STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

APPALACHIAN STATE UNIVERSITY

BOONE, 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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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Appalachian 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.

Beth A. Wood

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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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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Appalachian 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 financial statements of Appalachian State University Foundation, Inc., which represent 14.96 percent and 5.45 percent, respectively, of the assets and revenues of the University; nor the financial statements of Appalachian Student Housing Corporation, the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Appalachian 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 a Matter

As discussed in Note 21 to the financial statements, during the year ended June 30, 2020, Appalachian State University Foundation, Inc. was blended with the financial statements of the University. Previously, Appalachian State University Foundation, Inc. was presented as a discretely presented component unit. 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 10, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Appalachian State University (University) presents the following management discussion and analysis as a comparative overview of significant changes that have occurred during the fiscal year ended June 30, 2020. The discussion and analysis, prepared by management, is to be read in combination with the financial statements and notes to the financial statements.

Beginning in fiscal year 2020, the financial information for Appalachian State University Foundation, Inc. (Foundation) will be blended with the University for reporting purposes. To be blended means that financial information will be presented as if the Foundation was a part of the University's operations. As a result, balances from the Foundation's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are included in the comparative statements for the purposes of management's discussion and analysis. Fiscal year 2019 balances totaling $145.3 million have been restated to incorporate these changes. Updates to the Foundation's bylaws changed the nature of the University's relationship with the Foundation, resulting in a reporting change under the applicable accounting standards. In prior years, the Foundation was not included in management's discussion and analysis and financial information was presented alongside the University's financial statements. More information about the blending and restatement of the Foundation's financial information can be found in Notes 1A, 19, and 21 to the University's financial statements.

The statements and accompanying notes that follow the discussion and analysis are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for financial reporting for public colleges and universities. The statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to understanding the financial statements.

Although not included in management's discussion and analysis, information for Appalachian Student Housing Corporation (Corporation) is presented alongside the University's financial statements as a discretely presented component unit. This information includes a Statement of Financial Position and a Statement of Activities. More information describing the relationship between the University and the Corporation can be found in Note 1A to the University's financial statements.

Financial Highlights

In March of 2020, the University implemented operational changes in response to the global coronavirus pandemic. These operational changes had a significant impact on financial results for the fiscal year. Students did not return to campus after spring break and the University transitioned from in-person instruction to online instruction for the remainder of the spring semester and two summer terms.

In addition to operational changes, assistance provided to the University from the Federal Government and the State affected the University's financial results. In March of 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. This legislation provided funding directly to the University for student emergency grants and institutional funds to help offset expenses or losses due to the disruption of operations. Additional CARES Act funds were made available through the State of North Carolina to help universities fund the transition to online learning.

The impact of changes to operations and online instruction, in addition to government support provided in response to the pandemic, will be discussed in the analysis below. Additional information regarding the coronavirus pandemic emergency can be found in Note 18 to the financial statements.

For the year ended June 30, 2020, net position increased by $20.5 million over the prior fiscal year restated balances. The increase is primarily attributable to a $4.1 million increase in net investment in capital assets and a $13.2 million increase in unrestricted fund balance from increases in unrestricted cash and cumulative changes to the University's pension and other post-employment benefits (OPEB) plans. Also adding to the increase in net position is a $4.0 million increase in restricted expendable fund balances in Foundation funds designated for specific programs.

Total revenues experienced a decrease of 4.0% totaling $19.1 million when compared to the prior year. The disruption of operations related to the pandemic directly affected University sales and services in the form of prorated housing and dining refunds provided to students. Additional decreases resulted from loss of revenues in the University bookstore, New River Light & Power, and conferences and camps. Sales and services revenues decreased by $13.5 million in total. The University also experienced a decrease of $10.8 million in capital revenues related to the completion of the College of Health Sciences. The University is not expected to receive additional funding since most of the State bond funds for this facility were expended for construction costs in prior years.

The University's total operating expenses increased slightly by $6.5 million representing a 1.6% change. This increase was primarily driven by increases in salaries and benefits, totaling $17.3 million, and a $7.5 million increase in scholarships and fellowships, primarily provided to students in the form of student emergency grants funded by the CARES Act. These increases were offset by $16.5 million of decreases in supplies and purchased services.

Adoption of New Accounting Standards

The University implemented two GASB pronouncements for the fiscal year ended June 30, 2020. GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period,* changes how the University records interest costs while assets are under construction. Under the new standard these costs are to be expensed in the year that they are incurred and are no longer included in the cost of a capital asset. The University was not required to restate prior year balances.

Due to the COVID-19 pandemic, the GASB released Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* delaying the implementation of certain standards and guidance that was due to become effective this fiscal year. Additional information regarding changes in financial accounting and reporting can be found in Note 20.

Statement of Net Position

The Condensed Statement of Net Position represents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period(s) (Deferred Outflows of Resources);
- What the University owes or has received before services have been provided (Liabilities);

- The acquisition of net position related to a future reporting period(s) (Deferred Inflows of Resources); and
- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is similar to a balance sheet and presents the University's financial position at a single point in time. Restated prior year balances have been included for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year 2020	Fiscal Year 2019 (as Restated)	$ Change	% Change
Assets				
Current Assets	$ 179,419,525	$ 167,068,147	$ 12,351,378	7.4
Capital Assets, Net	675,554,759	656,008,341	19,546,418	3.0
Other Noncurrent Assets	210,373,991	239,475,965	(29,101,974)	(12.2)
Total Assets	1,065,348,275	1,062,552,455	2,795,820	0.3
Total Deferred Outflows of Resources	94,737,597	76,978,137	17,759,460	23.1
Liabilities				
Current Liabilities	54,233,553	48,731,327	5,502,226	11.3
Long-Term Liabilities, Net	701,659,120	668,460,741	33,198,379	5.0
Other Noncurrent Liabilities	5,306,767	6,325,429	(1,018,662)	(16.1)
Total Liabilities	761,199,440	723,517,497	37,681,943	5.2
Total Deferred Inflows of Resources	144,317,434	181,942,334	(37,624,900)	(20.7)
Net Position				
Net Investment in Capital Assets	430,238,157	426,093,053	4,145,104	1.0
Restricted - Nonexpendable	89,519,281	90,355,425	(836,144)	(0.9)
Restricted - Expendable	91,026,978	87,050,315	3,976,663	4.6
Unrestricted	(356,215,418)	(369,428,034)	13,212,616	(3.6)
Total Net Position	$ 254,568,998	$ 234,070,759	$ 20,498,239	8.8

Total Assets

Assets represent financial resources, which increase the University's net position, that contribute to the University's ability to meet obligations and make payments as they become due. Total assets remained relatively unchanged when compared to last fiscal year. While current assets increased by $12.4 million and capital assets increased by $19.5 million, other noncurrent assets decreased by $29.1 million.

Increases in current assets are primarily related to an $8.8 million increase in unrestricted cash and cash equivalents and a $6.4 million increase in restricted cash and cash equivalents. Unrestricted cash increases resulted from reduced expenses in general institutional expenses and academic affairs. In response to disrupted operations due to the coronavirus pandemic, the University issued guidance to limit expenditures to critical needs related to continuing limited operations and health and safety. These savings, in addition to pandemic related support from the State and Federal Governments, will help the University return to regular operations during fiscal year 2021. Increases in restricted cash and cash equivalents is primarily related to an increase in current payables related to capital projects that will become due within the next year.

Capital asset balances increased by 3.0% during the current fiscal year by an amount of $19.5 million. These increases are primarily related to increases in construction in progress for the construction of the North End Zone facility at the University's stadium and for the renovation of the Sanford Hall academic building. A more detailed discussion regarding these projects is provided in the Capital Assets and Debt Administration Section.

The $29.1 million decrease in other noncurrent assets is mostly related to reduced restricted cash balances in capital improvement funds, which consist primarily of bond proceeds. During the fiscal year, $25.5 million was spent on the Stadium End Zone project, $8.1 million on the renovation of Sanford Hall, and $2.1 million was spent on the steam utility system that serves the End Zone and Housing public-private partnership project. An additional $4.6 million was spent from prior year repair and renovation funds for projects across campus. These decreases were offset by increases in cash related to a $6.3 million contribution from the Corporation for HVAC upgrades and $2.4 million in bond proceeds borrowed to replace the football stadium turf field.

Deferred Outflows of Resources

Deferred outflows of resources relate to the consumption of net position by the University applicable to a future reporting period. While deferred outflows of resources do have a positive effect on net position, they are not presently available to satisfy the University's obligations.

The $17.8 million increase in deferred outflows is primarily related to changes associated with the University's participation in the State's Retiree Health Benefit Fund (RHBF). Total changes were primarily related to the RHBF and the $25.1 million increase resulted mostly from actuarial changes in assumptions regarding plan participants and a change in the proportion and/or contributions to the plan during the measurement period. Total increases were offset by a $6.1 million decrease in deferred outflows related to the University's participation in the Teachers' and State Employees' Retirement System (TSERS). Changes to deferred outflows are summarized in table 1.0 below.

Table 1.0

Description of Changes for Deferred Outflows of Resources	Teachers' and State Employees' Retirement System	Retiree Health Benefit Fund	Disability Income Plan for North Carolina	Deferred Loss on Refunding
Increase in Employer Contributions	$ 1,144,709	$ 702,485	$ (70,502)	$ -
Difference Between Expected and Actual Experience for Plan Participants	1,279,498	-	(80,753)	-
Actuarial Changes in Assumptions Regarding Plan Participants	(5,102,577)	15,801,826	(8,654)	-
Change in Proportion/Contributions During Measurement Period	1,207,224	8,417,449	(1,499)	-
Difference Between Projected and Actual Investment Earnings	(4,618,230)	188,062	(159,091)	-
Changes to Deferred Loss on Refunding Debt	-	-	-	(940,487)
	$ (6,089,376)	$ 25,109,822	$ (320,499)	$ (940,487)

Total Liabilities

Liabilities are obligations of financial resources (assets) that the University has no ability to avoid satisfying when they become due. Liabilities have a negative effect on net position.

Changes to balances in current liabilities and long-term liabilities account for a $5.5 million increase and a $33.2 million increase, respectively. The change in current liabilities is mostly related to a $4.9 million increase in unearned revenues. Of this amount, $3.8 million is related to the receipt of federal aid funds received in advance of meeting all eligibility requirements necessary to recognize revenue from the CARES Act. Under the CARES Act, the University received grant awards totaling $15.9 million. Part A of the program requires that 50% of the award be spent on student emergency grants. Part B of the award represents an institutional allocation that can be used to cover expenses caused by the disruption of operations or to reimburse the University for refunds made to students for prorated amounts of housing charges and unspent meal plans for the spring term. Under Part B the University was eligible to draw down the entire $8.0 million institutional award to apply towards housing and dining operations for refunds, which totaled $9.2 million. As of June 30, 2020, $4.2 million in student awards had been made. As a result, and in line with the 50% limitation on use of funds for student emergency awards, the University was only able to recognize $4.2 million as federal aid revenue earned. Additional information regarding the CARES Act and program requirements can be found in Note 18 to the financial statements.

Long-term liabilities (net) increased by $33.2 million over the prior fiscal year. This increase was largely due to changes in the net pension liability related to the University's participation in the TSERS retirement program totaling $7.3 million and the University's share of the RHBF, which represented a 14.5% change totaling $41.7 million. The State funds a significant portion of the TSERS program, and as a result the net pension liability is not as high. On the other hand, the RHBF is established as a "pay-as-you-go" program meaning each year the General Assembly approves funding rates for plan participants to cover costs. Under this program the State holds significantly less assets.

Deferred Inflows of Resources

Deferred inflows of resources represent inflows of resources that have already occurred and are applicable to future periods. Like a liability, they have a negative effect on net position, but do not represent obligations of the University's financial resources.

The $37.6 million reduction in deferred inflows of resources is primarily related to changes associated with the University's participation in the RHBF. Most of the reductions resulted from changes in assumptions regarding plan participants calculated by actuaries totaling $25.5 million. A summary of changes related to the University's deferred inflows is presented below.

Table 1.1

Description of Changes for Deferred Inflows of Resources	Teachers' and State Employees' Retirement System	Retiree Health Benefit Fund	Disability Income Plan for North Carolina	Irrevocable Split-Interest Agreements	Trusts Held by Others
Difference Between Expected and Actual Experience for Plan Participants	$ (487,488)	$ (3,053,775)	$ -	$ -	$ -
Actuarial Changes in Assumptions Regarding Plan Participants	-	(25,502,327)	47,524	-	-
Change in Proportion/Contributions During Measurement Period	-	(8,154,645)	23,498	-	-
Change in Trusts Held by Others	-	-	-	-	(398,165)
Changes to Irrevocable Split-Interest Agreements	-	-	-	(99,522)	-
	$ (487,488)	$ (36,710,747)	$ 71,022	$ (99,522)	$ (398,165)

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position.

Net investment in capital assets represents the University's investment in assets such as land, construction in progress, buildings, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets. Net investment in capital assets increased slightly by $4.1 million due to the construction activity discussed in the Capital Assets and Debt Administration section below, offset by depreciation/amortization of capital assets and principal payments on all capital-associated University debt.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal balance. Balances in restricted nonexpendable funds did not change significantly during fiscal year 2020.

Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs (either by legislation or other third-party restrictions), unexpended capital project funds, and grants from third-party agencies with expenditure restrictions. A $4.0 million increase in net position was recognized in Foundation funds restricted for specific programs.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University. Changes in the deferred outflows of resources, liabilities, and deferred inflows of resources for the University's proportionate share in the State's pension and OPEB plans accounted for approximately half of the changes in fiscal year 2020, totaling $6.8 million. The remaining increase is mostly related to an increase in unrestricted cash. This increase is related to spending restrictions initiated by the University in response to the coronavirus pandemic. These cash balances will enable the University to make the necessary investments in health and safety measures and transition to online instruction if required. These initiatives have also received federal and state support.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's revenues and expenses incurred throughout the fiscal year. The change in net position from year-to-year is an indicator of the financial condition of the institution.

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

	Fiscal Year 2020	Fiscal Year 2019 (as Restated)	$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	$ 129,025,927	$ 129,095,977	$ (70,050)	(0.1)
Grants and Contracts	9,123,382	9,039,690	83,692	0.9
Sales and Services, Net	79,547,660	93,019,699	(13,472,039)	(14.5)
Other Operating Revenues	1,581,291	1,257,010	324,281	25.8
Total Operating Revenues	219,278,260	232,412,376	(13,134,116)	(5.7)
Operating Expenses				
Salaries and Benefits	273,096,795	255,757,143	17,339,652	6.8
Supplies and Services	90,777,272	107,296,365	(16,519,093)	(15.4)
Scholarships and Fellowships	31,734,505	24,269,787	7,464,718	30.8
Utilities	8,841,734	11,003,836	(2,162,102)	(19.6)
Depreciation/Amortization	21,820,811	21,429,798	391,013	1.8
Total Operating Expenses	426,271,117	419,756,929	6,514,188	1.6
Operating Loss	(206,992,857)	(187,344,553)	(19,648,304)	10.5
Nonoperating Revenues (Expenses)				
State Appropriations	150,155,122	149,227,756	927,366	0.6
State Aid - Coronavirus Relief Fund	908,568	-	908,568	
Student Financial Aid	39,875,016	39,061,317	813,699	2.1
Federal Aid - COVID-19	8,395,223	-	8,395,223	
Noncapital Contributions, Net	20,529,958	20,827,680	(297,722)	(1.4)
Investment Income, Net	4,865,744	11,440,751	(6,575,007)	(57.5)
Interest and Fees on Debt	(10,322,541)	(9,732,508)	(590,033)	6.1
Other Nonoperating Revenues (Expenses)	43,473	(1,614,246)	1,657,719	102.7
Net Nonoperating Revenues	214,450,563	209,210,750	5,239,813	2.5
Income Before Other Revenues	7,457,706	21,866,197	(14,408,491)	(65.9)
Capital Appropriations	-	5,188,446	(5,188,446)	(100.0)
Capital Contributions	8,781,743	14,422,264	(5,640,521)	(39.1)
Additions to Endowments	4,258,790	3,621,844	636,946	17.6
Total Other Revenues	13,040,533	23,232,554	(10,192,021)	(43.9)
Increase in Net Position	20,498,239	45,098,751	(24,600,512)	(54.5)
Net Position				
Net Position at Beginning of Year (as Restated)	234,070,759	188,972,008	45,098,751	23.9
Net Position at End of Year	$ 254,568,998	$ 234,070,759	$ 20,498,239	8.8
Reconciliation of Increase in Net Position				
Total Revenues	$ 457,091,897	$ 476,202,434	$ (19,110,537)	(4.0)
Less: Total Expenses	436,593,658	431,103,683	5,489,975	1.3
Increase in Net Position	$ 20,498,239	$ 45,098,751	$ (24,600,512)	(54.5)

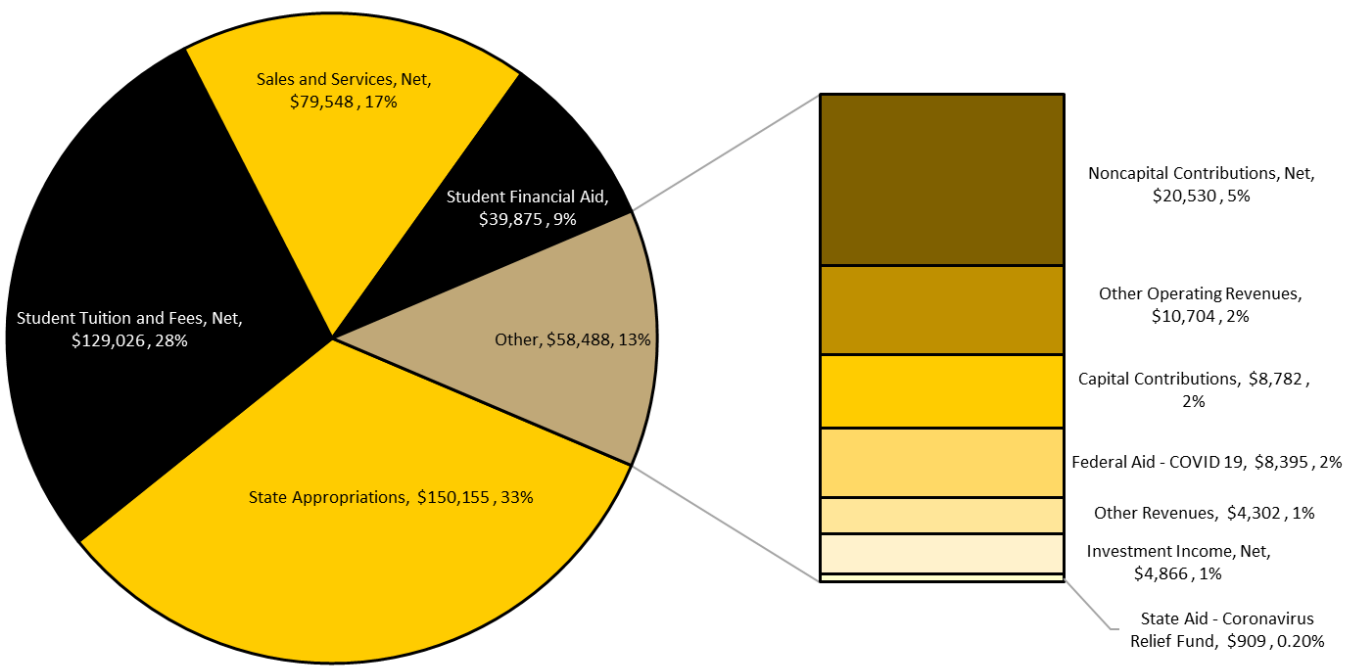
Total Revenues

Revenues decreased during fiscal year 2020 by 4.0% representing an $19.1 million decline from the previous year. The most significant change was in sales and services resulting in a $13.5 million decrease related to the disruption of operations starting in March of 2020. During this time much of campus was closed, including operations that produce sales and services revenues. Housing and residence life revenues decreased by $4.3 million due to refunds made to students. Other auxiliary operations that experienced significant loss of revenues because of suspended operations include $3.7 million for dining services, $1.9 million for sales and services of education and related activities, $1.6 million for New River Light & Power, and $0.9 million for the University bookstore. These were partially offset by state and federal aid provided as relief for the pandemic totaling $9.3 million.

Other significant decreases in total revenues were related to a $6.6 million decrease in investment income due to the impact of COVID-19 on the economy and decreases in capital appropriations and capital contributions totaling $10.8 million. The decreases in capital revenues are the result of the State not allocating any repair and renovation funding during 2020 and less capital grants received from the State for the College of Health Sciences that was completed in fiscal year 2019.

As a state-supported institution in the University of North Carolina System, the University receives most of its revenues from state appropriations, which totaled $150.2 million in fiscal year 2020. The next highest revenue category is from student tuition and fees totaling $129.0 million, followed by sales and services totaling $79.5 million. The chart below provides additional information regarding the University's revenue sources.

Chart 1.0: Total Revenues $457,092 ***(dollars in thousands)***



Total Expenses

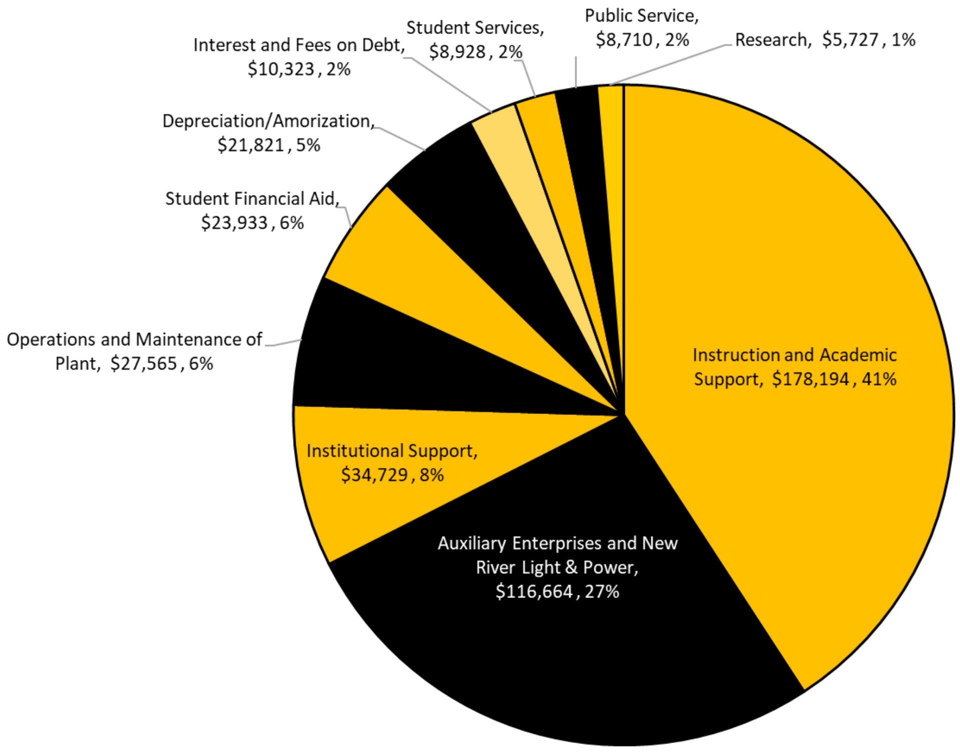
Total expenses increased by $5.5 million. Changes in salaries and benefits expenses accounted for most of the increase in expenses during the year totaling $17.3 million. Of this amount $13.5 million is related to changes in pension related expenses. Changes in the net pension liability for the TSERS retirement program resulted in a $26.6 million pension expense and represents an $11.2 million increase over the prior year.

Scholarship and fellowship expenses also increased during the fiscal year. Overall, expenses increased $7.5 million. This is primarily related to student emergency awards funded by the CARES Act to compensate students for expenses incurred due to the disruption of University operations and the transition to online instruction for the remainder of the spring term. By June 30, 2020, $4.2 million in emergency awards had been disbursed directly to students.

Increases in expenses were offset by decreases in supplies and services and utilities. As the University reduced operations and implemented spending restrictions, expenses related to the purchase of supplies and equipment and the amount of purchased services, such as travel and contract services, decreased by a total of $16.5 million. Lastly, utility expenses decreased by $2.2 million as buildings were closed and employees began to teach and work from home.

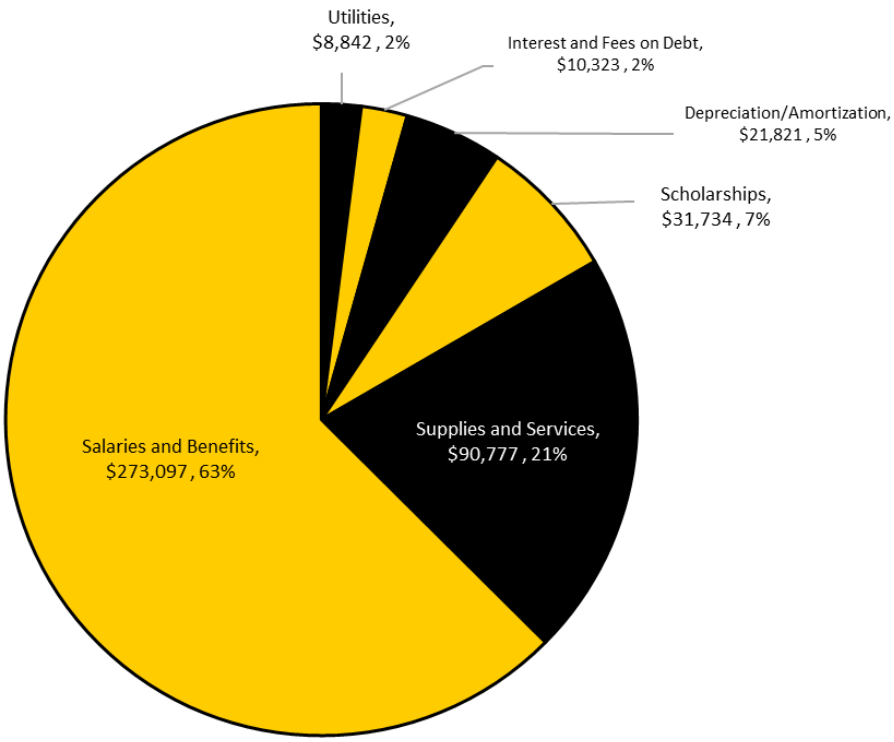
Chart 2.0 below shows the amount and percent of expenses by function for fiscal year 2020. Instruction and academic support represent 40.8% of expenses. The next largest expense category includes auxiliary services and New River Light & Power at 26.7%. Functions in these categories primarily provide services to students, faculty and staff, and the surrounding community. Auxiliaries primarily include housing and residence life, dining services, student union, student recreational facilities, athletics, and the bookstore.

Chart 2.0: Total Expenses by Function $436,594 ***(dollars in thousands)***



When expenses are viewed by natural classification, salaries and benefits make up 62.5% of total expenses (Chart 2.1). This demonstrates how important the University's human resources are to fulfilling the mission of the institution.

Chart 2.1: Total Expenses by Natrual Classification $436,594 ***(dollars in thousands)***



Capital Assets and Debt Administration

In fiscal year 2020, $11.7 million was moved from construction in progress to capital assets. Significant capitalized costs include $4.3 million for the Steam Plant, $2.9 million for the Garwood Hall interior renovation, and $1.7 million in expenses for Levine Hall. These decreases were offset by $39.9 million in costs added for projects currently under construction. Depreciation and amortization expense recorded for the current year was $21.8 million.

Major capital projects currently underway or recently completed include:

- Kidd Brewer Stadium, North End Zone facility - Construction is well underway on this 98,000 square foot mixed use facility. It will house various athletics programs and offices, dining services, catering, and conference event space in addition to 1,000 premium seats. The facility is estimated to cost $50.0 million and is funded by proceeds from the sale of Series 2018 Millennial Campus Revenue bonds and private donations. The debt will be serviced by facility use charges to athletics, dining, campus services, or other third parties.
- Sanford Hall - Construction on this project began in the summer of 2019 and is expected to be completed by December of 2020. It will be a complete renovation of a 73,000 square foot academic building that houses multiple academic departments. Project costs are budgeted at $18.0 million and are financed by Series 2019 General Revenue Bond with debt service to be paid from student fees.

- Track, Tennis, and Softball Relocation - This project, budgeted for $7.0 million, will relocate the University's track from the current location at Kidd Brewer Stadium to the property acquired from Watauga County in fiscal year 2018. In the future, softball and competition tennis facilities will also be relocated to this area. Planned tennis facilities include six indoor and six outdoor courts. The new softball facility will include seating for 100 to 150 spectators.
- Appalachian Heights HVAC Upgrade and Dehumidification - The goals of this project are to repair and replace any failing equipment, piping, or controls in Appalachian Heights Residence Hall and to redesign the building's HVAC system to control building humidity. The project budget is $6.4 million and is funded by a contribution from the Corporation.
- Child Development Center Expansion - This project is in the design/bid phase. The project is planned to add a 3,000 square foot addition to the current facility. This will allow the University to expand childcare services to an additional 40 to 50 children. The center currently serves the children of faculty, staff, and students. The project budget is $2.3 million.
- Housing and Parking project - Construction by a private sector firm is underway to replace six residence halls on the west side of campus and the construction of a parking deck with 475 spaces. The parking deck was completed in fiscal year 2020 and the University has a 10-year lease with an option to renew. The housing plan will create a student residential community replacing 1,800 beds and adding between 200 and 400 new beds. The project is financed by a private partner for Phases I and II of the project who will receive housing receipts from students through the University to recover their investment, service the debt, and provide maintenance to the buildings. In exchange, the University will receive the use of housing facilities and any net revenues from the private entity. Phase III of the project will be financed through the Appalachian Student Housing Corporation and will result in the construction of a 683-bed residence hall and the addition of 300 surface parking spaces scheduled to be delivered for use and occupancy in the fall of 2022. The University will lease the facility from the Corporation. The University will provide residence life programing and some maintenance responsibilities. This partnership is being treated as a service concession arrangement under GASB accounting standards. As a result, the University will recognize an asset along with associated liabilities and deferred inflows when the housing facilities are placed into service. The first residence halls are scheduled to be certified for occupancy for the beginning of the 2020-2021 academic year.

During fiscal year 2020, the University issued a general revenue bond and a millennial campus revenue bond to refund existing debt and to provide capital for new construction. The first issuance of debt was completed in February of 2020 to refund UNC System Pool Revenue Bonds, Series 2010 B1. The University issued $2.26 million in General Revenue Refunding Bonds, Series 2020, at an interest rate of 1.56%. Over the life of the bonds the University expects to save $138 thousand in interest cost representing an economic gain of $134 thousand. These bonds are presented separately as bonds from direct placements in Note 9 of the financial statements because they were sold directly to an investor and not made available for public sale.

Also, in February of 2020, the University issued $2.55 million of Millennial Campus Revenue Bonds, Series 2020, at an interest rate of 1.68% payable over 10 years for the construction and replacement of artificial turf for the football field. These bonds are presented separately as bonds from direct placements in Note 9 to the financial statements because they were sold directly to an investor and not made available for public sale.

Economic Outlook

Looking forward to fiscal year 2021, uncertainty will be a key theme because of the continued coronavirus pandemic. Generally, the expectation is that the ongoing pandemic will dramatically affect the State budget next year. The North Carolina Office of State Budget and Management (OSBM) anticipates a $2.6 billion decline for 2021. However, OSBM anticipates being able to adopt a $24.7 billion budget and remains optimistic that through additional federal stimulus support, funds from the State's savings reserve, and carry forward of the 2019-2020 cash balance, that revenues can support this level of spending.

In response to these uncertainties the University of North Carolina System, at the direction of OSBM, has already implemented strategies to manage state appropriations with the goal of mitigating a future budget shortfall. These strategies are listed as follows:

- Limiting the purchase of goods and services to mission critical purchases and expenses related to responding to the coronavirus such as implementing protective measures for students returning to campus.
- Limiting travel and training to activities related to public health and safety, economic development, and emergency situations.
- Limiting the filling of open or vacant positions to those that are directly related to the mission of the institution.
- Prohibiting most position reclassifications or salary adjustments. Additionally, the University is preparing for up to a 10% budget reduction.

As a last resort, the University has been given the authority to implement temporary employee furloughs for auxiliary operations. Other furloughs will be managed in coordination with the UNC System Office.

At present, the University has prepared for the return of students by evaluating classroom space to insure proper social distancing, providing masks for all faculty, staff, and students, and implementing other protective measures like hand sanitizing stations and additional cleaning schedules for high traffic public areas. The University has also been awarded $3.6 million from the State's coronavirus relief funds. By June 30, 2020, the University had drawn and spent $900 thousand for COVID related expenses and the remaining amount will be available to cover expenses in fiscal year 2021. Expenses related to coronavirus relief measures and purchases made to transition to online instruction have been meticulously tracked by the University, the System Office, and OSBM. Tracking these expenses will allow the University to apply for Federal FEMA reimbursements and other funds that may be appropriated in the future.

The fiscal year 2021 projected general fund budget is outlined in the chart below:

2020-21 General Fund Projected Budget

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget	$ 149,908,008	$ 116,454,439	$ 266,362,447
Additions			
FY21 Employee Benefit Adjustments	902,186	-	902,186
UNC Enrollment Growth Allocation	2,935,902	2,239,490	5,175,392
Tuition Receipts Increase	-	1,700,000	1,700,000
Nonresident Veteran Tuition Waivers	605,000	(605,000)	-
Lab School Funding	150,000	3,083,887	3,233,887
UNC Teacher Recruitment Funding	67,386	-	67,386
UNC Campus Scholarship Funding	77,760	-	77,760
Other Appropriations/Receipts	310,168	1,000,000	1,310,168
Total Additions	5,048,402	7,418,377	12,466,779
CARES Act Funding			
State COVID-19 Relief Funds	-	4,533,298	4,533,298
UNC Digital Learning Enhancement Award	-	252,920	252,920
State COVID-19 Relief Offset	(1,268,648)	1,268,648	-
Total CARES Act Funding	(1,268,648)	6,054,866	4,786,218
Total Additions & CARES Act Funding	3,779,754	13,473,243	17,252,997
Total Projected Budget	$ 153,687,762	$ 129,927,682	$ 283,615,444

Not all news has been negative going into the fall semester. After experiencing several years of slow and steady growth the University has implemented strategies to host the largest student body on campus in the institution's history. Enrollment projections for the fall semester exceed 20,000 students.

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position — *Exhibit A-1*
June 30, 2020

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	107,278,998
Restricted Cash and Cash Equivalents		42,098,787
Receivables, Net (Note 5)		14,648,257
Inventories		12,723,282
Notes Receivable, Net (Note 5)		663,064
Other Assets		2,007,137
Total Current Assets		179,419,525
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		57,038,370
Receivables, Net (Note 5)		16,221,693
Endowment Investments		112,364,640
Restricted Investments		12,992,934
Other Investments		7,578,349
Notes Receivable, Net (Note 5)		1,488,508
Beneficial Interest in Assets Held by Others		1,620,928
Net Other Postemployment Benefits Asset		463,215
Other Noncurrent Assets		605,354
Capital Assets - Nondepreciable (Note 6)		109,548,774
Capital Assets - Depreciable, Net (Note 6)		566,005,985
Total Noncurrent Assets		885,928,750
Total Assets		1,065,348,275
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		10,182,487
Deferred Outflows Related to Pensions		30,948,975
Deferred Outflows Related to Other Postemployment Benefits (Note 15)		53,606,135
Total Deferred Outflows of Resources		94,737,597
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 8)		17,404,189
Funds Held for Others		448,573
Unearned Revenue		14,267,227
U.S. Government Grants Refundable		7,067
Interest Payable		2,458,215
Long-Term Liabilities - Current Portion (Note 9)		19,648,282
Total Current Liabilities		54,233,553

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	127,503
Deposits Payable	243,260
Funds Held for Others	2,146,535
U.S. Government Grants Refundable	2,789,469
Long-Term Liabilities, Net (Note 9)	701,659,120
Total Noncurrent Liabilities	706,965,887
Total Liabilities	761,199,440
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows for Irrevocable Split-Interest Agreements	1,175,030
Deferred Inflows Related to Pensions	139,795
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	139,954,948
Deferred Inflows for Trusts Held by Others	3,047,661
Total Deferred Inflows of Resources	144,317,434
NET POSITION	
Net Investment in Capital Assets	430,238,157
Restricted:	
Nonexpendable	
True Endowments	89,199,155
Student Loans and Other	320,126
Expendable	
Scholarships, Research, Instruction, and Other	78,549,677
Capital Projects	12,477,301
Unrestricted	(356,215,418)
Total Net Position	$ 254,568,998

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

Appalachian State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020 — *Exhibit A-2*

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 12)	$ 129,025,927
Federal Grants and Contracts	5,811,535
State and Local Grants and Contracts	2,786,370
Nongovernmental Grants and Contracts	525,477
Sales and Services, Net (Note 12)	79,547,660
Interest Earnings on Loans	63,317
Other Operating Revenues	1,517,974
Total Operating Revenues	219,278,260
OPERATING EXPENSES	
Salaries and Benefits	273,096,795
Supplies and Services	90,777,272
Scholarships and Fellowships	31,734,505
Utilities	8,841,734
Depreciation/Amortization	21,820,811
Total Operating Expenses	426,271,117
Operating Loss	(206,992,857)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	150,155,122
State Aid - Coronavirus Relief Fund	908,568
Student Financial Aid	39,875,016
Federal Aid - COVID-19	8,395,223
Noncapital Contributions, Net (Note 12)	20,529,958
Investment Income (Net of Investment Expense of $527,960)	4,865,744
Interest and Fees on Debt	(10,322,541)
Other Nonoperating Revenues	43,473
Net Nonoperating Revenues	214,450,563
Income Before Other Revenues	7,457,706
Capital Contributions	8,781,743
Additions to Endowments	4,258,790
Total Other Revenues	13,040,533
Increase in Net Position	20,498,239
NET POSITION	
Net Position - July 1, 2019, as Restated (Note 21)	234,070,759
Net Position - June 30, 2020	$ 254,568,998

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 216,916,704
Payments to Employees and Fringe Benefits	(279,129,682)
Payments to Vendors and Suppliers	(100,493,231)
Payments for Scholarships and Fellowships	(31,734,505)
Loans Issued	(58,254)
Collection of Loans	550,148
Interest Earned on Loans	75,887
Student Deposits Received	5,057,814
Student Deposits Returned	(5,075,105)
Other Receipts	92,524
Net Cash Used by Operating Activities	(193,797,700)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	150,155,122
State Aid - Coronavirus Relief Fund	908,568
Student Financial Aid	39,875,016
Federal Aid - COVID-19	12,161,578
Noncapital Contributions	22,612,505
Additions to Endowments	3,831,757
William D. Ford Direct Lending Receipts	80,016,084
William D. Ford Direct Lending Disbursements	(79,500,112)
Related Activity Agency Receipts	61,449
Related Activity Agency Disbursements	(116,594)
Receipts for Annuities and Life Income Payable Under Split-Interest Agreements	130,658
Net Cash Provided by Noncapital Financing Activities	230,136,031
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	2,601,882
Capital Contributions	7,813,853
Proceeds from Sale of Capital Assets	531,307
Acquisition and Construction of Capital Assets	(40,254,889)
Principal Paid on Capital Debt	(13,731,679)
Interest and Fees Paid on Capital Debt	(10,693,913)
Net Cash Used by Capital Financing and Related Financing Activities	(53,733,439)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	6,765,132
Investment Income	5,223,368
Purchase of Investments and Related Fees	(5,249,534)
Net Cash Provided by Investing Activities	6,738,966
Net Decrease in Cash and Cash Equivalents	(10,656,142)
Cash and Cash Equivalents - July 1, 2019, as Restated	217,072,297
Cash and Cash Equivalents - June 30, 2020	$ 206,416,155

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(206,992,857)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		21,820,811
Allowances, Write-Offs, and Amortizations		101,710
Other Nonoperating Expenses		(837,127)
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(322,419)
Inventories		59,770
Notes Receivable, Net		491,894
Other Current Assets		92,390
Other Noncurrent Assets		(482,215)
Net Other Postemployment Benefits Asset		(145,649)
Deferred Outflows Related to Pensions		6,089,376
Deferred Outflows Related to Other Postemployment Benefits		(24,789,323)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(2,760,728)
Unearned Revenue		1,106,429
Net Pension Liability		7,324,427
Net Other Postemployment Benefits Liability		41,744,379
Compensated Absences		1,987,362
Deposits Payable		(11,767)
Funds Held for Others		(18,908)
Workers' Compensation Liability		(1,128,042)
Deferred Inflows Related to Pensions		(487,488)
Deferred Inflows Related to Other Postemployment Benefits		(36,639,725)
Net Cash Used by Operating Activities	$	(193,797,700)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	8,864,836
Assets Acquired through a Gift		351,610
Change in Fair Value of Investments		285,854
Reinvested Distributions		(592,216)
Loss on Disposal of Capital Assets		(120,314)
Amortization of Bond Premiums		(1,006,349)
Increase in Receivables Related to Nonoperating Income		2,072,317
Payments Made on Behalf of the University		(1,608,170)
Funds Escrowed to Defease Debt and Bond Issuance Costs Withheld		2,209,118
UNC Management Company Investment Management Fees		(173,319)

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

Appalachian Student Housing Corporation
Statement of Financial Position
June 30, 2020 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,514,307
Accounts Receivable, Net		3,280
Sales Tax Refund Receivable		58,505
Prepaid Expenses		106,836
Total Current Assets		3,682,928
Property and Equipment, Net		18,237,649
Total Assets	$	21,920,577
LIABILITIES		
Current Liabilities:		
Accrued Expenses	$	64,610
Tenant Security Deposits		172,204
Deferred Income		46,196
Total Liabilities		283,010
NET ASSETS		
Without Donor Restrictions		21,637,567
Total Net Assets		21,637,567
Total Liabilities and Net Assets	$	21,920,577

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

Appalachian Student Housing Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2020 — *Exhibit B-2*

REVENUES AND OTHER SUPPORT		
Net Rental Income	$	4,357,987
Other Operating Revenue		74,004
Total Revenues and Other Support		4,431,991
EXPENSES		
Contributions to Appalachian State University		6,455,348
Salaries and Benefits		364,611
Supplies and Services		2,043,771
Depreciation		594,367
Total Expenses		9,458,097
OTHER INCOME		
Interest Income		64,472
Total Other Income		64,472
Change in Net Assets		(4,961,634)
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of Year		26,599,201
End of Year	$	21,637,567

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. Appalachian 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, Appalachian State University Foundation, Inc. (Foundation), a component unit of the University, is reported as if it was part of the University.

The Foundation is governed by a 20-member board consisting of 7 ex officio directors and up to 13 elected public directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the University's Board of Trustees and the Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the Vice Chancellor for University Advancement, Dougherty Administration Building, 438 Academy Street, Boone, NC 28608, or by calling the Foundation Office at 828-262-2341.

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

Discretely Presented Component Unit - Appalachian Student Housing Corporation (Corporation) 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 Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. The Corporation's board consists of seven members, of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it 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 Corporation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2020, the Corporation distributed $6,455,348 to the University for capital improvements on Appalachian Heights residence hall. Complete financial statements for the Corporation can be obtained from the Vice Chancellor for Student Affairs at Dougherty Administration Building, 438 Academy Street, Boone, NC 28608, or by calling the Office of Student Affairs at 828-262-2060.

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

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

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

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

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

Money market investments that have a remining maturity at the time of purchase of one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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. Additionally, endowment investments include accumulated investment earnings on Foundation principal amounts. Further, endowment investments also include amounts internally designated by the Foundation for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

F. **Receivables** - Receivables consist of tuition and fees charged to students 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, 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 the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

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

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for computer software which is capitalized when the value or cost is $100,000 or greater and electric utility assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 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 and bonds from direct placements 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 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 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

N. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

O. **Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying

Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes $200,983,910, 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 $406,430. The carrying amount of the University's deposits not with the State Treasurer was $5,025,815, and the bank balance was $5,388,248. 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, $3,876,643 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

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 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.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the percentage method. Under this method, each participating fund's investment balance is determined on percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board and the Foundation's Board of Trustees.

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

Long-Term Investment Pool

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 129,870,443
Alternative Income Fund	65,794
Private Equity Limited Partnerships	403,682
Total Long-Term Investment Pool	$ 130,339,919

UNC Investment Fund, LLC - At June 30, 2020, the University's investments include $129,870,443, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	More than 5
Investment Type				
Debt Securities				
Money Market Mutual Funds	$ 150,920	$ 150,920	$ -	$ -
Fixed Income Funds	431,787	33,211	181,654	216,922
Total Debt Securities	582,707	$ 184,131	$ 181,654	$ 216,922
Other Securities				
Equity Mutual Funds	1,339,838			
Investments in Real Estate	526,100			
Strategic Investments	6,551			
Domestic Stocks	125,621			
Foreign Stocks (denominated in U.S. Dollars)	15,187			
Total Non-Pooled Investment Pool	$ 2,596,004			

At June 30, 2020, the University's non-pooled investments included $150,920 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm. Additionally, the University's non-pooled investments included $431,787 in fixed income funds with credit exposure for which Standard and Poor's credit quality distribution was between AA and BB or below, or unrated.

At June 30, 2020, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 125,621
Foreign Stocks (denominated in U.S. dollars)	15,187
Total	$ 140,808

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

	Amount
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 150,920
Fixed Income Funds	431,787
Other Securities	
UNC Investment Fund	129,870,443
Equity Mutual Funds	1,339,838
Alternative Income Fund	65,794
Investments in Real Estate	526,100
Private Equity Limited Partnerships	403,682
Strategic Investments	6,551
Domestic Stocks	125,621
Foreign Stocks (denominated in U.S. Dollars)	15,187
Total Investments	$ 132,935,923

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and certain other assets and liabilities are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments Measured at Fair Value				
Investments by Fair Value Level				
Debt Securities				
Money Market Mutual Funds	$ 150,920	$ 150,920	$ -	$ -
Fixed Income Funds	431,787	431,787	-	-
Total Debt Securities	582,707	582,707	-	-
Other Securities				
Equity Mutual Funds	1,339,838	1,339,838	-	-
Investments in Real Estate	526,100	-	-	526,100
Domestic Stocks	125,621	125,621	-	-
Foreign Stocks (denominated in U.S. Dollars)	15,187	15,187	-	-
Total Investments by Fair Value Level	2,589,453	$ 2,063,353	$ -	$ 526,100
Investments Measured at the Net Asset Value (NAV)				
Strategic Investments	6,551			
Alternative Income Fund	65,794			
Private Equity Limited Partnerships	403,682			
Total Investments Measured at the NAV	476,027			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	200,983,910			
UNC Investment Fund	129,870,443			
Total Investments as a Position in an External Investment Pool	330,854,353			
Total Investments Measured at Fair Value	$ 333,919,833			
Other Assets or Liabilities Measured at Fair Value				
Beneficial Interest in Assets Held by Others	$ 1,620,928	$ -	$ -	$ 1,620,928
Pledge Receivables from Trusts	$ 1,426,734	$ -	$ -	$ 1,426,734
Split Interest Obligations	$ (1,808,379)	$ -	$ -	$ (1,808,379)

Investments Measured at Fair Value

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 Foundation holds interests in donated and acquired real estate with an estimated fair value of $526,100. These investments are classified in Level 3 of the fair value hierarchy. The amounts reported in the accompanying Statement of Net Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Strategic Investments[A]	$ 6,551	$ -	Quarterly	Investor withdrawal requests on hold as fund is winding down.	90-day notice
Alternative Income Fund[B]	65,794	-	Not Applicable	Investor withdrawal requests on hold as fund is winding down.	Not applicable
Private Equity Limited Partnerships[C]	403,682	532,800	Quarterly	Initial lock-up of 10 years	Written notice at least 45 days prior to redemption
Total Investments Measured at the NAV	$ 476,027				

A. **Strategic Investments** - Seeks capital appreciation while attempting to minimize downside risk by combining a portfolio of investment managers whose historical performance has had little correlation to the major market indices.

B. **Alternative Income Fund** - Feeder fund invests in master fund. Originally offered as a multi-asset investment with an emphasis on capital preservation, investable universe included equipment, real estate, loans, asset-backed securities, and intangible assets such as royalty and intellectual property payments and insurance opportunities. In April 2015, the investment manager decided to commence wind down of the portfolio and return capital to all investors.

C. **Private Equity Limited Partnerships** - Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

Other Assets and Liabilities Measured at Fair Value

Beneficial Interests in Assets Held by Other - Beneficial interests in assets held by others classified in Level 3 of the fair value hierarchy are valued based on the fair value of the assets held in trust.

Pledge Receivables from Trusts - Contributions receivable from trusts classified in Level 3 of the fair value hierarchy are valued using the present value techniques based on IRS mortality tables and the value of the underlying securities as reported by the third-party trustees.

Split-Interest Agreement Obligations - Split-interest obligations classified in Level 3 of the fair value hierarchy are valued using the present value techniques based on the IRS mortality tables and the value of the split interest gifts.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the of the previous year. An earnings reserve must be held in each endowment account in an account equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2020, net appreciation of $9,547,952 was available to be spent which was classified in net position as restricted expendable. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior three years through the fiscal year-end. In establishing this policy, the Foundation considered the long-term expected return on the endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The amounts of net appreciation on investments of donor restricted endowments that are available for authorization for expenditure by the Board of Directors was $62,408 at June 30, 2020. This amount is included in net position as restricted expendable in the accompanying Statement of Net Position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 4,952,659	$ 774,985	$ 4,177,674
Accounts	3,600,740	90,539	3,510,201
Intergovernmental	1,642,819	-	1,642,819
Pledges	5,835,936	575,455	5,260,481
Interest on Loans	39,723	-	39,723
Other	17,359	-	17,359
Total Current Receivables	$16,089,236	$ 1,440,979	$14,648,257
Noncurrent Receivables:			
Pledges	$16,852,074	$ 630,381	$16,221,693
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 662,239	$ -	$ 662,239
Institutional Student Loan Programs	979	154	825
Total Notes Receivable - Current	$ 663,218	$ 154	$ 663,064
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 1,633,079	$ 144,571	$ 1,488,508

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2019 (as Restated)	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land	$ 61,541,743	$ -	$ 206,361	$ 61,335,382
Art, Literature, and Artifacts	3,688,059	322,400	-	4,010,459
Construction in Progress	15,994,060	39,931,124	11,722,251	44,202,933
Total Capital Assets, Nondepreciable	81,223,862	40,253,524	11,928,612	109,548,774
Capital Assets, Depreciable:				
Buildings	746,481,809	6,318,250	610,296	752,189,763
Machinery and Equipment	58,903,404	2,036,711	2,463,664	58,476,451
General Infrastructure	81,928,587	5,669,250	303,877	87,293,960
Computer Software	918,617	100,522	-	1,019,139
Total Capital Assets, Depreciable	888,232,417	14,124,733	3,377,837	898,979,313
Less Accumulated Depreciation/Amortization for:				
Buildings	246,866,187	16,596,198	2,202	263,460,183
Machinery and Equipment	33,047,536	2,680,706	2,227,327	33,500,915
General Infrastructure	33,197,794	2,488,066	65,892	35,619,968
Computer Software	336,421	55,841	-	392,262
Total Accumulated Depreciation/Amortization	313,447,938	21,820,811	2,295,421	332,973,328
Total Capital Assets, Depreciable, Net	574,784,479	(7,696,078)	1,082,416	566,005,985
Capital Assets, Net	$ 656,008,341	$ 32,557,446	$ 13,011,028	$ 675,554,759

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR HOUSING FACILITIES

The University entered into a Service Concession Arrangement with Beyond Boone, LLC (Operator), the sole member of which is Beyond Owners Group, Inc., on February 13, 2019. The plan calls for the replacement and facility management for 1,485 beds of existing and 1,552 new beds of student housing. The University entered into this agreement to address the demand for updated on-campus housing, additional beds to meet on-campus housing demand, and to replace parking infrastructure that will be displaced by the construction of the residence halls.

The project will be developed in two phases over a three-and-a-half-year time period. Phase I of the project will result in the construction of a 590-bed residence hall, a 322-bed residence hall, and a 475-space parking deck to replace two existing residence halls with beds totaling 674 beds. Demolition of these facilities was completed in the fall of 2020. The new housing facilities are scheduled to be delivered for use and occupancy in fiscal year 2021.

The use and operation of the parking deck facility is governed by a separate facility lease agreement. Under the terms of this agreement the University entered into an operating lease for the facility from the operator for a 10-year term with an option to renew in 10-year increments. The University will operate the parking facility through its Parking and Transportation department. The facility lease will be accounted for separately from the service concession arrangement in accordance with GASB standards and rent payments will be included in the operating lease note to the financial statements.

Phase II will result in the construction of a 640-bed residence hall and 230 surface parking spaces. The facilities are scheduled to be delivered for use and occupancy in fiscal year 2021. Two existing residence halls with a total of 560 beds are scheduled for demolition in fiscal year 2021.

All housing revenues generated by the residence halls during the terms of the agreement are collected by the operator through the University acting in a fiduciary capacity.

The project, with an estimated cost of $89.1 million, is located on the campus of the University on land leased to the Operator for 50 years. Upon final payment of all indebtedness owed under the agreement, the Operator will transfer all of its interest in the facilities for no cost to the University. The University will report the housing components of the project as capital assets, liabilities, and related deferred inflows of resources beginning in fiscal year 2021 as assets are placed into service. Residence life programming will be managed by the University under the terms of the management agreement and operating agreement in conjunction with the ground lease and asset management agreement with the Operator.

NOTE 8 - 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	$ 4,599,259
Accounts Payable - Capital Assets	7,184,883
Accrued Payroll	3,846,889
Contract Retainage	1,679,953
Intergovernmental Payables	93,205
Total Current Accounts Payable and Accrued Liabilities	$ 17,404,189
Noncurrent Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 127,503

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2019 (as Restated)	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$255,860,000	$ -	$ 12,485,000	$ 243,375,000	$ 11,045,000
Bonds from Direct Placements	12,500,000	4,811,000	2,385,000	14,926,000	3,076,000
Plus: Unamortized Premium	16,189,753	-	1,006,349	15,183,404	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	284,549,753	4,811,000	15,876,349	273,484,404	14,121,000
Notes from Direct Borrowings	34,606,660	-	3,098,981	31,507,679	1,889,687
Total Long-Term Debt	319,156,413	4,811,000	18,975,330	304,992,083	16,010,687
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	15,199,204	12,283,538	10,296,175	17,186,567	3,452,832
Net Pension Liability	62,505,322	7,324,427	-	69,829,749	-
Net Other Postemployment Benefits Liability	287,017,119	41,744,379	-	328,761,498	-
Workers' Compensation	1,665,547	214,940	1,342,982	537,505	184,763
Total Other Long-Term Liabilities	366,387,192	61,567,284	11,639,157	416,315,319	3,637,595
Total Long-Term Liabilities, Net	$685,543,605	$ 66,378,284	$ 30,614,487	$ 721,307,402	$ 19,648,282

Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.
Additional information regarding workers' compensation is included in Note 16.

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	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020	See Table Below
Revenue Bonds Payable						
Millennial Campus						
Millennial Campus Revenue Bonds - End Zone Facility	2018	4.14%	05/01/2049	$ 39,865,000	$ 39,865,000	(1)
ASU General Revenue Bonds						
ASU General Revenue Bonds - Housing, Student Union, Steam Utility System	2011	4.07%	10/01/2021	60,435,000	3,930,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	18,350,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	18,895,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	8,940,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	17,500,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000	22,780,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	3,950,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000	25,645,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000	10,895,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics, Student Union, and Steam Utility System	2017A	2.82%	10/01/2036	56,390,000	56,390,000	
ASU General Revenue Bonds - Academic Building	2019	3.16%	10/01/2048	16,640,000	16,235,000	
Total ASU General Revenue Bonds				285,080,000	203,510,000	
Bonds from Direct Placements						
ASU Utility System Revenue Bonds - Utility System	2011	3.14%	12/20/2021	2,700,000	405,000	(2)
ASU Utility System Revenue Bonds - Utility System	2016	2.33%	05/05/2026	3,650,000	2,190,000	(2)
ASU General Revenue Refunding Bonds - Steam Utility System	2018A	2.99%	10/01/2023	9,270,000	7,520,000	
Millennial Campus Revenue Bonds - Athletic Turf Field	2020	1.68%	05/01/2030	2,552,000	2,552,000	
ASU General Revenue Refunding Bonds - Housing, Bookstore, Athletics	2020	1.56%	10/01/2025	2,259,000	2,259,000	
Total Bonds from Direct Placements				20,431,000	14,926,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$345,376,000	258,301,000	
Plus: Unamortized Premium					15,183,404	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					$ 273,484,404	

The University has pledged future revenues, net of specific operating expenses, to repay Millennial Campus Revenue Bonds (1) and Utility System Bonds from direct placement (2) as referenced in the table below.

The facility funded by the Millennial Campus Revenue bonds is currently under construction. Revenues will be earned once the facility is placed into service. Bond proceeds totaling $3,305,721 were deposited into a University fund to pay all debt service requirements during the construction period.

			For the Year Ended June 30, 2020			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	University Charges to Athletics and Auxiliary	$ 76,218,400	$ -	$ -	$ 1,755,250	100%
(2)	Electric Utilities	$ 2,811,098	$ 669,945	$ 635,000	$ 92,580	32%

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 Savings Project	Sun Trust Bank	2.27%	04/29/2022	$ 5,263,401	$ 1,064,332
Energy Savings Project	T. D. Bank	1.99%	07/01/2027	16,499,917	9,960,007
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Group	1.84%	02/14/2023	1,495,951	637,237
Old Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000	15,475,000
Renovation of Schaefer Center	First Citizens Bank	4.10%	01/15/2027	5,362,147	2,759,191
Video Boards	Truist (BB&T)	2.76%	09/01/2022	3,582,027	1,611,912
Total Notes from Direct Borrowings				$ 47,678,443	$ 31,507,679

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

	Annual Requirements					
	Revenue Bonds Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 11,045,000	$ 9,467,730	$ 3,076,000	$ 328,270	$ 1,889,688	$ 178,838
2022	10,790,000	8,951,654	3,007,000	247,335	3,114,348	325,345
2023	11,384,999	8,469,880	2,932,000	172,506	2,895,830	258,465
2024	12,005,000	7,934,730	2,997,000	98,655	2,597,062	212,591
2025	12,649,999	7,364,971	1,048,000	50,626	2,659,379	167,778
2026-2030	61,744,999	28,651,734	1,866,000	76,798	9,276,372	225,061
2031-2035	52,179,999	17,731,439	-	-	4,000,000	-
2036-2040	28,590,004	10,732,779	-	-	4,000,000	-
2041-2045	22,905,000	6,463,256	-	-	1,075,000	-
2046-2049	20,080,000	1,736,547	-	-	-	-
Total Requirements	$ 243,375,000	$ 107,504,720	$ 14,926,000	$ 974,190	$ 31,507,679	$ 1,368,078

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

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 - The University has outstanding General Revenue bonds totaling $203,510,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Millennial Campus Revenue bonds totaling $39,865,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina Master Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for Revenue Bonds, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Bonds from Direct Placements - The University has outstanding direct placements for Series 2011 Utility System Bonds totaling $405,000 and Series 2016 Utility System Bonds totaling $2,190,000. These bonds are subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011. An event of default occurs when there is a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

For the 2016 Utility System Bonds, the Second Series Indenture defines additional events of default as (1) any petition or action for relief under any bankruptcy, reorganization, insolvency, or other laws and such petition results in an entry of an order of relief or continues as pending for a period of 60 days, (2) one or more judgements, orders, decrees, or arbitration awards is entered against the University as a result of ownership, control, or operation of any portion of the project funded by the note as to any single or series of transactions, incidents, or conditions of $1,000,000 or more that remain unsatisfied pending appeal for 60 days after entry, (3) any representation or warranty made or deemed to be made by the University that proves to be untrue or incomplete in any material respect, and (4) any material provision of the General Indenture or Second Series Indenture ceases to be binding on the University, or is declared null and void, or the validity is contested by the University, or if any proceeding is undertaken by any governmental agency or authority with jurisdiction over the University seeks to invalidate the enforceability of the indentures, or if the University denies that it has further obligation under the Second Series Indenture or on the 2016 Bonds.

The University has outstanding direct placements for Series 2018A General Revenue Refunding Bonds totaling $7,520,000 and Series 2020 General Revenue Refunding Bonds totaling $2,259,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Series 2020 Millennial Campus Revenue Bonds totaling $2,552,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina Master Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for direct placements, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase I dated September 29, 2009 with an outstanding amount of $1,064,332. This agreement 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 within 10 days following the due date, (2) insurance coverage on the asset is not maintained, (3) the University fails to perform or abide by any condition, agreement or covenant for a period of thirty days of receiving written notice by the lender to the University specifying such failure and requesting that it be remedied, unless the University shall agree in writing to an extension of time prior to its expiration, (4) Lender's determination that any representation or made by warranty made by the University in the Agreement was untrue in any material respect upon execution of the Agreement or any Equipment Schedule, (5) the occurrence of an event of taxability, or (6) the filing of a petition in bankruptcy by or against the University, or failure by the University promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the University to carry on its governmental functions or assignments by the University for the benefit of its creditors, or the entry by the University into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of any adjustment of indebtedness of the University, or the dissolution or liquidation of the University.

Upon the occurrence of any event of default related to the Phase I agreement, 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 has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase II dated June 6, 2013 with an outstanding amount of $9,960,007. This agreement 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 within 30 days following the due date, (2) any representation or Warranty furnished by the University in the Agreement proves to be false or misleading in any material respect when made, or (3) any other material failure by the University to perform or comply with the terms and conditions of the Agreement, unless corrected within 30 days after written notice to the University.

Upon the occurrence of any event of default related to the Phase II agreement, each party agrees to exercise good faith efforts to resolve the matter fairly, amicably and in a timely manner. The parties shall consider litigation as a last resort, to be employed only when alternative dispute resolution procedures fail.

The carrying value of the energy savings improvement assets associated with the agreements for both Phase I and Phase II of the Energy Savings and Performance Contracting is $14,138,657 and is subject to security provisions in the agreements to ensure timely debt service payments.

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 with an outstanding amount of $637,237. The carrying value of the energy savings improvement assets associated with the agreement is $482,654 and is subject to security provisions in the agreement to ensure timely debt service payments. 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 has outstanding notes from direct borrowings of $15,475,000 through a long-term note agreement with Watauga County dated September 28, 2017. The University has pledged a land asset with a book value of $18,390,209, which is subject to security provisions in the agreement to ensure timely debt service payments. This agreement contains provisions related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 15 days from the due date, or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to maker.

Upon the occurrence of any default, the County may without further notice, declare the remainder of the principal sum, together with all the interest accrued due and payable. The unpaid principal, accrued interest, and all other sums due under the note will be subject interest at the rate of 5% per annum after default until paid.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2020, was $2,759,191. The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Foundation entered into a loan agreement with a financial institution on February 8, 2017, to finance a video boards project. The Foundation assigned donor pledges for the project to the bank as collateral for the loan. The outstanding balance as of June 30, 2020, was $1,611,912. The loan is payable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%.

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

On February 27, 2020, the University issued $2,259,000 in Series 2020 General Revenue Refunding Bonds with an average interest rate of 1.56%. The bonds were issued for a current refunding of $2,160,000 of outstanding Series 2010B-1 UNC System Pool Revenue Bonds with an average interest rate of 4.65%. The refunding was undertaken to reduce total debt service payments by $138,426 over the next five years and resulted in an economic gain of $133,572. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited.

Prior Year Defeasances – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2020, the outstanding balance of prior year defeased bonds was $46,695,000.

NOTE 10 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2021	$ 2,461,994
2022	2,242,858
2023	1,933,324
2024	1,540,023
2025	1,411,068
2026-2030	4,841,095
Total Minimum Lease Payments	$ 14,430,362

Rental expense for all operating leases during the year was $1,767,233.

NOTE 11 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (39,020,569)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(415,847,211)
Effect on Unrestricted Net Position	(454,867,780)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	98,652,362
Total Unrestricted Net Position	$ (356,215,418)

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$160,416,014	$ 31,219,886	$ 170,201	$129,025,927
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 22,989,846	$ 4,386,373	$ 32,224	$ 18,571,249
Dining	14,731,701	2,251,496	19,522	12,460,683
Student Union Services	11,822	-	-	11,822
Health, Physical Education, and Recreation Services	1,300,782	23,567	31,626	1,245,589
Bookstore	10,062,974	1,056,994	14,340	8,991,640
Parking	5,588,870	339,866	2,518	5,246,486
Camp Programs	2,481,292	-	-	2,481,292
Athletic	11,720,025	-	-	11,720,025
Other	1,486,589	114,120	6,203	1,366,266
Sales and Services of Education and Related Activities	4,553,734	395,283	313,047	3,845,404
New River Light and Power	13,623,490	-	16,286	13,607,204
Total Sales and Services, Net	$ 88,551,125	$ 8,567,699	$ 435,766	$ 79,547,660
Nonoperating Revenues:				
Noncapital Contributions, Net	$ 20,880,513	$ -	$ 350,555	$ 20,529,958

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 128,096,462	$ 5,987,231	$ -	$ -	$ -	$ 134,083,693
Research	4,069,801	1,640,661	16,289	-	-	5,726,751
Public Service	3,674,534	4,518,485	514,018	2,572	-	8,709,609
Academic Support	33,360,981	10,156,686	586,063	5,876	-	44,109,606
Student Services	7,332,452	1,595,674	214	-	-	8,928,340
Institutional Support	25,371,314	9,333,041	23,000	2,276	-	34,729,631
Operations and Maintenance of Plant	18,463,760	5,236,117	-	3,866,368	-	27,566,245
Student Financial Aid	578,162	132,042	23,222,618	-	-	23,932,822
Auxiliary Enterprises	50,061,801	41,197,237	7,372,303	4,964,642	-	103,595,983
New River Light and Power	2,087,528	10,980,098	-	-	-	13,067,626
Depreciation/Amortization	-	-	-	-	21,820,811	21,820,811
Total Operating Expenses	$ 273,096,795	$ 90,777,272	$ 31,734,505	$ 8,841,734	$ 21,820,811	$ 426,271,117

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 $4,197,612 provided by the CARES Act -

Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 12.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were $6,315,325, and the University's contributions were $13,651,627 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 $69,829,749 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 0.67358%, which was an increase of 0.04577 from its proportion measured as of June 30, 2018, which was 0.62781%.

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%)
$ 132,905,437	$ 69,829,749	$ 16,917,285

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 $26,578,023. 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	$ 5,841,178	$ 139,795
Changes of Assumptions	7,440,634	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,338,538	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,676,998	-
Contributions Subsequent to the Measurement Date	13,651,627	-
Total	$ 30,948,975	$ 139,795

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:

Year Ended June 30:	Amount
2021	$ 11,465,180
2022	3,302,010
2023	1,922,110
2024	468,253
Total	$ 17,157,553

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 $216,027,051, of which $88,573,784 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,314,427 and $6,058,447, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment

Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2019 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded

Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University’s contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The University’s contributions to the RHBF were $12,540,749 for the year ended June 30, 2020.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The University's contributions to DIPNC were $193,829 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 $328,761,498 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 1.03909%, which was an increase of 0.03159 from its proportion measured as of June 30, 2018, which was 1.00750%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of $463,215 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 1.07350%, which was an increase of 0.02805 from its proportion measured as of June 30, 2018, which was 1.04545%.

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	$ 390,689,164	$ 328,761,498	$ 279,178,192
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (392,332)	$ (463,215)	$ (532,091)

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	$ 270,711,364	$ 328,761,498	$ 405,091,533

	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	$ (464,031)	$ (463,215)	$ (462,453)

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 $7,529,020 for RHBF and expense of $439,862 for DIPNC, resulting in a total OPEB contra-expense of $7,089,158. 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	$ -	$ 473,210	$ 473,210
Changes of Assumptions	15,801,826	51,313	15,853,139
Net Difference Between Projected and Actual Earnings on Plan Investments	218,929	88,231	307,160
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	24,230,554	7,494	24,238,048
Contributions Subsequent to the Measurement Date	12,540,749	193,829	12,734,578
Total	$ 52,792,058	$ 814,077	$ 53,606,135

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 16,573,721	$ -	$ 16,573,721
Changes of Assumptions	98,840,115	47,524	98,887,639
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	24,463,935	29,653	24,493,588
Total	$ 139,877,771	$ 77,177	$ 139,954,948

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

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

Year Ended June 30:	RHBF	DIPNC
2021	$ (34,166,924)	$ 188,253
2022	(34,166,924)	131,355
2023	(34,135,271)	95,447
2024	(2,362,427)	58,926
2025	5,205,084	82,188
Thereafter	-	(13,098)
Total	$ (99,626,462)	$ 543,071

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchased flood insurance for some buildings and contents and all risk coverage on all state-owned buildings and contents through the Fund. Losses are subject to a $100,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance (NCDOI). The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The University also purchased Comprehensive and Collision insurance on many vehicles through a private insurance company and is handled by the NCDOI. The University pays premiums to the NCDOI 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 employee 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 NCDOI. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with 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 NCDOI. These coverages provide insurance for participants in international educational and study abroad programs, participants in the University camp programs, boiler and machinery, drone liability, business travel, fine art coverage, student blanket professional liability, business travel insurance, professional liability for specific athletic trainers, athletic accident insurance, medical malpractice coverage, volunteer liability policy, inland marine policy for equipment as needed, a leased computerized business equipment policy, cyber Insurance, and excess liability on certain policies.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $33,234,562 and on other purchases were $4,973,143 at June 30, 2020.

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

NOTE 18 - THE CORONAVIRUS PANDEMIC EMERGENCY

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the University, these programs included the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments and the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

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

Nonoperating Revenue:

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

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

The HEERF funds provided include: a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and 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. As part of the earned revenue from the HEERF (institutional allocation), the University reimbursed its auxiliary units for the prorate share of housing and dining fees refunded to students due to the actions taken to reduce the spread of COVID-19. The HEERF funds must be expended within one year of the grant award notification date.

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

Program	Total Authorized Award	Earned Revenue	Unearned Revenue (1)
State Aid - Coronavirus Relief Fund:			
CRF - UNC-BOG Allocations	$ 3,629,640	$ 900,000	$ -
Other Indirect Allocations	8,568	8,568	-
Total State Aid - Coronavirus Relief Fund	N/A	$ 908,568	$ -
Federal Aid - COVID-19:			
HEERF - Student Allocation	$ 7,963,966	$ 4,197,612	$ -
HEERF - Institutional Allocation (2)	7,963,966	4,197,611	3,766,355
Total Federal Aid - COVID-19	N/A	$ 8,395,223	$ 3,766,355

(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 $3,766,355. The institution believes that the “Use of Funds” requirement will be fully met by the end of the program.

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	Appalachian State University Foundation, Inc.	Total
ASSETS			
Current Assets	$ 139,622,545	$ 39,796,980	$ 179,419,525
Capital Assets, Net	673,670,759	1,884,000	675,554,759
Other Noncurrent Assets	92,641,009	117,732,982	210,373,991
Total Assets	905,934,313	159,413,962	1,065,348,275
TOTAL DEFERRED OUTFLOWS OF RESOURCES	94,737,597	-	94,737,597
LIABILITIES			
Current Liabilities	53,029,764	1,203,789	54,233,553
Long-Term Liabilities, Net	698,376,995	3,282,125	701,659,120
Other Noncurrent Liabilities	3,498,388	1,808,379	5,306,767
Total Liabilities	754,905,147	6,294,293	761,199,440
TOTAL DEFERRED INFLOWS OF RESOURCES	140,094,742	4,222,692	144,317,434
NET POSITION			
Net Investment in Capital Assets	428,354,157	1,884,000	430,238,157
Restricted - Nonexpendable	16,355,419	73,163,862	89,519,281
Restricted - Expendable	25,092,757	65,934,221	91,026,978
Unrestricted	(364,130,312)	7,914,894	(356,215,418)
Total Net Position	$ 105,672,021	$ 148,896,977	$ 254,568,998

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

	University	Appalachian State University Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 129,025,927	$ -	$ -	$ 129,025,927
Grants and Contracts	9,123,382	-	-	9,123,382
Sales and Services, Net	78,862,784	684,876	-	79,547,660
Other Operating Revenues	1,492,900	88,391	-	1,581,291
Total Operating Revenues	218,504,993	773,267	-	219,278,260
OPERATING EXPENSES				
Operating Expenses	402,020,830	21,130,041	(18,700,565)	404,450,306
Depreciation/Amortization	21,820,811	-	-	21,820,811
Total Operating Expenses	423,841,641	21,130,041	(18,700,565)	426,271,117
Operating Loss	(205,336,648)	(20,356,774)	18,700,565	(206,992,857)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	150,155,122	-	-	150,155,122
State Aid - Coronavirus Relief Fund	908,568	-	-	908,568
Student Financial Aid	39,875,016	-	-	39,875,016
Federal Aid COVID-19	8,395,223	-	-	8,395,223
Noncapital Contributions, Net	19,275,313	17,633,096	(16,378,451)	20,529,958
Other Nonoperating Revenues, Net	4,003,837	905,380	-	4,909,217
Interest and Fees on Debt	(10,144,772)	(177,769)	-	(10,322,541)
Net Nonoperating Revenues	212,468,307	18,360,707	(16,378,451)	214,450,563
Capital Contributions	9,745,352	1,358,505	(2,322,114)	8,781,743
Additions to Endowments	12,500	4,246,290	-	4,258,790
Total Other Revenues	9,757,852	5,604,795	(2,322,114)	13,040,533
Increase in Net Position	16,889,511	3,608,728	-	20,498,239
NET POSITION				
Net Position, July 1, 2019 (as Restated)	88,782,510	145,288,249	-	234,070,759
Net Position, June 30, 2020	$ 105,672,021	$ 148,896,977	$ -	$ 254,568,998

Condensed Statement of Cash Flows
June 30, 2020

	University	Appalachian State University Foundation, Inc.	Eliminations	Total
Net Cash Used by Operating Activities	$ (192,070,775)	$ (20,463,933)	$ 18,737,008	$ (193,797,700)
Net Cash Provided by Noncapital Financing Activities	223,848,436	22,086,209	(15,798,614)	230,136,031
Net Cash Provided (Used) by Capital and Related Financing Activities	(50,901,372)	106,327	(2,938,394)	(53,733,439)
Net Cash Provided by Investing Activities	2,678,126	4,060,840	-	6,738,966
Net Increase (Decrease) in Cash and Cash Equivalents	(16,445,585)	5,789,443	-	(10,656,142)
Cash and Cash Equivalents, July 1, 2019 (as Restated)	187,261,663	29,810,634	-	217,072,297
Cash and Cash Equivalents, June 30, 2020	$ 170,816,078	$ 35,600,077	$ -	$ 206,416,155

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 - NET POSITION RESTATEMENT

As of July 1, 2019, net position as previously reported was restated to account for the blending of the Appalachian State University Foundation, Inc. In prior years, the Foundation has been discretely presented. Due to changes to the Foundation's bylaws it now meets blending criteria in accordance with GASB Standards. This restatement is summarized as follows:

	Amount
July 1, 2019 Net Position as Previously Reported	$ 88,782,510
Restatement:	
Blend Appalachian State University Foundation, Inc.	145,288,249
July 1, 2019 Net Position as Restated	$ 234,070,759

NOTE 22 - SUBSEQUENT EVENTS

University - On December 10, 2020, the University d/b/a New River Light and Power (NRLP) issued NRLP 2020 Utility System Revenue Bonds in the amount of $6,500,000. Proceeds from the financing will be used to construct and replace a substation, install underground transmission lines, renovate a warehouse, resurface a parking lot, replace two trucks, and fund other capital improvement projects. The debt service will be paid from pledged utility system revenues.

Component Unit - On December 18, 2020, Appalachian Student Housing Corporation is scheduled to issue 2020 Student Housing Revenue Bonds (Phase III) in the amount of $75,000,000 to complete Phase III of the University’s housing project discussed in Note 7. This phase of the project will result in the construction of a 683-bed residence hall and the addition of 300 surface parking spaces scheduled to be delivered for use and occupancy in the fall of 2022.

REQUIRED SUPPLEMENTARY INFORMATION

Appalachian 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	0.67358%	0.62781%	0.62049%	0.59985%
Proportionate Share of TSERS Collective Net Pension Liability	$ 69,829,749	$ 62,505,322	$ 49,232,413	$ 55,132,411
Covered Payroll	$ 101,764,996	$ 94,335,041	$ 89,737,238	$ 85,376,440
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	68.62%	66.26%	54.86%	64.58%
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	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered Payroll	$ 83,116,332	$ 79,589,512	$ 79,073,247
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.68%	8.30%	42.73%
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.

Appalachian 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	$ 13,651,627	$ 12,506,918	$ 10,169,317	$ 8,955,776	$ 7,811,944
Contributions in Relation to the Contractually Determined Contribution	13,651,627	12,506,918	10,169,317	8,955,776	7,811,944
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 105,255,412	$ 101,764,996	$ 94,335,041	$ 89,737,238	$ 85,376,440
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	$ 7,605,144	$ 6,916,329	$ 6,586,802	$ 5,756,472	$ 3,982,952
Contributions in Relation to the Contractually Determined Contribution	7,605,144	6,916,329	6,586,802	5,756,472	3,982,952
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 83,116,332	$ 79,589,512	$ 79,073,247	$ 77,371,931	$ 80,790,099
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.

Appalachian 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:

Cost of Living Increase

Teachers' and State Employees'	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Retirement System	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

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

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

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

N/A - Not Applicable

Appalachian 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	1.03909%	1.00750%	0.96582%	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 328,761,498	$ 287,017,119	$ 316,660,087	$ 469,945,468
Covered Payroll	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	174.12%	160.29%	183.51%	285.74%
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	1.07350%	1.04545%	1.05029%	1.01711%
Proportionate Share of Collective Net OPEB Asset	$ 463,215	$ 317,566	$ 641,937	$ 631,625
Covered Payroll	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.25%	0.18%	0.37%	0.38%
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.

Appalachian 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	$ 12,540,749	$ 11,838,264	$ 10,832,891	$ 10,025,603	$ 9,210,050
Contributions in Relation to the Contractually Determined Contribution	12,540,749	11,838,264	10,832,891	10,025,603	9,210,050
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
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	$ 8,743,687	$ 8,201,682	$ 7,935,118	$ 7,280,234	$ 7,307,381
Contributions in Relation to the Contractually Determined Contribution	8,743,687	8,201,682	7,935,118	7,280,234	7,307,381
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 159,265,704	$ 151,882,994	$ 149,719,202	$ 145,604,674	$ 149,130,224
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%

Disability Income Plan of North Carolina	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 193,829	$ 264,331	$ 250,678	$ 655,719	$ 674,307
Contributions in Relation to the Contractually Determined Contribution	193,829	264,331	250,678	655,719	674,307
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
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	$ 652,989	$ 668,285	$ 658,764	$ 757,144	$ 775,477
Contributions in Relation to the Contractually Determined Contribution	652,989	668,285	658,764	757,144	775,477
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 159,265,704	$ 151,882,994	$ 149,719,202	$ 145,604,674	$ 149,130,224
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.

Appalachian 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-pockets maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
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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
Appalachian State University
Boone, 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 Appalachian 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 10, 2020. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with those entities.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 10, 2020

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This audit required 784.5 hours at an approximate cost of $81,588.