation is included in Note 16.

**B. Revenue Bonds and Revenue Bonds from Direct Placement** - The University was indebted for revenue bonds and revenue bonds from direct placement 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	Principal Outstanding June 30, 2020
<b>General Revenue</b>						
Various Construction Projects	2010A	5%	10/01/2022	\$ 18,065,000	\$ 13,195,000	\$ 4,870,000
Various Construction Projects	2010B	5.079% - 6.027% *	10/01/2035	59,565,000	-	59,565,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2042	132,440,000	8,955,000	123,485,000
Adv Refund 2005A / Talley Student Union	2013B	2.016% - 4%	10/01/2041	141,650,000	11,865,000	129,785,000
Refund 2003B and 2015	2018	5%	10/01/2028	87,165,000	11,075,000	76,090,000
Total Revenue Bonds				438,885,000	45,090,000	393,795,000
<b>General Revenue Bonds from Direct Placement</b>						
Various Construction Projects	2017	2.58%	10/01/2031	50,438,952	12,725,124	37,713,828
<b>Total Revenue Bonds and Revenue Bonds from Direct Placement (principal only)</b>				<b>\$ 489,323,952</b>	<b>\$ 57,815,124</b>	<b>431,508,828</b>
Plus: Unamortized Premium						27,229,610
<b>Total Revenue Bonds Payable and Bonds from Direct Placement</b>						<b>\$ 458,738,438</b>

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

**C. 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
Energy Conservation Loan	BB&T	3.245%	09/01/2028	\$ 19,700,703	\$ 6,424,569	\$ 13,276,134
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	12,629,750	43,430,260
Total Notes from Direct Borrowings				<u>\$ 75,760,713</u>	<u>\$ 19,054,319</u>	<u>\$ 56,706,394</u>

**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		Revenue Bonds from Direct Placement		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 13,790,000	\$ 17,956,322	\$ 4,296,318	\$ 917,594	\$ 4,987,707	\$ 2,114,936
2022	14,415,000	17,320,735	4,408,612	805,301	5,500,029	1,913,907
2023	15,060,000	16,663,008	4,523,840	690,072	6,085,066	1,691,346
2024	15,735,000	15,968,576	3,629,012	584,900	6,600,584	1,446,956
2025	16,750,000	15,221,138	3,419,944	493,969	7,194,131	1,180,860
2026-2030	98,215,000	62,541,584	13,082,111	1,343,612	26,338,877	1,718,540
2031-2035	80,390,000	37,845,328	4,353,991	113,058	-	-
2036-2040	81,720,000	21,193,498	-	-	-	-
2041-2045	57,720,000	4,030,600	-	-	-	-
Total Requirements	<u>\$ 393,795,000</u>	<u>\$ 208,740,789</u>	<u>\$ 37,713,828</u>	<u>\$ 4,948,506</u>	<u>\$ 56,706,394</u>	<u>\$ 10,066,545</u>

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

**Revenue Bonds and Revenue Bonds from Direct Placement** - The outstanding revenue bonds and revenue bonds from direct placement contain provisions that 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 to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

**Notes from Direct Borrowings** - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the outstanding notes from direct borrowings. The outstanding notes from direct borrowings also contain provisions related to

events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, or (3) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days.

Upon the occurrence of any event of default, the lender may, without any further demand or notice, declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately. The lender may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

- F. Pollution Remediation Payable** - The University has recognized a pollution remediation liability for remediation of Lot 86 which the University used as a burial site for hazardous chemical and low level radioactive waste generated in the University's laboratories. The amount of the estimated liability is \$4,399,615. This estimate was calculated at its expected amount, using the expected cash flow technique. This liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.
- G. Asset Retirement Obligations** - The University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The amount of the estimated liability is \$13,846,001. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the NC State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 43 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The University is a State government organization and decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of NC General Statute 116-11(9)(a).

**NOTE 10 - LEASE OBLIGATIONS**

- A. Capital Lease Obligations** - Capital lease obligations relating to 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	\$ 149,469
2022	34,525
2023	14,415
2024	<u>13,213</u>
Total Minimum Lease Payments	211,622
Amount Representing Interest (7.17% Rate of Interest)	<u>15,166</u>
Present Value of Future Lease Payments	<u>\$ 196,456</u>

Machinery and equipment acquired under capital lease amounted to \$707,308 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 \$532,113 at June 30, 2020.

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

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 12,999,008
2022	11,843,833
2023	10,513,263
2024	10,317,808
2025	9,582,028
2026-2030	<u>22,103,058</u>
Total Minimum Lease Payments	<u>\$ 77,358,998</u>

Rental expense for all operating leases during the year was \$16,610,851.

**NOTE 11 - 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	\$ (136,957,024)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(1,546,482,338)</u>
Effect on Unrestricted Net Position	(1,683,439,362)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>331,409,314</u>
Total Unrestricted Net Position	<u><u>\$ (1,352,030,048)</u></u>

See Notes 14 and 15 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

**NOTE 12 - REVENUES**

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts and Allowances</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 461,177,966</u>	<u>\$ 104,106,056</u>	<u>\$ 295,359</u>	<u>\$ 356,776,551</u>
Sales and Services, Net	<u>\$ 267,893,169</u>	<u>\$ 18,705,569</u>	<u>\$ 36,553</u>	<u>\$ 249,151,047</u>
Other Revenues, Net	<u>\$ 18,660,431</u>	<u>\$ -</u>	<u>\$ 122,515</u>	<u>\$ 18,537,916</u>

# NOTE 13 - 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	\$ 413,954,420	\$ 67,124,800	\$ -	\$ 7,209	\$ -	\$ 481,086,429
Research	190,508,036	102,330,350	-	796,728	-	293,635,114
Public Service	90,732,856	42,524,513	-	495,570	-	133,752,939
Academic Support	53,342,587	45,326,688	-	38,577	-	98,707,852
Student Services	21,015,380	9,055,931	-	408,549	-	30,479,860
Institutional Support	89,519,372	26,773,519	-	2,645	-	116,295,536
Operations and Maintenance of Plant	44,030,459	16,955,448	-	21,697,878	-	82,683,785
Student Financial Aid	1,443,097	4,398,541	69,261,379	-	-	75,103,017
Auxiliary Enterprises	91,237,495	82,517,225	-	7,019,478	-	180,774,198
Depreciation/ Amortization	-	-	-	-	107,917,072	107,917,072
<b>Total Operating Expenses</b>	<b>\$ 995,783,702</b>	<b>\$ 397,007,015</b>	<b>\$ 69,261,379</b>	<b>\$ 30,466,634</b>	<b>\$ 107,917,072</b>	<b>\$ 1,600,435,802</b>

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 \$8,947,941 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 12.

# NOTE 14 - 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 \$21,219,240, and the University's contributions were \$45,868,923 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 \$234,403,118 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 2.26106%, which was an increase of 0.03469 from its proportion measured as of June 30, 2018, which was 2.22637%.

*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%)
\$ 446,134,339	\$ 234,403,118	\$ 56,787,607

*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 \$86,460,186. 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	\$ 19,607,551	\$ 469,260
Changes of Assumptions	24,976,573	-
Net Difference Between Projected and Actual Earnings on Plan Investments	4,493,178	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,969,129	-
Contributions Subsequent to the Measurement Date	45,868,923	-
<b>Total</b>	<b>\$ 97,915,354</b>	<b>\$ 469,260</b>

The amount 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ 36,091,477
2022	9,110,544
2023	4,803,328
2024	<u>1,571,822</u>
Total	<u>\$ 51,577,171</u>

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 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 \$848,667,042, of which \$331,590,983 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$19,895,459 and \$22,680,823, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The University had forfeitures reflected in pension expense for the current fiscal year of \$818,782.

**NOTE 15 - 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 16. 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 \$44,335,350 for the year ended June 30, 2020.

## 2. Disability Income

*Plan Administration:* As discussed in Note 16, 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 \$685,245 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 \$1,228,738,701 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 3.88356%, which was an increase of 0.04597 from its proportion measured as of June 30, 2018, which was 3.83759%.

*Net OPEB Asset:* At June 30, 2020, the University reported an asset of \$1,691,773 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 3.92068%, which was an increase of 0.02945 from its proportion measured as of June 30, 2018, which was 3.89123%.

*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*	3.50% - 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	\$ 1,460,186,132	\$ 1,228,738,701	\$ 1,043,418,046
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (1,432,891)	\$ (1,691,773)	\$ (1,943,324)

**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	\$ 1,011,773,595	\$ 1,228,738,701	\$ 1,514,014,449
	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	\$ (1,694,753)	\$ (1,691,773)	\$ (1,688,990)

*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 \$24,341,619 for RHBF and an expense of \$1,590,276 for DIPNC, resulting in a total OPEB contra-expense of \$22,751,343. 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	\$ -	\$ 1,728,275	\$ 1,728,275
Changes of Assumptions	59,058,967	187,409	59,246,376
Net Difference Between Projected and Actual Earnings on Plan Investments	818,242	322,241	1,140,483
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	102,582,219	-	102,582,219
Contributions Subsequent to the Measurement Date	44,335,350	685,245	45,020,595
<b>Total</b>	<b>\$ 206,794,778</b>	<b>\$ 2,923,170</b>	<b>\$ 209,717,948</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 61,943,909	\$ -	\$ 61,943,909
Changes of Assumptions	369,412,706	173,569	369,586,275
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	93,181,800	102,044	93,283,844
<b>Total</b>	<b>\$ 524,538,415</b>	<b>\$ 275,613</b>	<b>\$ 524,814,028</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 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:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2021	\$(123,900,191)	\$ 671,345
2022	(123,900,191)	473,821
2023	(123,781,889)	342,674
2024	(4,448,804)	209,292
2025	13,952,088	294,256
Thereafter	-	(29,076)
Total	<u><u>\$(362,078,987)</u></u>	<u><u>\$ 1,962,312</u></u>

## NOTE 16 - RISK MANAGEMENT

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

### A. Employee Benefit Plans

#### 1. State Health Plan

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers 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.

## **3. Disability Income Plan**

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Flood insurance may also be purchased through the Fund for qualifying assets. Receipts-supported auxiliary units insure assets for additional perils coverage, as per the options noted above, in addition to the fire and lightning perils. General-funded departments and units insure for the perils of fire and lightning with the exception of certain coastal properties which are also insured for extended coverage perils and the peril of flood.

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

premiums to the North Carolina Department of Insurance for the coverage.

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

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

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

## **4. Statewide Workers' Compensation Program**

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

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

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

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property for musical instruments, campers accident and sickness, athletic accident, boiler and machinery, watercraft, oceanographic equipment, cyber and data breach, student health, business travel, unmanned aerial systems liability, equine mortality, event cancellation, liquor liability, internship, volunteer liability, and nuclear energy liability.



**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts and other purchases were \$119,716,854 at June 30, 2020.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$1,250,000 as of June 30, 2020.

- B. Pending Litigation and Claims** - As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

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

**NOTE 18 - 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 and (2) the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

The revenues from these programs 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 captions of the financial statements:

**Nonoperating Revenue:**

**State Aid - Coronavirus Relief Fund** - This caption includes funds received from the CARES Act - CRF that were appropriated by the State of North Carolina in House Bill 1043 to the UNC Board of Governors (UNC-BOG) and allocated to the universities to cover COVID-19 expenses. These funds are reported separately from Federal Aid - COVID-19 revenues due to the reporting requirements of the State of North Carolina. The CRF funds must be expended by December 30, 2020.

**Federal Aid - COVID-19** - This caption includes funds received from the CARES Act, other than the CRF funds appropriated in House Bill 1043 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.

**Summary of State and Federal Aid - COVID-19 Revenue Activities for the  
Fiscal Year Ended June 30, 2020:**

Program	Total Authorized Award	Earned Revenue
<b>State Aid - Coronavirus Relief Fund:</b>		
CRF - UNC-BOG Allocations	\$ 4,500,000	\$ 500,000
CRF - UNC-BOG Allocations - Digital Learning Accelerator	130,000	<u>9,300</u>
<b>Total State Aid - Coronavirus Relief Fund</b>	N/A	<u><u>\$ 509,300</u></u>
<b>Federal Aid - COVID-19:</b>		
HEERF - Student Allocation	\$ 8,947,941	\$ 8,947,941
HEERF - Institutional Allocation (1)	8,947,940	<u>-</u>
<b>Total Federal Aid - COVID-19</b>	N/A	<u><u>\$ 8,947,941</u></u>

(1) While the HEERF Institutional Portion is accounted for and recognized independently from the HEERF Student Portion, the CARES Act has a "Use of Funds" requirement that no less than 50% of the total HEERF Student and Institutional Portion funds must be used for emergency financial aid grants to students.

**NOTE 19 - RELATED PARTIES**

**Foundations** - There are 8 separately incorporated nonprofit foundations associated with the University. These foundations are North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., NC State Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

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 University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$60,051,819 for the year ended June 30, 2020.

**Reynolds Coliseum** - The NC State Student Aid Association, Inc. agreed to fund \$20,000,000 of the \$35,000,000 project to renovate the University's Reynolds Coliseum.

**Nonprofit Corporation** - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$54,721 for each men's and \$23,940 for each women's basketball game to compensate the Authority for facility rental and operating expenses for games held during fiscal year 2020. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over 15 years.

**NOTE 20 - 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*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 431,210,340	\$ 40,691,236	\$ 4,457,100	\$ -	\$ 476,358,676
Capital Assets, Net	2,172,557,981	-	19,941,097	-	2,192,499,078
Other Noncurrent Assets	244,337,821	786,141,924 <sup>1</sup>	-	(50,807,493)	979,672,252
Primary Government Receivable from Component Unit	2,785,750	-	-	(2,785,750)	-
Total Assets	2,850,891,892	826,833,160	24,398,197	(53,593,243)	3,648,530,006
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	320,866,490	-	-	-	320,866,490
<b>LIABILITIES</b>					
Current Liabilities	220,150,259	591,272	1,759,676	-	222,501,207
Long-Term Liabilities, Net	2,064,541,181	-	-	-	2,064,541,181
Other Noncurrent Liabilities	460,138,464	-	57,993	(50,807,493)	409,388,964
Component Unit Payable to Primary Government	-	-	2,785,750	(2,785,750)	-
Total Liabilities	2,744,829,904	591,272	4,603,419	(53,593,243)	2,696,431,352
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	525,283,288	-	-	-	525,283,288
<b>NET POSITION</b>					
Net Investment in Capital Assets	1,568,251,959	-	16,952,087	-	1,585,204,046
Restricted - Nonexpendable	(658,784,035)	826,241,888 <sup>2</sup>	-	-	167,457,853
Restricted - Expendable	346,668,060	-	381,945	-	347,050,005
Unrestricted	(1,354,490,794)	-	2,460,746	-	(1,352,030,048)
Total Net Position	\$ (98,354,810)	\$ 826,241,888	\$ 19,794,778	\$ -	\$ 747,681,856

<sup>1</sup> Total investments in the NC State Investment Fund, Inc. audit report included \$451,154,496 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

<sup>2</sup> Restricted Nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

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

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
<b>OPERATING REVENUES</b>					
Operating Revenue	\$ 956,620,421	\$ -	\$ 8,472,964	\$ (5,592,123)	\$ 959,501,262
<b>OPERATING EXPENSES</b>					
Operating Expenses	1,488,300,206	3,599,638	6,211,009	(5,592,123)	1,492,518,730
Depreciation/Amortization	107,408,508	-	508,564	-	107,917,072
Total Operating Expenses	1,595,708,714	3,599,638	6,719,573	(5,592,123)	1,600,435,802
Operating Income (Loss)	(639,088,293)	(3,599,638)	1,753,391	-	(640,934,540)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	522,902,154	-	-	-	522,902,154
Student Financial Aid	51,177,545	-	-	-	51,177,545
COVID-19 Aid	9,457,241	-	-	-	9,457,241
Noncapital Contributions	80,019,408	-	-	-	80,019,408
Investment Income	3,511,172	16,509,489	-	-	20,020,661
Other Nonoperating Expenses	(14,185,582)	-	(24,430)	-	(14,210,012)
Net Nonoperating Revenues (Expenses)	652,881,938	16,509,489	(24,430)	-	669,366,997
Capital Appropriations	903,051	-	-	-	903,051
Capital Contributions	85,971,170	-	-	-	85,971,170
Additions to Endowments	14,864,091	-	-	-	14,864,091
Total Other Revenues	101,738,312	-	-	-	101,738,312
Increase in Net Position	115,531,957	12,909,851	1,728,961	-	130,170,769
<b>NET POSITION</b>					
Net Position, July 1, 2019	(213,886,767)	813,332,037	18,065,817	-	617,511,087
Net Position, June 30, 2020	\$ (98,354,810)	\$ 826,241,888	\$ 19,794,778	\$ -	\$ 747,681,856

*Condensed Statement of Cash Flows  
June 30, 2020*

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (562,419,897)	\$ -	\$ 1,154,040	\$ (561,265,857)
Net Cash Provided by Noncapital Financing Activities	680,968,176	-	-	680,968,176
Net Cash Used by Capital and Related Financing Activities	(111,960,243)	-	(638,967)	(112,599,210)
Net Cash Provided by Investing Activities	12,624,335	14,738,984	-	27,363,319
Net Increase in Cash and Cash Equivalents	19,212,371	14,738,984	515,073	34,466,428
Cash and Cash Equivalents, July 1, 2019	493,901,907	25,952,252	1,396,570	521,250,729
Cash and Cash Equivalents, June 30, 2020	\$ 513,114,278	\$ 40,691,236	\$ 1,911,643	\$ 555,717,157

**NOTE 21 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2020, the University implemented the following pronouncements 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 22 - SUBSEQUENT EVENTS**

On July 7, 2020, the Board of Governors of the University of North Carolina on behalf of North Carolina State University at Raleigh issued \$82.335 million in tax-exempt General Revenue Bonds, Series 2020A and \$184.445 million in taxable General Revenue Bonds, Series 2020B. The bonds are dated July 7, 2020, and bear interest from that date. Interest on the bonds will be payable semiannually on each October 1 and April 1, commencing October 1, 2020. The 2020A bonds consist of serial and term bonds that will mature from October 1, 2022 to October 1, 2044, with interest rates ranging from 2.375% to 5.0%. The 2020B bonds consist of serial and term bonds that will mature from October 1, 2020 to October 1, 2039, with interest rates ranging from 0.602% to 3.02%. The bonds were issued to provide funds to (1) refund the North Carolina State University at Raleigh Taxable General Revenue Bonds (Build America Bonds), series 2010B, (2) refund a portion of the North Carolina State University at Raleigh Taxable General Revenue Bonds, Series 2013A, (3) refund the outstanding principal amount of the North Carolina State University at Raleigh General Revenue Bonds, Series 2002A (commercial paper), (4) finance a portion of the costs of the following projects: the Carmichael Gymnasium Addition and Renovation, the Plant Sciences Building, and Fitts-Woolard Hall (Engineering Building Oval and Campus Infrastructure) on the campus of North Carolina State University at Raleigh and (5) pay the costs incurred in connection with the issuance of the 2020 Bonds.

On August 26, 2020, due to the ongoing COVID-19 pandemic and increasing positive cases on campus, students were asked to vacate campus unless granted an exception. As of September 21, 2020, this resulted in refunds for housing and dining of \$23.7 million. Future impacts to the University's financial position are unknown at this time.

## NOTE 23 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units' audited financial statements follow:

### North Carolina State University Foundation, Inc.

#### Long-Term Investments

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

Investments at June 30, 2020 consisted of:

	Cost	Fair Value
STIF	\$ 87,107	\$ 87,107
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	218,905,126	339,856,721
SRI Fund	48,246,702	55,469,154
Life Income Funds	5,473,534	5,461,543
Total	<u>\$ 272,712,469</u>	<u>\$ 400,874,525</u>

#### Life Income Funds

The consolidated financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2020 have asset balances of \$5,461,543.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$4,755,774 at June 30, 2020. Payments from these funds were \$690,814 during the year ended June 30, 2020. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve



fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2020, the CGA reserve balance was \$42,049.

### Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 8,481,673
Receivable in One to Five Years	7,541,941
Receivable in Greater than Five Years	<u>66,650</u>
Total Gross Pledges Receivable	16,090,264
Less Allowance for Uncollectible Pledges	(805,000)
Less Unamortized Discount (Discount Rate of 0.18% to 2.00%)	<u>(58,637)</u>
Net Pledges Receivable	<u>\$ 15,226,627</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. These three donors represented approximately \$7.9 million of total undiscounted pledges receivable at June 30, 2020. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

### The North Carolina Agricultural Foundation, Inc.

#### Long-Term Investments

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

Investments at June 30, 2020 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 57,820	\$ 57,820
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	55,960,500	95,118,900
Life Income Funds	<u>7,351,145</u>	<u>7,230,798</u>
Total	<u>\$ 63,369,465</u>	<u>\$ 102,407,518</u>

### Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift and marked to market thereafter. Life income funds at June 30, 2020 have asset balances of \$7,230,798.

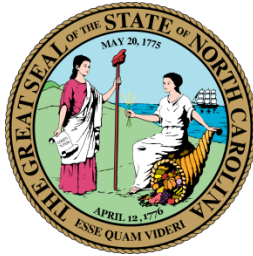
The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$3,790,509 at June 30, 2020. Payments from these funds were \$516,373 during the year ended June 30, 2020. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2020, the CGA reserve balance was \$90,334.

### Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 3,440,732
Receivable in One to Five Years	2,453,557
Receivable in Greater than Five Years	<u>-</u>
Total Gross Pledges Receivable	5,894,289
Less Allowance for Uncollectible Pledges	(295,000)
Less Unamortized Discount (Discount Rate of 0.18% to 2.00%)	<u>(19,900)</u>
Net Pledges Receivable	<u><u>\$ 5,579,389</u></u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**North Carolina State University**  
**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**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net Pension Liability	2.26106%	2.22637%	2.22596%	2.20202%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 234,403,118	\$ 221,659,379	\$ 176,617,483	\$ 202,388,385
Covered Payroll	\$ 346,742,820	\$ 331,594,965	\$ 324,634,557	\$ 312,155,082
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	67.60%	66.85%	54.41%	64.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Proportionate Share Percentage of Collective Net Pension Liability	2.13940%	2.14599%	2.11750%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 78,841,126	\$ 25,160,037	\$ 128,553,827	
Covered Payroll	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.55%	8.24%	41.99%	
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.

**North Carolina State University**  
**Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Last Ten Fiscal Years**

**Exhibit C-2**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 45,868,923	\$ 42,614,693	\$ 35,745,937	\$ 32,398,529	\$ 28,562,190
Contributions in Relation to the Contractually Determined Contribution	<u>45,868,923</u>	<u>\$ 42,614,693</u>	<u>\$ 35,745,937</u>	<u>\$ 32,398,529</u>	<u>\$ 28,562,190</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 353,653,996	\$ 346,742,820	\$ 331,594,965	\$ 324,634,557	\$ 312,155,082
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 28,231,407	\$ 26,535,242	\$ 25,503,618	\$ 22,231,989	\$ 15,004,360
Contributions in Relation to the Contractually Determined Contribution	<u>\$ 28,231,407</u>	<u>\$ 26,535,242</u>	<u>\$ 25,503,618</u>	<u>\$ 22,231,989</u>	<u>\$ 15,004,360</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883	\$ 298,817,058	\$ 304,348,067
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.

**North Carolina State University**  
**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**

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*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 Boards 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

**North Carolina State University**  
**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**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net OPEB Liability	3.88356%	3.83759%	3.54230%	3.97671%
Proportionate Share of Collective Net OPEB Liability	\$1,228,738,701	\$1,093,258,395	\$1,161,399,772	\$1,730,004,018
Covered Payroll	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834	\$ 593,161,610
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	183.68%	170.67%	186.65%	291.66%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>				
Proportionate Share Percentage of Collective Net OPEB Asset	3.92068%	3.89123%	3.85175%	3.71882%
Proportionate Share of Collective Net OPEB Asset	\$ 1,691,773	\$ 1,182,000	\$ 2,354,190	\$ 2,309,387
Covered Payroll	\$ 668,939,140	\$ 640,522,115	\$ 622,217,834	\$ 593,161,610
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.

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

**Exhibit C-4**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 44,335,350	\$ 41,942,484	\$ 38,751,588	\$ 36,150,856	\$ 33,217,050
Contributions in Relation to the Contractually Determined Contribution	44,335,350	41,942,484	38,751,588	36,150,856	33,217,050
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$685,244,979	\$668,939,140	\$640,552,115	\$622,217,834	\$593,161,610
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 31,585,734	\$ 29,986,156	\$ 28,822,840	\$ 26,143,971	\$ 25,706,534
Contributions in Relation to the Contractually Determined Contribution	31,585,734	29,986,156	28,822,840	26,143,971	25,706,534
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$575,332,134	\$555,299,176	\$543,827,170	\$522,879,422	\$524,560,133
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%
<b>Disability Income Plan of North Carolina</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 685,245	\$ 936,515	\$ 896,731	\$ 2,364,428	\$ 2,431,963
Contributions in Relation to the Contractually Determined Contribution	685,245	936,515	896,731	2,364,428	2,431,963
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$685,244,979	\$668,939,140	\$640,552,115	\$622,217,834	\$593,161,610
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 2,358,862	\$ 2,443,316	\$ 2,392,840	\$ 2,718,973	\$ 2,728,040
Contributions in Relation to the Contractually Determined Contribution	2,358,862	2,443,316	2,392,840	2,718,973	2,728,040
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$575,332,134	\$555,299,176	\$543,827,170	\$522,879,422	\$524,560,133
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.



**North Carolina State University**  
**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**

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*Changes of Benefit Terms:* Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund (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-pockets 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 15 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 year. 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***

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Board of Trustees  
North Carolina State University  
Raleigh, 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 North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 November 11, 2020. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc. and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc., a discretely presented component unit, 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 this entity.

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

November 11, 2020

# ORDERING INFORMATION

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Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
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For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666



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This audit required 1,220 hours at an approximate cost of \$126,880.