

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

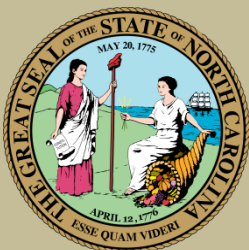
BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, 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, The University of North Carolina at Asheville

We have completed a financial statement audit of The University of North Carolina at Asheville 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".

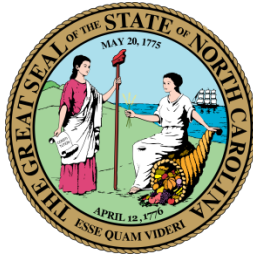
Beth A. Wood, CPA  
State Auditor



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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  
The University of North Carolina at Asheville  
Asheville, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Asheville (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 unit, 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 consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for The University of North Carolina at Asheville Foundation, Inc, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The consolidated financial statements of The University of North Carolina at Asheville 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 report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville, and its discretely presented component unit, 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*

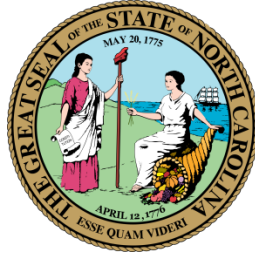
In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

October 15, 2020



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

This section of The University of North Carolina at Asheville's (University) financial report provides an overview of the financial position and activities for the year ended June 30, 2020. This discussion has been prepared by management along with the financial statements and related notes to the financial statements, which follow this section and, as such, should be read in conjunction with them. This discussion and analysis only reflects the activity of the University for the fiscal years ended June 30, 2020 and 2019 and not The University of North Carolina at Asheville Foundation, Inc. (Foundation), the University's discretely presented component unit. It is designed to focus on current activities, resulting change, and currently known facts.

These statements have been prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, the *Statement of Cash Flows*, and Notes to the Financial Statements. Comparative information for the prior fiscal year is also presented in the condensed financial statements in this section.

## Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Comparative, condensed versions for fiscal year 2020 and fiscal year 2019 are as follows:

Condensed Statement of Net Position				
	Fiscal Year 2020	Fiscal Year 2019	\$ Change	% Change
Current Assets	\$ 19,917,895.31	\$ 21,546,598.10	\$ (1,628,702.79)	-7.56%
Capital Assets, Net	246,649,871.57	232,878,138.70	13,771,732.87	5.91%
Other Noncurrent Assets	20,852,876.53	30,358,076.21	(9,505,199.68)	-31.31%
Total Assets	287,420,643.41	284,782,813.01	2,637,830.40	0.93%
Total Deferred Outflows of Resources	16,010,583.05	15,318,698.31	691,884.74	4.52%
Current Liabilities	9,820,403.15	10,831,790.85	(1,011,387.70)	-9.34%
Long-Term Liabilities, Net	176,451,224.84	171,207,862.96	5,243,361.88	3.06%
Other Noncurrent Liabilities	784,151.26	919,943.36	(135,792.10)	-14.76%
Total Liabilities	187,055,779.25	182,959,597.17	4,096,182.08	2.24%
Total Deferred Inflows of Resources	32,889,385.25	41,175,086.64	(8,285,701.39)	-20.12%
Net Investment in Capital Assets	158,029,719.75	146,121,855.99	11,907,863.76	8.15%
Restricted - Nonexpendable	8,301,841.87	8,262,668.48	39,173.39	0.47%
Restricted - Expendable	14,822,262.39	20,695,905.86	(5,873,643.47)	-28.38%
Unrestricted	(97,667,762.05)	(99,113,602.82)	1,445,840.77	-1.46%
Total Net Position	\$ 83,486,061.96	\$ 75,966,827.51	\$ 7,519,234.45	9.90%

### General Discussion of Changes in Statement of Net Position

The University's total assets increased slightly this year by \$2.64 million or 0.93%. Current assets decreased by \$1.63 million, capital assets increased by \$13.77 million, and other noncurrent assets declined by \$9.51 million.

Current assets are comprised of current unrestricted and restricted cash, accounts receivable, inventories, notes receivable, and other assets. Notable changes included a \$2.20 million decline in unrestricted current cash and cash equivalents due to less cash carried forward than in the prior year (\$1.08 million) and the net effect totaling (\$0.89) million from the refunding of housing and dining revenues after receipt of funds related to the Higher Education Emergency Relief Fund (HEERF) administered by the US Department of Education, a program of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The \$13.77 million net increase in capital assets is primarily due to the net additional capitalized costs of \$20.01 million recognized in fiscal year 2020, the bulk of which were for several projects - the Owen Hall renovation (\$11.32 million), Carmichael Hall renovation (\$4.74 million), Chestnut Hall (\$1.58 million) and the Edgewood Road parking lot (\$1.27 million). Net increases were offset by depreciation expense of \$6.60 million less write offs of \$0.36 million.

Other noncurrent assets declined by \$9.51 million from fiscal year 2019. This category consists primarily of noncurrent restricted cash, endowment investments, due from Foundation, net other postemployment benefits (OPEB) asset, and notes receivable. The reason for the overall decrease was an \$8.87 million decline in noncurrent restricted cash primarily related to capital projects that were disbursed in fiscal year 2020 as discussed above. In addition, there was a net decrease in the University endowment investment portfolio of \$0.59 million due to both the combination of lower returns (1.7% for fiscal year 2020 versus 7.7% in fiscal year 2019) and reductions for annual spending.

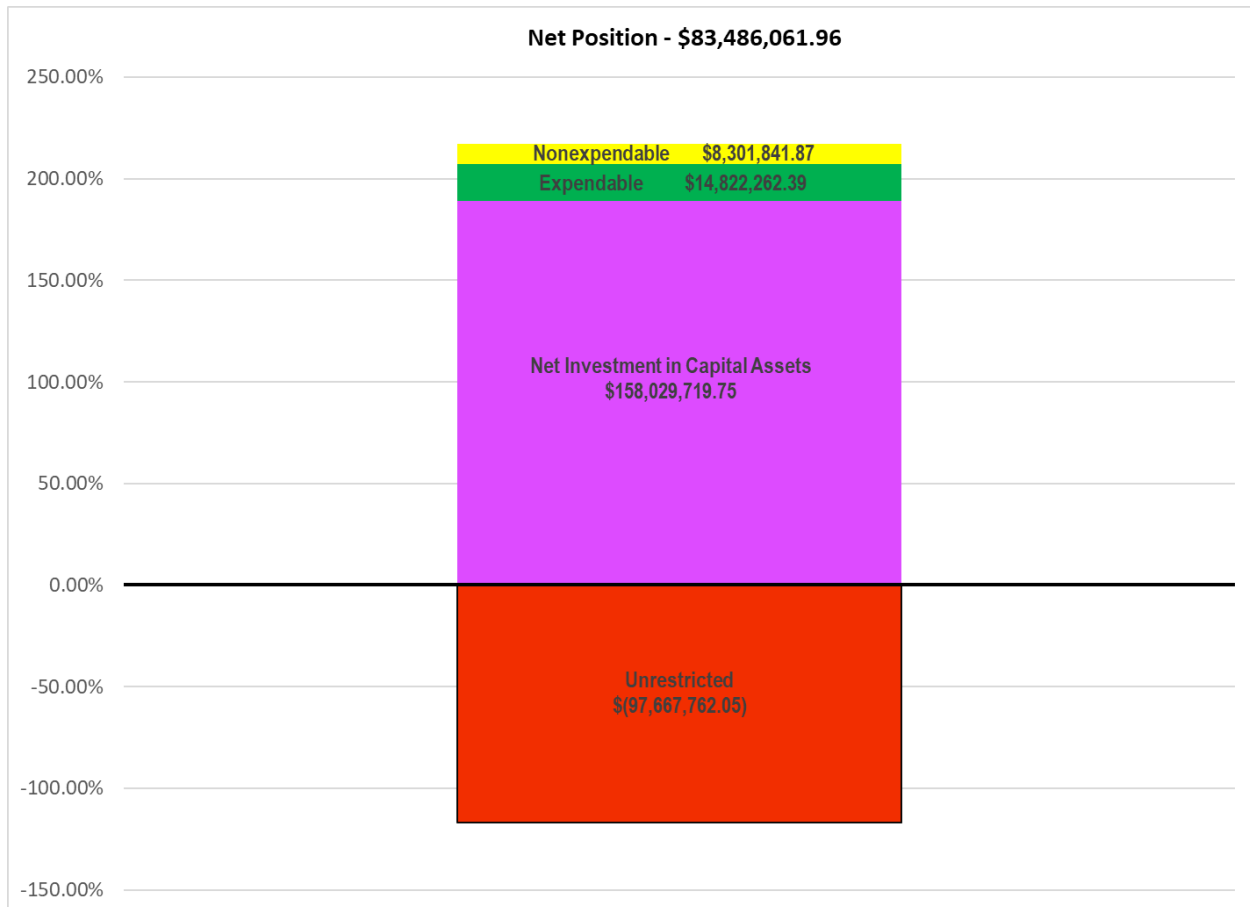
Total liabilities increased \$4.10 million or 2.24% overall due to a net increase in long-term liabilities of \$5.24 million, a decrease in current liabilities of \$1.01 million, and a decrease in other noncurrent liabilities of \$0.13 million.

The \$5.24 million net increase in long-term liabilities is primarily due to the changes in the University's proportionate share of the net OPEB liability of \$6.89 million, and the net effects of a bond defeasance and issuance of the Series 2019 General Revenue Refunding Bonds in fiscal year 2020, which is discussed below.

Deferred inflows of resources declined \$8.29 million over the prior fiscal year related to the effects of recognizing the University's portions of these components of the State of NC's pension and OPEB obligations.

#### General Discussion of University's Net Position

The components of net position are shown in the graph below.



Net position represents residual interest in the University's assets and deferred outflows of resources after deduction of all liabilities and deferred inflows of resources. For financial reporting purposes, net position is divided into three major components as discussed below.

Net investment in capital assets represents the University's investment in capital assets such as land, construction in progress, buildings, machinery and equipment, and general infrastructure, net of accumulated depreciation, deferred outflows of resources, deferred inflows of resources, and outstanding liabilities attributable to the acquisition, construction, or improvement of those assets. At June 30, 2020, \$158.03 million was attributable to the University's net investment in capital assets as compared to \$146.12 million for fiscal year 2019. This approximate \$11.91 million increase over the prior year is primarily due to the combination of large asset additions discussed above which are offset by depreciation of capital assets and the principal payments of all capital-associated University debt.

Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. Restricted nonexpendable net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. These funds saw a net decrease of approximately \$0.04 million from fiscal year 2019 to fiscal 2020.

Restricted expendable net position is income from endowed funds, grants from others, gifts with specific restrictions on spending, and funds restricted for capital projects as well as the net OPEB asset, related deferred outflows of resources, and deferred inflows of resources for the University's participation in the Disability Income Plan of North Carolina (DIPNC). This net position component saw a decrease of \$5.87 million. This decline is primarily attributable to a \$6.07 million decline in restricted expendable funds related to the capital projects expenditures incurred in fiscal year 2020 for the related projects.

Unrestricted net position is not subject to externally imposed restrictions. Substantially all of the University's unrestricted net position has been designated for various programs and initiatives. Unrestricted net position has seen a significant decline due to the implementations of GASB 68 for pensions and GASB 75 for OPEB, both requiring the recognition of significant liabilities, deferred outflows of resources, and deferred inflows of resources required for financial reporting. These components are allocations of the State of North Carolina's components and are not within University management's control. In fiscal year 2020, unrestricted net position was at a deficit of \$97.67 million compared to a deficit of \$99.11 million for fiscal year 2019. Given the magnitude of its share of the Retiree Health Benefit Fund's (RHBF) unfunded net OPEB liability component, it appears that the University's unrestricted net position will remain in a deficit from this point forward unless the funding status of RHBF changes dramatically.

The \$107.76 million negative impact on unrestricted net position from both the net OPEB liability-components and the net pension liability components is from the two aforementioned GASB standards and is disclosed in Note 10. The University's remaining unrestricted net position for fiscal year 2020 reflected a decrease of \$0.97 million or 8.76%.

#### Unrestricted Net Position Adjusted for the Impact of Pension and OPEB Related Items

	Fiscal 2020	Fiscal 2019	\$ Change	% Change
Total Unrestricted Net Position	\$ (97,667,762.05)	\$ (99,113,602.82)	\$ 1,445,840.77	-1.46%
Effect of GASB 68 - Pensions (Note 10)	7,335,361.00	5,400,597.14	1,934,763.86	35.82%
Effect of GASB 75 - OPEB (Note 10)	100,424,226.00	104,773,273.70	(4,349,047.70)	-4.15%
Remaining Unrestricted Net Position	\$ 10,091,824.95	\$ 11,060,268.02	\$ (968,443.07)	-8.76%

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

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, grants, gifts, and investment income, which are prescribed by the GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Therefore, nonoperating revenues and expenses are integral components in determining the increase or decrease in net position and in analyzing the core performance of the University as a whole. The following table is a condensed, comparative review of the Statement of Revenues, Expenses, and Changes in Net Position:

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

	Fiscal Year 2020	Fiscal Year 2019	\$ Change	% Change
Student Tuition and Fees, Net	\$ 21,677,550.19	\$ 22,965,680.39	\$ (1,288,130.20)	-5.61%
Sales and Services, Net	10,913,849.57	13,143,052.16	(2,229,202.59)	-16.96%
Grants and Contracts	3,825,285.94	4,019,046.35	(193,760.41)	-4.82%
Other Operating Revenues	1,315,583.30	1,838,445.46	(522,862.16)	-28.44%
Total Operating Revenues	37,732,269.00	41,966,224.36	(4,233,955.36)	-10.09%
Salaries and Benefits	60,295,775.85	60,546,143.12	(250,367.27)	-0.41%
Supplies and Services	19,263,195.20	20,206,100.79	(942,905.59)	-4.67%
Scholarships and Fellowships	7,332,734.76	4,508,064.07	2,824,670.69	62.66%
Utilities	2,553,159.12	2,722,430.94	(169,271.82)	-6.22%
Depreciation	6,602,002.86	5,847,144.22	754,858.64	12.91%
Total Operating Expenses	96,046,867.79	93,829,883.14	2,216,984.65	2.36%
Operating Loss	(58,314,598.79)	(51,863,658.78)	(6,450,940.01)	12.44%
State Appropriations	40,893,900.00	41,045,434.57	(151,534.57)	-0.37%
State Aid - Coronavirus Relief Fund	448,337.00	-	448,337.00	
Student Financial Aid & Noncapital Contributions	13,600,282.46	13,815,740.00	(215,457.54)	-1.56%
Federal Aid - COVID-19	3,277,373.00	-	3,277,373.00	
Investment Income, Net	748,127.94	1,802,745.66	(1,054,617.72)	-58.50%
Interest and Fees on Debt	(4,202,329.74)	(3,440,144.57)	(762,185.17)	22.16%
Federal Interest Subsidy on Debt	170,257.07	512,341.92	(342,084.85)	-66.77%
Other Nonoperating Expenses	(365,680.76)	(1,760,897.09)	1,395,216.33	-79.23%
Net Nonoperating Revenues	54,570,266.97	51,975,220.49	2,595,046.48	4.99%
Income (Loss) Before Other Revenues	(3,744,331.82)	111,561.71	(3,855,893.53)	-3,456.29%
Capital Appropriations	-	4,329,700.00	(4,329,700.00)	-100.00%
Capital Contributions	11,222,496.97	2,415,223.78	8,807,273.19	364.66%
Additions to Endowments	41,069.30	-	41,069.30	
Increase in Net Position	7,519,234.45	6,856,485.49	662,748.96	9.67%
Beginning Net Position	75,966,827.51	69,110,342.02	6,856,485.49	9.92%
Ending Net Position	\$ 83,486,061.96	\$ 75,966,827.51	\$ 7,519,234.45	9.90%
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	\$ 108,134,112.74	\$ 105,887,410.29	\$ 2,246,702.45	2.12%
Less: Total Expenses	100,614,878.29	99,030,924.80	1,583,953.49	1.60%
Increase in Net Position	\$ 7,519,234.45	\$ 6,856,485.49	\$ 662,748.96	9.67%

### General Discussion of Changes in Statement of Revenues, Expenses, and Changes in Net Position

Total operating revenues decreased \$4.23 million or 10.09% compared to fiscal year 2019. Gross tuition and fees declined \$1.82 million or 5.70% primarily related to a decline in enrollment offset by a \$0.66 million decrease to gross tuition and fees for institutional financial aid discounting as per GASB standards. Full Time Fall Semester Equivalent (FTE) students declined by 194 or 5.56% going from 3,491 to 3,297 from fiscal year 2019 to fiscal year 2020.

The University implemented *North Carolina General Statutes* 116-143.9 and 116-143.10 in fiscal year 2017. These statutes limit tuition and fee rate increases for all UNC System universities. In accordance with these statutes, tuition rates were flat for freshman or transfer undergraduate students who were continuously enrolled from fiscal year 2017 to fiscal year 2019. The University did not increase its resident tuition from fiscal year 2019 to fiscal year 2020. The University increased mandatory fees by 3% for the 2019-20 academic year.

Sales and services revenues were \$10.91 million for fiscal year 2020, a nearly \$2.22 million or 16.96% decline over the \$13.14 million reported in fiscal year 2019. These decreases were primarily related to the approximately \$3.04 million housing and dining refunds issued to students. The refunds resulted from the UNC System's decision to move all classes online due to the Governor of North Carolina's March 10, 2020 state of emergency declared in response to the novel coronavirus, commonly known as COVID-19. With few exceptions, students were required to move out of campus housing and dining facilities were closed. Offsetting these decreases was a lower \$1.05 million in financial aid discounting allocated as per GASB standards.

Operating expenses saw a \$2.22 million or 2.36% increase overall. Various components contributed to this increase as described below.

While there was no significant change in salaries and benefits expenses overall from fiscal year 2019 to fiscal year 2020, the University closely managed this largest component of operating expenses through the holding open of many positions vacated in either the current or prior years. Total salaries and benefits declined by \$1.06 million or 1.82% prior to significant accruals for OPEB, pension, and accrued annual leave, along with additional premium pay for COVID-19 mandatory workers.

Scholarships and fellowships expenses increased an additional \$2.82 million or 62.66%. Of this increase, \$1.64 million is related to the receipt of the student emergency aid portion of the HEERF funds under the CARES Act. In addition, additional institutional financial funds were disbursed to students and redeployed to other housing and dining costs borne by the students from vacating campus due to COVID-19.

Net nonoperating revenues increased approximately \$2.60 million or 4.99% overall. Items within this category that reflected significant variances are discussed below.

The largest component of nonoperating revenues is state appropriations that were \$40.89 million and \$41.05 million in fiscal years 2020 and 2019, respectively. In fiscal 2020, the NC General Assembly was unable to pass a budget, therefore, state appropriations were essentially flat at a decline of \$0.15 million or 0.37%. The decline was due primarily to non-recurring appropriations received in fiscal year 2019 that did not recur for fiscal year 2020.

State and federal aid from portions of the CARES Act were received in the amounts of \$0.45 million and \$3.28 million, respectively, for the purpose of offsetting costs and providing emergency financial aid relief to students.

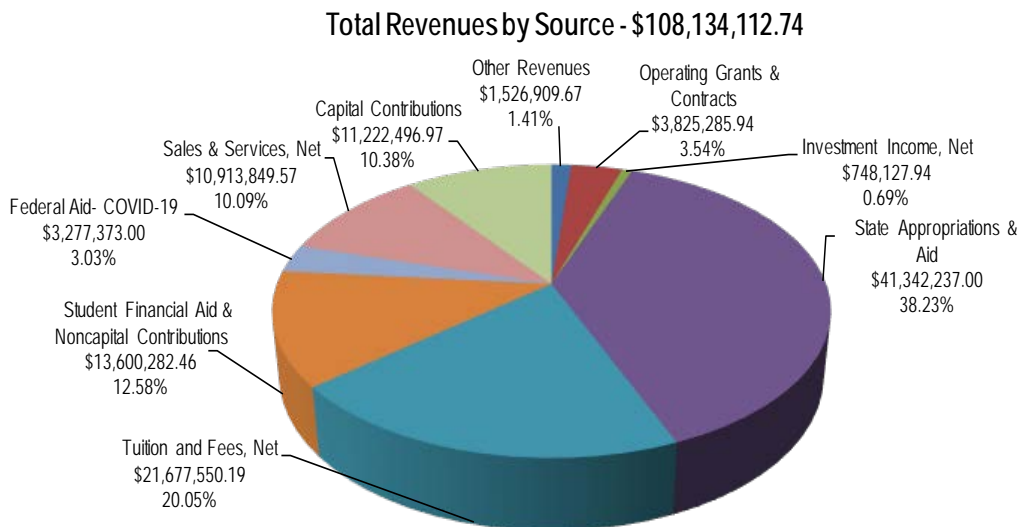
Net investment income declined by \$1.05 million or 58.50% primarily due to the impact of COVID-19 on the economy. The University's endowment funds, largely invested with the UNC Investment Fund, returned 1.7% overall in fiscal year 2020 versus 7.70% in fiscal year 2019. UNC Investment Fund's fiscal year 2020 returns of 2.30% outpaced its primary benchmark, which returned 2.00% for the same period. As of January 3, 2020, the University transferred 10% of its endowment portfolio to a separate investment manager that specializes in Socially Responsible Investing ("SRI"). The SRI portfolio is a managed account comprised of debt and equity instruments. The SRI portfolio experienced a return of (3.77%) for the six-month period ended June 30, 2020 as compared to (2.20%) return for the UNC Investment Fund for that same period. This SRI portfolio's return is in line or better than several benchmarks including the S&P 500 (-3.10% for second quarter ended June 30, 2020) and the Russell 2000 (-13.00% for the same period).

Other nonoperating expenses decreased by \$1.40 million due to a onetime loss on a disposal of capital assets recorded in fiscal year 2019 for \$0.92 million related to the Owen and Carmichael Hall renovations.

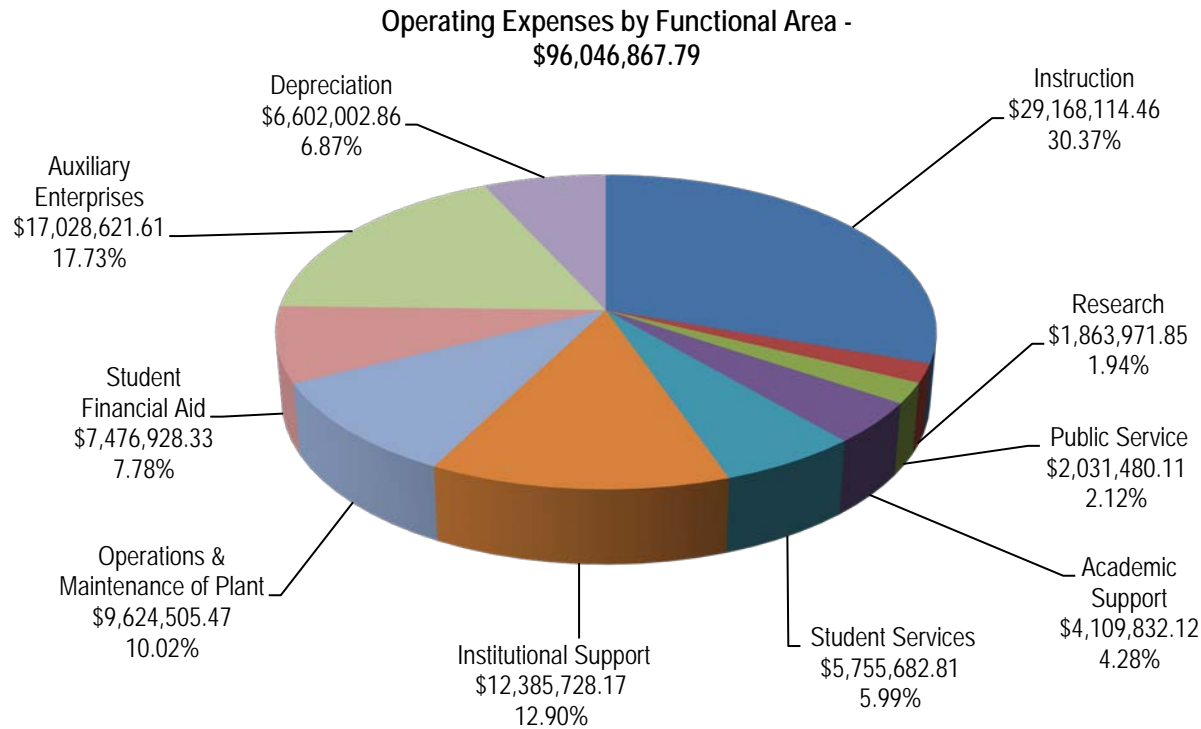
Capital appropriations, grants, gifts, and additions to endowments are considered neither operating nor nonoperating revenues and are reported after the loss before other revenues. Capital contributions including grants and gifts increased \$8.81 million or 364.66% over fiscal year 2019. Of the \$11.22 million total received in fiscal year 2020, \$11.07 million related to Connect NC Bond proceeds for the Owen Hall and Carmichael Hall renovation projects. No capital appropriations were received in fiscal year 2020 compared to \$4.33 million received in fiscal year 2019. The remaining amounts related to a variety of capital projects, repairs, and improvements to the University's buildings and infrastructure.

### Additional Summary Information

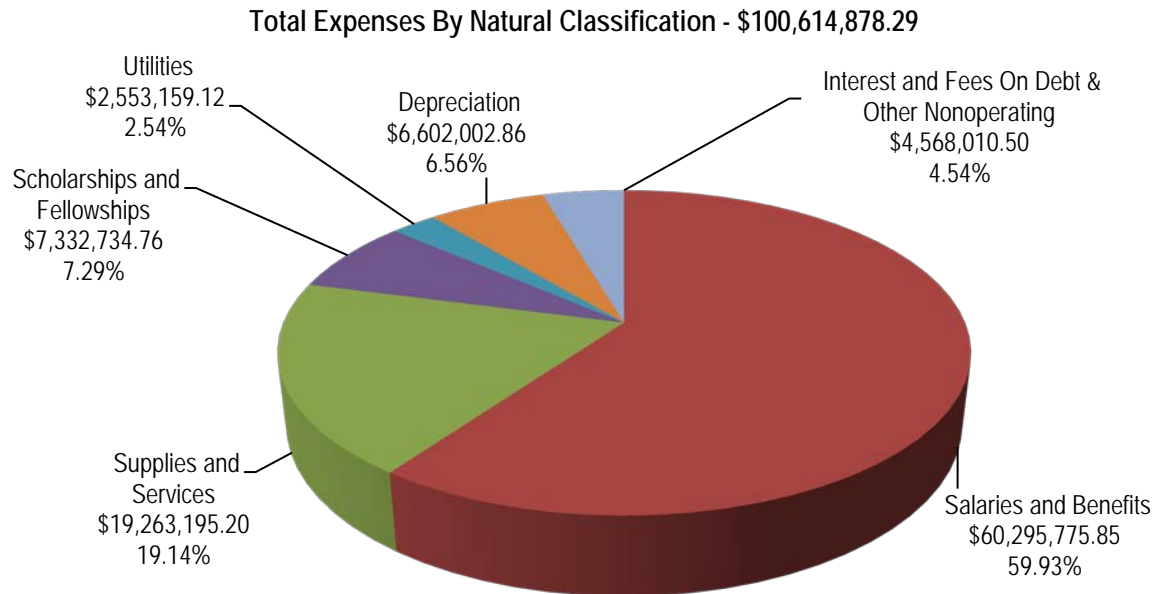
A summary of the University's fiscal year 2020 total of all revenues by source is as follows:



Operating expenses by functional area for fiscal year 2020 are shown in the graph below:



The total of all expenses by natural classification for fiscal year 2020 is shown below:



### Debt Administration, Major Capital Projects in Progress, and Debt Rating

For the purpose of prudently managing its debt obligations and being responsive to market changes, on October 31, 2019, the University closed on the issuance of the \$20.88 million General Revenue Refunding Bonds, Series 2019, for the purpose of, among other things, refunding all of the outstanding The University of North Carolina at Asheville Taxable General Revenue Bonds (Build America Bonds – “BAB’s”), Series 2010. The 30-year BAB’s original issuance amount was \$26.16 million at a rate of 6.64% (note: this rate is before the inclusion of cash subsidy from the U.S. Treasury equal to 32% of the interest payable in accordance with the American Recovery and Reinvestment Act). The General Revenue Refunding Bonds, Series 2019, defeased \$23.42 million of outstanding principal for the BABs. The 20 year, Series 2019 bonds carry an all-in true interest cost of 2.71% and generated a premium of \$4.09 million. Total debt service savings over the life of the bonds will be \$4.55 million or \$3.80 million on a net present value basis. See Note 8 of the financial statements for more information on the defeasance.

On September 19, 2019, Moody’s Investors Service assigned an A1 rating to the Series 2019 Bonds and affirmed the University’s A1 rating on its remaining outstanding general revenue bonds. The assigned outlook remained negative. In its credit opinion, the rating service cites strengths such as strong State of North Carolina support, a unique market niche, and adequate reserves relative to debt obligations. Challenges include liquidity and operating performance relative to peers, elevated total debt to revenue and total debt to cash flow, as well as tuition pricing restrictions for in-state students that limits some potential net tuition revenue growth. In its rating action press release it cited “the negative outlook reflects the likelihood for continued relatively thin operating performance as the university continues to implement revised strategies to stabilize enrollment and improve retention. The outlook also incorporates the limited prospects for significant improvement in unrestricted liquidity relative to expenses. The outlook could stabilize with two years of enrollment and net tuition and auxiliary revenue growth combined with a move to operating cash flow margin above 10%.”

No rating actions for the University have been taken since the pandemic. However, in an April 7, 2020 research announcement, Moody’s acknowledged the pressure on higher education finances due to COVID-19. The announcement states “public US universities are at higher risk than their global peers due to potential government funding cuts and lower investment income, which accounts for a higher percentage of income than for global peers. While the ability to shift teaching and assessment online varies, in general, students and academic staff have transitioned to online teaching and assessment and most rated universities will receive full or near full tuition fee income for the remainder of the current academic year. The duration of the outbreak will influence the magnitude of the credit impact: if university campuses can reopen in time for the next academic year, the effect on demand and budgets will be more manageable.”

In March 2016, North Carolina voters approved the \$2.00 billion Connect NC Bond general obligation bond issuance. As part of this bond issuance, the University received a \$21.10 million allocation for the repair and renovation of Owen Hall and Carmichael Hall. During fiscal year 2020, the University received \$11.07 million from the Connect NC Bond proceeds for these projects. Total capitalized construction costs related to these projects were approximately \$16.06 million as of June 30, 2020.

For additional information concerning capital assets and debt administration, see Notes 6 and 8, respectively.

### Economic Outlook

#### The Coronavirus Pandemic Emergency

The full financial impact of the coronavirus pandemic, also known as COVID-19, on the University's financial position cannot be accurately estimated at this time.

Known facts that would have an impact on the University's financial position, should they change, include:

- The University began classes on August 10, 2020 and students are occupying campus housing and using dining facilities.
- As of September 1, 2020, the University's census date, FTE was 3,107 for fall 2020, a 5.73% decline from fall 2019's total FTE of 3,297.
- As of this writing, unlike several UNC System universities who have moved many classes to solely online, UNC Asheville continues to provide class formats ranging from a combination of in-person, hybrid, and online courses.
- The University reports daily on the number of confirmed cases through updates to its website [Confirmed Cases of COVID-19](#). The University is working closely with local health department officials to ensure notifications are made quickly to those who may have come in contact with those who tested positive for COVID-19 so they can be directed as to their next steps.
- The State of NC has not announced a cut in state appropriations.
- Fall athletic sports are cancelled but winter and spring sports have not been cancelled or postponed.

The University abides by all UNC System Office and State of North Carolina requirements related to continuing operations under the pandemic.

The University has set community expectations for each member of the UNC Asheville community to follow rigorous self-care for all health and safety protocols. The University has taken significant precautions on the physical campus facilities to protect the health of its students, faculty, and staff as it seeks to continue its core educational mission. As noted above, the University has incurred significant financial losses from refunds to students for the fiscal year 2020 spring semester as well as lost revenues from auxiliary operations. In addition, significant operating costs were incurred to evacuate the campus in spring 2020 and to ready it for the fall 2020 semester. Some additional personnel and other operating costs are expected to be ongoing as safety protocols dictate.

The University has received funding and awards directly from the federal government and through the State of NC under the CARES Act. These funds have been used to offset eligible costs related to the pandemic. The University will pursue all appropriate avenues for reimbursement or advance funding to offset or manage costs associated with operating under this pandemic. Moreover, it will seek to lend its faculty's expertise as ways are sought to combat the virus.

Please see Note 17 for additional information and visit the University's website at [Coronavirus \(COVID-19\)](#) for comprehensive information including, among other things, confirmed cases of COVID-19, required CARES Act reporting data, and video tours of campus.

Even in today's uncertain environment, management believes that the University is well positioned to continue its level of excellence of service to students, the community, and governmental agencies. As the only designated undergraduate liberal arts university in the

University of North Carolina System, UNC Asheville stimulates learning by offering students an intellectually rigorous education that builds critical thinking and workforce skills to last a lifetime. Small class sizes, award-winning faculty, and a nationally acclaimed undergraduate research program foster innovation as well as recognition.

The University is committed to living the core values of diversity and inclusion, innovation, and sustainability, and ensuring that they permeate everything that the University does. Meeting these commitments requires an openness to change, creative and innovative approaches to programmatic growth, and a sustained focus on education including diverse ideas, as well as sufficient operating resources and support systems, incentives, and accountability measures.

The University's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures should enable it to provide the necessary resources to support this level of excellence.

### Enrollment Trends

The University maintains strong admission standards for incoming freshman as the institution continues to enhance its national profile. The relative overall enrollment stability reflects a strong demand for the University's nationally recognized public liberal arts program.

The following table compares fall semester total headcount and FTE students for the previous five years.

Fall Semester	2015	2016	2017	2018	2019
Undergraduate Headcount	3,858	3,798	3,826	3,743	3,587
Graduate Headcount	33	23	26	19	13
Total Headcount	3,891	3,821	3,852	3,762	3,600
Undergraduate FTE	3,563	3,501	3,536	3,477	3,288
Graduate FTE	22	16	17	14	9
Total FTE	3,585	3,517	3,553	3,491	3,297

UNC Asheville's enrollment has held relatively steady over the past five years, averaging 3,489 fall semester full-time equivalent students. After enrolling a record-high 787 new first-time freshmen in fall 2018, UNC Asheville experienced an enrollment of 654 new first-time freshmen in fall 2019. The smaller class size is a result of an effort initiated by Chancellor Cable to improve UNC Asheville's academic profile and selectivity. This new admissions strategy, which focuses on giving equal weight to access and academic readiness for college study, is expected to drive freshman-to-sophomore retention to 80.0% within five years.

### Conclusion

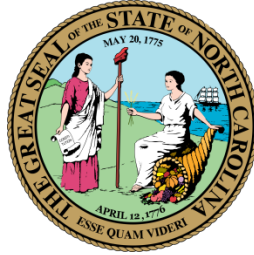
Looking ahead, a crucial element to the University's future will continue to be the level of state funding as well as managing enrollment to achieve optimal academic profiles, selectivity, and net tuition revenue.

The University will strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will continue to employ its investment

strategy to maximize total returns, at an appropriate level of risk in accordance with our strategic plan, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University will also continue to control its spending to be in accordance with available revenue sources.

While it is not possible to predict the ultimate results, management believes that with continued prudent strategic efficiency measures, the support of the State of North Carolina, and faithful donors, the University's financial condition is strong enough to weather future economic uncertainties.





# **FINANCIAL STATEMENTS**

**The University of North Carolina at Asheville**  
**Statement of Net Position**  
**June 30, 2020**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 14,250,966.60
Restricted Cash and Cash Equivalents	2,338,112.27
Receivables, Net (Note 5)	2,598,473.56
Inventories	304,558.13
Notes Receivable, Net (Note 5)	425,784.75
Total Current Assets	19,917,895.31

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,671,279.63
Restricted Due from University Component Unit	2,000,000.00
Endowment Investments	16,918,471.09
Notes Receivable, Net (Note 5)	155,121.81
Net Other Postemployment Benefits Asset	108,004.00
Capital Assets - Nondepreciable (Note 6)	23,097,168.15
Capital Assets - Depreciable, Net (Note 6)	223,552,703.42
Total Noncurrent Assets	267,502,748.10
Total Assets	287,420,643.41

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	183,704.81
Deferred Outflows Related to Pensions	4,972,983.49
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	10,853,894.75
Total Deferred Outflows of Resources	16,010,583.05

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	4,606,025.63
Unearned Revenue	1,187,851.86
U.S. Government Grants Refundable	134,955.33
Interest Payable	303,885.93
Long-Term Liabilities - Current Portion - Due to University Component Unit (Note 8)	323,071.75
Long-Term Liabilities - Current Portion (Note 8)	3,264,612.65
Total Current Liabilities	9,820,403.15

Noncurrent Liabilities:

Deposits Payable	59,316.44
Funds Held for Others	189,571.79
U.S. Government Grants Refundable	535,263.03
Long-Term Liabilities - Due to University Component Unit (Note 8)	969,215.25
Long-Term Liabilities, Net (Note 8)	175,482,009.59
Total Noncurrent Liabilities	177,235,376.10
Total Liabilities	187,055,779.25

***The University of North Carolina at Asheville***  
***Statement of Net Position***  
***June 30, 2020***

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

**DEFERRED INFLOWS OF RESOURCES**

Deferred Gain on Refunding	87,104.25
Deferred Inflows Related to Pensions	311,701.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>32,490,580.00</u>
Total Deferred Inflows of Resources	<u>32,889,385.25</u>

**NET POSITION**

Net Investment in Capital Assets	158,029,719.75
Restricted:	
Nonexpendable	8,301,841.87
Expendable	14,822,262.39
Unrestricted	<u>(97,667,762.05)</u>
Total Net Position	<u>\$ 83,486,061.96</u>

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

***The University of North Carolina at Asheville  
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 11)	\$ 21,677,550.19
Federal Grants and Contracts	1,809,580.45
State and Local Grants and Contracts	901,559.54
Nongovernmental Grants and Contracts	1,114,145.95
Sales and Services, Net (Note 11)	10,913,849.57
Interest Earnings on Loans	37,968.67
Other Operating Revenues	1,277,614.63
	<hr/>
Total Operating Revenues	37,732,269.00

**OPERATING EXPENSES**

Salaries and Benefits	60,295,775.85
Supplies and Services	19,263,195.20
Scholarships and Fellowships	7,332,734.76
Utilities	2,553,159.12
Depreciation	6,602,002.86
	<hr/>
Total Operating Expenses	96,046,867.79
	<hr/>
Operating Loss	(58,314,598.79)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	40,893,900.00
State Aid - Coronavirus Relief Fund	448,337.00
Student Financial Aid	9,258,442.68
Federal Aid - COVID-19	3,277,373.00
Noncapital Contributions	4,341,839.78
Investment Income (Net of Investment Expense of \$84,648.26)	748,127.94
Interest and Fees on Debt	(4,202,329.74)
Federal Interest Subsidy on Debt	170,257.07
Other Nonoperating Expenses	(365,680.76)
	<hr/>
Net Nonoperating Revenues	54,570,266.97
	<hr/>
Loss Before Other Revenues	(3,744,331.82)
	<hr/>
Capital Contributions	11,222,496.97
Additions to Endowments	41,069.30
	<hr/>
Total Other Revenues	11,263,566.27
	<hr/>
Increase in Net Position	7,519,234.45

**NET POSITION**

Net Position - July 1, 2019	75,966,827.51
	<hr/>
Net Position - June 30, 2020	\$ 83,486,061.96

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

***The University of North Carolina at Asheville***  
***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	\$ 35,392,768.35
Payments to Employees and Fringe Benefits	(62,563,345.65)
Payments to Vendors and Suppliers	(22,225,303.98)
Payments for Scholarships and Fellowships	(7,332,734.76)
Collection of Loans	115,480.83
Interest Earned on Loans	37,968.67
Other Receipts	915,429.70
	<hr/>
Net Cash Used by Operating Activities	(55,659,736.84)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	40,893,900.00
State Aid - Coronavirus Relief Fund	448,337.00
Student Financial Aid	9,258,442.68
Federal Aid - COVID-19	3,277,373.00
Noncapital Contributions	4,086,863.78
Additions to Endowments	41,069.30
William D. Ford Direct Lending Receipts	12,349,753.00
William D. Ford Direct Lending Disbursements	(12,349,753.00)
Related Activity Agency Disbursements	21,251.49
	<hr/>
Net Cash Provided by Noncapital Financing Activities	58,027,237.25

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

Capital Contributions	11,222,496.97
Acquisition and Construction of Capital Assets	(20,280,505.43)
Principal Paid on Capital Debt and Leases	(3,007,908.53)
Interest and Fees Paid on Capital Debt and Leases	(4,221,693.73)
Federal Interest Subsidy on Debt Received	170,257.07
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(16,117,353.65)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	2,662,544.92
Investment Income	1,646,588.36
Purchase of Investments and Related Fees	(1,775,101.90)
	<hr/>
Net Cash Provided by Investing Activities	2,534,031.38
	<hr/>
Net Decrease in Cash and Cash Equivalents	(11,215,821.86)
	<hr/>
Cash and Cash Equivalents - July 1, 2019	29,476,180.36
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 18,260,358.50

***The University of North Carolina at Asheville***  
***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	\$ (58,314,598.79)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,602,002.86
Allowances and Write-Offs	227,558.41
Other Nonoperating Expenses	(365,680.76)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(1,020,462.71)
Inventories	(42,295.59)
Notes Receivable, Net	115,480.83
Net Other Postemployment Benefits Asset	(28,805.00)
Other Assets	3,495.83
Deferred Outflows Related to Pensions	2,013,691.37
Deferred Outflows Related to Other Postemployment Benefits	(2,757,300.04)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(366,654.07)
Unearned Revenue	(198,601.52)
Net Pension Liability	(200,562.00)
Net Other Postemployment Benefits Liability	6,890,431.00
Compensated Absences	123,982.00
Deposits Payable	(32,411.53)
Workers' Compensation Liability	(35,899.13)
Deferred Inflows Related to Pensions	121,634.00
Deferred Inflows Related to Other Postemployment Benefits	(8,394,742.00)
Net Cash Used by Operating Activities	<u><u>\$ (55,659,736.84)</u></u>

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

Assets Acquired through the Assumption of a Liability	\$ 3,221,360.00
Assets Acquired through a Gift	154,594.32
Change in Fair Value of Investments	(898,460.42)
Amortization of Bond Premiums/Discounts	269,235.63
Increase in Receivables Related to Nonoperating Income	254,976.00
Funds Escrowed to Defeasement Debt	23,415,000.00

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

***The University of North Carolina at Asheville Foundation Inc.***  
***Consolidated Statement of Financial Position***  
***June 30, 2020***

***Exhibit B-1***

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 2,553,846.39
Sales Tax Receivable	18,879.76
Other Receivables	122,290.50
Promises to Give, Net	303,389.86
Due from University	323,071.75
Prepaid Expense	42,982.99

Total Current Assets	3,364,461.25
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**PROPERTY AND EQUIPMENT, NET**

4,830,574.17

**OTHER ASSETS**

Investments	36,339,140.35
Promises to Give, Net	497,025.65
Due from University	969,215.25
Beneficial Interests	512,027.06
Prepaid Expense	5,787.50

Total Other Assets	38,323,195.81
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Total Assets	\$ 46,518,231.23
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**CURRENT LIABILITIES**

Current Portion of Long-Term Debt	\$ 82,524.03
Accounts Payable	109,166.27
Accounts Payable Retainage	23,925.00
Due to University	2,000,000.00
Annuities Payable	87,529.72
Tenant Security Deposits	30,000.00

Total Current Liabilities	2,333,145.02
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**NONCURRENT LIABILITIES**

Annuities Payable	497,346.57
Notes Payable	1,847,622.59

Total Noncurrent Liabilities	2,344,969.16
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Total Liabilities	4,678,114.18
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**NET ASSETS**

Without Donor Restrictions	2,894,419.55
With Donor Restrictions	38,945,697.50

Total Net Assets	41,840,117.05
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Total Net Assets and Liabilities	\$ 46,518,231.23
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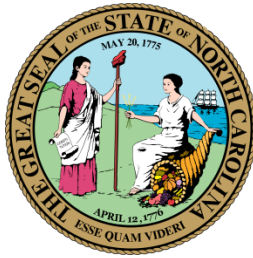
The accompanying notes to the financial statements are an integral part of this statement.

***The University of North Carolina at Asheville Foundation Inc.***  
***Consolidated Statement of Activities***  
***For the Fiscal Year Ended June 30, 2020***

***Exhibit B-2***

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>OPERATING REVENUES AND PUBLIC SUPPORT</b>			
Contributions	\$ 253,047.16	\$ 3,810,160.08	\$ 4,063,207.24
Contributions-Gifts in Kind	142,081.05	84,626.55	226,707.60
Grant Revenues	-	543,540.00	543,540.00
Net Investment Income	108,456.59	626,568.75	735,025.34
Loss on Beneficial Interests	-	(18,334.08)	(18,334.08)
Family Business Forum	-	16,670.00	16,670.00
Special Events	-	169,646.00	169,646.00
Rental and Lease Income	327,362.17	-	327,362.17
Other Income	57.68	84,519.98	84,577.66
Net Assets Released from Restriction	4,921,172.24	(4,921,172.24)	-
Total Operating Revenues, Gains, and Other Support	5,752,176.89	396,225.04	6,148,401.93
<b>OPERATING EXPENSES</b>			
Program Services	5,217,549.20	-	5,217,549.20
Supporting Services			
Management and General	172,164.26	-	172,164.26
Fundraising	121,986.88	-	121,986.88
Total Operating Expenses	5,511,700.34		5,511,700.34
Change in Net Assets from Operations	240,476.55	396,225.04	636,701.59
<b>OTHER CHANGES</b>			
Loss on Sale of Cliff Property	(53,237.21)	-	(53,237.21)
Change in Net Assets	187,239.34	396,225.04	583,464.38
Net Assets at Beginning of Year	2,707,180.21	38,549,472.46	41,256,652.67
Net Assets at End of Year	\$ 2,894,419.55	\$38,945,697.50	\$41,840,117.05

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



# **NOTES TO THE FINANCIAL STATEMENTS**

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

**Discretely Presented Component Unit** - The University of North Carolina at Asheville Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation is governed by a self-perpetuating Board of Directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate consolidated financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The consolidated financial statements of the Foundation contain the financial information of the following wholly owned subsidiaries: UNC Asheville Baseball Stadium, LLC, UNC Asheville Real Estate, LLC, UNC Asheville Foundation Makerspace, LLC, and UNC Asheville Foundation Riverside Property, LLC. Further information on these entities can be obtained from the consolidated financial statements of the Foundation as described below.

During the year ended June 30, 2020, the Foundation distributed \$3,555,123.21 to the University for both restricted and unrestricted purposes. Additionally, the Foundation has a \$2,000,000 payable to the University for land owed and other expenses. The Endowment Fund of the University has a \$1,292,287.00 contractual obligation to repay funds to the Foundation related to the advancement of funds to purchase land and construct a new parking lot. The contractual obligation is recorded in both current and noncurrent liabilities as \$323,071.75 and \$969,215.25, respectively. Additional disclosures related to this transaction are in Note 8. Complete consolidated financial statements for the Foundation can be obtained from the Associate Vice Chancellor of Advancement, 213 W.T. Weaver Building, CPO 3800, One University Heights, Asheville, North Carolina 28804, or by calling 828-251-6016.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State

Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. 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.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for auxiliary enterprises' sales and services, and interest. 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, are valued at cost using the last invoice cost 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.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
Art, Literature, and Artifacts	10-25 years
General Infrastructure	10-75 years

The University does not capitalize the collections considered to be inexhaustible or the general collections for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve. 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, unspent debt proceeds, and endowment investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable and notes from direct borrowings, including a note from direct borrowing due to the University's component unit. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 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 14 for further

information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

- L. Deferred Outflows/Inflows of Resources** - 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.

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- N. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- O. **Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement

*No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

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

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$17,863,663.86, 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 \$5,225.00. The carrying amount of the University's deposits not with the State Treasurer, including unspent debt proceeds and accumulated income of \$367,393.81 held by the fiscal agent and invested with the State Treasurer, was \$391,469.64, and the bank balance was \$429,036.29. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2020, the University's bank balance was not exposed to custodial credit risk.

### **B. Investments**

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

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

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

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

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

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

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased less sales multiplied by the current market value. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund. At year-end, approximately 90 percent of the pooled investments were held by the UNC Investment Fund, LLC and the remainder was held with the Boston Trust Walden Company (and invested in various investments as presented below).

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

***Long-Term Investment Pool***

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 377,578.48	\$ -	\$ 267,538.50	\$ 110,039.98	\$ -
Money Market Mutual Funds	34,779.63	34,779.63	-	-	-
Domestic Corporate Bonds	279,737.50	-	109,785.25	139,317.25	30,635.00
<b>Total Debt Securities</b>	<b>692,095.61</b>	<b>\$ 34,779.63</b>	<b>\$ 377,323.75</b>	<b>\$ 249,357.23</b>	<b>\$ 30,635.00</b>
Other Securities					
UNC Investment Fund	15,236,874.63				
Domestic Stocks	922,374.95				
Foreign Stocks	67,125.90				
<b>Total Long-Term Investment Pool</b>	<b>\$ 16,918,471.09</b>				

At June 30, 2020, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	Unrated
Money Market Mutual Funds	\$ 34,779.63	\$ 32,111.94	\$ -	\$ -	\$ -	\$ 2,667.69
Domestic Corporate Bonds	279,737.50	83,236.75	26,548.50	113,748.25	56,204.00	-
Totals	<u>\$ 314,517.13</u>	<u>\$ 115,348.69</u>	<u>\$ 26,548.50</u>	<u>\$ 113,748.25</u>	<u>\$ 56,204.00</u>	<u>\$ 2,667.69</u>

Rating Agency: Moody's Investors Service, Inc.

**UNC Investment Fund, LLC** - At June 30, 2020, the University's investments include \$15,236,874.63, 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.

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

The Foundation owns a membership interest in the UNC Investment Fund. The Foundation also has investments in marketable securities with fair values based upon active markets.

The Foundation's investments stated at fair value at June 30, 2020 are summarized as follows:

Investment Type	2020		
	Cost	Fair Value	Cumulative Unrealized Gains (Losses)
Membership Interest in UNC Investment Fund LLC	\$ 13,005,726.30	\$ 31,940,286.14	\$ 18,934,559.84
U.S. Treasury Notes and Government Securities	901,199.08	950,025.21	48,826.13
Money Market Mutual Fund	122,461.09	122,461.09	-
Domestic Corporate Bonds	373,021.00	393,001.50	19,980.50
Domestic Mutual Funds	678,728.00	727,689.27	48,961.27
Foreign Mutual Funds	92,819.24	94,586.16	1,766.92
Domestic Stocks	2,017,676.00	1,924,071.55	(93,604.45)
Foreign Stocks	143,865.03	132,157.75	(11,707.28)
Alternative Investments	25,851.56	27,066.51	1,214.95
Real Estate Funds	26,128.56	27,795.17	1,666.61
<b>Total Investments</b>	<u>\$ 17,387,475.86</u>	<u>\$ 36,339,140.35</u>	<u>\$ 18,951,664.49</u>

The following schedule summarizes investment return and its classification in the Consolidated Statement of Activities for the year ended June 30, 2020:

	Total
Interest and Dividends	\$ 92,453.16
Investment Expenses	(188,418.61)
Realized Gains	2,898,203.17
Unrealized Losses	(2,067,212.38)
Total Investment Income	\$ 735,025.34

### NOTE 3 - FAIR VALUE MEASUREMENTS

**University** - 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
<b>Investments by Fair Value Level</b>				
Debt Securities				
U.S. Treasuries	\$ 377,578.48	\$ 377,578.48	\$ -	\$ -
Money Market Mutual Funds	34,779.63	34,779.63	-	-
Domestic Corporate Bonds	279,737.50	279,737.50	-	-
<b>Total Debt Securities</b>	692,095.61	692,095.61	-	-
Other Securities				
Domestic Stocks	922,374.95	922,374.95	-	-
Foreign Stocks	67,125.90	67,125.90	-	-
<b>Total Investments by Fair Value Level</b>	1,681,596.46	\$ 1,681,596.46	\$ -	\$ -
<b>Investments as a Position in an External Investment Pool</b>				
Short-Term Investment Fund	17,863,663.86			
UNC Investment Fund	15,236,874.63			
<b>Total Investments as a Position in an External Investment Pool</b>	33,100,538.49			
<b>Total Investments Measured at Fair Value</b>	\$ 34,782,134.95			

**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.

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

**Component Unit** - Because the Foundation reports under the FASB reporting model, the disclosure of fair value measurements differ from the GASB reporting model used by the University.

The Foundation's Consolidated Statement of Financial Position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds and equities are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Short-Term Investment Fund (STIF) is considered a Level 2 asset as the ownership interest of the STIF is determined on a fair market valuation basis as of the fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.
- UNC Investment Fund is considered a Level 3 asset as the 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.
- Beneficial interest in the perpetual trust is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.
- Beneficial interest in the charitable remainder unitrusts is considered a Level 3 asset and is reported at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.

The following table represents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis:

Fair Value Measurements on a Recurring Basis as of June 30, 2020

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
UNC Investment Fund LLC	\$ 31,940,286.14	\$ -	\$ -	\$ 31,940,286.14
Short-Term Investment Fund	1,971,682.90	-	1,971,682.90	-
U.S. Treasury Notes and Government Securities	950,025.21	950,025.21	-	-
Money Market Mutual Funds	122,461.09	122,461.09	-	-
Domestic Corporate Bonds	393,001.50	393,001.50	-	-
Domestic Mutual Funds	727,689.27	727,689.27	-	-
Foreign Mutual Funds	94,586.16	94,586.16	-	-
Domestic Stocks	1,924,071.55	1,924,071.55	-	-
Foreign Stocks	132,157.75	132,157.75	-	-
Alternative Investments	27,066.51	27,066.51	-	-
Real Estate Funds	27,795.17	27,795.17	-	-
Beneficial Interest in Charitable Remainder Trusts	90,473.90	-	-	90,473.90
Beneficial Interest in Perpetual Trust	221,728.50	-	-	221,728.50
Beneficial Interest in Assets Held by Others	199,824.66	-	-	199,824.66
<b>Total Investments Measured at Fair Value</b>	<b>\$ 38,822,850.31</b>	<b>\$ 4,398,854.21</b>	<b>\$ 1,971,682.90</b>	<b>\$ 32,452,313.20</b>

## Fair Value Measurements at June 30, 2020 Using Significant Unobservable Inputs (Level 3)

	Level 3		
	UNC Investment		
	Fund	Trusts	Total
Beginning Balance, June 30, 2019	\$ 36,013,673.18	\$ 530,361.14	\$ 36,544,034.32
Purchases	-	-	-
Total Gains or Losses (Realized/Unrealized)			
Included in Earnings as Unrealized Losses	(2,039,348.35)	(2,134.08)	(2,041,482.43)
Included in Earnings as Realized Gains	3,033,567.70	-	3,033,567.70
Withdrawals	(4,891,000.00)	(16,200.00)	(4,907,200.00)
Investment Fees Paid	(176,606.39)	-	(176,606.39)
Ending Balance, June 30, 2020	<u>\$ 31,940,286.14</u>	<u>\$ 512,027.06</u>	<u>\$ 32,452,313.20</u>

**NOTE 4 - ENDOWMENT INVESTMENTS**

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% the average of the endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2020, net appreciation of \$5,533,270.41 was available to be spent, of which \$5,348,851.54 was classified in net position as restricted expendable as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$2,379,013.23	\$ 471,103.62	\$1,907,909.61
Student Sponsors	10,551.35	-	10,551.35
Accounts	336,919.54	-	336,919.54
Intergovernmental	201,549.50	-	201,549.50
Interest on Loans	139,754.50	-	139,754.50
Other	1,789.06	-	1,789.06
<b>Total Current Receivables</b>	<b>\$3,069,577.18</b>	<b>\$ 471,103.62</b>	<b>\$2,598,473.56</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 688,672.19	\$ 262,887.44	\$ 425,784.75
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 256,796.80	\$ 101,674.99	\$ 155,121.81

**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
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 9,493,146.87	\$ -	\$ -	\$ 9,493,146.87
Art, Literature, and Artifacts	207,300.00	-	-	207,300.00
Construction in Progress	5,800,007.74	20,044,517.80	12,447,804.26	13,396,721.28
<b>Total Capital Assets, Nondepreciable</b>	<b>15,500,454.61</b>	<b>20,044,517.80</b>	<b>12,447,804.26</b>	<b>23,097,168.15</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	287,536,650.69	10,201,051.71	-	297,737,702.40
Machinery and Equipment	10,285,007.49	485,109.72	359,284.02	10,410,833.19
Art, Literature, and Artifacts	201,500.00	-	-	201,500.00
General Infrastructure	18,939,523.36	2,090,860.76	-	21,030,384.12
<b>Total Capital Assets, Depreciable</b>	<b>316,962,681.54</b>	<b>12,777,022.19</b>	<b>359,284.02</b>	<b>329,380,419.71</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	81,778,901.08	5,617,541.42	-	87,396,442.50
Machinery and Equipment	5,222,894.35	606,202.58	359,284.02	5,469,812.91
Art, Literature, and Artifacts	188,565.40	4,599.12	-	193,164.52
General Infrastructure	12,394,636.62	373,659.74	-	12,768,296.36
<b>Total Accumulated Depreciation</b>	<b>99,584,997.45</b>	<b>6,602,002.86</b>	<b>359,284.02</b>	<b>105,827,716.29</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>217,377,684.09</b>	<b>6,175,019.33</b>	<b>-</b>	<b>223,552,703.42</b>
<b>Capital Assets, Net</b>	<b>\$ 232,878,138.70</b>	<b>\$ 26,219,537.13</b>	<b>\$ 12,447,804.26</b>	<b>\$ 246,649,871.57</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	\$ 971,389.78
Accounts Payable - Capital Assets	2,286,991.55
Accrued Payroll	393,958.94
Contract Retainage	934,368.45
Other	19,316.91
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 4,606,025.63</u>

# NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 81,177,100.00	\$ 20,875,000.00	\$ 25,558,500.00	\$ 76,493,600.00	\$ 2,132,700.00
Plus: Unamortized Premium	2,694,456.61	4,086,624.55	270,303.42	6,510,777.74	-
Less: Unamortized Discount	5,605.94	-	1,067.79	4,538.15	-
Total Revenue Bonds Payable, Net	83,865,950.67	24,961,624.55	25,827,735.63	82,999,839.59	2,132,700.00
Note from Direct Borrowing	1,809,374.99	-	456,695.53	1,352,679.46	475,334.89
Total Long-Term Debt	85,675,325.66	24,961,624.55	26,284,431.16	84,352,519.05	2,608,034.89
Other Long-Term Liabilities					
Compensated Absences	3,633,691.00	2,236,770.00	2,112,788.00	3,757,673.00	650,946.00
Net Pension Liability	12,197,205.00	-	200,562.00	11,996,643.00	-
Net Other Postemployment Benefits Liability	71,717,146.00	6,890,431.00	-	78,607,577.00	-
Workers' Compensation	68,109.32	-	35,899.13	32,210.19	5,631.76
Total Other Long-Term Liabilities	87,616,151.32	9,127,201.00	2,349,249.13	94,394,103.19	656,577.76
Total Long-Term Liabilities, Net	<u>\$ 173,291,476.98</u>	<u>\$ 34,088,825.55</u>	<u>\$ 28,633,680.29</u>	<u>\$ 178,746,622.24</u>	<u>\$ 3,264,612.65</u>
Other Long-Term Liabilities					
Note from Direct Borrowing					
Due to University Component Unit	\$ 1,700,000.00	\$ -	\$ 407,713.00	\$ 1,292,287.00	\$ 323,071.75

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

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

Additional information regarding workers' compensation is included in Note 15.

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
<b>Revenue Bonds Payable</b>					
The University of North Carolina System Pool Revenue Bonds Refunding of Campus Housing and Dining, Series 2002A	2010C	5.00%	* 10/01/2024	\$ 5,815,000.00	\$ 1,885,000.00
<b>UNCA General Revenue Bonds</b>					
UNCA Revenue Refunding Bond - Housing, Series 2002A	2012	2.32%	06/01/2027	6,345,400.00	2,591,600.00
UNCA Revenue Bond - Student Health, Counseling, Development Center	2013A	2.14%	04/01/2030	4,987,000.00	3,137,000.00
UNCA Revenue Refunding Bond - Housing, Series 2005A	2013B	2.32%	04/01/2023	2,522,000.00	1,533,000.00
UNCA Revenue Bond - Athletics, Student Recreation Center	2014	2.89%	* 06/01/2029	1,039,500.00	687,000.00
UNCA Revenue Bond - Housing, Student Center Renovation	2017	3.00%	* 06/01/2046	46,290,000.00	45,785,000.00
UNCA General Revenue Refunding Bonds - Housing, Series 2010	2019	5.00%	* 06/01/2040	20,875,000.00	20,875,000.00
Total General Revenue Bonds Payable				82,058,900.00	74,608,600.00
Total Revenue Bonds Payable (principal only)				<u>\$ 87,873,900.00</u>	76,493,600.00
Plus: Unamortized Premium					6,510,777.74
Less: Unamortized Discount					<u>4,538.15</u>
Total Revenue Bonds Payable, Net					<u>\$ 82,999,839.59</u>

\* For variable rate debt, interest rates in effect at June 30, 2020 are included. These issues are traditional fixed rate with periodic changes to the annual rate over the obligation's term.

**C. Note from Direct Borrowing** - The University was indebted for a note from direct borrowing for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
UNC System Guaranteed Energy Savings Project	Banc of America Capital Corp.	1.84%	02/14/2023	<u>\$ 3,175,492.00</u>	<u>\$ 1,352,679.46</u>

**D. Due to University Component Unit** - The University was indebted for a note from direct borrowing due to the Foundation for the purpose shown in the following table:

Purpose	Interest Rate	Final Maturity Date*	Original Amount of Issue	Principal Outstanding June 30, 2020
Edgewood Parking Lot	0.00	06/07/2024	<u>\$ 1,700,000.00</u>	<u>\$ 1,292,287.00</u>

\*It is the intent of the University that repayment of principal will occur within five years after the completion of construction of the Edgewood Parking Lot, but there are no specific annual payment requirements. The final maturity date above represents the University's estimated maturity date as of June 30, 2020.

**E. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 20, are as follows:

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable		Note from Direct Borrowing		Due to University Component Unit
	Principal	Interest	Principal	Interest	Principal*
2021	\$ 2,132,700.00	\$ 3,219,397.34	\$ 475,334.89	\$ 21,663.20	\$ 323,071.75
2022	2,257,500.00	3,147,203.66	494,522.43	12,775.84	323,071.75
2023	2,385,700.00	3,069,565.08	382,822.14	3,531.20	323,071.75
2024	2,852,500.00	2,989,417.11	-	-	323,071.75
2025	3,028,800.00	2,865,131.06	-	-	-
2026-2030	15,091,400.00	12,457,129.82	-	-	-
2031-2035	14,470,000.00	9,465,350.00	-	-	-
2036-2040	17,885,000.00	6,000,450.00	-	-	-
2041-2045	13,370,000.00	2,330,650.00	-	-	-
2046	3,020,000.00	120,800.00	-	-	-
<b>Total Requirements</b>	<b>\$ 76,493,600.00</b>	<b>\$ 45,665,094.07</b>	<b>\$ 1,352,679.46</b>	<b>\$ 37,970.24</b>	<b>\$ 1,292,287.00</b>

Interest on the variable rate debt is predetermined in each of the bond covenants.

\*It is the intent of the University that repayment of principal will occur within five years after the completion of construction on the Edgewood Parking Lot, but there are no specific annual payment requirements. Amounts presented represent the University estimated principal payments as of June 30, 2020.

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

**Revenue Bonds Payable** - The University has seven outstanding revenue bonds payable. The total principal outstanding balance at June 30, 2020 is \$76,493,600.00. All seven issuances are governed by the General Trust Indenture (Indenture) dated September 1, 2002 between the Board of Governors of the University of North Carolina (Board) and Wachovia Bank, the successor to which is U.S. Bank National Association, as Trustee.

A security interest in the Trust Estate is granted under the Indenture to the Trustee for the benefit of the bondholders (Owners). The Trust Estate is defined as all property rights conveyed by the Board and includes (1) all moneys and securities held by the Trustee, the Board or any other depositories in any and all of the funds and accounts established under the Indenture, and (2) any additional property that may be subjected to a lien by the Board, or on its behalf, and the Trustee is hereby authorized to receive the same as additional security. The Indenture does not convey or create any pledge or lien on property owned by the Board or any revenues of the Board or University. The Trust Estate becomes immediately subject to the lien of the security interest in the event of non-delivery of debt service funds due.

or (2) failure by the Board to perform any covenant, condition, agreement or provision contained in the Bonds or with the failure continuing for a period of thirty days after written notice requesting that it be remedied.

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. The Trustee is also empowered to take whatever action at law in or in equity may appear necessary or desirable to enforce all rights of the Owners against the Board.

**Note from Direct Borrowing** - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. This agreement also contains 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, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty 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.

**Due to University Component Unit** - The Endowment Fund entered into a Funding and Reimbursement Agreement (Agreement) with the Foundation (the Parties) whereby the Foundation provided funding of \$1,700,000.00 to the Endowment Fund for the purpose of purchasing property and constructing a parking lot. The Agreement shall be effective until the earlier of (1) the funds are reimbursed in full; or (2) the Agreement is terminated pursuant to a written agreement signed by the Parties. It is the intent of the Parties that such reimbursement shall occur in full within five (5) years of the completion of the construction of the parking lot. A negative covenant provides that the Endowment Fund will maintain the property free and clear of all liens of any nature, encumbrances, security interests, attachments and/or claims whatsoever unless the Endowment has received prior written approval from the Foundation. No security or collateral is provided by the Endowment Fund for the repayment of the funds and no credit pledged of the Endowment Fund, the University, or the State of North Carolina with respect to any amounts to be reimbursed to the Foundation.

In the event of any default of any term or condition of the Agreement by the Endowment Fund that is not cured within 30 days after written notice thereof, the Foundation may suspend its obligations to make further advances of funds defined in the Agreement.

- G. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On October 31, 2019 the University issued \$20,875,000.00 in Series 2019 general refunding bonds with an average interest rate of 4.42%. The bonds were issued to advance refund \$23,415,000.00 of outstanding Series 2010 taxable general revenue bonds (Build America Bonds) with an average interest rate of 6.64% (before the cash subsidy from the U.S. Treasury equal to 32% of the interest payable on the bonds). The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. This advance refunding was undertaken to reduce total debt service payments by \$4,549,134.32 over the next 20 years and resulted in an economic gain of \$3,799,648.11. At June 30, 2020, the outstanding balance was \$0.00 for the defeased Series 2010 taxable general revenue bonds (Build America Bonds).

**NOTE 9 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for digital equipment, wireless equipment and software, fitness equipment, computers, servers, sports facility use, telephone equipment, classroom and office space, and vehicles. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 1,441,548.31
2022	877,783.77
2023	621,126.37
2024	423,431.18
2025	248,969.00
2026-2029	<u>741,232.32</u>
Total Minimum Lease Payments	<u>\$ 4,354,090.95</u>

Rental expense for all operating leases during the year was \$1,670,227.07.

# NOTE 10 - 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:

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (7,335,360.51)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(100,424,226.43)
Effect on Unrestricted Net Position	(107,759,586.94)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	10,091,824.89
Total Unrestricted Net Position	\$ (97,667,762.05)

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

# NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 30,131,855.52	\$ 8,226,746.92	\$ 227,558.41	\$ 21,677,550.19
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 7,117,561.00	\$ 2,088,559.86	\$ -	\$ 5,029,001.14
Dining	3,994,006.79	1,171,772.49	-	2,822,234.30
Health, Physical Education, and Recreation Services	52,299.75	-	-	52,299.75
Bookstore	93,811.18	-	-	93,811.18
Parking	1,039,631.51	115,902.32	-	923,729.19
Athletic	736,252.42	-	-	736,252.42
Other	16,510.93	-	-	16,510.93
Sales and Services of Education and Related Activities	1,240,010.66	-	-	1,240,010.66
Total Sales and Services, Net	\$ 14,290,084.24	\$ 3,376,234.67	\$ -	\$ 10,913,849.57

# NOTE 12 - 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	Total
Instruction	\$ 27,149,943.08	\$ 2,018,171.38	\$ -	\$ -	\$ -	\$ 29,168,114.46
Research	1,497,146.53	366,825.32	-	-	-	1,863,971.85
Public Service	1,577,320.69	454,159.42	-	-	-	2,031,480.11
Academic Support	2,780,183.22	1,329,648.90	-	-	-	4,109,832.12
Student Services	4,140,746.05	1,614,936.76	-	-	-	5,755,682.81
Institutional Support	9,570,737.62	2,814,990.55	-	-	-	12,385,728.17
Operations and Maintenance of Plant	6,402,711.41	1,767,675.87	-	1,454,118.19	-	9,624,505.47
Student Financial Aid	81,533.39	62,660.18	7,332,734.76	-	-	7,476,928.33
Auxiliary Enterprises	7,095,453.86	8,834,126.82	-	1,099,040.93	-	17,028,621.61
Depreciation	-	-	-	-	6,602,002.86	6,602,002.86
<b>Total Operating Expenses</b>	<b>\$ 60,295,775.85</b>	<b>\$ 19,263,195.20</b>	<b>\$ 7,332,734.76</b>	<b>\$ 2,553,159.12</b>	<b>\$ 6,602,002.86</b>	<b>\$ 96,046,867.79</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 \$1,638,686.50 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 11.

# NOTE 13 - PENSION PLANS

## A. Defined Benefit Plan

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

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a

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

*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 \$1,075,983.02, and the University's contributions were \$2,325,916.63 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 \$11,996,643.00 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 0.11572%, which was a decrease of 0.00679 from its proportion measured as of June 30, 2018, which was 0.12251%.

*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%)
\$ 22,832,948.11	\$ 11,996,643.00	\$ 2,906,363.35

*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 \$4,393,012.00. 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	\$ 1,003,505.00	\$ 24,017.00
Changes of Assumptions	1,278,289.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	229,959.86	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	135,313.00	287,684.00
Contributions Subsequent to the Measurement Date	2,325,916.63	-
<b>Total</b>	<b>\$ 4,972,983.49</b>	<b>\$ 311,701.00</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	\$ 1,796,055.00
2022	324,421.00
2023	134,445.00
2024	80,444.86
Total	<u>\$ 2,335,365.86</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 \$47,870,554.80, of which \$23,696,432.94 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,421,785.98 and \$1,620,836.01, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. At the end of the reporting period, the University had a liability of \$8,863.78. The amount of forfeitures reflected in pension expense recognized during the reporting period was \$70,708.31.

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS**

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the 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 \$2,693,427.57 for the year ended June 30, 2020.

## 2. Disability Income

*Plan Administration:* As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the 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 \$41,629.48 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 \$78,607,577.00 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 0.24845%, which was a decrease of 0.00329 from its proportion measured as of June 30, 2018, which was 0.25174%.

*Net OPEB Asset:* At June 30, 2020, the University reported an asset of \$108,004.00 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 0.25030%, which was a decrease of 0.01043 from its proportion measured as of June 30, 2018, which was 0.26073%.

*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	\$ 93,415,125.40	\$ 78,607,577.00	\$ 66,752,467.70
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (91,477.14)	\$ (108,004.00)	\$ (124,063.70)

**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	\$ 64,728,020.10	\$ 78,607,577.00	\$ 96,858,781.60
	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	\$ (108,194.68)	\$ (108,004.00)	\$ (107,826.75)

*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 \$1,593,076.00 for RHBF and an expense of \$101,658.00 for DIPNC, resulting in a total OPEB contra-expense of \$1,491,418.00. 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	\$ -	\$ 110,335.00	\$ 110,335.00
Changes of Assumptions	3,778,250.00	11,964.00	3,790,214.00
Net Difference Between Projected and Actual Earnings on Plan Investments	52,346.00	20,571.70	72,917.70
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,135,548.00	9,823.00	4,145,371.00
Contributions Subsequent to the Measurement Date	2,693,427.57	41,629.48	2,735,057.05
<b>Total</b>	<b>\$ 10,659,571.57</b>	<b>\$ 194,323.18</b>	<b>\$ 10,853,894.75</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 3,962,812.00	\$ -	\$ 3,962,812.00
Changes of Assumptions	23,632,883.00	11,081.00	23,643,964.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,880,526.00	3,278.00	4,883,804.00
<b>Total</b>	<b>\$ 32,476,221.00</b>	<b>\$ 14,359.00</b>	<b>\$ 32,490,580.00</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:

Year Ended June 30:	RHBF	DIPNC
2021	\$ (7,962,254.00)	\$ 42,993.00
2022	(7,962,254.00)	32,286.00
2023	(7,954,686.00)	23,914.00
2024	(1,081,297.00)	15,398.00
2025	450,414.00	20,822.00
Thereafter	-	2,921.70
Total	<u>\$ (24,510,077.00)</u>	<u>\$ 138,334.70</u>

## NOTE 15 - RISK MANAGEMENT

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

### A. Employee Benefit Plans

#### 1. State Health Plan

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

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers 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 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

## B. Other Risk Management and Insurance Activities

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings, along with the building at 118 W.T. Weaver, have broad form coverage for building and contents in addition to the fire coverage with the same \$5,000 deductible. The Janice W. Brumit Pisgah House, Lookout Observatory, and the Wilma M. Sherrill Center have all risk special form coverage with a \$5,000 deductible. The leased River Arts Makers Place (RAMP) South Building also has all risk coverage on contents. The leased 838 Riverside Art Annex has fire coverage on its contents, while the National Environmental Modeling and Analysis Center (NEMAC) has fire and theft on contents. Both have a \$5,000 deductible. Coverage value for all buildings and contents are based on replacement values. The University has also purchased through the Fund extended coverage for boiler and machinery components with a \$5,000 deductible, and fine arts coverage for artwork that has a \$2,500 deductible.

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

## NOTE 16 - 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 were \$5,717,797.30 and on other purchases were \$5,422,568.98 at June 30, 2020.
- B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

**NOTE 17 - 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 the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, and 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, (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, and (3) an additional award to address needs directly related to the coronavirus. As part of the earned revenue from the HEERF (institutional allocation and additional award), the University reimbursed its auxiliary units for the prorate share of housing and dining fees refunded to students due to the actions taken to reduce the spread of COVID-19. 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	\$ 977,728.00	\$ 448,337.00
Other Indirect Allocations (1)	<u>667,069.00</u>	<u>-</u>
<b>Total State Aid - Coronavirus Relief Fund</b>	N/A	<u><u>\$ 448,337.00</u></u>
<b>Federal Aid - COVID-19:</b>		
HEERF - Student Allocation	\$1,679,747.00	\$1,638,686.50
HEERF - Institutional Allocation (2)	1,679,746.00	1,638,686.50
HEERF - Additional Award	<u>164,745.00</u>	<u>-</u>
<b>Total Federal Aid - COVID-19</b>	N/A	<u><u>\$3,277,373.00</u></u>

(1) Amounts awarded after June 30, 2020.

(2) 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 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

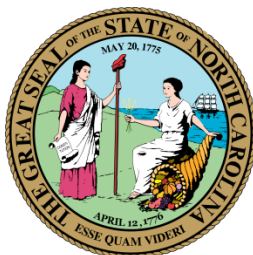
For the fiscal year ended June 30, 2020, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*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.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**The University of North Carolina at Asheville**  
**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	0.11572%	0.12251%	0.12597%	0.11896%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,996,643.00	\$ 12,197,205.00	\$ 9,995,015.00	\$ 10,933,653.00
Covered Payroll	\$ 17,644,706.10	\$ 18,683,193.70	\$ 17,932,977.86	\$ 17,682,484.99
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	67.99%	65.28%	55.74%	61.83%
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	0.11814%	0.11854%	0.11120%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,353,693.00	\$ 1,389,788.00	\$ 6,750,973.00	
Covered Payroll	\$ 17,151,853.98	\$ 16,663,714.36	\$ 17,355,567.16	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.38%	8.34%	38.90%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%	

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

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

**The University of North Carolina at Asheville**  
**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	\$ 2,325,916.63	\$ 2,168,534.38	\$ 2,014,048.28	\$ 1,789,711.19	\$ 1,617,947.38
Contributions in Relation to the Contractually Determined Contribution	2,325,916.63	2,168,534.38	2,014,048.28	1,789,711.19	1,617,947.38
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 17,933,050.35	\$ 17,644,706.10	\$ 18,683,173.70	\$ 17,932,977.86	\$ 17,682,484.99
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	\$ 1,569,394.64	\$ 1,448,076.78	\$ 1,445,718.74	\$ 1,291,698.83	\$ 969,176.50
Contributions in Relation to the Contractually Determined Contribution	1,569,394.64	1,448,076.78	1,445,718.74	1,291,698.83	969,176.50
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 17,151,853.98	\$ 16,663,714.36	\$ 17,355,567.16	\$ 17,361,543.37	\$ 19,658,752.68
Contributions as a Percentage of Covered Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

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

**The University of North Carolina at Asheville**  
**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>									
<b>Teachers' and State Employees'</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Retirement System</b>	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

**The University of North Carolina at Asheville**  
**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	0.24845%	0.25174%	0.23776%	0.25507%
Proportionate Share of Collective Net OPEB Liability	\$ 78,607,577.00	\$ 71,717,146.00	\$ 77,954,552.00	\$ 110,964,120.00
Covered Payroll	\$ 42,192,827.71	\$ 42,289,926.28	\$ 40,958,387.45	\$ 39,155,679.31
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	186.31%	169.58%	190.33%	283.39%
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	0.25030%	0.26073%	0.26195%	0.24473%
Proportionate Share of Collective Net OPEB Asset	\$ 108,004.00	\$ 79,199.00	\$ 160,104.00	\$ 151,977.00
Covered Payroll	\$ 42,192,827.71	\$ 42,289,926.28	\$ 40,958,387.45	\$ 39,155,679.31
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.26%	0.19%	0.39%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	116.23%	116.06%

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

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

**The University of North Carolina at Asheville**  
**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	\$ 2,693,427.57	\$ 2,645,490.30	\$ 2,558,540.54	\$ 2,379,682.31	\$ 2,190,478.04
Contributions in Relation to the Contractually Determined Contribution	<u>2,693,427.57</u>	<u>2,645,490.30</u>	<u>2,558,540.54</u>	<u>2,379,682.31</u>	<u>2,190,478.04</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 41,629,483.29	\$ 42,192,827.71	\$ 42,289,926.28	\$ 40,958,387.45	\$ 39,115,679.31
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	\$ 2,041,929.23	\$ 1,916,137.70	\$ 1,821,471.46	\$ 1,655,420.46	\$ 1,761,142.89
Contributions in Relation to the Contractually Determined Contribution	<u>2,041,929.23</u>	<u>1,916,137.70</u>	<u>1,821,471.46</u>	<u>1,655,420.46</u>	<u>1,761,142.89</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 37,193,610.81	\$ 35,484,031.39	\$ 34,367,386.04	\$ 33,108,409.15	\$ 35,941,691.59
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	\$ 41,629.48	\$ 59,069.96	\$ 59,205.90	\$ 155,641.87	\$ 160,374.29
Contributions in Relation to the Contractually Determined Contribution	<u>41,629.48</u>	<u>59,069.96</u>	<u>59,205.90</u>	<u>155,641.87</u>	<u>160,374.29</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 41,629,483.29	\$ 42,192,827.71	\$ 42,289,926.28	\$ 40,958,387.45	\$ 39,115,679.31
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	\$ 152,493.80	\$ 156,129.73	\$ 151,216.50	\$ 172,163.73	\$ 186,896.79
Contributions in Relation to the Contractually Determined Contribution	<u>152,493.80</u>	<u>156,129.73</u>	<u>151,216.50</u>	<u>172,163.73</u>	<u>186,896.79</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 37,193,610.81	\$ 35,484,031.39	\$ 34,367,386.04	\$ 33,108,409.15	\$ 35,941,691.59
Contributions as a Percentage of Covered Payroll	0.41%	0.44%	0.44%	0.52%	0.52%

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

***The University of North Carolina at Asheville  
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-pocket maximums, and deductibles were changed for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

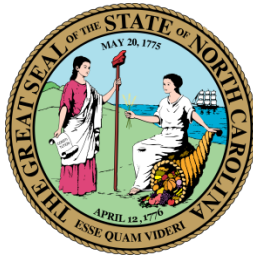
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

*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 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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



# **INDEPENDENT AUDITOR'S REPORT**

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



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

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

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

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Board of Trustees  
The University of North Carolina at Asheville  
Asheville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Asheville (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 unit, 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 October 15, 2020. Our report includes a reference to other auditors who audited the consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc. 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 The University of North Carolina at Asheville Foundation, Inc.

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

October 15, 2020

# ORDERING INFORMATION

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State of North Carolina  
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For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666

