

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2020

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



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

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

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

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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<https://www.auditor.nc.gov>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Winston-Salem State University
Winston-Salem, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the consolidated financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary, the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Winston-Salem State University Foundation, Inc. and Subsidiary, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The consolidated financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Winston-Salem 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.

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 14, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 14, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Winston-Salem State University (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2020. This discussion has been prepared by University management along with the financial statements and notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management's Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

This year has been an unprecedented year as it relates to the pandemic and impact of COVID-19 at Winston-Salem State University, as with many other institutions. The University was able to quickly pivot instruction delivery and complete the spring semester via a virtual delivery modality. Even in the midst and impact of this pandemic event, the University realized several wins. As a result of the timely support of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the University had a minimal financial impact.

The University completed construction and opening of a new \$52 million state-of-the-art Sciences Building. The building allows the University to extend the campus footprint providing another 102,095 square-feet to the University's building facility inventory. Additionally, the University is pursuing venturing into new academic programming as well as embarking on a new strategic plan.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board's (GASB) pronouncements. GASB pronouncements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. One of the most important questions asked is whether the University as a whole is better or worse off as a result of the year's activities. The key to understanding this question is provided within the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets and liabilities. The University's net position (total assets and total deferred outflows of resources less total liabilities and total deferred inflows of resources) is an indicator of the University's financial health. Over time, increases or decreases in net position are one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on state appropriations and gifts will result in operating deficits, because GASB Statement No. 34 classifies state appropriations, certain grants, and gifts as nonoperating revenues.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Winston-Salem State University Foundation, Inc. and Subsidiary (the "Foundation"), is an independent nonprofit corporation formed for the exclusive benefit of the University. Under GASB Standards, the Foundation meets the requirements to be reported discretely in these financial statements; however, the Foundation is not included in Management's Discussion and Analysis. More information describing the relationship between the University and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Financial Highlights

The University's financial position increased during the fiscal year ended June 30, 2020. Its combined net position increased \$22,808,545.38 or 48.8% from the previous year.

Condensed Financial Information

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net position (total assets and deferred outflows less total liabilities and deferred inflows) of the University. This condensed financial statement provides a comparative University fiscal snapshot as of June 30, 2020 and June 30, 2019. This provides the readers of this statement with information on assets available to continue operations.

Condensed Statements of Net Position
6/30/2020 and 6/30/2019

	2020	2019	\$ Change	% Chg
Assets:				
Current Assets	\$ 30,001,472.03	\$ 26,610,443.46	\$ 3,391,028.57	12.7%
Noncurrent Assets:				
Capital Assets, Net	255,725,112.86	252,181,093.50	3,544,019.36	1.4%
Other	43,590,638.58	38,400,204.56	5,190,434.02	13.5%
Total Assets	329,317,223.47	317,191,741.52	12,125,481.95	3.8%
Total Deferred Outflows of Resources	21,289,589.06	21,327,614.54	(38,025.48)	(0.2%)
Liabilities:				
Current Liabilities	13,389,680.38	15,840,053.17	(2,450,372.79)	(15.5%)
Long-Term Liabilities, Net	215,526,598.31	215,078,814.05	447,784.26	0.2%
Other Noncurrent Liabilities	3,348,076.75	3,297,159.03	50,917.72	1.5%
Total Liabilities	232,264,355.44	234,216,026.25	(1,951,670.81)	(0.8%)
Total Deferred Inflows of Resources	48,768,250.40	57,537,668.50	(8,769,418.10)	(15.2%)
Net Position*:				
Net Investment in Capital Assets	155,960,606.27	145,238,557.57	10,722,048.70	7.4%
Restricted:				
Nonexpendable	18,558,532.00	18,514,418.22	44,113.78	0.2%
Expendable	27,279,656.10	25,350,838.85	1,928,817.25	7.6%
Unrestricted	(132,224,587.68)	(142,338,153.33)	10,113,565.65	(7.1%)
Total Net Position	\$ 69,574,206.69	\$ 46,765,661.31	\$ 22,808,545.38	48.8%

*Net Position categories are defined in Note 1M of the Notes to the Financial Statements.

As of June 30, 2020, total University assets were \$329,317,223.47. The University's largest asset category at June 30, 2020 was capital assets totaling \$255,725,112.86 which increased \$3,544,019.36 compared to the prior year's capital assets of \$252,181,093.50. This increase was mainly due to the completed construction of the new sciences building. These additions were offset against a \$7,236,847.74 net increase in accumulated depreciation/amortization. The University's June 30, 2020 current assets of \$30,001,472.03 increased \$3,391,028.57 compared to the prior year's current assets of \$26,610,443.46. This increase was primarily due to an increase in unrestricted cash of \$5,020,284.79 which was offset by a decrease in current restricted cash of \$2,760,654.89. Unrestricted cash increased due to improved auxiliary operations and overall decreased spending as a result of strict budgetary control measures. The decrease in current restricted cash is primarily the result of the completion of the new sciences building which resulted in a decrease of capital related liabilities. The \$30,001,472.03 current assets covered the current liabilities of \$13,389,680.38 as the current ratio was \$2.24 in current assets to every \$1.00 in current liabilities.

Other noncurrent assets at June 30, 2020 were \$43,590,638.58 compared to \$38,400,204.56 at June 30, 2019. The \$5,190,434.02 increase was mainly due to an increase in restricted cash for various repair and renovation projects.

The University recorded deferred outflows related to pensions and deferred outflows related to other postemployment benefits in the amount of \$9,291,105.00 and \$11,763,108.22, respectively at June 30, 2020. The deferred outflow for pensions decreased by \$3,807,000.00 due to changes in the difference between actual and projected earnings on plan investments and changes in actuarial assumptions relating to the pension plan. The deferred outflows

related to other postemployment benefits increased \$3,777,941.22 due to changes in actuarial assumptions for the Retiree Health Benefit Fund. For more information about the University's deferred outflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

The University recorded deferred inflows related to pensions and deferred inflows related to other postemployment benefits in the amount of \$629,164.00, and \$45,647,649.00, respectively at June 30, 2020. This represents the net amount of the University's pension and other postemployment benefits deferrals that impact pension and other postemployment benefits expenses during fiscal years 2021 through 2025 and thereafter. The deferred inflow for pensions increased \$301,775.00 due to a change in proportion and differences between the University's contributions and proportionate share of contributions to the pension plan. The deferred inflows related to other postemployment benefits decreased \$8,914,663.00 due to differences between actual and expected experience and changes in actuarial assumptions. For more information about the University's deferred inflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

University liabilities totaled \$232,264,355.44 at June 30, 2020 compared to \$234,216,026.25 per the prior year, a decrease of \$1,951,670.81. Current liabilities decreased by \$2,450,372.79 which was offset by increases in long-term liabilities and other noncurrent liabilities totaling \$498,701.98. The decrease in current liabilities was primarily associated with a decrease in capital related payables of \$3,025,270.41 due to the completion of the new sciences building.

The University's net investment in capital assets was \$155,960,606.27 at June 30, 2020 compared to \$145,238,557.57 in the prior year, an increase of \$10,722,048.70 or 7.4%. This increase was mainly due to the completion of the new sciences building.

The University's unrestricted net position was a deficit \$132,224,587.68 at June 30, 2020 compared to a deficit \$142,338,153.33 in the prior year. This \$10,113,565.65 or 7.1% decrease in the deficit was primarily due to an improvement in housing and dining auxiliaries and decreased spending of education technology fees compared to the prior year.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the activity that shows the changes in net position. The activity is represented by the revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, operating and nonoperating, as well as other revenues earned by the University.

Operating revenues are received for providing goods and services to the various customers of the University. Operating expenses are used to acquire goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating activities since these are either investing, capital, or noncapital financing activities. Nonoperating expenses are expenses other than those involved in the normal operation of the University and includes interest and fees on debt.

Condensed Statement of Revenues, Expenses, and
Changes in Net Position
6/30/2020 and 6/30/2019

	2020	2019	\$ Change	% Chg
Operating Revenues:				
Student Tuition and Fees, Net	\$ 19,150,286.54	\$ 23,778,346.93	\$ (4,628,060.39)	(19.5%)
Sales and Services, Net	20,505,488.30	18,597,480.34	1,908,007.96	10.3%
Other	1,445,551.64	1,955,570.19	(510,018.55)	(26.1%)
Total Operating Revenues	41,101,326.48	44,331,397.46	(3,230,070.98)	(7.3%)
Operating Expenses:				
Salaries and Benefits	74,932,981.88	76,519,672.74	(1,586,690.86)	(2.1%)
Supplies and Services	32,718,190.79	32,512,998.11	205,192.68	0.6%
Scholarships and Fellowships	17,082,606.47	12,430,838.89	4,651,767.58	37.4%
Utilities	2,888,670.41	2,783,251.49	105,418.92	3.8%
Depreciation/Amortization	8,970,556.76	8,424,417.36	546,139.40	6.5%
Total Operating Expenses	136,593,006.31	132,671,178.59	3,921,827.72	3.0%
Operating Loss	(95,491,679.83)	(88,339,781.13)	(7,151,898.70)	8.1%
Nonoperating Revenues (Expenses):				
State Appropriations	64,636,170.70	63,011,644.19	1,624,526.51	2.6%
Federal Aid - COVID-19	6,117,980.00	-	6,117,980.00	
Noncapital Contributions	33,071,549.48	33,671,496.34	(599,946.86)	(1.8%)
Investment Income, Net	1,171,211.11	3,145,020.71	(1,973,809.60)	(62.8%)
Interest and Fees on Debt	(4,276,003.34)	(3,432,616.90)	(843,386.44)	24.6%
Net Nonoperating Revenues	100,720,907.95	96,395,544.34	4,325,363.61	4.5%
Income Before Other Revenues	5,229,228.12	8,055,763.21	(2,826,535.09)	(35.1%)
Capital Appropriations	4,038,699.00	890,000.00	3,148,699.00	353.8%
Capital Contributions	13,525,118.26	27,638,935.40	(14,113,817.14)	(51.1%)
Additions to Endowments	15,500.00	-	15,500.00	
Total Other Revenues	17,579,317.26	28,528,935.40	(10,949,618.14)	(38.4%)
Increase in Net Position	22,808,545.38	36,584,698.61	(13,776,153.23)	(37.7%)
Net Position:				
Beginning of the Year	46,765,661.31	10,180,962.70	36,584,698.61	359.3%
End of the Year	\$ 69,574,206.69	\$ 46,765,661.31	\$ 22,808,545.38	48.8%

Total operating loss for fiscal year 2020 was \$95,491,679.83. Since the State of North Carolina appropriations, certain grants, and gifts are not included within operating revenues per GASB Statement No. 34, the University will show a significant operating loss on a continuing basis.

The sources of operating revenues for the University are tuition and fees, auxiliary services, and other educational activities.

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges stemming from any material decrease in appropriation funding from the State of North Carolina.

Total expenses were \$140,869,009.65 for fiscal year 2020, compared to \$136,103,795.49, for fiscal year 2019, resulting in a net increase of \$4,765,214.16. Operating expenses, including depreciation/amortization of \$8,970,556.76, totaled \$136,593,006.31. Of this total, \$56,692,456.16 or 41.5% was used for instruction and student support. Key changes in operating expenses are identified as follows:

- Salaries and benefits decreased \$1,586,690.86 primarily due to changes in instructional delivery methods.
- Scholarships and fellowships increased by \$4,651,767.58 primarily due to the CARES Act student allocation of \$3,058,990.00.

The University's largest source of nonoperating revenues is the State of North Carolina appropriations. This is received in monthly payments, beginning in July of each year, since the State's fiscal year begins on July 1. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. For the fiscal year ended June 30, 2020, the State of North Carolina appropriated to the University \$64,636,170.70 for operations, \$4,038,699.00 for capital improvements, and provided \$13,525,118.26 in capital grants.

Total revenues were \$163,677,555.03 for fiscal year 2020, compared to \$172,688,494.10 for fiscal year 2019, resulting in a net decrease of \$9,010,939.07, which is primarily attributed to the following:

- Student tuition and fees (net) decreased by \$4,628,060.39 primarily as a result of a decline in enrollment.
- Sales and services (net) increased by \$1,908,007.96 as a result of a reduction in the amount of scholarship discounts recorded against these revenues in the current year.
- State appropriations reflect a \$1,624,526.51 increase due to funding from the State of North Carolina for the sciences building operating reserves and benefit rate changes.
- Federal aid - COVID 19 increased by \$6,117,980.00 due to the receipt of funds related to the CARES Act. See Note 17 of the Notes to the Financial Statements for more information.
- Capital appropriations increased by \$3,148,699.00 due to funding received for capital projects.
- Capital contributions reflect a \$14,113,817.14 decrease compared to the \$27,638,935.40 amount for the prior year due to the completion of the new sciences building.
- Investment income decreased \$1,973,809.60 mainly due to a decrease in endowment return compared to prior year (2.3% in 2020 from 7.7% in 2019) resulting from the effect of COVID-19 on market performance.

One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. The University has and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition and manage prudently the financial resources realized from these efforts to fund its operating activities.

Capital Assets and Long-Term Debt

Major capital expenses for the year ended June 30, 2020 included \$10,756,145.73 for construction in progress on the new sciences building.

The University's capital assets, net of accumulated depreciation/amortization at June 30, 2020 were \$255,725,112.86. For more information about the University's capital asset holdings, refer to Note 6 of the Notes to the Financial Statements.

Long-term debt totaled \$96,285,074.06 at June 30, 2020, compared to \$99,983,006.37 in the prior year, a decrease of \$3,697,932.31. The decrease is a result of recording principal payments on long-term debt. For more information about the University's long-term debt, refer to Note 8 of the Notes to the Financial Statements.

Factors Impacting Future Periods

The Coronavirus Pandemic Emergency

The full financial impact of the coronavirus pandemic (COVID-19) on the University's financial position cannot be accurately estimated at this time. The University took actions in March 2020 to reduce potential spread of the coronavirus, and to provide for the health and safety of students, faculty, and staff. Although the University lost revenue in auxiliary operations and the summer programs, we finished the 2020 fiscal year in a relatively sound financial position resulting from prudent use of resources and federal aid provided to offset the impact of COVID-19.

Based on known facts about the University's financial performance for the fall 2021 semester, management is confident that the sound financial position will be maintained. The University made various adjustments to support health and safety practices along with promotion of sound steps to reduce expenses, which include:

- The University began classes on August 17, 2020, and students are occupying campus housing and using dining facilities.
- As of August 28, 2020, the University's census date, full-time-equivalent students (FTE) were 4,803 for fall 2020, a 0.36% increase from fall 2019's total FTE of 4,786.
- Unlike several UNC System universities who have moved many classes to solely online, WSSU continues to provide class formats ranging from a combination of in-person, hybrid, and online courses.
- The University reports daily on the number of confirmed COVID-19 cases through updates to its website and is working closely with local health department officials to ensure notifications are made quickly to those who may have come in contact with those who tested positive for COVID-19 so they can be directed as to their next steps.

- Campus capacity was reduced to support social distancing guidelines using staggered work schedules and telework options.
- Fall athletics were cancelled, but some winter and spring sports may be upheld on an abbreviated schedule.

The University has received funding and awards directly from the federal government under the CARES Act. These funds have been used to offset eligible costs related to the pandemic. The University will pursue all appropriate avenues for reimbursement and manage costs associated with operating under this pandemic. The University continues to abide by all UNC System Office and State of North Carolina requirements related to continuing operations under the pandemic.

Conclusion

Management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. This flexibility, along with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

A crucial element to the University's future will continue to be our relationship with the State of North Carolina, as we work to manage tuition to make it competitive while providing an outstanding education for our students. There is a direct relationship between the growth of state support and the University's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels.

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction. The University has plans to increase the availability of on-campus housing offerings to its students and has entered into an agreement with the Winston-Salem State University Foundation, Inc. and Subsidiary to work collaboratively towards this effort. This strategy addresses the University's growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University is experiencing a surge in the area of Sponsored Research and Programs. The increase in academic research equates to additional financing as well as opportunities for new academic programming, hence an increase in student enrollment.

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather many economic uncertainties, as was tested during the end of the 2019-20 fiscal year. The University has established a strong conservative financial approach in managing the impacts of COVID-19 moving into the 20-21 fiscal year.



FINANCIAL STATEMENTS

Winston-Salem State University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 19,427,234.02
Restricted Cash and Cash Equivalents	6,454,132.82
Restricted Short-Term Investments	15,162.40
Receivables, Net (Note 5)	3,818,621.26
Inventories	246,861.64
Notes Receivable, Net (Note 5)	39,459.89

Total Current Assets	<u>30,001,472.03</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	7,554,962.46
Endowment Investments	35,768,058.06
Notes Receivable, Net (Note 5)	138,651.06
Net Other Postemployment Benefits Asset	128,967.00
Capital Assets - Nondepreciable (Note 6)	7,733,451.25
Capital Assets - Depreciable, Net (Note 6)	<u>247,991,661.61</u>

Total Noncurrent Assets	<u>299,315,751.44</u>
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Total Assets	<u>329,317,223.47</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	235,375.84
Deferred Outflows Related to Pensions	9,291,105.00
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	<u>11,763,108.22</u>

Total Deferred Outflows of Resources	<u>21,289,589.06</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,136,509.97
Unearned Revenue	5,579,869.04
Interest Payable	796,213.62
Long-Term Liabilities - Current Portion (Note 8)	<u>4,877,087.75</u>

Total Current Liabilities	<u>13,389,680.38</u>
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Noncurrent Liabilities:

Deposits Payable	138,127.67
Funds Held for Others	2,881,006.59
U.S. Government Grants Refundable	328,942.49
Long-Term Liabilities, Net (Note 8)	<u>215,526,598.31</u>

Total Noncurrent Liabilities	<u>218,874,675.06</u>
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Total Liabilities	<u>232,264,355.44</u>
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Winston-Salem State University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	2,491,437.40
Deferred Inflows Related to Pensions	629,164.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	45,647,649.00
	<hr/>
Total Deferred Inflows of Resources	48,768,250.40

NET POSITION

Net Investment in Capital Assets	155,960,606.27
Restricted:	
Nonexpendable	
True Endowments	18,484,183.89
Student Loans and Other	74,348.11
Expendable	
Scholarships, Research, Instruction, and Other	20,842,874.67
Student Loans	220,611.83
Capital Projects	6,216,169.60
Unrestricted	(132,224,587.68)
	<hr/>
Total Net Position	\$ 69,574,206.69

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

Winston-Salem State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2020

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 11)	\$ 19,150,286.54
Sales and Services, Net (Note 11)	20,505,488.30
Other Operating Revenues	1,445,551.64
	<hr/>
Total Operating Revenues	41,101,326.48
	<hr/>

OPERATING EXPENSES

Salaries and Benefits	74,932,981.88
Supplies and Services	32,718,190.79
Scholarships and Fellowships	17,082,606.47
Utilities	2,888,670.41
Depreciation/Amortization	8,970,556.76
	<hr/>
Total Operating Expenses	136,593,006.31
	<hr/>
Operating Loss	(95,491,679.83)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	64,636,170.70
Student Financial Aid	23,356,090.40
Federal Aid - COVID-19	6,117,980.00
Noncapital Contributions	9,715,459.08
Investment Income (Net of Investment Expense of \$176,198.24)	1,171,211.11
Interest and Fees on Debt	(4,276,003.34)
	<hr/>
Net Nonoperating Revenues	100,720,907.95
	<hr/>
Income Before Other Revenues	5,229,228.12
	<hr/>
Capital Appropriations	4,038,699.00
Capital Contributions	13,525,118.26
Additions to Endowments	15,500.00
	<hr/>
Total Other Revenues	17,579,317.26
	<hr/>
Increase in Net Position	22,808,545.38

NET POSITION

Net Position - July 1, 2019	46,765,661.31
	<hr/>
Net Position - June 30, 2020	\$ 69,574,206.69
	<hr/>

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

Winston-Salem State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 41,501,093.56
Payments to Employees and Fringe Benefits	(79,782,391.61)
Payments to Vendors and Suppliers	(35,399,394.19)
Payments for Scholarships and Fellowships	(17,082,606.47)
Loans Issued	(90,590.50)
Student Deposits Received	138,127.67
Student Deposits Returned	(37,438.10)
	<hr/>
Net Cash Used by Operating Activities	(90,753,199.64)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	64,636,170.70
Student Financial Aid	23,500,227.91
Federal Aid - COVID-19	6,117,980.00
Noncapital Contributions	8,981,445.14
Additions to Endowments	15,500.00
William D. Ford Direct Lending Receipts	34,081,132.00
William D. Ford Direct Lending Disbursements	(34,081,132.00)
Related Activity Agency Receipts	128,310.70
	<hr/>
Net Cash Provided by Noncapital Financing Activities	103,379,634.45

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	4,038,699.00
Capital Contributions	13,525,118.26
Acquisition and Construction of Capital Assets	(15,694,045.20)
Principal Paid on Capital Debt and Leases	(3,561,135.32)
Interest and Fees Paid on Capital Debt and Leases	(4,297,290.30)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(5,988,653.56)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,717,071.83
Investment Income	402,376.09
Purchase of Investments and Related Fees	(5,674,929.12)
	<hr/>
Net Cash Provided by Investing Activities	444,518.80
	<hr/>
Net Increase in Cash and Cash Equivalents	7,082,300.05
Cash and Cash Equivalents - July 1, 2019	26,354,029.25
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 33,436,329.30

Winston-Salem State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (95,491,679.83)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	8,970,556.76
Allowances, Write-Offs, and Amortizations	157,344.67
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	483,361.25
Inventories	(41,391.57)
Notes Receivable, Net	(90,590.50)
Net Other Postemployment Benefits Asset	(30,245.00)
Deferred Outflows Related to Pensions	3,807,000.00
Deferred Outflows Related to Other Postemployment Benefits	(3,777,941.22)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	13,922.40
Unearned Revenue	(83,594.17)
Net Pension Liability	(947,908.00)
Net Other Postemployment Benefits Liability	5,131,793.00
Compensated Absences	(34,366.00)
Deposits Payable	100,689.57
Workers' Compensation Liability	(307,263.00)
Deferred Inflows Related to Pensions	301,775.00
Deferred Inflows Related to Other Postemployment Benefits	(8,914,663.00)
Net Cash Used by Operating Activities	<u><u>\$ (90,753,199.64)</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 401,232.22
Change in Fair Value of Investments	196,594.04
Loss on Disposal of Capital Assets	(154,198.67)
Amortization of Deferred Gain on Refunding	(156,530.10)
Amortization of Deferred Loss on Refunding	(8,966.70)
Amortization of Bond Premiums	(136,796.99)
Increase in Receivables Related to Nonoperating Income	1,558,868.09

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

Winston-Salem State University Foundation, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2020

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	6,358,587
Restricted Cash		5,630,812
Certificates of Deposit		253,578
Receivables		12,286
Prepaid Expenses		8,626
Lease Obligation Receivable, Net		31,578,965
Promises to Give, Net		453,200
Investment Securities		17,630,743
Property and Equipment, Net		1,258,206
Total Assets	\$	<u>63,185,003</u>

LIABILITIES

Accounts Payable and Other Accruals	\$	699,285
Loan Payable		50,208
Bonds Payable, Net		<u>36,236,125</u>
Total Liabilities		<u>36,985,618</u>

NET ASSETS

Without Donor Restrictions:		
Undesignated		1,808,205
Board Designated for Endowment		<u>880,140</u>
		2,688,345
With Donor Restrictions		<u>23,511,040</u>
Total Net Assets		<u>26,199,385</u>
Total Liabilities and Net Assets	\$	<u>63,185,003</u>

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

Winston-Salem State University Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2020

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Gifts and Grants	\$ 103,151	\$ 3,552,927	\$ 3,656,078
Investment Income, Net	98,625	-	98,625
Realized and Unrealized Gains on Investments	94,411	353,130	447,541
Administrative Fees	197,488	-	197,488
Program Income	1,050	273,021	274,071
Lease Income	2,066,906	-	2,066,906
Amortization of Bond Premium, Net	257,555	-	257,555
Other	9,676	-	9,676
	<u>2,828,862</u>	<u>4,179,078</u>	<u>7,007,940</u>
Net Assets Released From Restrictions	<u>2,600,840</u>	<u>(2,600,840)</u>	<u>-</u>
Total Support and Revenue	<u>5,429,702</u>	<u>1,578,238</u>	<u>7,007,940</u>
EXPENSES			
Program Services	4,202,662	-	4,202,662
Management and General	504,552	-	504,552
Total Expenses	<u>4,707,214</u>	<u>-</u>	<u>4,707,214</u>
Change in Net Assets	722,488	1,578,238	2,300,726
NET ASSETS			
Net Assets, Beginning of Year	<u>1,965,857</u>	<u>21,932,802</u>	<u>23,898,659</u>
Net Assets, End of Year	<u>\$ 2,688,345</u>	<u>\$ 23,511,040</u>	<u>\$ 26,199,385</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Winston-Salem 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 unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. See below for further discussion of the University's component unit. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit - Winston-Salem State University Foundation, Inc. and Subsidiary (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Winston-Salem State University Housing Foundation, LLC, is the wholly owned subsidiary of the Foundation.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of not less than five and not more than 27 elected directors, with the number at any given time being set by the Board of Directors. In addition to the elected directors, the Chancellor and Vice Chancellor for University Advancement of the University shall be voting members of the Board. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue

recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2020, the Foundation distributed \$1,205,893.00 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Winston-Salem State University Foundation, Inc. and Subsidiary, 304 Blair Hall, 601 Martin Luther King, Jr. Drive, Winston-Salem, NC 27110 or by calling (336) 750-3005.

- 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 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 mutual funds 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, along with any 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of fuel oil held for consumption, are valued at cost using the last invoice cost method. Inventories of postage are valued at retail cost.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-20 years
General Infrastructure	10-50 years
Computer Software	2-7 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 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, notes from direct borrowings, and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

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

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus

leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- L. Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. 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, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, workers' compensation, pension plans, and other postemployment benefits.

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

outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as copy centers, motor pool, postal services, telecommunications, and facility rentals. 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 \$33,436,329.30, 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.

B. Investments

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

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase

agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

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

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

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

UNC Investment Fund, LLC - At June 30, 2020, the University's investments include \$35,768,058.06, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 15,162.40	\$ 15,162.40

As of June 30, 2020, the money market mutual funds, with an amortized cost of \$15,162.40, were rated AAAM by Standard and Poor's.

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

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 15,162.40
Other Securities	
UNC Investment Fund	35,768,058.06
Total Investments	\$ 35,783,220.46

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

Investment Type	Amount
UNC Investment Fund, LLC	\$ 14,429,757
Stocks, Including Exchange-Traded Funds	79,142
Mutual Funds	2,867,753
Money Market Funds	254,091
Total Investment Securities	\$ 17,630,743

NOTE 3 - FAIR VALUE MEASUREMENTS

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

instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, the University's investments held in the STIF were valued at \$33,436,329.30. 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 - At year-end, the University's investments held in the UNC Investment Fund were valued at \$35,768,058.06. 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.

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

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value are categorized depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the

asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 3 inputs are unobservable for the asset or liability, including the Foundation's own assumptions in determining the fair value of assets or liabilities.

Valuation techniques used in the fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

The following is a description of the valuation methodologies used by the Foundation for assets measured at fair value:

- **UNC Investment Fund, LLC** - Recorded at the amount that represents the Foundation's equity position in the UNC Investment Fund, LLC. This pooled investment fund determines ownership on a market unit valuation basis each month. The fund is a broadly diversified portfolio of assets including domestic and international equities, private equities, real estate, commodities, and fixed income securities. Due to the significance of alternative investments in the fund which have limited or no observable market data necessary to determine fair value, the entire fund is considered to fall within Level 3 measurements in the fair value hierarchy under GAAP.
- **Stocks, Mutual Funds, and Money Market Funds** - Valued at the closing price reported on the active markets on which individual securities are traded.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Investments				
UNC Investment Fund, LLC	\$ -	\$ -	\$ 14,429,757	\$14,429,757
Stocks				
Exchange-Traded Funds	33,161	-	-	33,161
Other	45,981	-	-	45,981
Mutual Funds				
Foreign Large Blend	224,993	-	-	224,993
Foreign Small/Mid Growth	85,201	-	-	85,201
Intermediate Term Bond	1,406,609	-	-	1,406,609
Large Growth	893,483	-	-	893,483
Mid-Cap Growth	158,435	-	-	158,435
Small Growth	99,032	-	-	99,032
Money Market Funds	254,091	-	-	254,091
Total Assets at Fair Value	\$ 3,200,986	\$ -	\$ 14,429,757	\$17,630,743

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2020:

Balance, Beginning of Year	\$ 14,416,703
Purchases	486,709
Redemptions	(781,936)
Unrealized and Realized Gains	380,588
Investment Advisory Fees	<u>(72,307)</u>
Balance, End of Year	<u>\$ 14,429,757</u>

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The total spending rate is calculated annually by taking the sum of the market value of the endowment investments for the preceding twelve quarters, and dividing the result by twelve. For the fiscal year ended June 30, 2020, the Board of Trustees approved spending from the average value shall be at a rate of four and a half percent, paid out proportionately on a quarterly basis. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2020, net appreciation of \$15,858,716.94 was available to be spent, all of which was classified in net position as restricted expendable for scholarships, research, instruction, and other as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,843,066.80	\$ 1,674,501.22	\$ 1,168,565.58
Accounts	42,534.69	-	42,534.69
Intergovernmental	2,288,782.40	-	2,288,782.40
Interest on Loans	296,657.83	-	296,657.83
Other	22,080.76	-	22,080.76
Total Current Receivables	\$ 5,493,122.48	\$ 1,674,501.22	\$ 3,818,621.26
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 37,859.89	\$ -	\$ 37,859.89
Institutional Student Loan Programs	1,900.76	300.76	1,600.00
Total Notes Receivable - Current	\$ 39,760.65	\$ 300.76	\$ 39,459.89
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 770,374.16	\$ 713,014.73	\$ 57,359.43
Institutional Student Loan Programs	120,287.22	38,995.59	81,291.63
Total Notes Receivable - Noncurrent	\$ 890,661.38	\$ 752,010.32	\$ 138,651.06

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land	\$ 5,231,051.56	\$ -	\$ -	\$ 5,231,051.56
Art, Literature, and Artifacts	953,772.00	-	-	953,772.00
Construction in Progress	42,646,872.36	12,504,523.79	53,602,768.46	1,548,627.69
Total Capital Assets, Nondepreciable	48,831,695.92	12,504,523.79	53,602,768.46	7,733,451.25
Capital Assets, Depreciable:				
Buildings	275,824,048.03	52,232,661.46	1,095,144.83	326,961,564.66
Machinery and Equipment	20,880,354.75	1,534,358.00	730,855.22	21,683,857.53
General Infrastructure	19,447,668.79	-	61,907.64	19,385,761.15
Computer Software	502,506.94	-	-	502,506.94
Total Capital Assets, Depreciable	316,654,578.51	53,767,019.46	1,887,907.69	368,533,690.28
Less Accumulated Depreciation/Amortization for:				
Buildings	92,394,004.44	7,223,192.34	1,095,144.83	98,522,051.95
Machinery and Equipment	12,549,515.87	984,709.51	576,656.55	12,957,568.83
General Infrastructure	8,010,113.00	653,778.92	61,907.64	8,601,984.28
Computer Software	351,547.62	108,875.99	-	460,423.61
Total Accumulated Depreciation/Amortization	113,305,180.93	8,970,556.76	1,733,709.02	120,542,028.67
Total Capital Assets, Depreciable, Net	203,349,397.58	44,796,462.70	154,198.67	247,991,661.61
Capital Assets, Net	\$ 252,181,093.50	\$ 57,300,986.49	\$ 53,756,967.13	\$ 255,725,112.86

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 505,687.69
Accounts Payable - Capital Assets	401,232.22
Accrued Payroll	56,085.73
Contract Retainage	1,129,401.97
Other	44,102.36
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 2,136,509.97</u>

NOTE 8 - LONG-TERM LIABILITIES
University

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

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 54,150,000.00	\$ -	\$ 1,460,000.00	\$ 52,690,000.00	\$ 1,535,000.00
Plus: Unamortized Premium	3,628,537.53	-	136,796.99	3,491,740.54	-
Total Revenue Bonds Payable, Net	57,778,537.53	-	1,596,796.99	56,181,740.54	1,535,000.00
Notes from Direct Borrowings	4,909,468.84	-	491,135.32	4,418,333.52	522,620.75
Capital Leases Payable	2,105,000.00	-	135,000.00	1,970,000.00	140,000.00
Capital Leases Payable - Due to Foundation	35,190,000.00	-	1,475,000.00	33,715,000.00	1,545,000.00
Total Long-Term Debt	99,983,006.37	-	3,697,932.31	96,285,074.06	3,742,620.75
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	4,888,973.00	3,349,631.00	3,383,997.00	4,854,607.00	598,932.00
Net Pension Liability	22,524,656.00	-	947,908.00	21,576,748.00	-
Net Other Postemployment Benefits Liability	89,322,133.00	5,131,793.00	-	94,453,926.00	-
Workers' Compensation	3,540,594.00	161,211.62	468,474.62	3,233,331.00	535,535.00
Total Other Long-Term Liabilities	120,276,356.00	8,642,635.62	4,800,379.62	124,118,612.00	1,134,467.00
Total Long-Term Liabilities, Net	<u>\$ 220,259,362.37</u>	<u>\$ 8,642,635.62</u>	<u>\$ 8,498,311.93</u>	<u>\$ 220,403,686.06</u>	<u>\$ 4,877,087.75</u>

Additional information regarding capital lease obligations is included in Note 9.

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

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

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

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

Purpose	Series	Interest Rate Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
Revenue Bonds Payable					
Housing and Dining System					
UNC System Pool Revenue Bonds	2008A	3.00%-5.00%	10/01/2033	\$ 4,591,004.21	\$ 317,560.47
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	18,269,190.00	13,835,952.77
2017 General Revenue Bonds	2017	3.00%-5.00%	10/01/2046	23,589,748.95	22,627,751.10
Total Housing and Dining System				46,449,943.16	36,781,264.34
Student Services System					
UNC System Pool Revenue Bonds	2008A	3.00%-5.00%	10/01/2033	2,723,995.79	188,419.22
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	11,686,230.00	8,701,060.31
2017 General Revenue Bonds	2017	3.00%-5.00%	10/01/2046	1,655,251.05	1,610,621.94
Total Student Services System				16,065,476.84	10,500,101.47
Parking System					
2013 General Revenue Bonds	2013	2.00%-5.125%	04/01/2043	6,944,580.00	5,408,634.19
Total Revenue Bonds Payable (principal only)				\$ 69,460,000.00	52,690,000.00
Plus: Unamortized Premium					3,491,740.54
Total Revenue Bonds Payable, Net					\$ 56,181,740.54

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
Energy Performance Contract	Siemens Public, Inc.	3.81%	09/30/2027	\$ 6,517,358.00	\$ 4,260,433.80
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	370,679.00	157,899.72
Total Notes from Direct Borrowings				\$ 6,888,037.00	\$ 4,418,333.52

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 1,535,000.00	\$ 2,604,053.12	\$ 522,620.75	\$ 158,280.79
2022	1,570,000.00	2,539,462.50	561,923.83	138,950.22
2023	1,660,000.00	2,460,087.50	591,638.40	118,063.80
2024	1,760,000.00	2,376,212.50	584,319.74	96,145.68
2025	1,860,000.00	2,297,862.50	620,709.34	73,467.20
2026-2030	10,970,000.00	9,994,712.50	1,537,121.46	74,604.48
2031-2035	13,620,000.00	6,935,550.00	-	-
2036-2040	9,135,000.00	3,868,656.28	-	-
2041-2045	7,995,000.00	1,619,881.26	-	-
2046-2047	2,585,000.00	130,875.00	-	-
Total Requirements	\$ 52,690,000.00	\$ 34,827,353.16	\$ 4,418,333.52	\$ 659,512.17

Interest on variable rate debt 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 three revenue bond issuances (Series 2008A, 2013, and 2017) for which available funds of the University are pledged toward debt payments. These agreements also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) a failure to pay the principal of or premium, if any, on any bond when the same becomes due and payable, whether at the stated maturity thereof or on proceedings for redemption including sinking fund redemptions; (2) a failure to pay any installment of interest when the same becomes due and payable; and (3) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as described in subsections (1) and (2) above) contained in the bonds or in the General Indenture on the part of the Board to be observed or performed, which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Board by the Trustee, which may give such notice in its discretion and must give such notice at the written request of Owners of not less than 25% of principal amount of the bonds, unless the Trustee, or the Trustee and Owners of a principal amount of bonds not less than the principal amount of bonds the Owners of which requested such notice, as the case may be, agrees in writing to an extension of such period before its expiration.

On the occurrence and continuance of an Event of Default, the Trustee may, or if required by a majority of the Owners of the bonds, must, declare the bonds to be immediately due and payable, whereupon they will, without further action, become due and payable, anything in the General Indenture or in the bonds to the contrary notwithstanding.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014 and the Siemens Public Guaranteed Energy Savings Installment Financing Agreement dated September 15, 2011. These agreements also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (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.

Capital Leases - The University has capital leases for which available funds of the University are pledged toward debt payments. These agreements also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay any rental and interest when due, or (2) the University fails to observe and perform any other covenant, condition, or agreement on its part to be observed or performed for a period of 30 days after written notice specifying such failure and requesting that it be remedied.

Upon the occurrence of any event of default, the lessor may, without any further demand or notice, declare the unpaid rental and interest be due and payable immediately. The lessor 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.

Component Unit

Bonds Payable - Three student housing facilities have been financed through the issuance of bonds.

In August 2014, \$27,990,000 of Series 2014 bonds were issued. The original purpose of this debt was to construct two student residence halls for which the University leases (capital) from the Foundation. These bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 2% to 5%.

In September 2016, the Foundation issued \$13,235,000 in Series 2016 Refunding Limited Obligation (Winston-Salem State University Student Housing Project) refunding bonds. The original purpose of this debt was to construct Foundation Heights, a student residence hall, for which the University leases (capital) from the Foundation. These bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 2% to 5%.

Bonds payable are as follows at June 30, 2020:

	Amount
Series 2014 Bonds	\$ 22,415,000
Series 2016 Bonds	11,300,000
Gross Bonds Payable	33,715,000
Unamortized Bond Premium	3,024,906
Unamortized Debt Issuance Costs	(503,781)
Total Requirements	<u>\$ 36,236,125</u>

Scheduled maturities of the bonds as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 1,545,000
2022	1,625,000
2023	1,700,000
2024	1,790,000
2025	1,875,000
Thereafter (2026-2036)	<u>25,180,000</u>
Total Requirements	<u>\$ 33,715,000</u>

Unamortized bond premium is amortized over the lives of the related bond issues using the interest method. Amortization of the bond premium amounted to \$257,555 for the year ended June 30, 2020.

In connection with the financing arrangements for the construction of the student housing facilities, the Foundation paid certain fees and expenses. These debt issuance costs, including insurance premiums and other issuance costs, are being amortized over the terms of the bonds using the interest method. Any unamortized cost would be charged to earnings upon repayment of or in connection with a material change in the terms of the underlying debt agreement. Amortization of debt issuance costs was \$48,455 for the year ended June 30, 2020. Accumulated amortization amounted to \$158,463 at June 30, 2020.

NOTE 9 - LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 3,389,107.00
2022	3,390,123.00
2023	3,386,898.50
2024	3,389,443.00
2025	3,387,247.00
2026-2030	16,942,665.00
2031-2035	14,883,172.50
2036-2037	<u>2,021,825.00</u>
Total Minimum Lease Payments	50,790,481.00
Amount Representing Interest (2.00%-5.00% Rate of Interest)	<u>15,105,481.00</u>
Present Value of Future Lease Payments	<u>\$ 35,685,000.00</u>

Buildings acquired under capital lease amounted to \$58,035,000.00 at June 30, 2020. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation

for assets acquired under capital lease totaled \$27,518,671.55 at June 30, 2020.

As of June 30, 2020, \$33,715,000.00 of the future minimum lease payments shown above are payable to the Foundation for capital leases of student housing facilities.

- B. Operating Lease Obligations** - The University entered into operating leases for athletic fields, parking, and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 46,757.47
2022	11,138.10
2023	8,344.47
2024	8,594.80
2025	8,852.64
2026-2030	48,409.88
2031-2035	44,223.13
2036-2040	63,163.95
Total Minimum Lease Payments	\$ 239,484.44

Rental expense for all operating leases during the year was \$1,117,436.34.

NOTE 10 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (12,914,807.00)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(128,641,318.00)
Effect on Unrestricted Net Position	(141,556,125.00)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	9,331,537.32
Total Unrestricted Net Position	<u>\$ (132,224,587.68)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 30,071,440.89	\$ 10,649,227.33	\$ 271,927.02	\$ 19,150,286.54
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 14,629,256.38	\$ 2,999,302.65	\$ 232,210.75	\$ 11,397,742.98
Dining	7,225,241.39	1,999,535.10	131,114.95	5,094,591.34
Student Union Services	1,643,116.69	-	29,619.24	1,613,497.45
Health, Physical Education, and Recreation Services	256,343.60	-	-	256,343.60
Parking	926,562.37	-	6,250.89	920,311.48
Athletic	544,564.23	-	-	544,564.23
Telecommunications	62,361.61	-	-	62,361.61
Transport Services	9,470.01	-	-	9,470.01
Other	606,605.60	-	-	606,605.60
Total Sales and Services, Net	\$ 25,903,521.88	\$ 4,998,837.75	\$ 399,195.83	\$ 20,505,488.30

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/Amortization	Total
Instruction	\$ 39,015,364.01	\$ 2,886,388.03	\$ 3,699,365.91	\$ -	\$ -	\$ 45,601,117.95
Research	1,517,526.28	931,349.55	5,764.20	-	-	2,454,640.03
Public Service	429,970.44	103,499.54	-	-	-	533,469.98
Academic Support	4,618,796.24	1,951,978.68	4,772.00	-	-	6,575,546.92
Student Services	3,679,756.08	836,035.21	-	-	-	4,515,791.29
Institutional Support	10,777,949.68	7,766,975.71	3,222.00	-	-	18,548,147.39
Operations and Maintenance of Plant	7,003,198.52	4,092,059.79	-	1,796,700.02	-	12,891,958.33
Student Financial Aid	708,331.52	6,912.00	12,399,270.42	-	-	13,114,513.94
Auxiliary Enterprises	7,182,089.11	14,142,992.28	970,211.94	1,091,970.39	-	23,387,263.72
Depreciation/Amortization	-	-	-	-	8,970,556.76	8,970,556.76
Total Operating Expenses	\$ 74,932,981.88	\$ 32,718,190.79	\$ 17,082,606.47	\$ 2,888,670.41	\$ 8,970,556.76	\$ 136,593,006.31

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 \$3,058,990.00 provided by the CARES Act – Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 11.

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were \$2,079,441.79, and the University's contributions were \$4,495,060.00 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 \$21,576,748.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 0.20813%, which was a decrease of 0.01811 from its proportion measured as of June 30, 2018, which was 0.22624%.

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%)
\$ 41,066,553.00	\$ 21,576,748.00	\$ 5,227,285.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2020, the University recognized pension expense of \$7,651,921.00. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 1,804,870.00	\$ 43,195.00
Changes of Assumptions	2,299,087.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	413,596.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	278,492.00	585,969.00
Contributions Subsequent to the Measurement Date	4,495,060.00	-
Total	\$ 9,291,105.00	\$ 629,164.00

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

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ 3,091,545.00
2022	726,069.00
2023	204,581.00
2024	144,686.00
Total	\$ 4,166,881.00

- 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 \$60,940,996.38, of which \$20,503,735.10 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,230,224.11 and \$1,402,455.48, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. A total of \$93,249.76 in forfeitures was reflected in pension expense for the fiscal year 2020.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the

net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

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

B. Plan Descriptions

1. Health Benefits

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

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

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then

sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The University's contributions to the RHBF were \$3,568,923.06 for the year ended June 30, 2020.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

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

benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The University's contributions to DIPNC were \$55,161.10 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 \$94,453,926.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 0.29853%, which was a decrease of 0.01501 from its proportion measured as of June 30, 2018, which was 0.31354%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of \$128,967.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures

were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 0.29888%, which was a decrease of 0.02612 from its proportion measured as of June 30, 2018, which was 0.32500%.

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	\$	112,244,787.00	\$ 94,453,926.00	\$ 80,207,745.00
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(109,232.00)	\$ (128,967.00)	\$ (148,143.00)

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

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	\$ 77,775,229.80	\$ 94,453,926.00	\$ 116,382,580.25
DIPNC	\$ (129,193.87)	\$ (128,967.00)	\$ (128,754.52)

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 \$4,046,372.00 for RHBF and expense of \$131,607.00 for DIPNC, resulting in a total OPEB contra-expense of \$3,914,765.00. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ -	\$ 184,196.12	\$ 184,196.12
Changes of Assumptions	4,539,899.94	14,286.00	4,554,185.94
Net Difference Between Projected and Actual Earnings on Plan Investments	62,899.00	24,565.00	87,464.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,275,304.00	37,874.00	3,313,178.00
Contributions Subsequent to the Measurement Date	3,568,923.06	55,161.10	3,624,084.16
Total	\$ 11,447,026.00	\$ 316,082.22	\$ 11,763,108.22

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

	RHB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 4,761,668.00	\$ -	\$ 4,761,668.00
Changes of Assumptions	28,396,990.00	13,231.00	28,410,221.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	12,475,760.00	-	12,475,760.00
Total	\$ 45,634,418.00	\$ 13,231.00	\$ 45,647,649.00

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 RHB 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:	RHB	DIPNC
2021	\$ (11,699,503.00)	\$ 61,555.00
2022	(11,699,503.00)	41,688.00
2023	(11,690,409.00)	31,690.00
2024	(2,465,432.00)	21,522.00
2025	(201,468.06)	27,997.00
Thereafter	-	63,238.12
Total	\$ (37,756,315.06)	\$ 247,690.12

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund "all risk" coverage against losses caused by fire, windstorm or hail, explosion, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling

objects, weight of snow, ice or sleet, water damage, theft, and any other loss not specifically excluded on certain buildings and contents.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were

\$3,753,938.01 and on other purchases were \$139,464.10 at June 30, 2020.

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

NOTE 17 - THE CORONAVIRUS PANDEMIC EMERGENCY

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the University, these programs included the 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 this program are contingent upon meeting the terms and conditions of the program and signed agreement with the funding agency, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue caption of the financial statements:

Nonoperating Revenue:

Federal Aid - COVID-19 - This caption includes funds received from the CARES Act as follows:

The HEERF funds provided include: (1) a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and (2) an institutional allocation to cover costs associated with significant changes to the delivery of instruction due to COVID-19 including the recovery of revenue lost due to those changes. As part of the earned revenue from the HEERF (institutional allocation), the University reimbursed its auxiliary units for the prorated share of housing and dining fees refunded to students due to the actions taken to reduce the spread of COVID-19. The HEERF funds must be expended within one year of the grant award notification date.

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

Program	Total Authorized Award	Earned Revenue
Federal Aid - COVID-19:		
HEERF - Student Allocation	\$ 3,058,990.00	\$ 3,058,990.00
HEERF - Institutional Allocation (1)	3,058,990.00	<u>3,058,990.00</u>
Total Federal Aid - COVID-19		<u>\$ 6,117,980.00</u>

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

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

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

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



REQUIRED SUPPLEMENTARY INFORMATION

Winston-Salem 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	0.20813%	0.22624%	0.22259%	0.23152%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 21,576,748.00	\$ 22,524,656.00	\$ 17,661,272.00	\$ 21,279,080.00
Covered Payroll	\$ 35,555,573.64	\$ 36,553,692.04	\$ 35,447,028.56	\$ 35,253,636.84
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	60.68%	61.62%	49.82%	60.36%
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	0.23991%	0.24667%	0.24290%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 8,841,159.00	\$ 2,892,011.00	\$ 14,746,505.00	
Covered Payroll	\$ 35,992,422.42	\$ 36,471,278.37	\$ 36,534,751.72	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	24.56%	7.93%	40.36%	
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.

Winston-Salem 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	\$ 4,495,060.00	\$ 4,369,780.00	\$ 3,940,488.00	\$ 3,537,613.45	\$ 3,225,707.77
Contributions in Relation to the Contractually Determined Contribution	4,495,060.00	4,369,780.00	3,940,488.00	3,537,613.45	3,225,707.77
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 34,657,363.15	\$ 35,555,573.64	\$ 36,553,692.04	\$ 35,447,028.56	\$ 35,253,636.84
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	\$ 3,293,306.65	\$ 3,169,354.09	\$ 3,043,344.82	\$ 2,665,555.35	\$ 1,729,323.28
Contributions in Relation to the Contractually Determined Contribution	3,293,306.65	3,169,354.09	3,043,344.82	2,665,555.35	1,729,323.28
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 35,992,422.42	\$ 36,471,278.37	\$ 36,534,751.72	\$ 35,827,356.81	\$ 35,077,551.34
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.

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

Changes of Benefit Terms:

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

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

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

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

N/A - Not Applicable

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

Exhibit C-3

Retiree Health Benefit Fund	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.29853%	0.31354%	0.30306%	0.33759%
Proportionate Share of Collective Net OPEB Liability	\$ 94,453,926.00	\$ 89,322,133.00	\$ 99,363,488.00	\$ 146,863,125.00
Covered Payroll	\$ 56,209,441.79	\$ 57,364,183.84	\$ 56,169,626.15	\$ 55,545,610.59
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	168.04%	155.71%	176.90%	264.40%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset	0.29888%	0.32500%	0.32565%	0.32565%
Proportionate Share of Collective Net OPEB Asset	\$ 128,967.00	\$ 98,722.00	\$ 199,037.00	\$ 202,229.00
Covered Payroll	\$ 56,209,441.79	\$ 57,364,183.84	\$ 56,169,626.15	\$ 55,545,610.59
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.23%	0.17%	0.35%	0.36%
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.

Winston-Salem 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	\$ 3,568,923.06	\$ 3,524,332.00	\$ 3,470,533.12	\$ 3,263,455.28	\$ 3,110,554.19
Contributions in Relation to the Contractually Determined Contribution	3,568,923.06	3,524,332.00	3,470,533.12	3,263,455.28	3,110,554.19
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 55,161,098.25	\$ 56,209,441.79	\$ 57,364,183.84	\$ 56,169,626.15	\$ 55,545,610.59
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	\$ 3,079,732.92	\$ 3,121,030.81	\$ 3,104,043.14	\$ 2,869,683.18	\$ 2,782,760.77
Contributions in Relation to the Contractually Determined Contribution	3,079,732.92	3,121,030.81	3,104,043.14	2,869,683.18	2,782,760.77
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 56,097,138.83	\$ 57,796,866.84	\$ 58,566,851.65	\$ 57,393,663.69	\$ 56,791,036.03
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	\$ 55,161.10	\$ 78,693.22	\$ 80,309.86	\$ 213,444.58	\$ 227,737.00
Contributions in Relation to the Contractually Determined Contribution	55,161.10	78,693.22	80,309.86	213,444.58	227,737.00
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 55,161,098.25	\$ 56,209,441.79	\$ 57,364,183.84	\$ 56,169,626.15	\$ 55,545,610.59
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	\$ 229,998.27	\$ 254,306.21	\$ 257,694.15	\$ 298,447.06	\$ 295,313.39
Contributions in Relation to the Contractually Determined Contribution	229,998.27	254,306.21	257,694.15	298,447.06	295,313.39
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 56,097,138.83	\$ 57,796,866.84	\$ 58,566,851.65	\$ 57,393,663.69	\$ 56,791,036.03
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.

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

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were 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 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
Winston-Salem State University
Winston-Salem, 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 Winston-Salem 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 14, 2020. Our report includes a reference to other auditors who audited the consolidated financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary, as described in our report on the University's financial statements. The consolidated financial statements of the Winston-Salem State University Foundation, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Winston-Salem State University Foundation, Inc. and Subsidiary.

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 14, 2020

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



This audit required 960 hours at an approximate cost of \$99,840.