

STATE OF NORTH CAROLINA

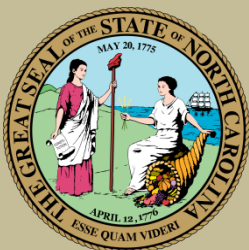
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

GREENSBORO, 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



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State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

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Beth A. Wood, CPA
State Auditor

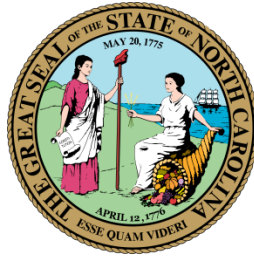


Beth A. Wood, CPA
State Auditor

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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component 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 North Carolina A&T Real Estate 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 discretely presented component unit, 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 North Carolina A&T Real Estate 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 North Carolina Agricultural and Technical State University, 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.

Emphasis of Matter

As discussed in Note 1A to the financial statements, during the year ended June 30, 2020, The North Carolina A&T Investment Foundation, Inc. was created and blended with the financial statements of the University. Our opinions are not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 December 18, 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

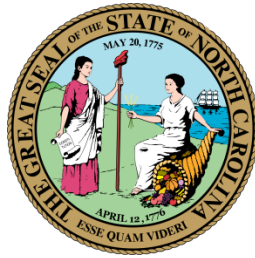
or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 18, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

North Carolina Agricultural and Technical State University (University) provides the following discussion and analysis in order to give the reader a summary of its financial activities and to aid in understanding the financial statements for the fiscal year ended June 30, 2020. Comparative data for the year ended June 30, 2019 is also included. All information provided has been prepared by University staff for the purpose of identifying significant transactions, trends, and events that have had an impact on the fiscal well-being of the University and may continue to exert influence in future years. To properly use and interpret the information provided in this discussion and analysis, it is recommended that it be read in conjunction with the related financial statements and the accompanying Notes to the Financial Statements for further explanation and details.

The Financial Statements

The financial statements for the University include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Each statement has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and reflects an economic resource measurement focus and the accrual basis of accounting. This discussion and analysis will concentrate on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position using condensed versions. The full-length versions of each of the financial statements are presented as exhibits immediately following this discussion and analysis.

In addition to the University's financial statements and accompanying notes, information for a component unit is presented. The Consolidated Statement of Financial Position, Consolidated Statement of Activities, and certain notes for The North Carolina A&T Real Estate Foundation, Inc. (Real Estate Foundation) are discretely presented alongside the University financial statements; however, the component unit is not included in management's discussion and analysis. More information describing the relationship between the University and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

In March of 2020, the University closed the campus, except for critical personnel, in response to the threat from the novel coronavirus (COVID-19). Learning transitioned to online only, while most employees either worked remotely or were placed on administrative leave. From a financial perspective, the disruption most severely impacted housing and dining services offered by the University, as well as housing services offered by The North Carolina A&T Real Estate Foundation, Inc. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law on March 27, 2020. The Higher Education and Emergency Relief Fund (HEERF) portion of the act provided grants to the University to assist students with costs associated with the disruption of on-campus education as well as to provide economic support to the University.

Statement of Net Position

The Statement of Net Position presented below summarizes the financial fitness of the University at June 30, 2020. It presents the financial position of the University as defined by

the balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that are available for use in meeting current operating requirements. Noncurrent assets and liabilities include those resources and obligations that are held to meet future operating requirements.

Condensed Statement of Net Position

| | 2020 | 2019 | Dollar Change | Percent Change |
|---|---------------------------------|---------------------------------|--------------------------------|-------------------|
| Assets | | | | |
| Current Assets | \$ 114,454,427.53 | \$ 99,087,361.54 | \$ 15,367,065.99 | 15.51% |
| Noncurrent Capital Assets, Net of Accumulated Depreciation | 436,675,869.75 | 406,254,135.54 | 30,421,734.21 | 7.49% |
| Other Noncurrent Assets | <u>70,758,359.49</u> | <u>75,149,602.84</u> | <u>(4,391,243.35)</u> | (5.84%) |
| Total Assets | <u>621,888,656.77</u> | <u>580,491,099.92</u> | <u>41,397,556.85</u> | 7.13% |
| Deferred Outflows | | | | |
| Deferred Loss on Refunding | 159,415.80 | 203,712.19 | (44,296.39) | (21.74%) |
| Deferred Outflows Related to Pensions | 20,246,165.87 | 26,457,001.31 | (6,210,835.44) | (23.48%) |
| Deferred Outflows Related to OPEB | <u>30,372,039.90</u> | <u>20,606,245.57</u> | <u>9,765,794.33</u> | 47.39% |
| Total Deferred Outflows of Resources | <u>50,777,621.57</u> | <u>47,266,959.07</u> | <u>3,510,662.50</u> | 7.43% |
| Liabilities | | | | |
| Current Liabilities | 19,723,446.08 | 17,592,597.63 | 2,130,848.45 | 12.11% |
| Long-Term Liabilities, Net | 339,568,276.69 | 320,569,492.08 | 18,998,784.61 | 5.93% |
| Other Noncurrent Liabilities | <u>594,425.04</u> | <u>958,620.31</u> | <u>(364,195.27)</u> | (37.99%) |
| Total Liabilities | <u>359,886,147.81</u> | <u>339,120,710.02</u> | <u>20,765,437.79</u> | 6.12% |
| Deferred Inflows of Resources | | | | |
| Deferred Inflows Related to Endowments | 47,527.00 | 131,166.67 | (83,639.67) | (63.77%) |
| Deferred Inflows Related to Pensions | 87,854.00 | 423,224.00 | (335,370.00) | (79.24%) |
| Deferred Inflows Related to OPEB | <u>81,520,029.00</u> | <u>104,613,040.00</u> | <u>(23,093,011.00)</u> | (22.07%) |
| Total Deferred Inflows of Resources | <u>81,655,410.00</u> | <u>105,167,430.67</u> | <u>(23,512,020.67)</u> | (22.36%) |
| Net Position | | | | |
| Net Investment in Capital Assets | 330,257,552.32 | 307,943,377.12 | 22,314,175.20 | 7.25% |
| Restricted-Nonexpendable | 51,463,609.54 | 44,716,002.57 | 6,747,606.97 | 15.09% |
| Restricted-Expendable | 33,749,390.82 | 34,813,911.82 | (1,064,521.00) | (3.06%) |
| Unrestricted | <u>(184,345,832.15)</u> | <u>(204,003,373.21)</u> | <u>19,657,541.06</u> | (9.64%) |
| Total Net Position | <u>\$ 231,124,720.53</u> | <u>\$ 183,469,918.30</u> | <u>\$ 47,654,802.23</u> | 25.97% |

Current assets were \$114,454,427.53 at June 30, 2020, an increase of \$15,367,065.99 over the prior year. The major component of the change in current assets was an increase in cash of \$13,193,397.64. An increase of \$10,532,244.57 in cash held by auxiliary services due to reduced operational costs and increases in fees from higher enrollment, made up the largest component of the increase. Other areas of increase included \$1,238,286.61 from retained state appropriations and \$1,820,612.01 in cash held by restricted contracts and grants at year end.

Noncurrent capital assets, net of accumulated depreciation, increased \$30,421,734.21. Current year construction costs for the new engineering facility totaled \$31,625,751.68. In addition, the University expended \$13,962,577.61 for other structures, equipment, and construction projects. The increase in capital assets of \$45,588,329.29 was offset by \$14,543,825.85 in depreciation expense and \$622,769.23 in disposals.

Other noncurrent assets decreased during the year by \$4,391,243.35. The decrease was the net of a decrease in cash offset by increases in endowment investments. Noncurrent cash decreased \$6,563,305.32 primarily from final expenditures made on the new student center. Investments increased \$2,035,243.18 due to the reinvestment of distributions earned and increase in fair value of the endowment fund.

Deferred outflows for OPEB and pensions increased \$3,554,958.89 due to changes in actuarial assumptions, the difference between expected results and actual experience as well as University contributions to the defined pension plan for fiscal year 2020.

Current liabilities increased \$2,130,848.45. The increase was primarily due to construction accounts, contract, and retainage payables for the new engineering facility.

Long-term liabilities, net increased by \$18,998,784.61. Net pension and OPEB liabilities increased \$22,162,780.00 due to changes in actuarial assumptions and projections. Outstanding bonds and notes decreased \$3,685,552.69 primarily due to principal payments made during the year.

Deferred inflows of resources related to pensions and OPEB decreased \$23,428,381.00. The decrease in deferred inflows of resources for pensions and OPEB is based on actuarial changes in assumptions and differences between expected and actual experience.

Net position at year-end was \$231,124,720.53, an increase of \$47,654,802.23 over the prior year. The increase was composed of the following: an increase of \$22,314,175.20 in net investment in capital assets, an increase in nonexpendable net position of \$6,747,606.97; a decrease in expendable net position of \$1,064,521.00; an increase of \$19,657,541.06 in unrestricted net position.

- Investment in capital assets increased \$22,314,175.20 primarily due to construction costs for the new engineering facility of \$31,625,751.68 less \$7,286,573.47, the net of equipment purchases, depreciation, and changes in outstanding debt.
- The increase in nonexpendable net position was due primarily to restricted endowment gifts totaling \$6,669,738.71.
- Expendable restricted net position decreased \$1,064,521.00. The net position decrease was primarily due to a decrease of \$2,587,442.43 in funds held for capital projects, a result of the final payments for contracts and retainage on the student center project. This was offset by an increase in receivables of \$1,661,503.00 related to the new Federal Aid - COVID-19 revenue.
- The unrestricted net position increased \$19,657,541.06. The increase is primarily due to a net of the following: a net decrease in the year-end balances related to pension and OPEB plans of \$5,035,455.52; reduced expenditures overall caused by the shutdown in the last quarter of the fiscal year; and a reimbursement of \$7,480,348.16 from expendable funds relating to the 2015 bond issuance used to cover interest payments.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the activity of the University during the year and is divided into four major components: operating revenues; operating expenses; nonoperating revenues (expenses); and other revenues. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated, and depreciation of capital assets is recorded.

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

| | 2020 | 2019 | Dollar Change | Percent Change |
|--|--------------------------|--------------------------|-------------------------|-------------------|
| Operating Revenues | | | | |
| Student Tuition and Fees, Net | \$ 78,671,603.11 | \$ 76,524,561.35 | \$ 2,147,041.76 | 2.81% |
| Federal Appropriations | 8,062,967.30 | 10,461,730.54 | (2,398,763.24) | (22.93%) |
| Grants and Contracts | 25,582,483.02 | 24,402,198.76 | 1,180,284.26 | 4.84% |
| Sales and Services, Net | 26,257,945.35 | 31,575,700.74 | (5,317,755.39) | (16.84%) |
| Other Operating Revenues | 5,193,910.24 | 6,109,826.25 | (915,916.01) | (14.99%) |
| Total Operating Revenues | 143,768,909.02 | 149,074,017.64 | (5,305,108.62) | (3.56%) |
| Operating Expenses | | | | |
| Salaries and Benefits | 181,503,615.04 | 171,215,725.67 | 10,287,889.37 | 6.01% |
| Supplies and Services | 73,708,618.10 | 82,829,605.37 | (9,120,987.27) | (11.01%) |
| Scholarships and Fellowships | 29,817,039.83 | 19,140,583.12 | 10,676,456.71 | 55.78% |
| Utilities | 5,575,279.12 | 6,173,635.58 | (598,356.46) | (9.69%) |
| Depreciation | 14,543,825.85 | 13,422,751.84 | 1,121,074.01 | 8.35% |
| Total Operating Expenses | 305,148,377.94 | 292,782,301.58 | 12,366,076.36 | 4.22% |
| Operating Loss | (161,379,468.92) | (143,708,283.94) | (17,671,184.98) | 12.30% |
| Nonoperating Revenues (Expenses) | | | | |
| State Appropriations | 95,490,568.79 | 93,838,061.78 | 1,652,507.01 | 1.76% |
| State Aid -Coronavirus Relief Fund | 28,684.00 | - | 28,684.00 | |
| Noncapital Contributions and Student Financial Aid | 60,151,285.69 | 62,657,740.35 | (2,506,454.66) | (4.00%) |
| Federal Aid - COVID-19 | 15,461,103.00 | - | 15,461,103.00 | |
| Interest and Fees on Debt | (3,910,200.92) | (3,988,095.35) | 77,894.43 | (1.95%) |
| Other Nonoperating Expenses | (622,769.23) | (430,340.52) | (192,428.71) | 44.72% |
| Investment Income, Net | 3,906,965.45 | 5,558,962.14 | (1,651,996.69) | (29.72%) |
| Net Nonoperating Revenues | 170,505,636.78 | 157,636,328.40 | 12,869,308.38 | 8.16% |
| Income Before Other Revenues | 9,126,167.86 | 13,928,044.46 | (4,801,876.60) | (34.48%) |
| Other Revenues | | | | |
| Capital Appropriations | - | 1,393,521.00 | (1,393,521.00) | (100.00%) |
| Capital Contributions | 31,858,895.66 | 7,149,536.79 | 24,709,358.87 | 345.61% |
| Additions to Endowments | 6,669,738.71 | 3,731,496.16 | 2,938,242.55 | 78.74% |
| Total Other Revenues | 38,528,634.37 | 12,274,553.95 | 26,254,080.42 | 213.89% |
| Total Increase in Net Position | 47,654,802.23 | 26,202,598.41 | 21,452,203.82 | 81.87% |
| Net Position - Beginning of the Year | 183,469,918.30 | 157,267,319.89 | 26,202,598.41 | 16.66% |
| Net Position - End of the year | \$ 231,124,720.53 | \$ 183,469,918.30 | \$ 47,654,802.23 | 25.97% |
| Reconciliation of Changes in Net Position | | | | |
| Total Revenues | \$ 357,336,150.32 | \$ 323,403,335.86 | \$ 33,932,814.46 | 10.49% |
| Less: Total Expenses | 309,681,348.09 | 297,200,737.45 | 12,480,610.64 | 4.20% |
| Increases in Net Position | \$ 47,654,802.23 | \$ 26,202,598.41 | \$ 21,452,203.82 | 81.87% |

The impact of the campus closure and Federal grants is most apparent in the Statement of Revenues, Expenses, and Changes in Net Position. Sales and services decreased due to student refunds caused by the campus closure while nonoperating grants increased, a result of the HEERF grants. Some classes of expenses also reflected the impact of the campus shutdown, particularly utilities and supplies and services.

The Statement of Revenues, Expenses, and Changes in Net Position consists of total revenues of \$357,336,150.32 and total expenses of \$309,681,348.09 resulting in an overall increase in net position at year-end of \$47,654,802.23, an increase of \$21,452,203.82 from the prior fiscal year. Highlights of the significant changes are as follows:

- Total operating revenues decreased by \$5,305,108.62. Sales and services and federal appropriations decreased by \$5,317,755.39 and \$2,398,763.24, respectively, primarily due to the shutdown mandated in March 2020, in response to the COVID-19 pandemic. The decreases in sales and services and federal appropriations were off-set by an increase in tuition and fees of \$2,147,041.76 attributable to an increase in enrollment as well as increases in tuition and fees rates.
- Total operating expenses increased \$12,366,076.36 or 4.22%. Salaries and benefits increased \$10,287,889.37 due primarily to the following factors: (1) salaries and benefits increased \$4,899,814.25, the result of new hires; and (2) net adjustments for pension and OPEB benefits and payroll accruals resulted in an increase of \$5,316,929.00. Supplies and services decreased by \$9,120,987.27 and utilities decreased by \$598,356.46 due to the March 2020 shutdown as a result of the COVID-19 pandemic. Spending on scholarships and fellowships increased \$10,676,456.71 primarily as a result of receiving \$6,899,800.00 Federal Aid COVID-19 funds allocated for students. See Note 17 of the Notes to the Financial Statements for further details. Depreciation costs increased \$1,121,074.01 primarily due to depreciation of \$862,588.82 on the new student center.
- The University experienced an increase in net nonoperating revenues of \$12,869,308.38. The University received an increase in state appropriations of \$1,652,507.01 based on increased enrollment. Noncapital contributions and student financial aid decreased \$2,506,454.66 due primarily to a decrease in Title III grant receipts, a result of the COVID-19 shutdown. The University received \$15,461,103.00 and \$28,684.00 in Federal and State aid, respectively, to mitigate the impact of the COVID-19 shutdown. See Note 17 of the Notes to the Financial Statements for further details. The overall increase in appropriations and grants were off-set by a decrease in investment income of \$1,651,996.69 due to the volatile nature of the stock market during the third quarter of the fiscal year.
- Other revenues increased by \$26,254,080.42. Funding for the new engineering facility and agricultural pavilion, as well as gifts, totaled \$24,709,358.87. Endowment additions also increased by \$2,938,242.55.

The University presents operating expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Salaries and benefits accounted for 59.48% of operating expenses, followed by supplies and services at 24.15%, scholarships and fellowships at 9.77%, depreciation at 4.77%, and utilities expense at 1.83%.

Capital Assets and Debt Administration

The University is fiscally conservative in the administration of its debt and is prudent in its expenditures for capital projects that enhance the teaching/learning experience for its students, provide adequate space and equipment for its research, and maintain the quality of its physical plant. As a state university, North Carolina Agricultural and Technical State University receives funding from the state budget but because of limitations on that budget, the University very thoughtfully and purposefully issues debt when necessary. Current debt capacity is calculated to be \$76.5 million and over \$100.6 million by 2023 if no other debt is issued. Bond agencies Moody's and Fitch assigned A1 and A+ ratings, respectively.

The University's new student center that opened in the fall of 2018 was funded with an \$82,955,000.00 bond issuance in 2015. Principal debt outstanding on the student center at June 30, 2020 was \$76,650,000.00 and is being financed through available resources for a period of 30 years.

In fiscal year 2021, the University will make the final payment on the Series 2017 bond issue. In addition, the University refunded two bond issues in early fiscal year 2021. The refundings resulted in significant savings of \$1,260,986.50. For additional information on the refunding, see Note 21 in the Notes to the Financial Statements.



Artist rendering of the Engineering Research and Innovation Center (ERIC)

Groundbreaking for an Engineering Research and Innovation Center (ERIC) took place in the fall of 2018 and is being funded in the amount of \$90 million by the State's "Connect NC Bond" issuance. The Center will facilitate the discovery and transfer of knowledge from academia to industry and other government agencies, further interdisciplinary research projects, and expand the instructional and research capacity of America's largest producer of African American engineering graduates. This State funded project will not impact the University's debt capacity.

Funded in part with US Department of Agriculture 1890 facilities funds, construction is underway on a multi-purpose farm pavilion. The facility, budgeted at \$4,528,000.00, will expand the University's capacity for agricultural education and research. The 17,000 square foot facility will include an auditorium, labs, a 50-person classroom, a demonstration kitchen and a 400-person conference room. Future projects scheduled for the farm are a student and community garden and the Cooperative Extension Innovation Station (mobile STEM lab) that will allow the University to expand its level of community outreach and service.

The University's statement of net position reflects total capital assets, net of accumulated depreciation and related debt, as of June 30, 2020, of \$330,257,552.32. This amount includes land, plant (facilities), equipment, and construction in progress. For more information about the University's capital assets, refer to Note 6 of the Notes to the Financial Statements.

Long-term debt totaled \$101,381,201.11 at June 30, 2020, compared to \$104,969,572.39 in the prior year, a decrease of \$3,588,371.28. The decrease is a result of recording principal

payments on Long-term debt. For additional information on debt administration, refer to Note 8 of the Notes to the Financial Statements.

Future Outlook

Facing the challenging headwinds that the entire nation is experiencing in 2020, the University is moving forward confidently as a Carnegie Foundation high research activity institution. The financial health of the University is strong, as evidenced by its \$47.7 million increase in net position from operating and nonoperating activities in fiscal year 2020. National publication Money Magazine's "Best Colleges" 2020 rankings placed the University in the number two position within the University of North Carolina system in early career alumni earnings, and assesses the school to be the most affordable North Carolina campus not included in the State's N.C. Promise program.

Enrollment growth of 3.4% again created a record enrollment for the University. Pre-registrations for the 2020-21 year indicate that next year's class will also top the 2019-20 headcount of 12,556; a number that continued to place the University as America's largest historically Black university for the sixth consecutive year. This growth brings much needed additional tuition revenue, as state appropriations were relatively flat, showing only a 1.76% increase. A paramount concern going forward is the potential loss of state tax revenues from an economic slowdown and its effect on future budget appropriations.

Concerning too are the revenue reductions from campus auxiliary services, athletics (that canceled their entire fall athletics schedule), and student housing as the University pivoted to a curriculum mixed with on-campus and online courses. Cushioning the loss in the short-term were funds from the CARES Act and other stimulus funding sources. Wise management of the \$44.4 million received in 2020 provides approximately \$29.0 million available for the 2020-21 academic year.

Positive growth is occurring in other areas of University operations. Donors have been especially generous as the University capital campaign comes to a close in December. Fiscal Year 2020 was the most successful fundraising year yet, as the University raised over \$18 million in gifts and new commitments and achieved 10.8% alumni participation. Within "The Power of DO: The Campaign for North Carolina Agricultural and Technical State University", donors have established over 230 new endowed scholarships, and almost half of the campaign dollars are allocated to direct student support.

Endowments are also growing as a result of the successful capital campaign, increasing 7.18% this year and placing the University within the top 8 largest nationally of all historically black colleges and universities endowments, public or private. Even with record enrollment, the endowment to student ratio now exceeds \$5,700 per student.

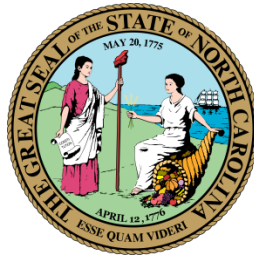
The capital campaign, with an initial goal of \$85 million that was surpassed by mid-2019, is set to conclude on December 31, 2020, and is positioned to finish well above the revised goal of \$100 million.

The University also continues to excel in high-quality academic research, particularly in the STEM disciplines in which the University's work is well known. Having ranked third in sponsored research funding within the University of North Carolina system five of the last six years, the University received approximately \$60.85 million in sponsored programs, grants, and contract funding in fiscal year 2020. University efforts toward proactively pursuing new

federal, state, industry, and other grants and contracts has resulted in a record-breaking number and dollar amount of proposals with a 132% increase in the number of proposals and a 227% increase in the dollar amount of proposals over fiscal year 2019 as well as the highest amount of research expenditures.

Enhanced community outreach and economic development projects are also underway by the University. The Farm Pavilion will utilize \$3 million to educate and assist small farmers in the area to develop and market their crops in a farmers' market setting. The University will also partner with its Real Estate Foundation to expand economic growth around the University community.

Because the University is ultimately subject to the same economic variables that affect other financial entities, it is difficult to predict future outcomes. By adhering to its visionary strategic plan, "A&T Preeminence: Taking the Momentum to 2023," the University seeks to preserve the core values that underpin a unique heritage that reflects its STEM, interdisciplinary focus, and intellectual climate. The University continues to build on its efforts to plan and manage its resources in order to prepare students to lead in a global society, to address grand challenges to improve the human condition, and to fulfill our promise to serve North Carolina and the world beyond.



FINANCIAL STATEMENTS

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

| | |
|--------------------------------------|------------------|
| Cash and Cash Equivalents | \$ 80,568,365.93 |
| Restricted Cash and Cash Equivalents | 18,671,639.07 |
| Restricted Short-Term Investments | 91,145.00 |
| Receivables, Net (Note 5) | 12,864,395.18 |
| Due from University Component Units | 714,633.78 |
| Inventories | 774,119.08 |
| Notes Receivable | 182,629.49 |
| Other Assets | 587,500.00 |
| | <hr/> |
| Total Current Assets | 114,454,427.53 |

Noncurrent Assets:

| | |
|--|----------------|
| Restricted Cash and Cash Equivalents | 5,383,606.53 |
| Receivables | 1,947,778.71 |
| Endowment Investments | 63,083,886.45 |
| Restricted Investments | 2,918.41 |
| Notes Receivable, Net (Note 5) | 81,532.39 |
| Net Other Postemployment Benefits Asset | 258,637.00 |
| Capital Assets - Nondepreciable (Note 6) | 67,536,384.33 |
| Capital Assets - Depreciable, Net (Note 6) | 369,139,485.42 |
| | <hr/> |
| Total Noncurrent Assets | 507,434,229.24 |

Total Assets

621,888,656.77

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|---------------|
| Deferred Loss on Refunding | 159,415.80 |
| Deferred Outflows Related to Pensions | 20,246,165.87 |
| Deferred Outflows Related to Other Postemployment Benefits (Note 14) | 30,372,039.90 |
| | <hr/> |
| Total Deferred Outflows of Resources | 50,777,621.57 |

LIABILITIES

Current Liabilities:

| | |
|---|---------------|
| Accounts Payable and Accrued Liabilities (Note 7) | 9,381,619.47 |
| Unearned Revenue | 4,503,819.11 |
| Interest Payable | 992,038.30 |
| Long-Term Liabilities - Current Portion (Note 8) | 4,845,969.20 |
| | <hr/> |
| Total Current Liabilities | 19,723,446.08 |

Noncurrent Liabilities:

| | |
|-------------------------------------|----------------|
| Funds Held for Others | 492,885.08 |
| U.S. Government Grants Refundable | 101,539.96 |
| Long-Term Liabilities, Net (Note 8) | 339,568,276.69 |
| | <hr/> |
| Total Noncurrent Liabilities | 340,162,701.73 |

Total Liabilities

359,886,147.81

North Carolina Agricultural and Technical State University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

| | |
|---|----------------------|
| Deferred Inflows Related to Endowments | 47,527.00 |
| Deferred Inflows Related to Pensions | 87,854.00 |
| Deferred Inflows Related to Other Postemployment Benefits (Note 14) | <u>81,520,029.00</u> |
| Total Deferred Inflows of Resources | <u>81,655,410.00</u> |

NET POSITION

| | |
|--|--------------------------|
| Net Investment in Capital Assets | 330,257,552.32 |
| Restricted: | |
| Nonexpendable | |
| True Endowments | 51,241,529.34 |
| Student Loans and Other | 222,080.20 |
| Expendable | |
| Scholarships, Research, Instruction, and Other | 33,055,268.96 |
| Capital Projects | 694,121.86 |
| Unrestricted | <u>(184,345,832.15)</u> |
| Total Net Position | <u>\$ 231,124,720.53</u> |

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2020

Exhibit A-2

OPERATING REVENUES

| | |
|---|------------------|
| Student Tuition and Fees, Net (Note 11) | \$ 78,671,603.11 |
| Federal Appropriations | 8,062,967.30 |
| Federal Grants and Contracts | 22,012,722.37 |
| State and Local Grants and Contracts | 1,694,902.43 |
| Nongovernmental Grants and Contracts | 1,874,858.22 |
| Sales and Services, Net (Note 11) | 26,257,945.35 |
| Interest Earnings on Loans | 8,504.20 |
| Other Operating Revenues | 5,185,406.04 |
| | <hr/> |
| Total Operating Revenues | 143,768,909.02 |

OPERATING EXPENSES

| | |
|------------------------------|------------------|
| Salaries and Benefits | 181,503,615.04 |
| Supplies and Services | 73,708,618.10 |
| Scholarships and Fellowships | 29,817,039.83 |
| Utilities | 5,575,279.12 |
| Depreciation | 14,543,825.85 |
| | <hr/> |
| Total Operating Expenses | 305,148,377.94 |
| | <hr/> |
| Operating Loss | (161,379,468.92) |

NONOPERATING REVENUES (EXPENSES)

| | |
|---|----------------|
| State Appropriations | 95,490,568.79 |
| State Aid - Coronavirus Relief Fund | 28,684.00 |
| Student Financial Aid | 46,799,737.03 |
| Federal Aid - COVID-19 | 15,461,103.00 |
| Noncapital Contributions | 13,351,548.66 |
| Investment Income (Net of Investment Expense of \$194,027.93) | 3,906,965.45 |
| Interest and Fees on Debt | (3,910,200.92) |
| Other Nonoperating Expenses | (622,769.23) |
| | <hr/> |
| Net Nonoperating Revenues | 170,505,636.78 |
| | <hr/> |
| Income Before Other Revenues | 9,126,167.86 |
| | <hr/> |
| Capital Contributions | 31,858,895.66 |
| Additions to Endowments | 6,669,738.71 |
| | <hr/> |
| Total Other Revenues | 38,528,634.37 |
| | <hr/> |
| Increase in Net Position | 47,654,802.23 |

NET POSITION

| | |
|------------------------------|-------------------|
| Net Position - July 1, 2019 | 183,469,918.30 |
| | <hr/> |
| Net Position - June 30, 2020 | \$ 231,124,720.53 |

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-------------------|
| Received from Customers | \$ 141,162,523.65 |
| Payments to Employees and Fringe Benefits | (185,643,996.67) |
| Payments to Vendors and Suppliers | (81,415,016.99) |
| Payments for Scholarships and Fellowships | (29,879,957.68) |
| Collection of Loans | 106,952.77 |
| Interest Earned on Loans | 25,222.09 |
| Other Receipts | 5,185,406.04 |
| | <hr/> |
| Net Cash Used by Operating Activities | (150,458,866.79) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-----------------|
| State Appropriations | 95,490,568.79 |
| State Aid - Coronavirus Relief Fund | 28,684.00 |
| Student Financial Aid | 45,465,709.21 |
| Federal Aid - COVID-19 | 13,799,600.00 |
| Noncapital Contributions | 12,211,697.26 |
| Additions to Endowments | 6,669,738.71 |
| William D. Ford Direct Lending Receipts | 94,159,364.00 |
| William D. Ford Direct Lending Disbursements | (94,159,364.00) |
| Related Activity Agency Receipts | 177,864.33 |
| Related Activity Agency Disbursements | (65,284.43) |
| | <hr/> |
| Net Cash Provided by Noncapital Financing Activities | 173,778,577.87 |

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

| | |
|---|-----------------|
| Capital Contributions | 31,781,771.59 |
| Acquisition and Construction of Capital Assets | (42,870,969.64) |
| Principal Paid on Capital Debt | (3,366,629.05) |
| Interest and Fees Paid on Capital Debt | (4,105,804.97) |
| | <hr/> |
| Net Cash Used by Capital Financing and Related Financing Activities | (18,561,632.07) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-------------------|
| Proceeds from Sales and Maturities of Investments | 222,777.48 |
| Investment Income | 1,649,235.83 |
| | <hr/> |
| Total Cash Provided by Investing Activities | 1,872,013.31 |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 6,630,092.32 |
| Cash and Cash Equivalents - July 1, 2019 | 97,993,519.21 |
| | <hr/> |
| Cash and Cash Equivalents - June 30, 2020 | \$ 104,623,611.53 |

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 2 of 2

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

| | |
|--|-----------------------------------|
| Operating Loss | \$ (161,379,468.92) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 14,543,825.85 |
| Allowances and Write-Offs | (183,765.58) |
| Changes in Assets and Deferred Outflows of Resources: | |
| Receivables, Net | 1,839,494.02 |
| Due from University Component Units | 125,095.52 |
| Inventories | (48,452.84) |
| Other Assets | (587,500.00) |
| Notes Receivable, Net | 292,832.84 |
| Net Other Postemployment Benefits Asset | (77,608.00) |
| Deferred Outflows Related to Pensions | 6,210,835.44 |
| Deferred Outflows Related to Other Postemployment Benefits | (9,765,794.33) |
| Changes in Liabilities and Deferred Inflows of Resources: | |
| Accounts Payable and Accrued Liabilities | (1,336,706.29) |
| Unearned Revenue | 609,604.46 |
| Net Pension Liability | 1,712,364.00 |
| Net Other Postemployment Benefits Liability | 20,450,416.00 |
| Compensated Absences | 883,096.00 |
| Workers' Compensation Liability | (318,753.96) |
| Deferred Inflows Related to Pensions | (335,370.00) |
| Deferred Inflows Related to Other Postemployment Benefits | (23,093,011.00) |
| Net Cash Used by Operating Activities | <u><u>\$ (150,458,866.79)</u></u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--|-----------------|
| Assets Acquired through the Assumption of a Liability | \$ 5,445,492.45 |
| Assets Acquired through a Gift | 77,124.07 |
| Change in Fair Value of Investments | 815,806.58 |
| Reinvested Distributions | 1,444,899.51 |
| Loss on Disposal of Capital Assets | (622,769.23) |
| Amortization of Bond Premiums | 221,742.23 |
| Amortization of Deferred Loss on Refunding Bonds | 44,296.39 |
| Increase in Receivables Related to Nonoperating Income | 3,750,513.81 |

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

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2020

Exhibit B-1

ASSETS

| | |
|--|-----------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 11,711,236 |
| Investments | 13,404,903 |
| Pledges Receivable, Net | 113,792 |
| Due from NCA&T State University | 410,375 |
| Accounts Receivable, Net | 939,702 |
| | <u>26,580,008</u> |
| | |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 19,694,589 |
| Investments | 4,701,504 |
| Pledges Receivable, Net | 125,223 |
| Cash Surrender Value of Life Insurance | 18,598 |
| Property and Equipment, Net | 102,542,905 |
| Property Held for Resale | 1,118,163 |
| | <u>128,200,982</u> |
| | |
| Total Assets | <u>\$ 154,780,990</u> |

LIABILITIES

| | |
|------------------------------------|--------------------|
| Current Liabilities: | |
| Accounts Payable | \$ 2,377,823 |
| Due to NCA&T State University | 1,319,808 |
| Due to NCA&T Alumni Association | 17,225 |
| Funds Held for Others | 1,657,645 |
| Current Notes Payable | 231,567 |
| Bonds Payable - Current Maturities | 2,095,000 |
| | <u>7,699,068</u> |
| | |
| Noncurrent Liabilities: | |
| Interest Rate Swap Agreement | 295,179 |
| Notes Payable | 3,046,397 |
| Bonds Payable, Net - Long-Term | 110,458,417 |
| | <u>113,799,993</u> |
| | |
| Total Liabilities | <u>121,499,061</u> |

NET ASSETS

| | |
|----------------------------------|-----------------------|
| Without Donor Restrictions: | 15,811,385 |
| With Donor Restrictions | 17,470,544 |
| | <u>33,281,929</u> |
| | |
| Total Liabilities and Net Assets | <u>\$ 154,780,990</u> |

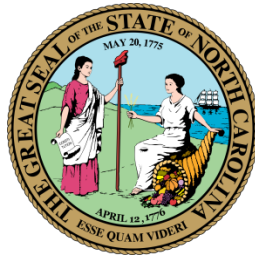
The accompanying notes to the financial statements are an integral part of this statement.

The North Carolina A&T Real Estate Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2020

Exhibit B-2

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|----------------------|
| SUPPORT AND REVENUE | | | |
| Contributions and Gifts | \$ - | \$ 5,010,064 | \$ 5,010,064 |
| Rental Income | 15,734,220 | - | 15,734,220 |
| Fee Income from the University | 4,434,151 | - | 4,434,151 |
| Fee Income | 435,254 | - | 435,254 |
| Net Assets Released from Restrictions | 3,489,596 | (3,489,596) | - |
| | <u>24,093,221</u> | <u>1,520,468</u> | <u>25,613,689</u> |
| Total Support and Revenue | | | |
| EXPENSES | | | |
| Program Services: | | | |
| University Support | 3,704,186 | - | 3,704,186 |
| Student Housing | 12,081,566 | - | 12,081,566 |
| | <u>15,785,752</u> | <u>-</u> | <u>15,785,752</u> |
| Total Program Services | | | |
| Supporting Services: | | | |
| Management and General | 5,997,086 | - | 5,997,086 |
| | <u>21,782,838</u> | <u>-</u> | <u>21,782,838</u> |
| Total Expenses | | | |
| Changes from Operating Activities | 2,310,383 | 1,520,468 | 3,830,851 |
| NONOPERATING ACTIVITIES | | | |
| Interest and Dividends | 99,960 | 71,516 | 171,476 |
| Net Realized and Unrealized Gain on Investments | 75,403 | 254,005 | 329,408 |
| Gain on Interest Rate Swap | 35,225 | - | 35,225 |
| Other Income | 557,355 | 39,462 | 596,817 |
| | <u>767,943</u> | <u>364,983</u> | <u>1,132,926</u> |
| Changes from Nonoperating Activities | | | |
| Change in Net Assets | 3,078,326 | 1,885,451 | 4,963,777 |
| NET ASSETS | | | |
| Net Assets at Beginning of Year, as Restated | 12,733,059 | 15,585,093 | 28,318,152 |
| Net Assets at End of Year | <u>\$ 15,811,385</u> | <u>\$ 17,470,544</u> | <u>\$ 33,281,929</u> |

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, The North Carolina A&T Investment Foundation, Inc. (Investment Foundation), a component unit of the University, is reported as if it was part of the University.

The Investment Foundation was created on July 1, 2019 and is governed by a board consisting of three ex officio directors and eight appointed directors. The Investment Foundation's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Foundation is a governmental external investment pool (see Note 2B for further details). Because a majority of the board is composed of University officers or directors appointed by the Endowment Board Committee of the Board of Trustees and because the Investment Foundation's primary purpose is to benefit the University, its financial statements have been blended with those of the University.

Separate financial statements for the Investment Foundation may be obtained from the University Controller's Office, 1601 E. Market Street, Greensboro, NC 27411, or by calling (336) 334-7684.

Condensed combining information regarding the blended component unit is provided in Note 19.

Discretely Presented Component Unit - The North Carolina A&T Real Estate Foundation, Inc. (Real Estate 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 Real Estate Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Real Estate Foundation board consists of nine members. Although the University does not control the timing or amount of receipts from the Real Estate Foundation, the majority of resources, or income thereon, that the Real Estate Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Real Estate Foundation can only be used by, or for the benefit of the University, the Real Estate Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Real Estate Foundation 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 Real Estate Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2020, the Real Estate Foundation distributed \$1,779,276.57 to the University for both restricted and unrestricted purposes. Complete financial statements for the Real Estate Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411.

- 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 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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, interest receivable on Perkins loans, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using either the average cost of last invoice price or the first-in, first-out method, depending on the product. In the case of agricultural supplies inventory, the current market value method is applied.
- 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 | 10-50 years |
| Machinery and Equipment | 10-25 years |
| General Infrastructure | 10-50 years |

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, bonds from direct placements, and notes from direct borrowings. 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. The University amortizes bond premiums 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 motor pool and maintenance of auxiliary facilities. 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 \$104,585,518.71, 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 \$8,499.00. The carrying amount of the University's deposits not with the State Treasurer was \$29,593.82, and the bank balance was \$29,469.82. 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.

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments of the University's component unit, the Investment Foundation, are subject to and restricted by G.S. 36E Uniform Prudent Management of Institutional Funds Act (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

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

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

External Investment Pool - The External Investment Pool sponsored by the University was established on July 1, 2019. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. University endowment funds and the Real Estate Foundation, which is a discretely presented component unit included in the University's reporting entity, represent the Pool's internal participants. The Fund holds cash and investments. Due to the minimal balance held in cash, the entire amount is allocated to the University. Fund ownership of the Pool investments is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined on its pro rata share at the end of each month.

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not

to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The Investment Foundation is the custodian for the Pool and provides the University with monthly statements defining income and valuation, which is then allocated among the Pool's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments.

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

External Investment Pool

| Investment Type | Amount | Investment Maturities (in Years) | |
|--------------------------------|------------------|----------------------------------|-----------------|
| | | 1 to 5 | 6 to 10 |
| Debt Securities | | | |
| Debt Mutual Funds | \$ 6,971,151.74 | \$ 990,688.79 | \$ 5,980,462.95 |
| Other Securities | | | |
| UNC Investment Fund | 47,224,820.94 | | |
| Equity Mutual Funds | 26,814,877.54 | | |
| Total External Investment Pool | \$ 81,010,850.22 | | |

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

| | Amount | AA Aa | A | BBB Baa |
|-------------------|-----------------|-----------------|-----------------|---------------|
| Debt Mutual Funds | \$ 6,971,151.74 | \$ 2,487,525.57 | \$ 3,698,091.30 | \$ 785,534.87 |

Rating Agency: Morningstar

Separate financial statements for the Real Estate Foundation and the Investment Foundation may be obtained from the University Controller's Office, 1601 E. Market Street, Greensboro, NC 27411 or by calling (336) 334-7684.

UNC Investment Fund, LLC - At June 30, 2020, the University's investments include \$47,224,820.94, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be

obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

| | <u>Amount</u> |
|--|----------------------|
| Investment Type | |
| Investments in Real Estate | \$ 115,400.00 |
| Domestic Stocks | 48,474.89 |
| Foreign Stocks (denominated in U.S. Dollars) | 10,544.75 |
| Other - Insurance Policy Surrender Value | <u>91,145.00</u> |
| Total Non-Pooled Investment Pool | <u>\$ 265,564.64</u> |

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

| | <u>Amount</u> |
|--|-------------------------|
| Investment Type | |
| Debt Securities | |
| Debt Mutual Funds | \$ 6,971,151.74 |
| Other Securities | |
| UNC Investment Fund | 47,224,820.94 |
| Equity Mutual Funds | 26,814,877.54 |
| Investments in Real Estate | 115,400.00 |
| Domestic Stocks | 48,474.89 |
| Foreign Stocks (denominated in U.S. Dollars) | 10,544.75 |
| Other - Insurance Policy Surrender Value | <u>91,145.00</u> |
| Total Investments | <u>\$ 81,276,414.86</u> |

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

| | <u>Amount</u> |
|---|-------------------------|
| University Statement of Net Position | |
| Restricted Short-Term Investments | \$ 91,145.00 |
| Endowment Investments | 63,083,886.45 |
| Restricted Investments | <u>2,918.41</u> |
| Total University Investments | <u>63,177,949.86</u> |
| Component Unit | |
| Investments of the Investment Foundation Held for the Discretely Presented Component Unit | <u>18,098,465.00</u> |
| Total Investments | <u>\$ 81,276,414.86</u> |

Component Unit - Investments of the University's discretely presented component unit, The North Carolina A&T Real Estate Foundation, Inc.

(Real Estate 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 Real Estate Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

| Investment Type | Amount |
|---------------------|----------|
| Limited Partnership | \$ 7,942 |

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 and the discretely presented component unit's portion of the External Investment Pool, within the fair value hierarchy at June 30, 2020:

| | Fair Value | Fair Value Measurements Using | | |
|---|--------------------------|-------------------------------|----------------|----------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Investments by Fair Value Level | | | | |
| Debt Securities | | | | |
| Debt Mutual Funds | \$ 6,971,151.74 | \$ 6,971,151.74 | \$ - | \$ - |
| Other Securities | | | | |
| Equity Mutual Funds | 26,814,877.54 | 26,814,877.54 | - | - |
| Investments in Real Estate | 115,400.00 | - | - | 115,400.00 |
| Domestic Stocks | 48,474.89 | 48,474.89 | - | - |
| Foreign Stocks (denominated in U.S. dollars) | 10,544.75 | 10,544.75 | - | - |
| Other - Insurance Policy Surrender Value | 91,145.00 | - | - | 91,145.00 |
| Total Investments by Fair Value Level | 34,051,593.92 | \$ 33,845,048.92 | \$ - | \$ 206,545.00 |
| Investments as a Position in an External Investment Pool | | | | |
| Short-Term Investment Fund | 104,585,518.71 | | | |
| UNC Investment Fund | 47,224,820.94 | | | |
| Total Investments as a Position in an External Investment Pool | 151,810,339.65 | | | |
| Total Investments Measured at Fair Value | \$ 185,861,933.57 | | | |

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.

Investments in Real Estate - The University currently holds a parcel of land for resale valued at \$115,400.00, which is classified in Level 3. The real estate was donated to the University to be sold and is measured at fair value by comparing the value to the county tax value.

Insurance Policy Surrender Value - Other investments include an insurance policy with a cash surrender value of \$91,145.00. This investment is classified in Level 3. The University uses the value that is supplied by the insurer and is based on the amount available in cash upon cancellation of the insurance policy before maturity.

Component Unit - The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different reporting model. Complete financial statements including applicable disclosures for the Real Estate Foundation can be obtained from 200 North Benbow Road, Greensboro, NC 27411.

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. 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 not more than 5% of endowment average market value at June 30th for the prior 12 quarters. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2020, net appreciation of \$16,737,078.56 was available to be spent, of which \$15,122,309.12 was classified in net position as restricted expendable for scholarships, research, instruction, and other as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2020 the amount of investment losses reported against the nonexpendable endowment balances was \$58,762.11.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

| | <u>Gross Receivables</u> | <u>Less Allowance for Doubtful Accounts</u> | <u>Net Receivables</u> |
|---------------------------------------|------------------------------|---|----------------------------|
| Current Receivables: | | | |
| Students | \$ 3,667,769.18 | \$ 612,438.52 | \$ 3,055,330.66 |
| Intergovernmental | 8,365,798.21 | - | 8,365,798.21 |
| Pledges | 634,829.33 | - | 634,829.33 |
| Interest on Loans | 19,041.96 | - | 19,041.96 |
| Other | 789,395.02 | - | 789,395.02 |
| Total Current Receivables | <u>\$ 13,476,833.70</u> | <u>\$ 612,438.52</u> | <u>\$ 12,864,395.18</u> |
| Notes Receivable - Noncurrent: | | | |
| Federal Loan Programs | <u>\$ 173,068.24</u> | <u>\$ 91,535.85</u> | <u>\$ 81,532.39</u> |

NOTE 6 - CAPITAL ASSETS

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

| | <u>Balance July 1, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2020</u> |
|---|---------------------------------|-------------------------|----------------------|----------------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 11,275,572.26 | \$ 822,513.93 | \$ - | \$ 12,098,086.19 |
| Art, Literature, and Artifacts | 2,538,797.00 | 25,000.00 | - | 2,563,797.00 |
| Construction in Progress | 15,166,193.46 | 37,869,478.62 | 161,170.94 | 52,874,501.14 |
| Total Capital Assets, Nondepreciable | <u>28,980,562.72</u> | <u>38,716,992.55</u> | <u>161,170.94</u> | <u>67,536,384.33</u> |
| Capital Assets, Depreciable: | | | | |
| Buildings | 464,298,510.41 | 2,918,530.06 | 337,978.37 | 466,879,062.10 |
| Machinery and Equipment | 82,724,379.75 | 4,113,977.62 | 1,245,994.16 | 85,592,363.21 |
| General Infrastructure | 20,391,264.21 | - | 5,998.00 | 20,385,266.21 |
| Total Capital Assets, Depreciable | <u>567,414,154.37</u> | <u>7,032,507.68</u> | <u>1,589,970.53</u> | <u>572,856,691.52</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 140,408,776.35 | 9,816,056.13 | 54,076.62 | 150,170,755.86 |
| Machinery and Equipment | 39,961,045.82 | 4,024,952.73 | 908,326.36 | 43,077,672.19 |
| General Infrastructure | 9,770,759.38 | 702,816.99 | 4,798.32 | 10,468,778.05 |
| Total Accumulated Depreciation | <u>190,140,581.55</u> | <u>14,543,825.85</u> | <u>967,201.30</u> | <u>203,717,206.10</u> |
| Total Capital Assets, Depreciable, Net | <u>377,273,572.82</u> | <u>(7,511,318.17)</u> | <u>622,769.23</u> | <u>369,139,485.42</u> |
| Capital Assets, Net | <u>\$ 406,254,135.54</u> | <u>\$ 31,205,674.38</u> | <u>\$ 783,940.17</u> | <u>\$ 436,675,869.75</u> |

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 | \$ 2,360,457.10 |
| Accounts Payable - Capital Assets | 3,701,904.23 |
| Accrued Payroll | 1,113,819.89 |
| Contract Retainage | 1,744,109.32 |
| Intergovernmental Payables | 461,328.93 |
| | <hr/> |
| Total Current Accounts Payable and Accrued Liabilities | \$ 9,381,619.47 |

NOTE 8 - LONG-TERM LIABILITIES

University

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 | \$ 93,875,000.00 | \$ - | \$ 2,210,000.00 | \$ 91,665,000.00 | \$ 2,275,000.00 |
| Bonds from Direct Placements | 1,350,000.00 | - | 670,000.00 | 680,000.00 | 680,000.00 |
| Plus: Unamortized Premium | 5,124,465.53 | - | 221,742.23 | 4,902,723.30 | - |
| | | | | <hr/> | <hr/> |
| Total Revenue Bonds Payable and Bonds from Direct Placements, Net | 100,349,465.53 | - | 3,101,742.23 | 97,247,723.30 | 2,955,000.00 |
| Notes from Direct Borrowings | 4,620,106.86 | - | 486,629.05 | 4,133,477.81 | 508,810.46 |
| | | | | <hr/> | <hr/> |
| Total Long-Term Debt | 104,969,572.39 | - | 3,588,371.28 | 101,381,201.11 | 3,463,810.46 |
| Other Long-Term Liabilities | | | | | |
| Employee Benefits | | | | | |
| Compensated Absences | 10,151,078.00 | 7,624,668.00 | 6,741,572.00 | 11,034,174.00 | 612,891.00 |
| Net Pension Liability | 42,172,002.00 | 1,712,364.00 | - | 43,884,366.00 | - |
| Net Other Postemployment Benefits Liability | 164,837,738.00 | 20,450,416.00 | - | 185,288,154.00 | - |
| Workers' Compensation | 3,145,104.74 | 252,876.86 | 571,630.82 | 2,826,350.78 | 769,267.74 |
| | | | | <hr/> | <hr/> |
| Total Other Long-Term Liabilities | 220,305,922.74 | 30,040,324.86 | 7,313,202.82 | 243,033,044.78 | 1,382,158.74 |
| | | | | <hr/> | <hr/> |
| Total Long-Term Liabilities, Net | \$ 325,275,495.13 | \$ 30,040,324.86 | \$ 10,901,574.10 | \$ 344,414,245.89 | \$ 4,845,969.20 |

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

| Purpose | Series | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Outstanding June 30, 2020 |
|---|--------|--------------------------|---------------------|--------------------------|-------------------------------------|
| <u>Revenue Bonds Payable</u> | | | | | |
| <u>The University of North Carolina Revenue Bonds</u> | | | | | |
| Student Health Center | 2013 | 2.00%-5.00% | 10/01/2037 | \$ 10,210,000.00 | \$ 8,535,000.00 |
| Parking System | 2015A | 2.00%-5.00% | 10/01/2033 | 4,760,000.00 | 4,310,000.00 |
| Student Center | 2015A | 3.00%-5.00% | 10/01/2045 | 72,220,000.00 | 72,220,000.00 |
| Student Center | 2015B | 0.800%-3.169% | 10/01/2022 | 10,735,000.00 | 4,430,000.00 |
| Total The University of North Carolina Revenue Bonds | | | | <u>97,925,000.00</u> | <u>89,495,000.00</u> |
| <u>The University of North Carolina System Pool Revenue Bonds</u> | | | | | |
| Stadium System | (A) | 2.00%-4.50% | 10/01/2031 | 3,365,000.00 | 2,170,000.00 |
| <u>Bonds from Direct Placements</u> | | | | | |
| Dining System | 2017 | 1.48% | 10/01/2020 | 2,655,000.00 | 680,000.00 |
| Total Revenue Bonds Payable and Bonds from Direct Placements (principal only) | | | | <u>\$103,945,000.00</u> | 92,345,000.00 |
| Plus: Unamortized Premium | | | | | <u>4,902,723.30</u> |
| Total Revenue Bonds Payable and Bonds from Direct Placements, Net | | | | | <u>\$ 97,247,723.30</u> |

(A) The University of North Carolina System Pool Revenue Bonds, Series 2011C

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

| Purpose | Financial Institution | Interest Rate | Final Maturity Date | Original Amount of Issue | Principal Outstanding June 30, 2020 |
|--|--------------------------------------|---------------|---------------------|--------------------------|-------------------------------------|
| Energy Performance Contract | Capital One Public Funding, LLC | 3.68% | 09/01/2032 | \$ 4,183,984.78 | \$ 3,256,054.56 |
| UNC System Guaranteed Energy Savings Project | Banc of America Public Capital Corp. | 1.84% | 02/14/2023 | 2,059,801.00 | 877,423.25 |
| Total Notes from Direct Borrowings | | | | <u>\$ 6,243,785.78</u> | <u>\$ 4,133,477.81</u> |

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

| Fiscal Year | Annual Requirements | | | | | |
|---------------------------|-------------------------|-------------------------|------------------------------|--------------------|------------------------------|----------------------|
| | Revenue Bonds Payable | | Bonds from Direct Placements | | Notes from Direct Borrowings | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 2,275,000.00 | \$ 3,878,710.25 | \$ 680,000.00 | \$ 5,032.00 | \$ 508,810.46 | \$ 130,970.11 |
| 2022 | 2,390,000.00 | 3,809,234.35 | - | - | 531,747.74 | 117,694.11 |
| 2023 | 2,465,000.00 | 3,735,724.95 | - | - | 470,195.28 | 103,795.15 |
| 2024 | 2,550,000.00 | 3,648,237.52 | - | - | 233,204.23 | 93,195.77 |
| 2025 | 2,675,000.00 | 3,533,212.52 | - | - | 244,979.53 | 84,464.47 |
| 2026-2030 | 15,725,000.00 | 15,716,656.31 | - | - | 1,418,234.43 | 275,373.57 |
| 2031-2035 | 18,275,000.00 | 12,287,831.25 | - | - | 726,306.14 | 32,824.72 |
| 2036-2040 | 18,955,000.00 | 7,829,875.00 | - | - | - | - |
| 2041-2045 | 21,510,000.00 | 3,209,950.00 | - | - | - | - |
| 2046 | 4,845,000.00 | 96,900.00 | - | - | - | - |
| Total Requirements | <u>\$ 91,665,000.00</u> | <u>\$ 57,746,332.15</u> | <u>\$ 680,000.00</u> | <u>\$ 5,032.00</u> | <u>\$ 4,133,477.81</u> | <u>\$ 838,317.90</u> |

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

Revenue Bonds Payable and Bonds from Direct Placements - The University's outstanding revenue bonds of \$91,665,000.00 and bonds from direct placements of \$680,000.00 contain provisions related to default and remedies. An event of default occurs when (1) the University fails to pay an installment payment when due, or (2) 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. However, if the Board deposits with the Trustee all amounts due on matured installments of principal and interest as well as amounts sufficient to compensate the Trustee for costs incurred, the event of default will be deemed waived.

Notes from Direct Borrowings - 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.

The University entered into an installment financing agreement to fund energy savings equipment and improvements on April 8, 2014. The equipment and improvements are pledged to secure the debt based on provisions of the financing agreement.

Provisions related to default and remedies govern the following: (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 cancelation of the contract and the return of all equipment at the University's sole expense.

Component Unit

Bonds Payable

Bonds payable as of June 30, 2020 consist of the following:

| | Interest Rate Ranges | Final Maturity (Serially) | Original Issue | Principal Outstanding |
|--|----------------------------|---------------------------------|----------------------|--------------------------|
| North Carolina Capital Facilities Finance Agency (NCCFFA): | | | | |
| Variable Rate Student Housing Revenue Bonds, Series 2004B | 3.00% - 5.00% | 2035 | \$ 21,000,000 | \$ 11,760,000 |
| Student Housing Revenue Refunding Bonds, Series 2015A | 3.00% - 5.00% | 2035 | 22,495,000 | 19,785,000 |
| Public Finance Authority (PFA): | | | | |
| Student Housing Facilities Bonds, Series 2019A | 3.00% - 5.00% | 2049 | 26,020,000 | 25,930,000 |
| Student Housing Facilities Bonds, Series 2019B | 3.00% - 5.00% | 2049 | 47,795,000 | 47,795,000 |
| Total Bonds Payable (principal only) | | | <u>\$117,310,000</u> | 105,270,000 |
| Plus: Unamortized Premium | | | | 11,415,312 |
| Less: Current Portion | | | | (2,095,000) |
| Less: Bond Issuance Costs | | | | <u>(4,131,895)</u> |
| Total Long-Term Bonds Payable, Net | | | | <u>\$ 110,458,417</u> |

Minimum maturities on all bonds of the Real Estate Foundation are as follows:

| Fiscal Year | Amount |
|------------------------|-----------------------|
| 2021 | \$ 2,095,000 |
| 2022 | 2,665,000 |
| 2023 | 2,865,000 |
| 2024 | 3,090,000 |
| 2025 | 3,320,000 |
| Thereafter | <u>91,235,000</u> |
| Total (principal only) | <u>\$ 105,270,000</u> |

Notes Payable

Notes Payable as of June 30, 2020 consist of the following:

| Financial Institution | Interest Rate Ranges | Final Maturity (Serially) | Principal Outstanding |
|------------------------------------|----------------------------|---------------------------------|--------------------------|
| Cinco, Inc. | 2.60% | 2035 | \$ 2,924,464 |
| Mechanics & Farmers Bank | 1.00% | 2025 | <u>353,500</u> |
| Total Notes Payable | | | 3,277,964 |
| Less: Current Portion | | | <u>(231,567)</u> |
| Total Long-Term Notes Payable, Net | | | <u>\$ 3,046,397</u> |

Minimum maturities of notes payable are as follows:

| Fiscal Year | Amount |
|------------------------|---------------------|
| 2021 | \$ 231,567 |
| 2022 | 236,533 |
| 2023 | 241,618 |
| 2024 | 247,206 |
| 2025 | 262,370 |
| Thereafter | <u>2,058,670</u> |
| Total (principal only) | <u>\$ 3,277,964</u> |

Further information regarding bonds and notes payable is available in The North Carolina A&T Real Estate Foundation, Inc.'s audited financial statements.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

| Fiscal Year | Amount |
|------------------------------|------------------------|
| 2021 | \$ 816,918.29 |
| 2022 | 788,081.17 |
| 2023 | 587,500.00 |
| 2024 | 587,500.00 |
| 2025 | 587,500.00 |
| 2026-2030 | <u>1,762,500.00</u> |
| Total Minimum Lease Payments | <u>\$ 5,129,999.46</u> |

Rental expense for all operating leases during the year was \$1,017,055.34.

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:

| | <u>Amount</u> |
|--|-----------------------------------|
| Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources | \$ (23,726,054.13) |
| Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources | <u>(236,896,849.04)</u> |
| Effect on Unrestricted Net Position | (260,622,903.17) |
| Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities | <u>76,277,071.02</u> |
| Total Unrestricted Net Position | <u>\$ (184,345,832.15)</u> |

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:

| | <u>Gross Revenues</u> | <u>Less Scholarship Discounts and Allowances</u> | <u>Less Allowance for Uncollectibles</u> | <u>Net Revenues</u> |
|--|--------------------------------|--|--|--------------------------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees, Net | <u>\$121,474,250.20</u> | <u>\$42,340,009.86</u> | <u>\$ 462,637.23</u> | <u>\$ 78,671,603.11</u> |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Residential Life | \$ 13,214,171.15 | \$ 4,349,851.13 | \$ 39,349.92 | \$ 8,824,970.10 |
| Dining | 16,044,475.75 | 5,646,237.46 | 51,809.53 | 10,346,428.76 |
| Student Union Services | 54,477.00 | - | - | 54,477.00 |
| Health, Physical Education, and Recreation Services | 616,383.19 | - | - | 616,383.19 |
| Bookstore | 1,235,077.66 | - | - | 1,235,077.66 |
| Parking | 1,762,984.71 | - | - | 1,762,984.71 |
| Athletic | 2,556,955.79 | - | - | 2,556,955.79 |
| Other | 679,021.55 | - | - | 679,021.55 |
| Sales and Services of Education and Related Activities | <u>181,646.59</u> | <u>-</u> | <u>-</u> | <u>181,646.59</u> |
| Total Sales and Services, Net | <u>\$ 36,345,193.39</u> | <u>\$ 9,996,088.59</u> | <u>\$ 91,159.45</u> | <u>\$ 26,257,945.35</u> |

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 | \$ 77,348,302.30 | \$ 4,327,873.03 | \$ 2,358,695.83 | \$ - | \$ - | \$ 84,034,871.16 |
| Research | 18,819,998.09 | 7,455,819.20 | 3,012,161.19 | 143.35 | - | 29,288,121.83 |
| Public Service | 5,807,403.81 | 1,242,963.56 | 78,231.06 | - | - | 7,128,598.43 |
| Academic Support | 19,533,877.85 | 11,160,109.35 | 3,039,983.90 | 89.00 | - | 33,734,060.10 |
| Student Services | 5,925,338.58 | 1,780,451.51 | 229,900.19 | 15.00 | - | 7,935,705.28 |
| Institutional Support | 21,159,492.37 | 11,862,226.10 | 1,646,184.15 | 7,233.17 | - | 34,675,135.79 |
| Operations and Maintenance of Plant | 10,984,589.86 | 5,679,082.88 | - | 4,462,899.78 | - | 21,126,572.52 |
| Student Financial Aid | 244,975.52 | 233,795.06 | 14,574,535.83 | - | - | 15,053,306.41 |
| Auxiliary Enterprises | 21,679,636.66 | 29,966,297.41 | 4,877,347.68 | 1,104,898.82 | - | 57,628,180.57 |
| Depreciation | - | - | - | - | 14,543,825.85 | 14,543,825.85 |
| Total Operating Expenses | \$181,503,615.04 | \$ 73,708,618.10 | \$29,817,039.83 | \$5,575,279.12 | \$14,543,825.85 | \$305,148,377.94 |

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 \$6,899,800.00 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 \$4,287,838.53, and the University's contributions were \$9,268,877.61 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 \$43,884,366.00 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 0.42331%, which was a decrease of 0.00027 from its proportion measured as of June 30, 2018, which was 0.42358%.

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%) |
| \$ 83,524,155.00 | \$ 43,884,366.00 | \$ 10,631,634.00 |

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 \$16,851,666.00. 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 | \$ 3,670,877.00 | \$ 87,854.00 |
| Changes of Assumptions | 4,676,052.00 | - |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 841,202.26 | - |
| Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 1,789,157.00 | - |
| Contributions Subsequent to the Measurement Date | 9,268,877.61 | - |
| Total | \$ 20,246,165.87 | \$ 87,854.00 |

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 | \$ 7,412,488.00 |
| 2022 | 2,205,328.00 |
| 2023 | 977,345.00 |
| 2024 | 294,273.26 |
| Total | <u>\$ 10,889,434.26</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 \$144,437,708.99, of which \$45,521,417.25 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$2,731,285.04 and \$3,113,664.94, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$127,031.57.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System

(CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7% of their salary to CSRS and the University match was 7%. For the year ended June 30, 2020, covered payroll was \$128,999.43 and total employer and employee contributions were \$9,029.96 each.

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 \$7,568,954.91 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 \$116,985.39 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 \$185,288,154.00 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 0.58562%, which was an increase of 0.007 from its proportion measured as of June 30, 2018, which was 0.57862%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of \$258,637.00 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 0.59939%, which was an increase of 0.00343 from its proportion measured as of June 30, 2018, which was 0.59596%.

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 | \$ 220,188,230.00 | \$ 185,288,154.00 | \$ 157,341,840.00 |
| | 1% Decrease (2.75%) | Current Discount Rate (3.75%) | 1% Increase (4.75%) |
| DIPNC | \$ (219,059.00) | \$ (258,637.00) | \$ (297,094.00) |

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 | \$ 152,570,026.71 | \$ 185,288,154.00 | \$ 228,305,251.22 |
| | 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 | \$ (259,092.32) | \$ (258,637.00) | \$ (258,211.22) |

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 \$5,050,592.00 for RHBF and expense of \$260,805.00 for DIPNC, resulting in a total OPEB contra-expense of \$4,789,787.00. 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 | \$ - | \$ 264,217.00 | \$ 264,217.00 |
| Changes of Assumptions | 8,905,821.00 | 28,651.00 | 8,934,472.00 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 123,387.05 | 49,263.98 | 172,651.03 |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 13,286,636.00 | 28,123.57 | 13,314,759.57 |
| Contributions Subsequent to the Measurement Date | <u>7,568,954.91</u> | <u>116,985.39</u> | <u>7,685,940.30</u> |
| Total | <u>\$ 29,884,798.96</u> | <u>\$ 487,240.94</u> | <u>\$ 30,372,039.90</u> |

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

| | RHBF | DIPNC | Total |
|---|-------------------------|---------------------|-------------------------|
| Differences Between Actual and Expected Experience | \$ 9,340,857.00 | \$ - | \$ 9,340,857.00 |
| Changes of Assumptions | 55,705,740.00 | 26,535.00 | 55,732,275.00 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | - | - |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | <u>16,446,897.00</u> | <u>-</u> | <u>16,446,897.00</u> |
| Total | <u>\$ 81,493,494.00</u> | <u>\$ 26,535.00</u> | <u>\$ 81,520,029.00</u> |

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

and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

| <u>Year Ended June 30:</u> | <u>RHBF</u> | <u>DIPNC</u> |
|----------------------------|----------------------------------|-----------------------------|
| 2021 | \$ (20,063,566.00) | \$ 120,320.00 |
| 2022 | (20,063,566.00) | 75,854.00 |
| 2023 | (20,045,727.00) | 55,804.00 |
| 2024 | (1,252,342.00) | 35,413.00 |
| 2025 | 2,247,551.05 | 48,401.00 |
| Thereafter | - | 7,928.55 |
| Total | <u>\$ (59,177,649.95)</u> | <u>\$ 343,720.55</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 and other operations not supported by the State's General Fund purchased extended or broad form coverage through the Fund. Broad form coverage on buildings and contents totaled \$273,408,514.00 for residence halls, the Campus Recreation Center, the Student Center, and the Environmental Health and Safety facility. The University purchased extended coverage and fire insurance for the building and all risk insurance for the contents of Williams Cafeteria in the amount of \$54,914,194.00. The University also carried \$7,725,870.00 in fire insurance on the building and broad form coverage on the contents of Brown Hall.

Basic coverage for buildings and contents was carried on the Aggie Skybox, parking deck, stadium complex, and housing office in the amount of \$27,362,313.00. The University also carried fire insurance on the building and all risk insurance on the contents of the Bryan Fitness and Wellness Center for \$7,594,153.00.

Supplemental insurance was carried on several academic facilities. The University maintained \$55,583,916.00 in broad form coverage on the contents of the Student Health Center, McNair Hall, and Bluford Library. All risk insurance was carried on the IRC research building in the amount of \$9,771,407.00 while other forms of insurance totaling \$8,807,131.00 was maintained on several academic buildings, including contents.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Professional medical liability coverage has been purchased for physicians and non-physician staff members. Individual policies provide coverage of \$1 million per person, with a \$3 million total.

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 \$43,306,810.80 and on other purchases were \$19,486,547.89 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.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

| Purpose | Amount |
|-----------------------|------------------------|
| Pledges to Endowments | <u>\$ 8,622,011.79</u> |

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 (1) the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, and (2) the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

The revenues from these programs are contingent upon meeting the terms and conditions of the programs and signed agreements with the funding agencies, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue captions of the financial statements:

Nonoperating Revenue:

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

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

The HEERF funds provided include: (1) a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19, (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 COVID-19. As part of the earned revenue from the HEERF (institutional allocation and additional award), the University reimbursed its auxiliary units and Real Estate Foundation for the prorated 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 | Unearned Revenue (1) |
|--|------------------------|-------------------------|----------------------|
| State Aid - Coronavirus Relief Fund: | | | |
| CRF - UNC-BOG Allocations | \$ 2,060,326.00 | \$ - | \$ - |
| CRF - COVID Digital Accelerator | 111,939.00 | 28,684.00 | - |
| Total State Aid - Coronavirus Relief Fund | N/A | <u>\$ 28,684.00</u> | <u>\$ -</u> |
| Federal Aid - COVID-19: | | | |
| HEERF - Student Allocation | \$ 7,051,814.00 | \$ 6,899,800.00 | \$ 21,850.00 |
| HEERF - Institutional Allocation (2) | 7,051,814.00 | 6,899,800.00 | 152,014.00 |
| HEERF - Additional Award | 28,169,161.00 | 1,661,503.00 | - |
| Total Federal Aid - COVID-19 | N/A | <u>\$ 15,461,103.00</u> | <u>\$ 173,864.00</u> |

(1) The Unearned Revenue Column represents funds that have been received as of June 30th for which incurred qualifying expenditures/uses of funds or other eligibility requirements for reporting as earned revenue have not yet been met including specified grantor/provider requirements.

(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. This "Use of Funds" limitation is a contingency that limits the revenue recognized from the institutional portion to amounts spent and recognized for the student portion. Thus, amounts used and received for the institutional portion that are in excess of the amount expended and received for the student portion are reported as unearned revenue in the amount of \$152,014.00. The institution believes that the "Use of Funds" requirement will be fully met by the end of the program.

NOTE 18 - RELATED PARTIES

The University and The University of North Carolina at Greensboro have formed a jointly governed nonprofit organization, Gateway Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development. During the fiscal year, the University paid \$25,000.00 in management fees, \$36,260.05 in building maintenance costs, and \$1,505,481.00 in operating funds to Gateway Research Park, Inc.

NOTE 19 - BLENDED COMPONENT UNIT

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

*Condensed Statement of Net Position
June 30, 2020*

| | University | Investment Foundation* | Eliminations | Total |
|---|-------------------|---------------------------|--------------------|-------------------|
| ASSETS | | | | |
| Current Assets | \$ 114,443,654.17 | \$ 10,773.36 | \$ - | \$ 114,454,427.53 |
| Capital Assets, Net | 436,675,869.75 | - | - | 436,675,869.75 |
| Other Noncurrent Assets | 7,845,975.20 | 81,010,849.29 | (18,098,465.00) | 70,758,359.49 |
| Total Assets | 558,965,499.12 | 81,021,622.65 | (18,098,465.00) | 621,888,656.77 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 50,777,621.57 | - | - | 50,777,621.57 |
| LIABILITIES | | | | |
| Current Liabilities | 19,676,822.32 | 59,054.11 | (12,430.35) | 19,723,446.08 |
| Long-Term Liabilities, Net | 339,568,276.69 | - | - | 339,568,276.69 |
| Other Noncurrent Liabilities | 594,425.04 | - | - | 594,425.04 |
| Total Liabilities | 359,839,524.05 | 59,054.11 | (12,430.35) | 359,886,147.81 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 81,655,410.00 | - | - | 81,655,410.00 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 330,257,552.32 | - | - | 330,257,552.32 |
| Restricted - Nonexpendable | 4,067,967.65 | 52,097,143.89 | (4,701,502.00) | 51,463,609.54 |
| Restricted - Expendable | 19,762,073.17 | 21,257,875.35 | (7,270,557.70) | 33,749,390.82 |
| Unrestricted | (185,839,406.50) | 7,607,549.30 | (6,113,974.95) | (184,345,832.15) |
| Total Net Position | \$ 168,248,186.64 | \$ 80,962,568.54 | \$ (18,086,034.65) | \$ 231,124,720.53 |

*Investment Foundation amounts include the portion that is attributable to The North Carolina A&T Real Estate Foundation, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from the financial statements via eliminations.

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

| | University | Investment Foundation* | Eliminations | Total |
|---|--------------------------|---------------------------|---------------------------|--------------------------|
| OPERATING REVENUES | | | | |
| Tuition and Fees | \$ 78,671,603.11 | \$ - | \$ - | \$ 78,671,603.11 |
| Grants and Contracts | 25,582,483.02 | - | - | 25,582,483.02 |
| Sales and Services | 26,257,945.35 | - | - | 26,257,945.35 |
| Other Operating Revenues | 13,256,877.54 | - | - | 13,256,877.54 |
| Total Operating Revenues | <u>143,768,909.02</u> | <u>-</u> | <u>-</u> | <u>143,768,909.02</u> |
| OPERATING EXPENSES | | | | |
| Operating Expenses | 290,348,630.48 | 328,406.98 | (72,485.37) | 290,604,552.09 |
| Depreciation | 14,543,825.85 | - | - | 14,543,825.85 |
| Total Operating Expenses | <u>304,892,456.33</u> | <u>328,406.98</u> | <u>(72,485.37)</u> | <u>305,148,377.94</u> |
| Operating Income (Loss) | <u>(161,123,547.31)</u> | <u>(328,406.98)</u> | <u>72,485.37</u> | <u>(161,379,468.92)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State Appropriations | 95,490,568.79 | - | - | 95,490,568.79 |
| Student Financial Aid | 46,799,737.03 | - | - | 46,799,737.03 |
| COVID-19 Aid | 15,489,787.00 | - | - | 15,489,787.00 |
| Noncapital Contributions | 13,351,548.66 | - | - | 13,351,548.66 |
| Investment Income, Net | 2,039,561.17 | 2,430,255.40 | (562,851.12) | 3,906,965.45 |
| Other | (4,532,970.15) | - | - | (4,532,970.15) |
| Net Nonoperating Revenues (Expenses) | <u>168,638,232.50</u> | <u>2,430,255.40</u> | <u>(562,851.12)</u> | <u>170,505,636.78</u> |
| Capital Contributions | 31,858,895.66 | - | - | 31,858,895.66 |
| Purchased Shares | (61,265,051.22) | 78,860,720.12 | (17,595,668.90) | - |
| Additions to Endowments | 6,669,738.71 | - | - | 6,669,738.71 |
| Total Other Revenues (Expenses) | <u>(22,736,416.85)</u> | <u>78,860,720.12</u> | <u>(17,595,668.90)</u> | <u>38,528,634.37</u> |
| Increase (Decrease) in Net Position | <u>(15,221,731.66)</u> | <u>80,962,568.54</u> | <u>(18,086,034.65)</u> | <u>47,654,802.23</u> |
| NET POSITION | | | | |
| Net Position, July 1, 2019 | <u>183,469,918.30</u> | <u>-</u> | <u>-</u> | <u>183,469,918.30</u> |
| Net Position, June 30, 2020 | <u>\$ 168,248,186.64</u> | <u>\$ 80,962,568.54</u> | <u>\$ (18,086,034.65)</u> | <u>\$ 231,124,720.53</u> |

*Investment Foundation amounts include the portion that is attributable to The North Carolina A&T Real Estate Foundation, Inc., which is discretely presented in Exhibit B-2 of the financial statements. This discretely presented portion is also removed from the financial statements via eliminations.

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

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

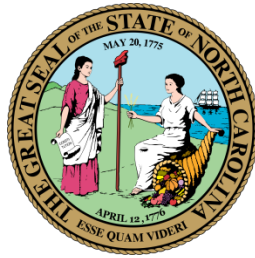
GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning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

NOTE 21 - SUBSEQUENT EVENT

On August 27, 2020, the University issued the North Carolina Agricultural & Technical State University Taxable General Revenue Refunding Bonds, Series 2020 for \$10,570,000.00. The bonds provided a net present value savings of \$1,260,986.50.

The bonds were issued to: (1) advance refund the callable maturities of The University of North Carolina System Pool Revenue Bonds, Series 2011C, maturing on and after October 1, 2022, (2) advance refund the callable maturities of the University's General Revenue Bonds, Series 2013, maturing on and after October 1, 2022, and (3) pay issuance costs for the 2020 bonds. The University used \$10,343,337.20 of proceeds to fund escrow accounts for the Series 2011C and 2013 bonds. The remaining balance of \$226,662.80 was used to cover issuance costs.

The Series 2020 bonds, totaling \$10,570,000.00, have a final maturity date of October 1, 2037 and interest rates ranging from 0.634% to 2.512%.



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina Agricultural and Technical State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Seven Fiscal Years***

Exhibit C-1

| Teachers' and State Employees' Retirement System | 2020 | 2019 | 2018 | 2017 |
|--|------------------|------------------|------------------|------------------|
| Proportionate Share Percentage of Collective Net Pension Liability | 0.42331% | 0.42358% | 0.40468% | 0.40361% |
| Proportionate Share of TSERS Collective Net Pension Liability | \$ 43,884,366.00 | \$ 42,172,002.00 | \$ 32,109,096.00 | \$ 37,095,928.00 |
| Covered Payroll | \$ 71,568,521.16 | \$ 69,437,266.26 | \$ 66,669,178.36 | \$ 64,194,369.39 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 61.32% | 60.73% | 48.16% | 57.79% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 87.56% | 87.61% | 89.51% | 87.32% |
| | 2016 | 2015 | 2014 | |
| Proportionate Share Percentage of Collective Net Pension Liability | 0.39925% | 0.41276% | 0.42120% | |
| Proportionate Share of TSERS Collective Net Pension Liability | \$ 14,713,153.00 | \$ 4,839,285.00 | \$ 25,571,132.00 | |
| Covered Payroll | \$ 64,055,133.27 | \$ 64,416,518.84 | \$ 66,743,118.20 | |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 22.97% | 7.51% | 38.31% | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 94.64% | 98.24% | 90.60% | |

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

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

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

Exhibit C-2

| Teachers' and State Employees' Retirement System | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$ 9,268,877.61 | \$ 8,795,771.25 | \$ 7,485,337.30 | \$ 6,653,584.00 | \$ 5,873,784.80 |
| Contributions in Relation to the Contractually Determined Contribution | 9,268,877.61 | 8,795,771.25 | 7,485,337.30 | 6,653,584.00 | 5,873,784.80 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 71,463,975.43 | \$ 71,568,521.16 | \$ 69,437,266.26 | \$ 66,669,178.36 | \$ 64,194,369.39 |
| Contributions as a Percentage of Covered Payroll | 12.97% | 12.29% | 10.78% | 9.98% | 9.15% |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Contractually Required Contribution | \$ 5,861,044.69 | \$ 5,597,795.49 | \$ 5,559,701.75 | \$ 4,988,312.34 | \$ 3,566,826.96 |
| Contributions in Relation to the Contractually Determined Contribution | 5,861,044.69 | 5,597,795.49 | 5,559,701.75 | 4,988,312.34 | 3,566,826.96 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 64,055,133.27 | \$ 64,416,518.84 | \$ 66,743,118.20 | \$ 67,047,208.84 | \$ 72,349,431.21 |
| Contributions as a Percentage of Covered Payroll | 9.15% | 8.69% | 8.33% | 7.44% | 4.93% |

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

North Carolina Agricultural and Technical State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2020

Changes of Benefit Terms:

| | <u>Cost of Living Increase</u> | | | | | | | | | |
|--|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Teachers' and State Employees' Retirement System | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| | 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 information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

North Carolina Agricultural and Technical State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Four Fiscal Years*

Exhibit C-3

| Retiree Health Benefit Fund | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|
| Proportionate Share Percentage of Collective Net OPEB Liability | 0.58562% | 0.57862% | 0.54571% | 0.62362% |
| Proportionate Share of Collective Net OPEB Liability | \$ 185,288,154.00 | \$ 164,837,738.00 | \$ 178,919,711.00 | \$ 271,295,897.00 |
| Covered Payroll | \$ 114,436,560.20 | \$ 109,834,744.77 | \$ 105,081,359.60 | \$ 102,305,367.37 |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 161.91% | 150.08% | 170.27% | 265.18% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 4.40% | 4.40% | 3.52% | 2.41% |
| Disability Income Plan of North Carolina | | | | |
| Proportionate Share Percentage of Collective Net OPEB Asset | 0.59939% | 0.59596% | 0.58345% | 0.58230% |
| Proportionate Share of Collective Net OPEB Asset | \$ 258,637.00 | \$ 181,029.00 | \$ 356,605.00 | \$ 361,608.00 |
| Covered Payroll | \$ 114,436,560.20 | \$ 109,834,744.77 | \$ 105,081,359.60 | \$ 102,305,367.37 |
| Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll | 0.23% | 0.16% | 0.34% | 0.35% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 113.00% | 108.47% | 116.23% | 116.06% |

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

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

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

Exhibit C-4

| Retiree Health Benefit Fund | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Contractually Required Contribution | \$ 7,568,954.91 | \$ 7,175,172.32 | \$ 6,645,002.06 | \$ 6,105,226.99 | \$ 5,729,100.57 |
| Contributions in Relation to the Contractually Determined Contribution | 7,568,954.91 | 7,175,172.32 | 6,645,002.06 | 6,105,226.99 | 5,729,100.57 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 116,985,392.68 | \$ 114,436,560.20 | \$ 109,834,744.77 | \$ 105,081,359.60 | \$ 102,305,367.37 |
| Contributions as a Percentage of Covered Payroll | 6.47% | 6.27% | 6.05% | 5.81% | 5.60% |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Contractually Required Contribution | \$ 5,586,742.25 | \$ 5,671,902.69 | \$ 5,672,455.41 | \$ 5,259,208.44 | \$ 5,260,358.30 |
| Contributions in Relation to the Contractually Determined Contribution | 5,586,742.25 | 5,671,902.69 | 5,672,455.41 | 5,259,208.44 | 5,260,358.30 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 101,762,153.99 | \$ 105,035,234.93 | \$ 107,027,460.49 | \$ 105,184,168.87 | \$ 107,354,251.11 |
| Contributions as a Percentage of Covered Payroll | 5.49% | 5.40% | 5.30% | 5.00% | 4.90% |
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Disability Income Plan of North Carolina | | | | | |
| Contractually Required Contribution | \$ 116,985.39 | \$ 160,211.18 | \$ 153,768.64 | \$ 399,309.17 | \$ 419,452.01 |
| Contributions in Relation to the Contractually Determined Contribution | 116,985.39 | 160,211.18 | 153,768.64 | 399,309.17 | 419,452.01 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 116,985,392.68 | \$ 114,436,560.20 | \$ 109,834,744.77 | \$ 105,081,359.60 | \$ 102,305,367.37 |
| Contributions as a Percentage of Covered Payroll | 0.10% | 0.14% | 0.14% | 0.38% | 0.41% |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Contractually Required Contribution | \$ 417,224.83 | \$ 462,155.03 | \$ 470,920.83 | \$ 546,957.68 | \$ 558,242.11 |
| Contributions in Relation to the Contractually Determined Contribution | 417,224.83 | 462,155.03 | 470,920.83 | 546,957.68 | 558,242.11 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 101,762,153.99 | \$ 105,035,234.93 | \$ 107,027,460.49 | \$ 105,184,168.87 | \$ 107,354,251.11 |
| Contributions as a Percentage of Covered Payroll | 0.41% | 0.44% | 0.44% | 0.52% | 0.52% |

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

North Carolina Agricultural and Technical State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2020

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.

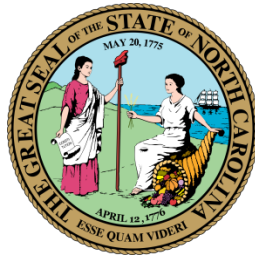
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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 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



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State Auditor

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

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Agricultural and Technical State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component 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 December 18, 2020. Our report includes a reference to other auditors who audited the consolidated financial statements of The North Carolina A&T Real Estate Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of The North Carolina A&T Real Estate 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 this entity.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 18, 2020

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



This audit required 975 hours at an approximate cost of \$101,400.