

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA SYSTEM OFFICE

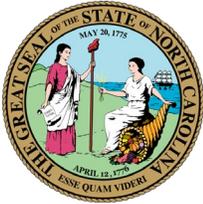
CHAPEL HILL, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2021

ADMINISTRATIVE BODY OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM
AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Governors, University of North Carolina System

We have completed a financial statement audit of The University of North Carolina System Office for the year ended June 30, 2021, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

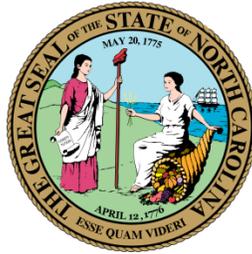


**Beth A. Wood, CPA
State Auditor**

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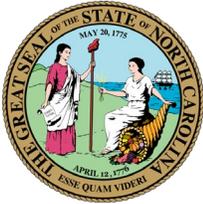
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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding.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



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Governors
University of North Carolina System
Chapel Hill, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of The University of North Carolina System Office (UNC System Office), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the UNC System Office's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of The University of North Carolina System Office, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The University of North Carolina System Office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of The University of North Carolina System Office are intended to present the financial position, changes in

financial position, and, where applicable, cash flows that are only attributable to the transactions of The University of North Carolina System Office. They do not purport to, and do not, present fairly the financial position of the University of North Carolina System as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 19 to the financial statements, during the year ended June 30, 2021, The University of North Carolina System Office adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The UNC System Office's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the UNC System Office's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 UNC System Office's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the UNC System Office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

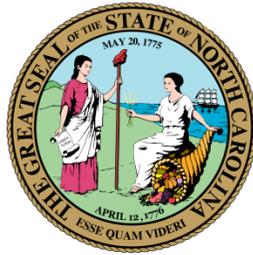
In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2022 on our consideration of the UNC System Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 UNC System Office's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 2, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina System Office (UNC System Office) provides this overview and management's discussion and analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2021, and includes comparative data for the year ended June 30, 2020. This discussion describes important trends and events that have impacted the fiscal health of the UNC System Office and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the UNC System Office's management along with the financial statements and the notes thereto. The report should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, notes to the financial statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for the UNC System Office as a whole. These standards were used in the preparation of this document. The UNC System Office presents two sets of fund financial statements: 1) proprietary fund financial statements, which account for the primary activities and 2) fiduciary fund statements, which account for the investment trust fund and custodial funds. See Note 1.K for additional information regarding the UNC System Office's fiduciary activities. The statements 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. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis; condensed comparative financial information is not required for fiduciary activities.

The Statement of Cash Flows provides information relative to the UNC System Office's sources and uses of cash for operating activities, noncapital financing activities, capital financing and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending 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.

The notes to the financial statements should be read in conjunction with the financial statements. The notes to the financial statements provide information regarding the significant accounting principles applied in the financial statements, adoption of GASB accounting pronouncements in the fiscal period, net position restatement, information concerning aid received in response to the Coronavirus pandemic, authority for and associated risk of deposits and investments, detailed information on deposits and investments, accounts receivable, capital assets, accounts payable, long-term liabilities, lease obligations, revenues, expenses, insurance against losses, commitments and contingencies, blended component unit, and required information on pension plans and other postemployment benefits, including the net

position impact from the adoption of GASB Statements No. 68 and 75. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the UNC System Office as a whole using accounting methods similar to those used in the private-sector. The UNC System Office's supporting organization, The University of North Carolina Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation and is reported as a blended component unit based on the nature and significance of its relationship to the UNC System Office. Therefore, the results of its operations are blended with the UNC System Office's financial statements and are included in this discussion and analysis. The reporting entity also includes the Public Broadcasting Service North Carolina and UNC Association of Student Government, divisions within the UNC System Office. Although the Foundation, the University of North Carolina Center for Public Media (PBS NC), and the UNC Association of Student Government organizations are all included in the UNC System Office reporting entity, each organization is subject to an independent outside audit due to organizational requirements or source of funding.

Financial Highlights

The UNC System Office's financial position, as a whole, increased significantly during the fiscal year ended June 30, 2021. The condensed net position for the UNC System Office increased by \$41.04 million or 30.91% compared to the prior year net position. The UNC System Office's endowment performance return in the UNC Investment Fund, LLC increased to 42.30% from 2.30% from last fiscal year.

Summary of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the UNC System Office as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of the UNC System Office. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the UNC System Office. They are also able to determine how much the UNC System Office owes to vendors and others and how much is held for future use by the UNC System Office or others. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the UNC System Office.

Net position is divided into categories to show the availability to meet the UNC System Office obligations. The first category, net investment in capital assets, provides the UNC System Office's equity in property, plant, and equipment. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the UNC System Office's permanent endowment funds and is only available for investment purposes. Expendable restricted net position is available for use by the UNC System Office, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the UNC System Office for any lawful purpose. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the UNC System Office's unrestricted net position has been designated for various programs and initiatives.

Condensed Statement of Net Position				
	2021	2020 (as Restated)	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	\$ 152,407,426.74	\$ 186,345,184.61	\$ (33,937,757.87)	(18.21%)
Noncurrent Assets:				
Other	126,347,543.56	99,358,775.13	26,988,768.43	27.16%
Capital Assets, Net	59,964,452.26	61,279,870.34	(1,315,418.08)	(2.15%)
Total Assets	<u>338,719,422.56</u>	<u>346,983,830.08</u>	<u>(8,264,407.52)</u>	(2.38%)
Total Deferred Outflows of Resources	<u>12,624,451.00</u>	<u>10,024,029.00</u>	<u>2,600,422.00</u>	25.94%
Liabilities:				
Current				
Long-Term Liabilities - Current Portion	545,888.08	531,462.43	14,425.65	2.71%
Other Current Liabilities	13,510,664.72	69,600,596.97	(56,089,932.25)	(80.59%)
Noncurrent				
Long-Term Liabilities	64,483,472.57	66,466,959.74	(1,983,487.17)	(2.98%)
Total Liabilities	<u>78,540,025.37</u>	<u>136,599,019.14</u>	<u>(58,058,993.77)</u>	(42.50%)
Total Deferred Inflows of Resources	<u>98,979,472.09</u>	<u>87,627,236.71</u>	<u>11,352,235.38</u>	12.96%
Net Position:				
Net Investment in Capital Assets	59,796,235.96	60,708,012.35	(911,776.39)	(1.50%)
Restricted:				
Nonexpendable	14,802,418.67	14,799,487.42	2,931.25	0.02%
Expendable	120,902,815.83	96,009,773.57	24,893,042.26	25.93%
Unrestricted	(21,677,094.36)	(38,735,670.11)	17,058,575.75	44.04%
Total Net Position	<u>\$ 173,824,376.10</u>	<u>\$ 132,781,603.23</u>	<u>\$ 41,042,772.87</u>	30.91%

Net position categories are defined in Note 1.O of the notes to the financial statements.

As of June 30, 2021, total net position for the UNC System Office was \$173.82 million. The UNC System Office's net investment in capital assets of \$59.80 million represents 34.40% of total net position. The increase in restricted expendable net position of \$24.89 million or 25.93% is primarily due to investment performance. Unrestricted net position increased by \$17.06 million or 44.04% primarily due to the change in pension and OPEB valuations and investment performance.

Total assets decreased by \$8.26 million or 2.38%. This decrease was primarily due to a decrease in current assets. Current assets decreased by \$33.94 million or 18.21% primarily due to decreases in cash balances and advances to outside entities due to the distribution of Coronavirus Aid, Relief, and Economic Security Act (CARES) funds received from the State that were still on hand as of the end of the prior fiscal year. Other noncurrent assets increased by \$26.99 million or 27.16% primarily due to increases in investment balances related to investment performance. Total deferred outflows of resources increased by \$2.60 million or 25.94% as a result of the required recognition of amounts related to pension plan and other postemployment benefits (see Notes 13 and 14).

Total liabilities, which were \$78.54 million at June 30, 2021, decreased significantly during the year ended June 30, 2021. Total liabilities decreased \$58.06 million or 42.50% primarily due to a decrease in other current liabilities. Other current liabilities decreased \$56.09 million or 80.59% due to the reduction of due to primary government related to CARES funds that were previously unearned. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 7 and 8. Total deferred inflows of resources increased \$11.35 million or 12.96% primarily due to the receipt of additional funds for the Opportunity Scholarship Grant Fund Reserve received each year (established by General Statute 115C-562.8). These amounts are forward funded and cannot be used until the subsequent fiscal year.

The UNC System Office's current assets of \$152.41 million covered the current liabilities of \$14.06 million, at a ratio of 10.84 (\$10.84 in current assets for every \$1.00 in current liabilities).

Summary of Revenues, Expenses, and Changes in Net Position

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. The UNC System Office's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net position as presented on the Condensed Statement of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the UNC System Office, both operating and nonoperating, the expenses incurred by the UNC System Office, operating and nonoperating, and any other revenues, expenses, gains and/or losses earned or incurred by the UNC System Office.

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of the UNC System Office. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the UNC System Office. Nonoperating revenues are revenues earned for which goods and services are not provided. Capital contributions are considered neither operating nor nonoperating revenues and are reported after "Income (Loss) Before Other Revenues."

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

	2021	2020 (as Restated)	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Sales and Services	\$ 14,949,607.70	\$ 11,443,028.14	\$ 3,506,579.56	30.64%
Other	31,882.85	36,611.42	(4,728.57)	(12.92%)
Total Operating Revenues	<u>14,981,490.55</u>	<u>11,479,639.56</u>	<u>3,501,850.99</u>	30.50%
Operating Expenses:				
Salaries and Benefits	42,655,734.84	41,243,029.61	1,412,705.23	3.43%
Supplies and Services	38,994,625.38	37,909,609.92	1,085,015.46	2.86%
Utilities	1,608,599.97	1,606,169.51	2,430.46	0.15%
Depreciation	4,922,100.58	3,887,379.44	1,034,721.14	26.62%
Total Operating Expenses	<u>88,181,060.77</u>	<u>84,646,188.48</u>	<u>3,534,872.29</u>	4.18%
Operating Loss	<u>(73,199,570.22)</u>	<u>(73,166,548.92)</u>	<u>33,021.30</u>	0.05%
Nonoperating Revenues (Expenses)				
State Appropriations	345,797,292.69	344,365,456.44	1,431,836.25	0.42%
State Aid - Coronavirus Relief Fund	98,601,228.79	5,608,514.65	92,992,714.14	1658.06%
Noncapital Contributions, Net	98,892,890.01	70,864,140.99	28,028,749.02	39.55%
Investment Income, Net	36,570,489.96	3,531,478.80	33,039,011.16	935.56%
Interest and Fees on Debt	(3,930.73)	(5,503.68)	(1,572.95)	(28.58%)
Grants, Aid and Subsidies	(469,492,537.47)	(351,299,265.01)	118,193,272.46	33.64%
Other Nonoperating Expenses	(1,109,059.14)	(3,125,974.46)	(2,016,915.32)	(64.52%)
Net Nonoperating Revenues	<u>109,256,374.11</u>	<u>69,938,847.73</u>	<u>39,317,526.38</u>	56.22%
Income (Loss) Before Other Revenues	<u>36,056,803.89</u>	<u>(3,227,701.19)</u>	<u>39,284,505.08</u>	(1217.10%)
Capital Appropriations	955,162.00	-	955,162.00	100.00%
Capital Contributions	4,027,875.73	8,834,493.66	(4,806,617.93)	(54.41%)
Additions to Endowments	2,931.25	2,500.00	431.25	17.25%
Increase in Net Position	<u>41,042,772.87</u>	<u>5,609,292.47</u>	<u>35,433,480.40</u>	631.69%
Net Position				
Net Position - July 1, Restated	132,781,603.23	126,991,062.16	5,790,541.07	4.56%
Restatement	<u>-</u>	<u>181,248.60</u>	<u>-</u>	
Net Position - June 30	<u>\$ 173,824,376.10</u>	<u>\$ 132,781,603.23</u>	<u>\$ 41,042,772.87</u>	30.91%
Total Revenues	\$ 599,829,360.98	\$ 444,717,466.10	\$ 155,111,894.88	34.88%
Total Expenses	\$ 558,786,588.11	\$ 439,108,173.63	\$ 119,678,414.48	27.25%

The Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$41.04 million for the fiscal year. The total operating loss for fiscal year 2021 was \$73.20 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, the UNC System Office shows a significant operating loss.

The state appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. For the fiscal year ended June 30, 2021, the appropriations from the State for the UNC System Office increased by \$1.43 million or 0.42% for operations.

State aid – coronavirus relief fund revenue increased \$92.99 million or 1658.06% due to the significant amount of CARES funds received in the current and prior fiscal years that were earned in the current fiscal year (i.e. funds were spent by the UNC System Office or the subrecipients). Grants, aid and subsidies increased by \$118.19 million or 33.64% primarily due to the increase in CARES funding from the State being distributed to and earned by various entities. Investment income increased \$33.04 million or 935.56% due to significant positive market investment performance during the fiscal year.

Operating revenues include sales and services (including academic affairs private college licensure fees, Go Global exchange programs, School Leadership Development training and conferencing services, etc.) and other operating revenues. For fiscal year 2021, sales and services increased by \$3.51 million or 30.64% due to a variety of factors, such as the Principal Fellows Program that was transferred to UNC System Office, conferences that were cancelled last year were held this year, and due to the timing of various billings.

Operating expenses, including depreciation of \$4.92 million, totaled \$88.18 million. Of this total, \$42.66 million was used for salaries and benefits and \$38.99 million was for supplies and services. Supplies and services consisted primarily of supplies and materials, contractual agreements, data processing services, travel, and communication expenses. Depreciation expense increased by \$1.03 million or 26.62% mainly due to the last few capital asset items in Construction in Progress related to the Spectrum Incentive Auction Repack being capitalized and depreciated.

Capital contributions decreased by \$4.81 million to a total of \$4.03 million due to the wrapping up of the Spectrum Incentive Auction Repack.

Capital appropriations of \$0.96 million was received this year due to the classification of carryforward as repairs and renovations for fiscal year 2022.

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

Capital Assets

There were no significant changes to total capital assets for fiscal year 2021. The primary capital project continued to be the replacement of PBS NC transmitters and antennas, as construction in progress concluded and relevant remaining balances were capitalized related to the Spectrum Incentive Auction Repack. The construction commitments identified in Note 16 are primarily related to the STEM Capital Planning study. Total capital assets, net of accumulated depreciation, at June 30, 2021 were \$59.96 million. For more detailed information about capital asset holdings, see Note 6 of the notes to the financial statements.

Factors Impacting Future Periods

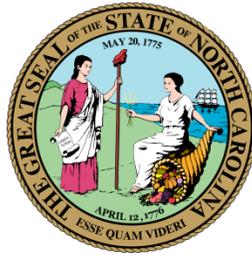
Management believes that the UNC System Office is well positioned to continue its level of excellence in service to UNC constituent institutions, students, the community, and governmental agencies. The UNC System Office's ongoing efforts toward maximizing the state's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence. However, fluctuations in state

appropriations and the impact of COVID-19 will continue to impact the ability of the UNC System Office to maintain resources to provide programs and services, including financial aid, to meet the growing demands of the State and its citizens.

A crucial element to the UNC System Office's future will continue to be its relationship with the State of North Carolina. Private gifts are an important supplement to the fundamental support from the State and other revenue sources. Fluctuations in market conditions will continue to affect future level of donor funding the UNC System Office receives from corporate and individual giving, including the support received through PBC NC.

The UNC System Office 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 UNC System Office's operations from temporary market volatility.

While it is not possible to predict the ultimate results and COVID-19 has presented challenges that will impact all UNC institutions, management believes that with cost reduction measures previously implemented and the continued support of the State of North Carolina and faithful donors, the UNC System Office's financial condition is strong enough to weather economic uncertainties.



FINANCIAL STATEMENTS

The University of North Carolina System Office
Statement of Net Position
Proprietary Fund
June 30, 2021

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 14,523,440.46
Restricted Cash and Cash Equivalents	126,742,753.79
Receivables, Net (Note 5)	5,676,718.81
Advances to Outside Entities (Note 17)	205,690.75
Due from Other UNC Institutions	1,150,969.17
Due from UNC System Office Fiduciary Fund	1,008,938.94
Inventories	31,913.68
Prepaid Items	3,067,001.14
	<hr/>
Total Current Assets	152,407,426.74

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,441,416.24
Endowment Investments	117,805,160.26
Restricted Investments	3,834,172.97
Beneficial Interest in Assets Held by Others	179,780.09
Net Other Postemployment Benefits Asset	87,014.00
Capital Assets - Nondepreciable (Note 6)	813,990.82
Capital Assets - Depreciable, Net (Note 6)	59,150,461.44
	<hr/>
Total Noncurrent Assets	186,311,995.82

Total Assets	<hr/> 338,719,422.56
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	5,988,358.00
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	6,636,093.00
	<hr/>
Total Deferred Outflows of Resources	12,624,451.00

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	4,048,925.74
Due to Primary Government (Note 17)	1,726,011.59
Unearned Revenue	7,735,357.73
Interest Payable	369.66
Long-Term Liabilities - Current Portion (Note 8)	545,888.08
	<hr/>
Total Current Liabilities	14,056,552.80

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	64,483,472.57
	<hr/>
Total Liabilities	78,540,025.37

The University of North Carolina System Office
Statement of Net Position
Proprietary Fund
June 30, 2021

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows State Aid	74,840,000.00
Deferred Inflows for Irrevocable Split-Interest Agreements	179,780.09
Deferred Inflows Related to Pensions	225,646.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>23,734,046.00</u>

Total Deferred Inflows of Resources 98,979,472.09

NET POSITION

Net Investment in Capital Assets	59,796,235.96
Restricted:	
Nonexpendable	14,802,418.67
Expendable	120,902,815.83
Unrestricted	<u>(21,677,094.36)</u>
Total Net Position	<u><u>\$ 173,824,376.10</u></u>

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

**The University of North Carolina System Office
Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2021**

Exhibit A-2

OPERATING REVENUES

Sales and Services	14,949,607.70
Other Operating Revenues	31,882.85
	<hr/>
Total Operating Revenues	14,981,490.55

OPERATING EXPENSES

Salaries and Benefits	42,655,734.84
Supplies and Services	38,994,625.38
Utilities	1,608,599.97
Depreciation	4,922,100.58
	<hr/>
Total Operating Expenses	88,181,060.77
	<hr/>
Operating Loss	(73,199,570.22)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	345,797,292.69
State Aid - Coronavirus	98,601,228.79
Grants, Aid, and Subsidies	(469,492,537.47)
Noncapital Contributions, Net (Note 11)	98,892,890.01
Investment Income (Net of Investment Expense of \$335,864.41)	36,570,489.96
Interest and Fees on Debt	(3,930.73)
Loss on Sale of Capital Assets	(718,597.96)
Other Nonoperating Expenses	(390,461.18)
	<hr/>
Net Nonoperating Revenues	109,256,374.11

Income Before Other Revenues	36,056,803.89
------------------------------	---------------

Capital Appropriations	955,162.00
Capital Contributions	4,027,875.73
Additions to Endowments	2,931.25
	<hr/>
Total Other Revenues	4,985,968.98

Increase in Net Position	41,042,772.87
--------------------------	---------------

NET POSITION

Net Position - July 1, 2020, as Restated (Note 20)	132,781,603.23
	<hr/>
Net Position - June 30, 2021	\$ 173,824,376.10
	<hr/> <hr/>

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

The University of North Carolina System Office
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 14,646,510.66
Payments to Employees and Fringe Benefits	(45,471,538.05)
Payments to Vendors and Suppliers	(39,044,135.81)
Other Receipts	31,882.85
	<hr/>
Net Cash Used by Operating Activities	(69,837,280.35)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	355,797,292.69
State Aid - Coronavirus	58,694,423.14
Grants, Aid and Subsidies	(469,492,537.47)
Noncapital Contributions	98,075,389.34
Additions to Endowments	2,931.25
Advances to Fiduciary Activity	(1,008,938.94)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	42,068,560.01

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	955,162.00
Capital Contributions	5,597,530.34
Proceeds from Sale of Capital Assets	75,169.84
Acquisition and Construction of Capital Assets	(4,712,941.63)
Principal Paid on Capital Debt	(90,936.84)
Interest and Fees Paid on Capital Debt	(4,144.25)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	1,819,839.46

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,661,000.00
Investment Income	458,430.50
Purchase of Investments and Related Fees	(90,000.00)
	<hr/>
Net Cash Provided by Investing Activities	4,029,430.50

Net Decrease in Cash and Cash Equivalents	(21,919,450.38)
Cash and Cash Equivalents - July 1, 2020, as Restated	<hr/> 167,627,060.87
Cash and Cash Equivalents - June 30, 2021	<hr/> <hr/> \$ 145,707,610.49

The University of North Carolina System Office
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (73,199,570.22)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,922,100.58
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(141,331.31)
Inventories	(18,190.78)
Prepaid Items	461,637.61
Beneficial Interest in Assets Held by Others	(31,624.38)
Net Other Postemployment Benefits Asset	(21,391.00)
Deferred Outflows Related to Pensions	(1,324,633.00)
Deferred Outflows Related to Other Postemployment Benefits	(1,275,789.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	1,157,291.69
Unearned Revenue	(161,765.73)
Net Pension Liability	2,143,134.00
Net Other Postemployment Benefits Liability	(4,435,117.00)
Compensated Absences	493,142.71
Workers' Compensation Liability	242,590.10
Deferred Inflows for Irrevocable Split-Interest Agreements	31,624.38
Deferred Inflows Related to Pensions	(183,601.00)
Deferred Inflows Related to Other Postemployment Benefits	1,504,212.00
Net Cash Used by Operating Activities	<u>\$ (69,837,280.35)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	36,447,923.87
Loss on Disposal of Capital Assets	(718,597.96)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(62,611.00)

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

The University of North Carolina System Office
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021

Exhibit B-1

	<u>Custodial Funds</u>		
	<u>Investment Trust Fund</u>	<u>External Investment Pool Funds</u>	<u>Other Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 112,556.31	\$ -	\$ 422,511,432.95
Accounts Receivable	-	-	22,138,089.64
Investments (Note 2)	7,103,361.06	-	-
Pooled Investments (Note 2)	-	72,897,595.56	-
Total Assets	<u>7,215,917.37</u>	<u>72,897,595.56</u>	<u>444,649,522.59</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities (Note 7)	-	55,923.03	21,233,042.17
Due to UNC System Office Proprietary Fund	-	-	1,008,938.94
Annuities Payable	3,849,543.63	-	-
Total Liabilities	<u>3,849,543.63</u>	<u>55,923.03</u>	<u>22,241,981.11</u>
NET POSITION			
Restricted for:			
State Education Assistance Authority	-	72,841,672.53	407,886,627.18
UNC Institutions	3,366,373.74	-	14,520,914.30
Total Net Position	<u>\$ 3,366,373.74</u>	<u>\$ 72,841,672.53</u>	<u>\$ 422,407,541.48</u>

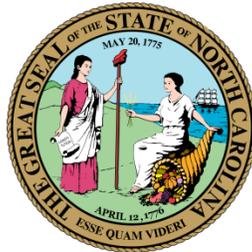
The accompanying notes to the financial statements are an integral part of this statement.

**The University of North Carolina System Office
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
June 30, 2021**

Exhibit B-2

	<u>Custodial Funds</u>		
	<u>Investment Trust Fund</u>	<u>External Investment Pool Funds</u>	<u>Other Funds</u>
ADDITIONS			
Contributions:			
Donors	\$ 460,028.58	\$ -	\$ -
Individuals/Other Organizations	-	-	420,370,894.45
Total Contributions	<u>460,028.58</u>	<u>-</u>	<u>420,370,894.45</u>
Investment Activity:			
Investment Income	1,370,539.91	21,800,218.53	-
Investment Expenses	(41,686.78)	(202,548.67)	-
Net Investment Income	<u>1,328,853.13</u>	<u>21,597,669.86</u>	<u>-</u>
Total Additions	<u>1,788,881.71</u>	<u>21,597,669.86</u>	<u>420,370,894.45</u>
DEDUCTIONS			
Withdrawals and Distributions	<u>424,423.19</u>	<u>-</u>	<u>416,831,754.02</u>
Increase in Fiduciary Net Position	1,364,458.52	21,597,669.86	3,539,140.43
NET POSITION			
Net Position - July 1, 2020, as Restated (Note 20)	<u>2,001,915.22</u>	<u>51,244,002.67</u>	<u>418,868,401.05</u>
Net Position - June 30, 2021	<u>\$ 3,366,373.74</u>	<u>\$ 72,841,672.53</u>	<u>\$ 422,407,541.48</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. The University of North Carolina System Office (UNC System Office) is the administrative body 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 *Annual Comprehensive Financial Report*.

The accompanying financial statements present all funds belonging to the UNC System Office and its component unit. The UNC System Office is the organizational structure established, pursuant to *North Carolina General Statutes* 116-3 through 116-22, to support and assist the President of the University System in fulfilling responsibilities to the Board of Governors in meeting the overall responsibilities for administering the University System. The President, as chief administrative and executive officer, is responsible for (1) communication between the Board and persons inside and outside the University System, (2) preparation, presentation, and execution of the budget for the University System, and (3) establishment and supervision of administrative divisions to comply with policies of the Board. These responsibilities are accomplished through offices which address academic affairs, financial administration, long-range planning, student services and special programs, research, communications, and public affairs. The UNC System Office's component unit is blended in the UNC System Office's financial statements. See below for further discussion of the UNC System Office's component unit. Other related foundations and similar nonprofit corporations for which the UNC System Office is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, The University of North Carolina Foundation, Inc. (Foundation), a component unit of the UNC System Office, is reported as if it were part of the UNC System Office.

The Foundation is governed by a board consisting of ten voting ex-officio directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the multi-campus University System. The ten ex-officio directors are the Chair of the Board of Governors of the University System, the President of the University System, the Senior Vice President for Finance and Budget of the University System, the Senior Vice President for Academic Affairs of the University System, the Senior Vice President for External Affairs of the University System, the Senior Vice President for Strategy and Policy for

the University System, the Senior Vice President and Chief of Staff of the University System, the Senior Vice President for Legal Affairs and General Counsel of the University System, the Chair of the Committee on University Governance of the Board of Governors of the University System, and the Chair of the Committee on Budget and Finance of the Board of Governors of the University System. Because the Foundation's sole purpose is to benefit the University System, its financial statements have been blended with those of the UNC System Office.

Separate financial statements for the Foundation may be obtained from the UNC System Office, 140 Friday Center Drive, Chapel Hill, or by calling 919-962-4243.

Condensed combining information regarding blended component unit is provided in Note 18.

- 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 Governmental Accounting Standards Board (GASB). 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*, and GASB Statement No. 84, *Fiduciary Activities*, require the presentation of both proprietary and fiduciary fund financial statements. See below for a description of each fund.

Proprietary Fund - This fund accounts for the UNC System Office's primary activities and is presented in a single column on the accompanying proprietary fund financial statements.

Fiduciary Funds - This fund accounts for all of the UNC System Office's fiduciary activities, which include an Investment Trust Fund and custodial funds.

- C. Basis of Accounting** - The financial statements of the UNC System Office 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 UNC System Office receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, cash on deposit with private bank accounts, deposits held by the

State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the UNC System Office for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. **Receivables** - Receivables consist of amounts due from the federal government, state and local governments, constituent universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF) as the trustees of the Optional Retirement Program (ORP) in connection with reimbursement of expenses related to the administration of the ORP, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of postage, are valued at cost using the last invoice cost method.
- H. **Beneficial Interest in Assets Held by Others** - Resources held by a trustee in an irrevocable trust that will benefit the UNC System Office upon the end of the predetermined period are reported as Beneficial Interest in Assets Held by Others.
- I. **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 UNC System Office capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	15-100 years
Machinery and Equipment	5-25 years
General Infrastructure	5-50 years

The UNC System Office does not capitalize its art and historical treasures. These collections adhere to the UNC System Office’s policy to maintain for public exhibition or education; protect, keep unencumbered, care for, and preserve; and are required not to be sold. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- J. **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, endowment and other restricted investments, and resources whose use is limited by external parties or statute.
- K. **Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, all trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.
- L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers’ compensation.

The net pension liability represents the UNC System Office’s proportionate share of the collective net pension liability reported in the State of North Carolina’s 2020 *Comprehensive Annual Financial Report*. This liability represents the UNC System Office’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 UNC System Office’s policies for recognizing liabilities,

expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the UNC System Office's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the UNC System Office'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 UNC System Office's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- M. Compensated Absences** - The UNC System Office'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 UNC System Office has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

- O. **Net Position** - The UNC System Office's net position is classified as follows:

Proprietary Fund

Net Investment in Capital Assets - This represents the UNC System Office's total investment in capital assets, net of outstanding liabilities related to those capital assets.

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 UNC System Office is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. It also includes the net position of accrued employee benefits such as certain other postemployment benefits.

Unrestricted Net Position - Unrestricted net position includes resources derived from 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 UNC System Office. 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.

Fiduciary Funds

Restricted Net Position - Fiduciary net position includes resources held in a trust capacity for UNC System constituent institutions or in a custodial capacity for the State Education Assistance Authority or UNC System constituent institutions that are not available for alternative use by the UNC System Office.

- P. **Revenue and Expense Recognition** - The UNC System Office 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 UNC System Office's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services related to shared services. 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 UNC System Office, 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the UNC System Office 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 UNC System Office 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 UNC System Office may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. Special funds consist of moneys for agency funds held directly by the UNC System Office.

At June 30, 2021, the amount shown on the Statement of Net Position and the Statement of Fiduciary Net Position as cash and cash equivalents includes \$139,544,300.81 for the proprietary fund, and \$422,511,432.95 for the fiduciary funds, which represents the UNC System Office'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, 2021. 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 7604 or can be accessed from the Department of State

Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

The carrying amount of the UNC System Office's deposits not with the State Treasurer was \$6,163,309.68 for the proprietary fund and \$112,556.31 for the fiduciary funds. The bank balance was \$6,163,600.95. Custodial credit risk is the risk that in the event of a bank failure, the UNC System Office's deposits may not be returned to it. The UNC System Office does not have a deposit policy for custodial credit risk. As of June 30, 2021, \$5,913,309.68 of the UNC System Office's bank balance was exposed to custodial credit risk because it is uninsured and uncollateralized.

- B. Investments** - The UNC System Office 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 in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

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

Investments from various donors or other sources may be pooled unless prohibited by statute or by terms of the gift or contract. The UNC System

Office 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 UNC System Office may face should interest rate variances affect the value of investments. The UNC System Office 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 UNC System Office does not have a formal policy that addresses credit risk.

External Investment Pool - The External Investment Pool (Pool) sponsored by the UNC System Office was established in December 2019. The Pool is utilized to manage the investments for endowments and funds that are organized and operated primarily to support the UNC System Office and student loan funds identified for investment by the State Education Assistance Authority (SEAA). Endowment funds and the University of North Carolina Center for Public Media's operational funds represent the Pool's internal participants. SEAA, an organization not included in the UNC System Office's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rata share of the market value of the investment pool at the beginning of each month. The external portion of the Pool is presented in the accompanying fiduciary fund financial statements.

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The Bank of New York Mellon is the custodian for the Pool and provides the UNC System Office with monthly statements defining income and valuation, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The UNC System Office has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. At June 30, 2021, the UNC System Office's investments include \$194,509,878.79, which represents the UNC System Office's equity position in the 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.

The following tables in this section present the UNC System Office's External Investment Pool in total, including both proprietary and fiduciary funds. See Note 2C below for further details regarding investments by fund type within the External Investment Pool.

The following table presents investments as of June 30, 2021, for the External Investment Pool. The Pool did not hold any investments subject to interest rate risk as of June 30, 2021.

External Investment Pool

	<u>Amount</u>
Investment Type	
Other Securities	
UNC Investment Fund	<u>\$ 194,509,878.79</u>
Total External Investment Pool	<u><u>\$ 194,509,878.79</u></u>

Since a separate annual financial report on the External Investment Pool has not been, and is not planned to be, issued, the following additional disclosures are being provided in the UNC System Office's financial statements.

The External Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2021, are as follows:

Statement of Net Position
June 30, 2021

	<u>Amount</u>
Assets:	
Investments	<u>\$ 194,509,878.79</u>
Total Assets	<u><u>\$ 194,509,878.79</u></u>
Liabilities:	
Accounts Payable	<u>\$ 149,217.96</u>
Total Liabilities	<u>149,217.96</u>
Net Position As Held in Trust for All Pool Participants:	
Internal Portion	121,518,988.30
External Portion	<u>72,841,672.53</u>
Total Net Position	<u>194,360,660.83</u>
Total Liabilities and Net Position	<u><u>\$ 194,509,878.79</u></u>

Statement of Operations and Changes in Net Position
For the Fiscal Year Ended June 30, 2021

	<u>Amount</u>
Increase in Net Position from Operations:	
Revenues:	
Investment Income	\$ 58,247,032.11
Expenditures:	
Investment Management	<u>(537,302.78)</u>
Net Increase in Net Position Resulting from Operations	57,709,729.33
Distributions to Participants:	
Distributions Paid and Payable	(3,661,000.00)
Share Transactions:	
Net Share Purchases	<u>90,000.00</u>
Total Increase in Net Position	54,138,729.33
Net Position:	
Beginning of Year	<u>140,221,931.50</u>
End of Year	<u><u>\$ 194,360,660.83</u></u>

Investment Trust Fund Investments - This fund reflects the holdings of NC Gift Planning, LLC. These investments are not pooled and are maintained to pay annuities to donors. Upon termination of the annuity, the balance pays to the constituent institution named as the beneficiary.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2021, for the UNC System Office's Investment Trust Fund investments.

Investment Trust Fund Investments

	<u>Amount</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Investment Type				
Debt Securities				
Debt Mutual Funds	\$ 2,408,522.85	\$ -	\$ 562,849.67	\$ 1,845,673.18
Money Market Mutual Funds	<u>59,126.12</u>	<u>59,126.12</u>	-	-
Total Debt Securities	2,467,648.97	<u>\$ 59,126.12</u>	<u>\$ 562,849.67</u>	<u>\$ 1,845,673.18</u>
Other Securities				
Equity Mutual Funds	<u>4,635,712.09</u>			
Total Investment Trust Fund Investments	<u><u>\$ 7,103,361.06</u></u>			

At June 30, 2021, the UNC System Office's Investment Trust Fund investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Debt Mutual Funds	\$ 2,408,522.85	\$ 713,263.21	\$ 13,357.60	\$ 1,119,052.37	\$ 405,143.03	\$ 157,706.64
Money Market Mutual Funds	59,126.12	59,126.12	-	-	-	-
Totals	<u>\$ 2,467,648.97</u>	<u>\$ 772,389.33</u>	<u>\$ 13,357.60</u>	<u>\$ 1,119,052.37</u>	<u>\$ 405,143.03</u>	<u>\$ 157,706.64</u>

Rating Agency: TIAA Kaspick

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2021, for the UNC System Office's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount
Other Securities	
Investments in Real Estate	<u>\$ 27,050.00</u>

Total Investments - The following table presents the total investments at June 30, 2021:

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 2,408,522.85
Money Market Mutual Funds	59,126.12
Other Securities	
UNC Investment Fund	194,509,878.79
Equity Mutual Funds	4,635,712.09
Investments in Real Estate	<u>27,050.00</u>
Total Investments	<u>\$ 201,640,289.85</u>

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the UNC System Office as of June 30, 2021, is as follows:

	Proprietary Fund	Fiduciary Fund	Total
Amount of Deposits with Private Financial Institutions	\$ 6,163,309.68	\$ 112,556.31	\$ 6,275,865.99
Deposits in the Short-Term Investment Fund	139,544,300.81	422,511,432.95	562,055,733.76
External Investment Pool	121,612,283.23	72,897,595.56	194,509,878.79
Investment Trust Funds	-	7,103,361.06	7,103,361.06
Non-Pooled Investments	27,050.00	-	27,050.00
Total Deposits and Investments	\$ 267,346,943.72	\$ 502,624,945.88	\$ 769,971,889.60
Deposits			
Current			
Cash and Cash Equivalents	\$ 14,523,440.46	\$ -	\$ 14,523,440.46
Restricted Cash and Cash Equivalents	126,742,753.79	422,623,989.26	549,366,743.05
Noncurrent			
Restricted Cash and Cash Equivalents	4,441,416.24	-	4,441,416.24
Total Deposits	145,707,610.49	422,623,989.26	568,331,599.75
Investments			
Noncurrent			
Endowment Investments	117,805,160.26	-	117,805,160.26
Restricted Investments	3,834,172.97	7,103,361.06	10,937,534.03
Pooled Investment Funds	-	72,897,595.56	72,897,595.56
Total Investments	121,639,333.23	80,000,956.62	201,640,289.85
Total Deposits and Investments	\$ 267,346,943.72	\$ 502,624,945.88	\$ 769,971,889.60

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the UNC System Office’s investments are recorded at fair value as of June 30, 2021. 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:

NOTES TO THE FINANCIAL STATEMENTS

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

The following table summarizes the UNC System Office's proprietary and fiduciary fund investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2021:

	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	\$ 2,408,522.85	\$ 2,408,522.85	\$ -	\$ -
Money Market Mutual Funds	59,126.12	59,126.12	-	-
Total Debt Securities	2,467,648.97	2,467,648.97	-	-
Other Securities				
Equity Mutual Funds	4,635,712.09	4,635,712.09	-	-
Investments in Real Estate	27,050.00	-	-	27,050.00
Total Investments by Fair Value Level	7,130,411.06	\$ 7,103,361.06	\$ -	\$ 27,050.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	562,055,733.76			
UNC Investment Fund	194,509,878.79			
Total Investments as a Position in an External Investment Pool	756,565,612.55			
Total Investments Measured at Fair Value	\$ 763,696,023.61			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The UNC System Office's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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

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

Investments in Real Estate - These investments of donated real estate held for profit are valued at fair market value. The fair market values were estimated using recent appraisals, tax values, and purchase price.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the UNC System Office'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, several of the UNC System Office'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 UNC System Office's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the UNC System Office's endowment funds are based on an adopted spending policy which limits spending to 5% of the endowment funds market value at the end of the previous fiscal year. Under this policy, annual distributions are calculated by comparing cash associated with the endowment fund to projected expenses for programs associated with the fund. To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the UNC System Office uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2021, net appreciation of \$37,477,203.25 was available to be spent, of which \$34,240,572.76 was classified in net position as restricted: expendable as these amounts are restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables for the proprietary fund at June 30, 2021, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Receivables:			
Accounts	\$ 2,551,917.90	\$ -	\$ 3,019,172.44
Intergovernmental	2,537,400.91	-	2,537,400.91
Pledges	125,145.46	5,000.00	120,145.46
Total Receivables	<u>\$ 5,214,464.27</u>	<u>\$ 5,000.00</u>	<u>\$ 5,676,718.81</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2021, is presented as follows:

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>
Capital Assets, Nondepreciable:				
Land	\$ 802,658.00	\$ -	\$ -	\$ 802,658.00
Construction in Progress	1,052,511.46	932,253.40	1,973,432.04	11,332.82
Total Capital Assets, Nondepreciable	<u>1,855,169.46</u>	<u>932,253.40</u>	<u>1,973,432.04</u>	<u>813,990.82</u>
Capital Assets, Depreciable:				
Buildings	87,135,082.86	99,612.60	2,790,248.35	84,444,447.11
Machinery and Equipment	33,510,589.11	2,963,014.31	384,740.45	36,088,862.97
General Infrastructure	24,726,810.87	2,379,002.03	1,143,488.51	25,962,324.39
Total Capital Assets, Depreciable	<u>145,372,482.84</u>	<u>5,441,628.94</u>	<u>4,318,477.31</u>	<u>146,495,634.47</u>
Less Accumulated Depreciation for:				
Buildings	62,861,837.12	1,316,030.97	2,624,525.27	61,553,342.82
Machinery and Equipment	11,810,081.50	2,945,075.42	364,711.21	14,390,445.71
General Infrastructure	11,275,863.34	660,994.19	535,473.03	11,401,384.50
Total Accumulated Depreciation	<u>85,947,781.96</u>	<u>4,922,100.58</u>	<u>3,524,709.51</u>	<u>87,345,173.03</u>
Total Capital Assets, Depreciable, Net	<u>59,424,700.88</u>	<u>519,528.36</u>	<u>793,767.80</u>	<u>59,150,461.44</u>
Capital Assets, Net	<u>\$ 61,279,870.34</u>	<u>\$ 1,451,781.76</u>	<u>\$ 2,767,199.84</u>	<u>\$ 59,964,452.26</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2021, were as follows:

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>
Accounts Payable and Accrued Liabilities		
Accounts Payable	\$ 2,732,593.64	\$ 21,288,965.20
Accrued Payroll	1,316,332.10	-
Total Accounts Payable and Accrued Liabilities	<u>\$ 4,048,925.74</u>	<u>\$ 21,288,965.20</u>

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2021, is presented as follows:

	Balance July 1, 2020 as restated	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Notes from Direct Borrowings	\$ 258,783.48	\$ -	\$ 90,936.84	\$ 167,846.64	\$ 94,607.72
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	5,090,577.50	3,115,444.29	2,622,301.58	5,583,720.21	202,848.84
Net Pension Liability	10,486,177.00	2,143,134.00	-	12,629,311.00	-
Net Other Postemployment Benefits Liability	50,516,020.00	-	4,497,728.00	46,018,292.00	-
Workers' Compensation	387,600.70	495,233.37	252,643.27	630,190.80	248,431.52
Total Other Long-Term Liabilities	<u>66,480,375.20</u>	<u>5,753,811.66</u>	<u>7,372,672.85</u>	<u>64,861,514.01</u>	<u>451,280.36</u>
Total Long-Term Liabilities	<u>\$ 66,739,158.68</u>	<u>\$ 5,753,811.66</u>	<u>\$ 7,463,609.69</u>	<u>\$ 65,029,360.65</u>	<u>\$ 545,888.08</u>

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. Notes from Direct Borrowings - The UNC System Office 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, 2021
Energy Savings Agreement	Banc of America Public Capital Corp	1.84%	2/14/2023	<u>\$ 607,508.00</u>	<u>\$ 167,846.64</u>

- C. **Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2021, are as follows:

Fiscal Year	Annual Requirements	
	Notes from Direct Borrowings	
	Principal	Interest
2022	\$ 94,607.72	\$ 2,444.14
2023	73,238.92	675.53
Total Requirements	\$ 167,846.64	\$ 3,119.67

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

Notes from Direct Borrowings - The UNC System Office has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the UNC System Office 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 UNC System Office 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.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The UNC System Office entered into operating leases for tower sites and office and storage facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 193,557.19
2023	178,181.19
2024	167,796.03
2025	135,405.14
2026	76,673.53
2027-2031	<u>217,479.90</u>
Total Minimum Lease Payments	<u>\$ 969,092.98</u>

Rental expense for all operating leases during the year was \$297,907.08.

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	\$ (6,866,599.00)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(63,192,067.00)</u>
Effect on Unrestricted Net Position	(70,058,666.00)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>48,381,571.64</u>
Total Unrestricted Net Position	<u>\$ (21,677,094.36)</u>

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

NOTE 11 - REVENUES

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

	Gross Revenues	Less Allowance for Uncollectibles	Net Revenues
Nonoperating Revenues:			
Noncapital Contributions, Net	<u>\$98,894,048.01</u>	<u>\$ 1,158.00</u>	<u>\$98,892,890.01</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

The UNC System Office's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Services	Utilities	Depreciation	Total
Instruction	\$ 1,194,105.09	\$ 2,198,054.78	\$ -	\$ -	\$ 3,392,159.87
Public Service	13,463,020.21	19,695,082.14	1,307,208.21	-	34,465,310.56
Institutional Support	27,998,609.54	17,003,594.86	301,391.76	-	45,303,596.16
Operations and Maintenance of Plant	-	97,893.60	-	-	97,893.60
Depreciation	-	-	-	4,922,100.58	4,922,100.58
Total Operating Expenses	<u>\$ 42,655,734.84</u>	<u>\$ 38,994,625.38</u>	<u>\$ 1,608,599.97</u>	<u>\$ 4,922,100.58</u>	<u>\$ 88,181,060.77</u>

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 membership 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 membership 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 UNC System Office's contractually-required contribution rate for the year ended June 30, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were \$1,242,106.13, and the UNC System Office's contributions were \$3,059,721.43 for the year ended June 30, 2021.

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 2020 *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 participate 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 2020 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2021, the UNC System Office reported a liability of \$12,629,311.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. The UNC System Office’s proportion of the net pension liability was based on the present value of future salaries for the UNC System Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the UNC System Office’s proportion was 0.10453%, which was an increase of 0.00338 from its proportion measured as of June 30, 2019, which was 0.10115%.

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	12/31/2019
Inflation	3%
Salary Increases*	3.5% - 8.1%
Investment Rate of Return**	7%

* 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, 2019 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, 2020 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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, 2020 is 1.2%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2019 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, 2020 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		
<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
\$ 22,729,793.66	\$ 12,629,311.00	\$ 4,157,096.27

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021, the UNC System Office recognized pension expense of \$3,673,304.00. At June 30, 2021, the UNC System Office 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 695,943.00	\$ -
Changes of Assumptions	427,972.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,396,672.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	408,049.57	225,646.00
Contributions Subsequent to the Measurement Date	<u>3,059,721.43</u>	<u>-</u>
Total	<u>\$ 5,988,358.00</u>	<u>\$ 225,646.00</u>

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 ending June 30, 2022.

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 Ending June 30:</u>	<u>Amount</u>
2022	\$ 858,079.00
2023	736,519.00
2024	692,312.00
2025	416,080.57
Total	\$ 2,702,990.57

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 UNC System Office 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, 2021, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The UNC System Office assumes no liability other than its contribution.

For the current fiscal year, the UNC System Office had a total payroll of \$34,934,082.95, of which \$12,136,907.20 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$728,214.43 and \$830,164.45, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The UNC System Office had forfeitures reflected in pension expense for the current fiscal year of \$459,643.04.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The UNC System Office 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 2020 *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 2020 *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.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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 UNC System Office's contractually-required contribution rate for the year ended June 30, 2021 was 6.68% of covered payroll. The UNC System Office's contributions to the RHBF were \$2,193,623.56 for the year ended June 30, 2021.

In fiscal year 2020, the State Health Plan (the Plan) transferred \$475.2 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2021, the UNC System Office recognized noncapital contributions for RHBF of \$62,611.00

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 UNC System Office's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The UNC System Office's contributions to DIPNC were \$29,554.81 for the year ended June 30, 2021.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2021, the UNC System Office reported a liability of \$46,018,292.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The UNC System Office's proportion of the net OPEB liability was based on the present value of future salaries for the UNC System Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the UNC System Office's proportion was 0.16589%, which was an increase of 0.00623 from its proportion measured as of June 30, 2019, which was 0.15966%.

Net OPEB Asset: At June 30, 2021, the UNC System Office reported an asset of \$87,014.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The UNC System Office's proportion of the net OPEB asset was based on the present value of future salaries for the UNC System Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the UNC System Office's proportion was 0.17688%, which was an increase of 0.02480 from its proportion measured as of June 30, 2019, which was 0.15208%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, 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, 2020 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* 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, 2020.

Best estimates of real rates of return for each major asset class included in RHBF’s target asset allocation as of June 30, 2020 (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, 2020 is 1.2%.

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, 2019 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 2.21%. 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 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

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 UNC System Office’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)			
	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
RHBF	\$ 57,574,782.53	\$ 46,018,292.00	\$ 39,124,613.31
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
DIPNC	\$ (75,148.94)	\$ (87,014.00)	\$ (98,534.15)

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% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	\$ 37,099,064.37	\$ 46,018,292.00	\$ 57,940,041.45
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	\$ (87,157.27)	\$ (87,014.00)	\$ (86,888.42)

OPEB Expense: For the fiscal year ended June 30, 2021, the UNC System Office recognized OPEB expense as follows:

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ (2,108,526.00)
DIPNC	65,311.00
Total OPEB Expense	\$ (2,043,215.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2021, the UNC System Office 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:**

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 41,689.00	\$ 63,035.00	\$ 104,724.00
Changes of Assumptions	2,018,165.00	6,766.00	2,024,931.00
Net Difference Between Projected and Actual Earnings on Plan Investments	96,942.00	-	96,942.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,166,289.44	20,028.19	2,186,317.63
Contributions Subsequent to the Measurement Date	<u>2,193,623.56</u>	<u>29,554.81</u>	<u>2,223,178.37</u>
Total	<u>\$ 6,516,709.00</u>	<u>\$ 119,384.00</u>	<u>\$ 6,636,093.00</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 1,800,292.00	\$ -	\$ 1,800,292.00
Changes of Assumptions	18,674,950.00	6,852.00	18,681,802.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	14,741.00	14,741.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>3,215,242.00</u>	<u>21,969.00</u>	<u>3,237,211.00</u>
Total	<u>\$ 23,690,484.00</u>	<u>\$ 43,562.00</u>	<u>\$ 23,734,046.00</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2022. 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 Ending June 30:	RHBF	DIPNC
2022	\$ (7,329,192.00)	\$ 18,596.00
2023	(7,324,139.00)	12,677.00
2024	(2,951,393.00)	6,660.00
2025	(568,073.00)	10,490.00
2026	(1,194,601.56)	(137.00)
Thereafter	-	(2,018.81)
Total	<u>\$ (19,367,398.56)</u>	<u>\$ 46,267.19</u>

NOTE 15 - RISK MANAGEMENT

The UNC System Office 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

UNC System Office 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 and employee contributions. 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 0.13% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to UNC System Office 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 UNC System Office for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. 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 UNC System Office is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the UNC System Office for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the UNC System Office. 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.

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 UNC System Office 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 \$5,000,000 in the aggregate per fiscal year via contract with a private insurance company. The UNC System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The UNC System Office 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. Participants 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 UNC System Office's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The UNC System Office is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The UNC System Office retains the risk for workers' compensation.

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

5. Other Insurance Held by the UNC System Office

The UNC System Office purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages include: boiler, auto comprehensive and collision, leased computer equipment, and fine art.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The UNC System Office has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$582,792.49 at June 30, 2021.
- B. Pending Litigation and Claims** - The UNC System Office 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. UNC System Office 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 UNC System Office.

NOTE 17 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, the federal government provided grants to the State and the UNC System Office through various coronavirus program funds appropriated by (1) The Coronavirus Aid, Relief, and Economic Security Act (CARES), (2) The Coronavirus Response and Relief Supplemental Appropriations within the Federal Consolidated Appropriations Act of 2021 (CRRSA), and (3) The American Rescue Plan Act of 2021 (ARP).

The grant revenues from the various coronavirus program funds are contingent upon meeting the terms and conditions of the grant and signed agreements with the funding agencies, incurring qualifying expenditures, and are reported in the following nonoperating revenue caption of the financial statements:

State Aid - Coronavirus - This caption includes grant funds received directly by the State from the U.S. Department of Treasury, Coronavirus Relief Fund (CRF), and appropriated by the State to the UNC System Office.

Summary of State Aid - COVID-19 Revenue Activities for the Fiscal Year Ended June 30, 2021:

Program	Total Authorized Award	2020 Earned Revenue	2021 Earned Revenue	2021 Unearned Revenue (1)
State Aid - Coronavirus	N/A	<u>\$ 5,608,514.65</u>	<u>\$ 98,601,228.79</u>	<u>\$ 1,726,011.59</u>

(1) The Unearned Revenue Column represents funds that have been received as of June 30th for which incurred qualifying expenditures/ uses of funds or other eligibility requirements for reporting as earned revenue have not yet been met including specified grantor/ provider requirements. These unearned revenues are reported on the Statement of Net Position as "Due to Primary Government". A portion of these funds were advanced to private entities during the year that have yet to incur eligible expenditures, therefore these amounts are reported on the Statement of Net Position as "Advances to Outside Entities".

NOTE 18 - BLENDED COMPONENT UNIT

Condensed combining information for the UNC System Office's blended component unit for the year ended June 30, 2021, is presented as follows:

***Condensed Statement of Net Position
Proprietary Fund
June 30, 2021***

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Total
ASSETS			
Current Assets	\$ 150,219,733.41	\$ 2,187,693.33	\$ 152,407,426.74
Capital Assets, Net	59,964,452.26	-	59,964,452.26
Other Noncurrent Assets	126,347,543.56	-	126,347,543.56
Total Assets	336,531,729.23	2,187,693.33	338,719,422.56
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,624,451.00	-	12,624,451.00
LIABILITIES			
Current Liabilities	14,055,116.97	1,435.83	14,056,552.80
Long-Term Liabilities	64,483,472.57	-	64,483,472.57
Total Liabilities	78,538,589.54	1,435.83	78,540,025.37
TOTAL DEFERRED INFLOWS OF RESOURCES	98,979,472.09	-	98,979,472.09
NET POSITION			
Net Investment in Capital Assets	59,796,235.96	-	59,796,235.96
Restricted - Nonexpendable	14,802,418.67	-	14,802,418.67
Restricted - Expendable	118,784,899.58	2,117,916.25	120,902,815.83
Unrestricted	(21,745,435.61)	68,341.25	(21,677,094.36)
Total Net Position	\$ 171,638,118.60	\$ 2,186,257.50	\$ 173,824,376.10

**Condensed Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2021**

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Total
OPERATING REVENUES			
Sales and Services	\$ 14,949,607.70	\$ -	\$ 14,949,607.70
Other	31,882.85	-	31,882.85
Total Operating Revenues	<u>14,981,490.55</u>	<u>-</u>	<u>14,981,490.55</u>
OPERATING EXPENSES			
Operating Expenses	83,195,960.35	62,999.84	83,258,960.19
Depreciation	4,922,100.58	-	4,922,100.58
Total Operating Expenses	<u>88,118,060.93</u>	<u>62,999.84</u>	<u>88,181,060.77</u>
Operating Loss	<u>(73,136,570.38)</u>	<u>(62,999.84)</u>	<u>(73,199,570.22)</u>
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	345,797,292.69	-	345,797,292.69
State Aid - Coronavirus	98,601,228.79	-	98,601,228.79
Noncapital Contributions, Net	96,890,627.41	2,002,262.60	98,892,890.01
Investment Income, Net	36,570,074.24	415.72	36,570,489.96
Grants, Aid and Subsidies	(469,309,845.95)	(182,691.52)	(469,492,537.47)
Other Nonoperating Expenses	(1,112,989.87)	-	(1,112,989.87)
Net Nonoperating Revenues	<u>107,436,387.31</u>	<u>1,819,986.80</u>	<u>109,256,374.11</u>
Capital Appropriations	955,162.00	-	955,162.00
Capital Contributions	4,027,875.73	-	4,027,875.73
Additions to Endowments	2,931.25	-	2,931.25
Total Other Revenues	<u>4,985,968.98</u>	<u>-</u>	<u>4,985,968.98</u>
Increase in Net Position	39,285,785.91	1,756,986.96	41,042,772.87
NET POSITION			
Net Position, July 1, 2020 (as Restated)	<u>132,352,332.69</u>	<u>429,270.54</u>	<u>132,781,603.23</u>
Net Position, June 30, 2021	<u>\$ 171,638,118.60</u>	<u>\$ 2,186,257.50</u>	<u>\$ 173,824,376.10</u>

Condensed Statement of Cash Flows
Proprietary Fund
June 30, 2021

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Total
Net Cash Used by Operating Activities	\$ (69,740,076.51)	\$ (97,203.84)	\$ (69,837,280.35)
Net Cash Provided by Noncapital Financing Activities	40,247,564.63	1,820,995.38	42,068,560.01
Net Cash Provided by Capital and Related Financing Activities	1,819,839.46	-	1,819,839.46
Net Cash Provided by Investing Activities	4,029,003.25	427.25	4,029,430.50
Net Increase (Decrease) in Cash and Cash Equivalents	(23,643,669.17)	1,724,218.79	(21,919,450.38)
Cash and Cash Equivalents, July 1, 2020, as restated	167,164,417.83	462,643.04	167,627,060.87
Cash and Cash Equivalents, June 30, 2021	<u>\$ 143,520,748.66</u>	<u>\$ 2,186,861.83</u>	<u>\$ 145,707,610.49</u>

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2021, the UNC System Office implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 84, Fiduciary Activities

GASB Statement No. 93, Replacement of Interbank Offered Rates

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

GASB Statement No. 98, The Annual Comprehensive Financial Report

GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for 90-days or less.

GASB Statement No. 93 addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR).

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in

circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

NOTE 20 - NET POSITION RESTATEMENTS

As of July 1, 2020, proprietary net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2020 Net Position as Previously Reported	\$ 132,600,354.63
Restatement: Correction to Funds Held for Others	<u>181,248.60</u>
July 1, 2020 Net Position as Restated	<u>\$ 132,781,603.23</u>

As of July 1, 2020, fiduciary net position as previously reported was restated as follows:

	<u>Fiduciary Statements</u>			
	<u>Investment Trust Funds</u>	<u>Custodial Funds</u>		<u>Total</u>
		<u>External Investment Pool Funds</u>	<u>Other Funds</u>	
July 1, 2020 Net Position as Previously Reported	\$ -	\$ -	\$ -	\$ -
Restatement GASB 84 Fiduciary Implementation	<u>2,001,915.22</u>	<u>51,244,002.67</u>	<u>418,868,401.05</u>	<u>472,114,318.94</u>
July 1, 2020 Net Position as Restated	<u>\$ 2,001,915.22</u>	<u>\$ 51,244,002.67</u>	<u>\$ 418,868,401.05</u>	<u>\$ 472,114,318.94</u>

The UNC System Office’s fiduciary activities were previously reported within the proprietary fund in single-column financial statements. Because fiduciary assets were accompanied by offsetting liabilities, these activities previously did not report a net position balance. Following the implementation of GASB Statement

No. 84, the UNC System Office's fiduciary activities are now reported on separate financial statements. As a result, fiduciary net position was restated to \$472,114,318.94 as of July 1, 2020. This restatement had no effect on the July 1, 2020 net position of the UNC System Office's proprietary fund. However, on the Statement of Cash Flows, beginning cash and cash equivalents were restated for balances that are now reported on the Statement of Fiduciary Net Position. In addition, Note 8 – Long-Term Liabilities, Annuities and Life Income Payable is no longer included since it is now reported on the Statement of Fiduciary Net Position.



REQUIRED SUPPLEMENTARY INFORMATION

**The University of North Carolina System Office
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Eight Fiscal Years***

Exhibit C-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.10453%	0.10115%	0.10955%	0.11898%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 12,629,311.00	\$ 10,486,177.00	\$ 10,906,895.00	\$ 9,440,398.00
Covered Payroll	\$ 18,651,921.68	\$ 17,398,953.00	\$ 19,074,221.00	\$ 21,022,422.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	67.71%	60.27%	57.18%	44.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.12384%	0.11855%	0.12394%	0.12468%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,382,175.00	\$ 4,368,986.00	\$ 1,453,102.00	\$ 7,569,190.00
Covered Payroll	\$ 19,582,919.00	\$ 19,305,120.00	\$ 19,638,164.00	\$ 19,499,999.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	58.12%	22.63%	7.40%	38.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	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 ended June 30.

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

Exhibit C-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 3,059,721.43	\$ 2,419,154.24	\$ 2,138,331.34	\$ 2,056,201.02	\$ 2,098,037.72
Contributions in Relation to the Contractually Determined Contribution	<u>3,059,721.43</u>	<u>2,419,154.24</u>	<u>2,138,331.34</u>	<u>2,056,201.02</u>	<u>2,098,037.72</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$ 20,701,768.82	\$ 18,651,921.68	\$ 17,398,953.00	\$ 19,074,221.00	\$ 21,022,422.00
Contributions as a Percentage of Covered Payroll	14.78%	12.97%	12.29%	10.78%	9.98%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 1,791,837.09	\$ 1,766,418.48	\$ 1,706,556.45	\$ 1,624,349.92	\$ 1,440,219.87
Contributions in Relation to the Contractually Determined Contribution	<u>1,791,837.09</u>	<u>1,766,418.48</u>	<u>1,706,556.45</u>	<u>1,624,349.92</u>	<u>1,440,219.87</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$ 19,582,919.00	\$ 19,305,120.00	\$ 19,638,164.00	\$ 19,499,999.00	\$ 19,357,794.00
Contributions as a Percentage of Covered Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

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

**The University of North Carolina System Office
Notes to Required Supplementary Information
Schedule of UNC System Office Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2021**

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Teachers' and State Employees' Retirement System	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A

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 7.20% to 7.00% for the December 31, 2017 valuation. For the December 31, 2019 valuation, the discount rate was 7.00%.

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

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

**The University of North Carolina System Office
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Five Fiscal Years***

Exhibit C-3

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retiree Health Benefit Fund					
Proportionate Share Percentage of Collective Net OPEB Liability	0.16589%	0.15966%	0.15767%	0.16703%	0.17553%
Proportionate Share of Collective Net OPEB Liability	\$ 46,018,292.00	\$ 50,516,020.00	\$ 44,915,965.00	\$ 54,765,104.00	\$ 76,361,516.00
Covered Payroll	\$ 31,178,952.48	\$ 28,953,864.00	\$ 30,934,718.00	\$ 31,691,990.00	\$ 28,657,706.00
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	147.59%	174.47%	145.20%	172.80%	266.46%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.17688%	0.15208%	0.16352%	0.17636%	0.16638%
Proportionate Share of Collective Net OPEB Asset	\$ 87,014.00	\$ 65,623.00	\$ 49,671.00	\$ 107,791.00	\$ 103,322.00
Covered Payroll	\$ 31,178,952.48	\$ 28,953,864.00	\$ 30,934,718.00	\$ 31,691,990.00	\$ 28,657,706.00
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.28%	0.23%	0.16%	0.34%	0.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	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 ended June 30.

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

Exhibit C-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 2,193,623.56	\$ 2,017,278.23	\$ 1,815,407.29	\$ 1,871,550.44	\$ 1,841,304.62
Contributions in Relation to the Contractually Determined Contribution	<u>2,193,623.56</u>	<u>2,017,278.23</u>	<u>1,815,407.29</u>	<u>1,871,550.44</u>	<u>1,841,304.62</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$32,838,676.02	\$31,178,952.48	\$28,953,864.00	\$30,934,718.00	\$31,691,990.00
Contributions as a Percentage of Covered Payroll	6.68%	6.47%	6.27%	6.05%	5.81%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 1,604,831.54	\$ 1,484,191.03	\$ 1,414,713.01	\$ 1,259,452.99	\$ 1,126,145.20
Contributions in Relation to the Contractually Determined Contribution	<u>1,604,831.54</u>	<u>1,484,191.03</u>	<u>1,414,713.01</u>	<u>1,259,452.99</u>	<u>1,126,145.20</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$28,657,706.00	\$27,034,445.00	\$26,198,389.00	\$23,763,264.00	\$22,522,904.00
Contributions as a Percentage of Covered Payroll	5.60%	5.49%	5.40%	5.30%	5.00%
	2021	2020	2019	2018	2017
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 29,554.81	\$ 31,178.95	\$ 40,535.41	\$ 43,308.61	\$ 120,429.56
Contributions in Relation to the Contractually Determined Contribution	<u>29,554.81</u>	<u>31,178.95</u>	<u>40,535.41</u>	<u>43,308.61</u>	<u>120,429.56</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$32,838,676.02	\$31,178,952.48	\$28,953,864.00	\$30,934,718.00	\$31,691,990.00
Contributions as a Percentage of Covered Payroll	0.09%	0.10%	0.14%	0.14%	0.38%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 117,496.59	\$ 110,841.22	\$ 115,272.91	\$ 104,558.36	\$ 117,119.10
Contributions in Relation to the Contractually Determined Contribution	<u>117,496.59</u>	<u>110,841.22</u>	<u>115,272.91</u>	<u>104,558.36</u>	<u>117,119.10</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$28,657,706.00	\$27,034,445.00	\$26,198,389.00	\$23,763,264.00	\$22,522,904.00
Contributions as a Percentage of Covered Payroll	0.41%	0.41%	0.44%	0.44%	0.52%

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

**The University of North Carolina System Office
Notes to Required Supplementary Information
Schedule of UNC System Office Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2021**

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-pockets maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pockets maximums, and deductibles were changes for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

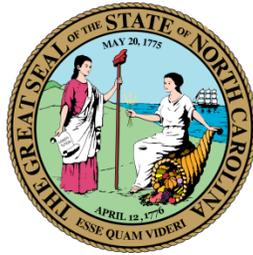
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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 UNC System Office 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 UNC System Office 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, 2020, the discount rate for the RHBF was updated to 2.21%. In the prior year, 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 claim costs 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 assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed December 2019.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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

Board of Governors
The University of North Carolina System
Chapel Hill, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of The University of North Carolina System Office (UNC System Office), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the UNC System Office's basic financial statements, and have issued our report thereon dated May 2, 2022.

As discussed in Note 1, the financial statements of The University of North Carolina System Office are intended to present the financial position, changes in financial position, and, where applicable, cash flows that are only attributable to the transaction of The University of North Carolina System Office. They do not purport to, and do not, present fairly the financial position of The University of North Carolina System Office as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the UNC System Office'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the UNC System Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the UNC System Office'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 UNC System Office'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 UNC System Office'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 UNC System Office'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 UNC System Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 2, 2022

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This audit required 540 hours at an approximate cost of \$57,240.