

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA STATE UNIVERSITY

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

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina State University 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.

A handwritten signature in cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor

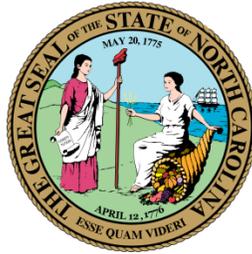


Beth A. Wood, CPA
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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives 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 Trustees
North Carolina State University
Raleigh, 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 North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of North Carolina State University, and its discretely presented component units, 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.

We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 21 percent and 10 percent, respectively, of the assets and revenues of the business-type activities, and 92 percent and 74 percent, respectively, of the assets and revenues of the fiduciary activities; nor the financial statements of the North Carolina State University Foundation, Inc. or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

Basis for Opinions

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 North Carolina State University 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 opinions.

Emphasis of Matter

As discussed in Note 21 to the financial statements, during the year ended June 30, 2021, North Carolina State University 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The University'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 University'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 opinions. 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 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 University'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 University'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

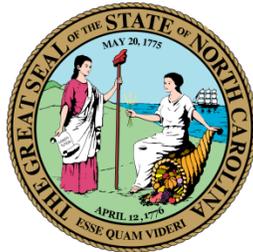
In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 11, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the North Carolina State University (University).

Financial Highlights

The University's net position increased by \$313.9 million to \$1.06 billion in fiscal year 2021. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Revenues increased by \$97.0 million or 5.9%, to \$1.75 billion in fiscal year 2021. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. The coronavirus pandemic (COVID-19) significantly impacted revenue especially in the areas of auxiliaries. See Note 18 for more information related to the impact of COVID-19. Substantial increases in investment earnings due to market returns and increased contributions were partially offset by significant decreases in sales and services due to continued impacts of COVID-19.

Expenses decreased 4.0% in 2021, down \$65.6 million over fiscal year 2020 expenses. Expenses represent amounts paid or accrued for operating or nonoperating purposes. The largest decreases were in Auxiliaries and Public Services caused by the continuing impacts of COVID-19.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The University presents two sets of fund financial statements 1) proprietary fund financial statements, which account for the University's primary activities and 2) fiduciary fund financial statements, which account for the University's custodial funds. See Note 1J for additional information regarding the University's fiduciary activities. Management's discussion and analysis concentrates on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position as condensed comparative financial information is not required for fiduciary activities.

The University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*. The University blends two component units as if they were part of the University, and two entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of*

Revenues, Expenses, and Changes in Net Position provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other postemployment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Comparative Condensed Financial Statement Information

Statement of Net Position

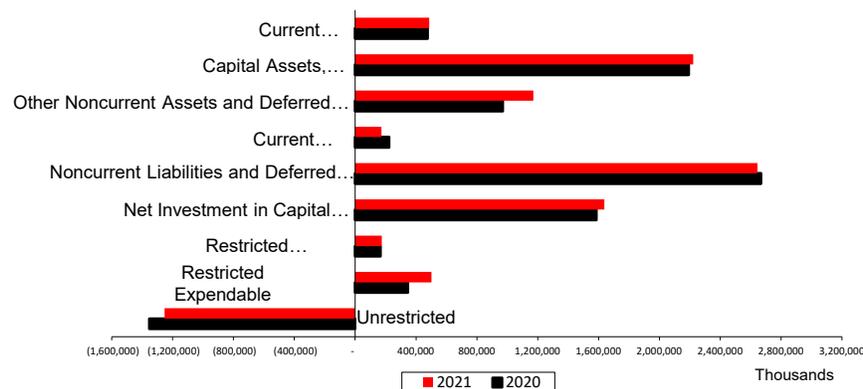
The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2021. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2021 and restated as of June 30, 2020.

	2021	Restated 2020 (1)	Changes
Assets			
Current Assets	\$ 487,814,497	\$ 476,358,676	\$ 11,455,821
Capital Assets, Net	2,221,660,007	2,192,499,078	29,160,929
Other Noncurrent Assets	868,101,606	649,076,953	219,024,653
Total Assets	<u>3,577,576,110</u>	<u>3,317,934,707</u>	<u>259,641,403</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Asset Retirement Obligations	13,406,266	13,233,188	173,078
Deferred Outflows Related to Pensions	107,473,251	97,915,354	9,557,897
Deferred Outflows Related to OPEB	181,920,238	209,717,948	(27,797,710)
Total Deferred Outflows of Resources	<u>302,799,755</u>	<u>320,866,490</u>	<u>(18,066,735)</u>
Liabilities			
Current Liabilities	173,709,019	222,352,053	(48,643,034)
Noncurrent Liabilities			
Long-Term Liabilities, Net	2,023,232,801	2,064,541,181	(41,308,380)
Other Noncurrent Liabilities	77,329,217	78,942,819	(1,613,602)
Total Liabilities	<u>2,274,271,037</u>	<u>2,365,836,053</u>	<u>(91,565,016)</u>
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	-	469,260	(469,260)
Deferred Inflows Related to OPEB	544,559,203	524,814,028	19,745,175
Total Deferred Inflows of Resources	<u>544,559,203</u>	<u>525,283,288</u>	<u>19,275,915</u>
Net Position			
Net Investment in Capital Assets	1,637,378,907	1,585,204,046	52,174,861
Restricted			
Nonexpendable	175,778,621	167,457,853	8,320,768
Expendable	500,964,624	347,050,005	153,914,619
Unrestricted	(1,252,576,527)	(1,352,030,048)	99,453,521
Total Net Position	<u>\$ 1,061,545,625</u>	<u>\$ 747,681,856</u>	<u>\$ 313,863,769</u>

(1) Restatement - The University restated certain amounts on the 2020 condensed Statement of Net Position due to the implementation of GASB Statement 84, Fiduciary Activities (see Note 22, Net Position Restatements).

The following graph illustrates the assets, deferred outflows, liabilities, deferred inflows and net position of the University as of June 30, 2021 as compared to restated June 30, 2020 balances.



Assets totaled \$3.58 billion, an increase of \$259.6 million over the prior year as restated. This change in assets includes an increase in current assets of \$11.5 million, an overall increase in net capital assets of \$29.2 million and an increase in other noncurrent assets of \$219.0 million.

Current assets increased by \$11.5 million in fiscal year 2021. Restricted cash and cash equivalents increased \$28.6 million mainly due to issuance of new debt for capital projects and increases in contracts and grants overhead. Cash and cash equivalents decreased \$27.6 million primarily due to an investment of funds into the Intermediate Term Fund, which was offset by increases in Auxiliary cash related to lowering capital expenditures and increasing contingency reserves. Receivables increased \$6.5 million primarily due to increases in non-student accounts receivables and contract and grant receivables. Due from primary government and due from the state of North Carolina component units increased \$4.7 million, collectively. This increase is primarily because of a receivable for insurance proceeds from Department of Insurance on a recovery of an impaired asset and increases in the grant received directly from Golden LEAF.

The increase in net capital assets of \$29.2 million is due largely to Fitts-Woolard Hall and the Carmichael Addition Project being completed as well as continued construction on the Plant Sciences Building. See the capital assets section below for more details.

The \$219.0 million increase in other noncurrent assets is made up of increases in noncurrent restricted cash, endowment investments and other investments. Noncurrent restricted cash increased \$36.1 million primarily due to increases in capital improvements allotments and legislative restrictions placed on cash carryforward. Endowment investments increased \$143.1 million primarily due to market increases in the long-term investment fund. Other investments increased \$41.0 million primarily due to increased rate of returns.

The deferred outflows of resources for the University's asset retirement obligations, the deferred outflows for pensions and deferred outflows for OPEB are shown in a separate section of the financial statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013, established deferred sections of the financial statements. The deferred outflow for the asset retirement obligation is the University's obligation and cost to retire the nuclear reactor on campus. The deferred outflows for pensions and OPEB accounts reflect the University's allocated portion of deferred outflows for the TSERS cost-sharing pension plan and the State's OPEB plans. Amounts in these accounts are amortized over time as pension and OPEB expenses. Deferred outflows of resources decreased \$18.1 million in current year primarily relating to pension and OPEB. The \$27.8 million decrease in the deferred outflows of OPEB and the \$9.6 million increase in deferred outflows of pensions are due to changes in the pension and OPEB contributions and the University's proportionate share of contributions to the plans.

Liabilities totaled \$2.27 billion, a decrease of \$91.6 million over the prior year as restated for GASB Statement No. 84, *Fiduciary Activities*. The decrease in liabilities is attributable to a decrease in current liabilities of \$48.6 million and a decrease in noncurrent liabilities of \$42.9 million.

Current liabilities totaled \$173.7 million. These liabilities include accounts payable and accrued liabilities, payables to other entities, unearned revenue, interest payable and the current portion of University debt. Current liabilities decreased by \$48.6 million, primarily caused by decreases in short term debt of \$50.0 million due to refunding commercial paper using

proceeds from the new bond issuance. Unearned revenue increased \$8.4 million primarily due to the timing of contract and grants projects. This was offset by a decrease in accounts payable of \$9.9 million primarily due to decreases in capital improvements with the completion of Fitts-Woolard Hall and the Carmichael Addition Project. The current portion of long-term liabilities increased \$3.4 million mainly due to bond issuance.

Noncurrent liabilities totaled \$2.10 billion, and include deposits payable, funds held for other entities, unearned revenue, and long-term liabilities. The primary factor in the \$42.9 million decrease in noncurrent liabilities was long-term liabilities. Long-term liabilities decreased primarily due to an decrease in net OPEB liability of \$145.8 million and an increase in the net pension liability for the Teachers' and State Employees' Retirement System (TSERS) plan of \$39.6 million which was the result of the difference between the projected and actual investment earnings in both plans. Revenue bonds increased \$73.7 million because of bond issuance and notes from direct borrowings decreased \$5.0 million due to annual payments.

Deferred inflows for OPEB, are required by the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) and are shown in a separate section in the financial statements. This \$544.6 million deferred inflows of resources is another allocation of OPEB plan balances. The \$19.3 million increase in deferred inflows is driven by higher OPEB liabilities related to the difference between projected and actual investment earnings. These deferred inflows for OPEB are amortized over time as OPEB expense.

Net position totaled \$1.06 billion, an increase of \$313.9 million over the prior year. The negative unrestricted net position balance decreased by \$99.5 million mainly due to fluctuations in Pension and OPEB reporting. Net investment in capital assets increased \$52.2 million due to increases in capital projects. Restricted nonexpendable net position increased \$8.3 million driven mainly by the increase in gifts for professorships and the State matching for professorships. Restricted expendable net position increased \$153.9 million, driven mainly by increases in investment returns as well as an increase in funds restricted for capital projects due to the construction of several large projects during the year.

As reported in Note 11 Net Position, the total impact from reporting the Retiree Health Benefit Fund (RHBF) as well as the pension plan obligations at June 30, 2021 was a negative \$1.61 billion. The difference between the net effect amount reported in Note 11 and the unrestricted net position reported on financial statements (a negative \$1.25 billion) is a positive \$361.2 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 2.8 times compared to 2.1 times in the prior year. The University's total assets are more than the University's liabilities with a ratio 1.6 times as compared to 1.4 times in the prior year. These financial ratios are indicators of the University's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2021. The activity balances are classified as operating, nonoperating, or other revenues, expense, gains or losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Activities classified as operating include all revenues of the University except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital contributions, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital appropriations, capital contributions and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2021, and June 30, 2020.

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 329,081,529	\$ 356,776,551	\$ (27,695,022)
Federal Appropriations	23,020,618	25,194,404	(2,173,786)
Grants and Contracts	328,058,661	309,604,381	18,454,280
Sales and Services, Net	179,038,888	249,151,047	(70,112,159)
Other, Net	19,478,322	18,774,879	703,443
Total Operating Revenues	<u>878,678,018</u>	<u>959,501,262</u>	<u>(80,823,244)</u>
Operating Expenses			
Salaries and Benefits	953,216,704	995,783,702	(42,566,998)
Supplies and Services	369,660,959	397,007,015	(27,346,056)
Scholarships and Fellowships	69,942,018	69,261,379	680,639
Utilities	29,188,289	30,466,634	(1,278,345)
Depreciation/Amortization	114,947,438	107,917,072	7,030,366
Total Operating Expenses	<u>1,536,955,408</u>	<u>1,600,435,802</u>	<u>(63,480,394)</u>
Operating Loss	<u>(658,277,390)</u>	<u>(640,934,540)</u>	<u>(17,342,850)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	520,557,104	522,902,154	(2,345,050)
Student Financial Aid	51,538,568	51,177,545	361,023
Other Noncapital Aid and Contributions	134,366,272	89,476,649	44,889,623
Investment Income, Net	161,240,750	20,020,661	141,220,089
Other	(18,446,972)	(14,210,012)	(4,236,960)
Net Nonoperating Revenues	<u>849,255,722</u>	<u>669,366,997</u>	<u>179,888,725</u>
Income Before Other Revenue	<u>190,978,332</u>	<u>28,432,457</u>	<u>162,545,875</u>
Capital Appropriations and Contributions	114,552,893	86,874,221	27,678,672
Additions to Permanent Endowments	8,332,544	14,864,091	(6,531,547)
Increase in Net Position	<u>313,863,769</u>	<u>130,170,769</u>	<u>183,693,000</u>
Beginning Net Position	<u>747,681,856</u>	<u>617,511,087</u>	<u>130,170,769</u>
Ending Net Position	<u>\$ 1,061,545,625</u>	<u>\$ 747,681,856</u>	<u>\$ 313,863,769</u>

Fiscal Year 2020-2021 total revenues are \$1,869,266,149 and total expenses are \$1,555,402,380.

Fiscal Year 2019-2020 total revenues are \$1,751,163,654 and total expenses are \$1,620,992,885.

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenues/expenses for the fiscal year 2021 and 2020, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

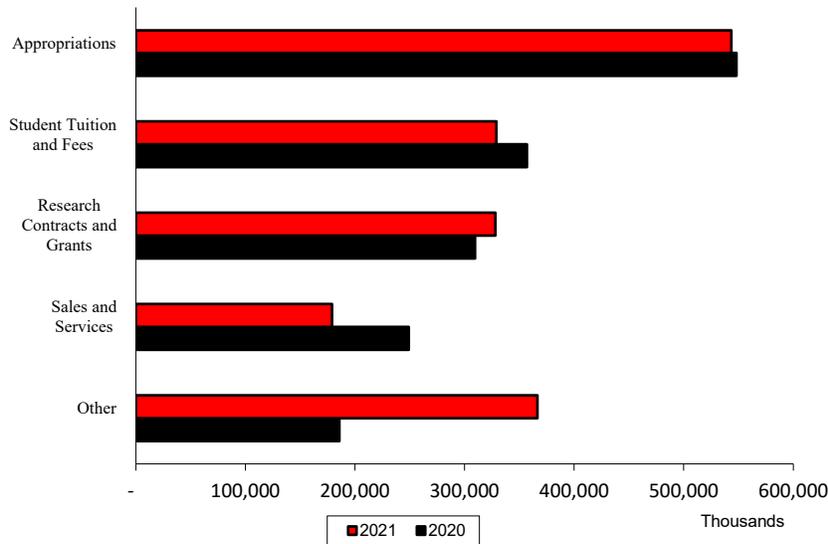
Title	% to Total 2021	% to Total 2020
State Appropriations	29%	32%
Research Contracts and Grants	19%	19%
Student Tuition and Fees	19%	22%
Sales and Services	10%	15%
Noncapital Grants and Gifts	11%	8%
Federal Appropriations	1%	1%
Other	11%	3%
Total	100%	100%

Operating and Nonoperating Expenses

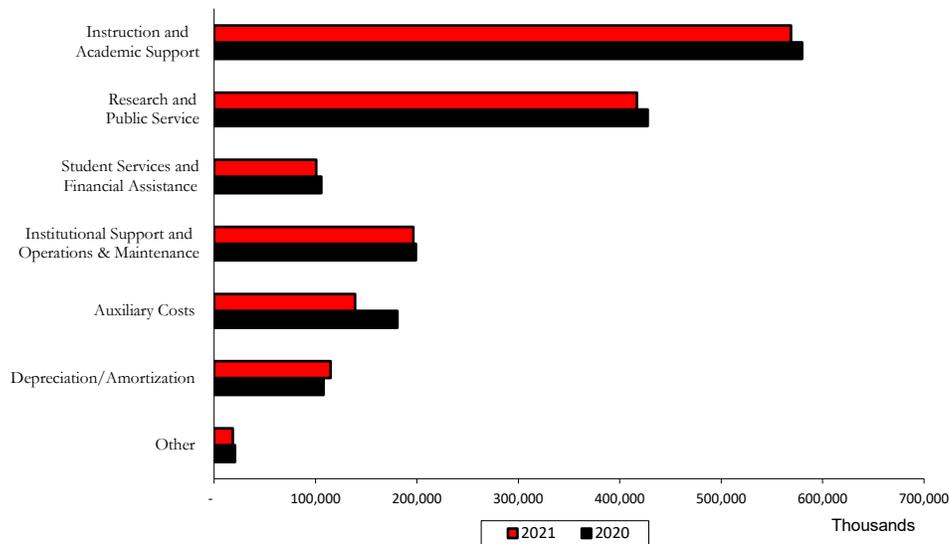
Title	% to Total 2021	% to Total 2020
Instruction	31%	30%
Research	19%	18%
Public Service	8%	8%
Auxiliary Enterprises	9%	11%
Operations & Maintenance of Plant	5%	5%
Academic Support	6%	6%
Institutional Support	7%	7%
Depreciation/Amortization	7%	7%
Student Financial Aid	5%	5%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating, nonoperating, and other) increased \$118.1 million or 6.7% compared to the prior year. Operating revenue decreased \$80.8 million mainly due to decreases in sales and services of \$70.1 million and tuition and fees of \$27.7 million due to fewer students on campus because of the COVID-19 impact. Research contracts and grants increased by \$18.5 million, primarily due to increases in grants in the College of Agricultural and Life Sciences, College of Veterinary Medicine, and College of Engineering. Nonoperating revenue increased \$177.8 million. This is primarily due to a \$141.2 million increase in

investment income due to rising market rates as well as an increase to noncapital contributions of \$20.3 million and increases of \$24.5 million of state aid and federal aid related to COVID-19. Other revenue increased \$21.1 million mainly due to increases in capital contributions of \$20.8 million relating to the Plant Sciences Building and other capital projects, increases in capital appropriations of \$6.8 million due to state legislature imposing restrictions on cash carryforward, and decreases in additions to endowments of \$6.5 million.

Total expenses (operating and nonoperating) decreased \$65.6 million or 4.0% compared to the prior year. Salaries and benefits decreased \$42.6 million mainly due to decreases in pension and OPEB expenses as well as decreases in SHRA regular pay and temporary student and non-student employees due to furloughs as a result of COVID-19. Supplies and services decreased \$27.3 million primarily driven by decreases in auxiliaries and public service due to COVID-19 shutdown.

Capital Assets and Long-Term Debt Activities

Capital Assets

As shown in the following table, the University increased its net capital assets by \$29.2 million during fiscal year 2021.

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Land and Permanent Easements	\$ 78,542,761	\$ 78,542,761	\$ 0
Construction in Progress	122,538,600	216,068,020	(93,529,420)
Computer Software in Development	712,726	545,042	167,684
Buildings	2,610,874,414	2,423,773,093	187,101,321
Machinery and Equipment	449,495,349	433,703,642	15,791,707
General Infrastructure	261,249,232	250,178,267	11,070,965
Computer Software	38,176,504	34,854,345	3,322,159
Total Capital Assets	3,561,589,586	3,437,665,170	123,924,416
Accumulated Depreciation/Amortization	(1,339,929,579)	(1,245,166,092)	(94,763,487)
Net Capital Assets	<u>\$ 2,221,660,007</u>	<u>\$ 2,192,499,078</u>	<u>\$ 29,160,929</u>

During fiscal year 2021, the University continued construction on new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing and other capital funding from the state of North Carolina.

In addition to costs incurred, the University had \$78,833,512 million in outstanding commitments for construction as of June 30, 2021.

Construction of Fitts-Woolard Hall, a new building that will house the Department of Civil, Construction, and Environmental Engineering, completed during fiscal year 2021. This addition will serve a critical need for the College of Engineering as it continues to grow to meet the demand of students and top companies attracted to North Carolina's highly skilled workforce.

The new Wellness and Recreation Center (Carmichael Addition Project) opened in the 2021 fiscal year. The Wellness and Recreation Center helps meet the needs of an evolving campus, and contributes to better overall health and wellness for the campus community. At more than

82,000 square feet, the new facility includes functional training areas, fitness center space, a rock wall, and dozens of multipurpose areas, and a teaching kitchen and meeting space. The Wellness and Recreation Center along with the original Carmichael Gym sees more than 1.12 million visits annually.

A complete renovation and restoration of the Memorial Bell Tower was completed in the 2021 fiscal year. The Memorial Bell Tower was originally built to pay tribute to those who fell in past conflict, but has grown to be a symbol of inspiration to the University community. The recent renovation included the installation of a 55-bell carillon in place of old speakers. Additional updates included updating and repairing the exterior, reworking the clockworks with digital components and data fiber, and improving site drainage.

A 6,500 square foot expansion to Centennial Campus Substation was completed in the fiscal year. The expansion houses sophisticated combined heat and power equipment to meet the needs of ongoing campus growth. The central function of this utility plant is the operation of a 5.7MW combustion turbine generator, which functions include both steam generation and heat recovery to power a steam generator, which will provide power to chillers and for other internal load requirements.

Several large infrastructure projects also completed during the 2021 fiscal year. Projects included conversions of exterior lighting to LED as a part of ongoing campus energy efficiency initiatives and an upgrade to the Central Campus electrical system designed to reduce operational risk, enhance reliability, and improve safety, and position campus for future growth by increasing electrical capacity by more than 50 percent.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects and to purchase or lease equipment. As shown in the following table, the University increased its long-term debt during fiscal year 2021.

	<u>2021</u>	<u>2020</u>	<u>Changes</u>
Revenue Bonds	\$ 532,398,813	\$ 458,738,438	\$ 73,660,375
Notes from Direct Borrowings	51,718,686	56,706,394	(4,987,708)
Capital Leases Payable	<u>434,004</u>	<u>196,456</u>	<u>237,548</u>
Total Long-term Debt	<u>\$ 584,551,503</u>	<u>\$ 515,641,288</u>	<u>\$ 68,910,215</u>

Long-term debt increased \$68.9 million, driven by \$73.6 million increase in revenue bonds relating to bond issuance and \$5.0 million decrease in notes from direct borrowings due to regular principal payments.

Economic Factors That Will Affect the Future

As it has for the rest of the nation, the COVID-19 Pandemic touched North Carolina's economy, with an impact for the University across three fiscal years - 2020, 2021, and 2022. While certain employment sectors have recovered from their COVID-19 lows, and others such as the hospitality industry continue to lag, the statewide unemployment rate of 13.5% in April 2020

was substantially lower at 4.4% in July 2021. Other measures of economic activity tied to the state's reopening are also increasing, along with significant population growth in the state's urban centers.

Despite the good economic news, a protracted negotiation process in the North Carolina legislature for both fiscal years 2020 and 2021 led to the University of North Carolina System running on a continuing budget resolution with support in fiscal year 2021 roughly equal to prior years. The lack of budget growth tied to frozen spending levels, combined with good tax collections, and high levels of federal aid to the state have allowed the state's rainy-day fund to remain high going into the fiscal years 2022-2023 budget negotiation process. As of this writing, both the North Carolina State Senate and the House have agreed on spending targets, but budget negotiations are continuing and there is not yet a budget for the Governor's signature.

For fall semester 2021, as of August 16, the University enrolled 36,978 students including a small number of certificate and non-degree seeking students. Of the 34,563 students in fall 2021 who were degree seeking, approximately 28% were graduate and professional students, and the rest were undergraduates. The COVID-19 Pandemic led to a loss of graduate and international student enrollment for fall 2020, but the university saw a recovery with a 4.9% increase back to normalized levels for fall 2021. For the fall semester 2021, the incoming first year class of 5,011 students set an institutional record. Despite the Pandemic and its impact on the economic circumstances of Americans, both first year retention and graduation rates have held up thus far with no deterioration in student success rates. The University reopened for the fall semester 2021 with a significant majority of undergraduate classes being in person.

The University enjoys a diversified base of revenues, comprised of five major sources; these include tuition and fees, state appropriations, grants and contracts, gifts and endowment income, and sales and services. While sales and services revenue decreased due to the Pandemic in both fiscal years 2020 and 2021, the return of students to campus for the fiscal year 2022 fall semester led to a projected recovery of these on-campus revenue sources in fiscal 2022. The University received and expended a significant portion of the federal Higher Education Emergency Relief Fund (HEERF) grant on its on-campus testing program for students, faculty, and staff.

The UNC System remains committed to affordability and access, and the University's low student charges continue to result in a consistent rating as one of the nation's best values in higher education. The University implemented a Fixed Tuition Program as required by *North Carolina General Statute* 116-143.9. Beginning with the fall semester 2016, tuition rates at UNC institutions were fixed for eight consecutive semesters for all resident bachelor's degree-seeking freshmen. Other mandatory fees are subject to a cap on increases, and campuses have been encouraged to think about keeping total rates, fees, and charges as low as possible.

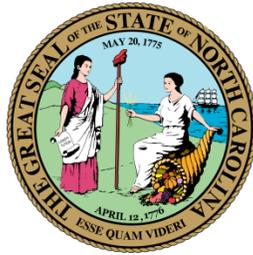
The State of North Carolina continues to provide significant operational support in the form of annual state appropriations, and one-time and recurring capital support, to the University. State appropriations for operations were \$521 million in fiscal year 2021, and there is some indication that the nominal amount for general fund support could increase for the next biennium. The University is completing two major projects partially funded by the State's Connect NC Bond program. One is the fourth engineering building on Centennial Campus, Fitts-Woolard, and the other is the transformational Plant Sciences Building. Together, they account for approximately

\$300 million of new construction activity on Centennial Campus. The state has also committed partial funding for a \$160 million Integrative Sciences Building on main campus. Funding for other new projects and money for repairs and renovations are pending the identification of funds and completion of a budget for the current biennium.

The University is a research powerhouse and our faculty continue to receive an increasing number of awards every year. In the ten-year period from fiscal year 2011 to fiscal year 2020, our annual expenditures grew from \$381 million to \$546 million. The University ranks #8 in research funding among universities without a medical school. It consistently ranks in the top five institutions (without a medical school) by number of start-ups launched, licensing agreements, and disclosures. The growth of the Triangle with new tech firms relocating or expanding every year, suggests that historic commercialization activity in partnership with private industry will only continue to grow.

The University is nearing completion on a major capital campaign with an aspiration goal of \$2 billion. While the campaign officially ends in December 2021, the University met its aspirational goal by May 2021. In this environment, gifts and endowment cannot make up the difference between revenue lost and the costs of providing education in an environment marked by higher inflation, but these other resources will help to make the future more promising since so much of the support is directed to student financial aid, professorships, and programs that will enhance the University's future. As the University's total endowment grew to \$1.95 billion for fiscal year 2021, annual endowment support also grew to an institutional high of \$55 million for fiscal year 2022, and our five-year moving average formula in calculating spending provides some stability for future years.

Fiscal year 2021-2022 is the base year of the University's new strategic plan, "Wolfpack 2030: Powering the Extraordinary." Information about the goals can be found at <https://strategicplan.ncsu.edu/current-plan/>.



FINANCIAL STATEMENTS

North Carolina State University
Statement of Net Position
Proprietary Fund
June 30, 2021

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 192,959,747
Restricted Cash and Cash Equivalents	177,157,763
Receivables, Net (Note 5)	88,733,927
Due from Primary Government	11,552,153
Due from State of North Carolina Component Units	4,445,841
Due from University Component Units	3,674,050
Inventories	6,777,945
Notes Receivable, Net (Note 5)	2,513,071
	<hr/>
Total Current Assets	487,814,497

Noncurrent Assets:

Restricted Cash and Cash Equivalents	163,699,584
Endowment Investments	522,702,478
Other Investments	176,462,653
Notes Receivable, Net (Note 5)	3,290,511
Net Other Postemployment Benefits Asset	1,946,380
Capital Assets - Nondepreciable (Note 6)	201,794,087
Capital Assets - Depreciable, Net (Note 6)	2,019,865,920
	<hr/>
Total Noncurrent Assets	3,089,761,613
	<hr/>
Total Assets	3,577,576,110

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Asset Retirement Obligations	13,406,266
Deferred Outflows Related to Pensions	107,473,251
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	181,920,238
	<hr/>
Total Deferred Outflows of Resources	302,799,755

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	54,588,586
Due to Primary Government	10,877,880
Due to State of North Carolina Component Units	1,048,701
Unearned Revenue	70,572,287
Interest Payable	4,332,744
Long-Term Liabilities - Current Portion (Note 9)	32,288,821
	<hr/>
Total Current Liabilities	173,709,019

North Carolina State University
Statement of Net Position
Proprietary Fund
June 30, 2021

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:	
Deposits Payable	5,283,431
Funds Held for Others	2,991,634
Unearned Revenue	67,443,587
U.S. Government Grants Refundable	1,610,565
Long-Term Liabilities, Net (Note 9)	<u>2,023,232,801</u>
Total Noncurrent Liabilities	<u>2,100,562,018</u>
Total Liabilities	<u>2,274,271,037</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	<u>544,559,203</u>
Total Deferred Inflows of Resources	<u>544,559,203</u>
NET POSITION	
Net Investment in Capital Assets	1,637,378,907
Restricted:	
Nonexpendable	175,778,621
Expendable	500,964,624
Unrestricted	<u>(1,252,576,527)</u>
Total Net Position	<u>\$ 1,061,545,625</u>

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

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

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 12)	\$ 329,081,529
Federal Appropriations	23,020,618
Federal Grants and Contracts	180,385,371
State and Local Grants and Contracts	53,515,965
Nongovernmental Grants and Contracts	94,157,325
Sales and Services, Net (Note 12)	179,038,888
Interest Earnings on Loans	219,262
Other Operating Revenues, Net (Note 12)	19,259,060
	<hr/>
Total Operating Revenues	878,678,018

OPERATING EXPENSES

Salaries and Benefits	953,216,704
Supplies and Services	369,660,959
Scholarships and Fellowships	69,942,018
Utilities	29,188,289
Depreciation/Amortization	114,947,438
	<hr/>
Total Operating Expenses	1,536,955,408
	<hr/>
Operating Loss	(658,277,390)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	520,557,104
State Aid - Coronavirus	7,637,627
Student Financial Aid	51,538,568
Federal Aid - COVID-19	26,363,450
Noncapital Contributions	100,365,195
Investment Income (Net of Investment Expense of \$2,198,177)	161,240,750
Interest and Fees on Debt	(18,133,723)
Other Nonoperating Expenses	(313,249)
	<hr/>
Net Nonoperating Revenues	849,255,722
	<hr/>
Income Before Other Revenues	190,978,332
	<hr/>
Capital Appropriations	7,740,538
Capital Contributions	106,812,355
Additions to Endowments	8,332,544
	<hr/>
Total Other Revenues	122,885,437
	<hr/>
Increase in Net Position	313,863,769

NET POSITION

Net Position - July 1, 2020	747,681,856
	<hr/>
Net Position - June 30, 2021	\$ 1,061,545,625
	<hr/>

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

North Carolina State University
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	\$ 857,701,107
Payments to Employees and Fringe Benefits	(1,003,466,446)
Payments to Vendors and Suppliers	(399,036,694)
Payments for Scholarships and Fellowships	(69,942,018)
Loans Issued	(70,880)
Collection of Loans	1,806,492
Interest Earned on Loans	228,775
William D. Ford Direct Lending Receipts	110,750,946
William D. Ford Direct Lending Disbursements	(109,281,067)
Related Activity Agency Receipts	50,118,885
Related Activity Agency Disbursements	(49,807,314)
Other Receipts	21,438,595
	<hr/>
Net Cash Used by Operating Activities	(589,559,619)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	520,557,104
State Aid - Coronavirus	7,637,627
Student Financial Aid	51,538,568
Federal Aid - COVID-19	26,363,450
Noncapital Contributions	78,638,160
Additions to Endowments	8,332,544
	<hr/>
Total Cash Provided by Noncapital Financing Activities	693,067,453

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	285,558,218
Capital Appropriations	7,740,538
Capital Contributions	104,262,474
Proceeds from Sale of Capital Assets	447,803
Proceeds from Insurance on Capital Assets	531,938
Acquisition and Construction of Capital Assets	(155,550,121)
Principal Paid on Capital Debt and Leases	(75,194,249)
Interest and Fees Paid on Capital Debt and Leases	(18,317,419)
Payment to Bond Escrow Agent	(192,982,644)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(43,503,462)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	24,905,363
Investment Income	4,531,903
Purchase of Investments and Related Fees	(52,321,105)
	<hr/>
Net Cash Used by Investing Activities	(22,883,839)
	<hr/>
Net Increase in Cash and Cash Equivalents	37,120,533
	<hr/>
Cash and Cash Equivalents - July 1, 2020, as Restated (Note 22)	496,696,561
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 533,817,094

North Carolina State University
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	\$ (658,277,390)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	114,947,438
Other Nonoperating Income	3,712,344
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(6,548,905)
Due from Primary Government	(3,174,156)
Inventories	644,692
Notes Receivable, Net	1,751,821
Net Other Postemployment Benefits Asset	(254,607)
Deferred Outflows Related to Asset Retirement Obligations	(173,078)
Deferred Outflows Related to Pensions	(9,557,897)
Deferred Outflows Related to Other Postemployment Benefits	27,797,710
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	124,602
Due to Primary Government	386,600
Due to State of North Carolina Component Units	(464,380)
Funds Held for Others	(451,867)
Unearned Revenue	6,873,165
Net Pension Liability	39,649,195
Net Other Postemployment Benefits Liability	(127,246,945)
Compensated Absences	(394,456)
Deposits Payable	2,056,208
Workers' Compensation Liability	(619,332)
Pollution Remediation Payable	(108,571)
Asset Retirement Obligation	492,275
Deferred Inflows Related to Pensions	(469,260)
Deferred Inflows Related to Other Postemployment Benefits	19,745,175
Net Cash Used by Operating Activities	<u>\$ (589,559,619)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 436,604
Assets Acquired through a Gift	2,386,837
Change in Fair Value of Investments	147,104,154
Loss on Disposal of Capital Assets	(3,450,044)
Amortization and Write-off of Bond Premiums	(18,942,961)
Increase in Receivables Related to Nonoperating/Other Revenues	1,654,196
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(18,550,749)

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

North Carolina State University
Statement of Fiduciary Net Position
Fiduciary Funds - Custodial Funds
June 30, 2021

Exhibit B-1

	<u>External Investment Pool Funds</u>	<u>Other Funds</u>	<u>Total Custodial Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 12,369,556	\$ 36,637,433	\$ 49,006,989
Investments (Note 2):			
Intermediate Investments	19,602,214	-	19,602,214
Long-Term Investments	398,756,377	-	398,756,377
Total Assets	430,728,147	36,637,433	467,365,580
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	-	-	-
LIABILITIES			
Accounts Payable and Accrued Liabilities (Note 7)	213,324	2,214	215,538
Total Liabilities	213,324	2,214	215,538
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	-	-	-
NET POSITION			
Restricted for:			
Pool Participants	430,514,823	-	430,514,823
Individuals/Other Organizations	-	36,635,219	36,635,219
Total Net Position	<u>\$ 430,514,823</u>	<u>\$ 36,635,219</u>	<u>\$ 467,150,042</u>

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

North Carolina State University
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Custodial Funds
June 30, 2021

Exhibit B-2

	<u>External Investment Pool Funds</u>	<u>Other Funds</u>	<u>Total Custodial Funds</u>
ADDITIONS			
Contributions:			
Pool Participants	\$ 47,220,154	\$ -	\$ 47,220,154
Individuals/Other Organizations	-	59,397,060	59,397,060
Total Contributions	<u>47,220,154</u>	<u>59,397,060</u>	<u>106,617,214</u>
Investment Activity:			
Investment Income	119,023,046	159,182	119,182,228
Investment Expenses	<u>(1,573,032)</u>	<u>-</u>	<u>(1,573,032)</u>
Net Investment Income	<u>117,450,014</u>	<u>159,182</u>	<u>117,609,196</u>
Total Additions	<u>164,670,168</u>	<u>59,556,242</u>	<u>224,226,410</u>
DEDUCTIONS			
Withdrawals and Distributions	<u>15,730,574</u>	<u>71,791,940</u>	<u>87,522,514</u>
Increase (Decrease) in Fiduciary Net Position	148,939,594	(12,235,698)	136,703,896
NET POSITION			
Net Position - July 1, 2020, as Restated (Note 22)	<u>281,575,229</u>	<u>48,870,917</u>	<u>330,446,146</u>
Net Position - June 30, 2021	<u>\$ 430,514,823</u>	<u>\$ 36,635,219</u>	<u>\$ 467,150,042</u>

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2021

Exhibit C-1

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
ASSETS		
Cash and Cash Equivalents	\$ 43,479,983	\$ 28,718,844
Intermediate Investments	12,496,122	21,724,314
Long-Term Investments	580,744,189	142,540,682
Assets Held in Charitable Trusts and Annuities	2,206,752	-
Donated Property and Land	3,936,654	32,007,495
Receivables, Net	108,625	3,892,055
Pledges Receivable/Promises	22,675,918	4,769,460
Property and Equipment, Net	5,856,098	40,870
Other Assets	312,677	33,044
	<u>\$ 671,817,018</u>	<u>\$ 233,726,764</u>
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 415,837	\$ 3,250
Due to University	-	3,802,750
Due to Others	267,196	68,534
Life Income Funds Payable	4,859,634	5,678,005
Deferred Revenue	12,000	183,524
Funds Held for Others	88,075	-
	<u>5,642,742</u>	<u>9,736,063</u>
NET ASSETS		
Without Donor Restrictions	22,837,418	6,012,795
With Donor Restrictions	<u>643,336,858</u>	<u>217,977,906</u>
	<u>666,174,276</u>	<u>223,990,701</u>
Total Liabilities and Net Assets	<u>\$ 671,817,018</u>	<u>\$ 233,726,764</u>

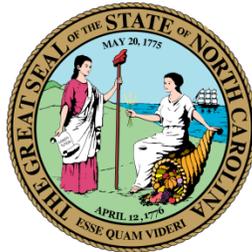
The accompanying notes to the financial statements are an integral part of this statement.

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Exhibit C-2

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Gains:		
Contributions	\$ 22,290	\$ 144,875
Donated Services and Salaries	856,000	1,495,000
Net Investment Income	6,504,155	2,447,833
Interest and Dividends	201,273	58,868
Other Income	823,112	-
Net Assets Released from Restrictions: Program or Time Restrictions	<u>27,907,456</u>	<u>34,408,583</u>
Total Revenue and Gains	36,314,286	38,555,159
Expenses:		
Scholarships and Fellowships	8,625,557	2,197,679
University Support	10,369,079	7,687,671
Capital Support	3,167,497	24,418,312
Administrative	624,458	319,600
Fundraising	6,111,384	1,901,022
Other	<u>722,909</u>	<u>52,765</u>
Total Expenses	<u>29,620,884</u>	<u>36,577,049</u>
Increase in Net Assets Without Donor Restrictions	<u>6,693,402</u>	<u>1,978,110</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	61,412,214	15,795,448
Grant Revenue	-	690,958
Change in Pledges Receivables	7,449,291	(809,929)
Donated Property	1,140,304	906,189
Disposal of Other Assets	(305,434)	88,592
Net Investment Income	147,477,537	37,611,351
Royalties	-	447,227
Change in Value of Split Interest Agreements and Trusts	(1,200,875)	(1,215,576)
Interest and Dividends	1,220,257	676,764
Other Income	6,101,488	23,679,472
Net Assets Released from Restrictions: Program or Time Restrictions	<u>(27,907,456)</u>	<u>(34,408,583)</u>
Increase in Net Assets with Donor Restrictions	<u>195,387,326</u>	<u>43,461,913</u>
Increase in Net Assets	202,080,728	45,440,023
Net Assets at Beginning of Year	<u>464,093,548</u>	<u>178,550,678</u>
Net Assets at End of Year	<u>\$ 666,174,276</u>	<u>\$ 223,990,701</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of eight ex officio members and eight elected members. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected members of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a five-member Board of Directors appointed based on their positions held with North Carolina State University. Additional members of the board may be appointed by the Chancellor of North Carolina State University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on

January 25, 2002 to construct, own and operate a golf course located on the North Carolina State University Centennial Campus. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006 to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007 to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007 and changed its name to Bell Tower Holdings, LLC on December 14, 2009. The purposes of Bell Tower Holdings LLC are to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008 the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012 to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. On September 27, 2016 the Corporation established the Wolfpack Investor Network, LLC (WIN) to connect the NC State alumni network with the NC State entrepreneurial community. C2I, LLC was formed on December 21, 2018 to act as an intermediary between the University and private parties in connection with certain real estate operations, execute innovation space management agreements, and procure resources for enhanced innovation activation and programming. On February 19, 2020, NC State Research, LLC was formed to manage, operate, host and oversee research related operations, unity, activities, and initiatives of North Carolina State University faculty, departments, centers and institutes, as well as federal agencies. Because the Corporation's Board consists of University employees and members appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund, and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

Condensed combining information regarding blended component units is provided in Note 20.

Discretely Presented Component Units - The North Carolina State University Foundation, Inc. (Foundation) and The North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation and Agricultural Foundation are legally separate, tax-exempt components of the University. These entities act primarily as fundraising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon, that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

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

During the year ended June 30, 2021, the Foundation distributed \$17,443,395 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2021, the Agricultural Foundation distributed \$33,570,947 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

- 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 University'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 University's fiduciary activities, which are considered custodial funds.

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

Domestic stocks are reported at cost since there are no readily determinable fair values. These investments consist of technology transfer stocks and the Wolfpack Investor Network's Seed Capital Endowment Fund stocks.

The Kamphoefner art collection, a gift to the Endowment Fund in 1979, is recorded at estimated fair value as of the date of donation. Mineral rights were a gift to the Endowment Fund in 1987. The most recent sale from 2016 was used to adjust the value per acre.

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

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and the physical plant, which uses the moving weighted average method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	4-22 years
General Infrastructure	15-75 years
Computer Software	2-15 years

The University does not capitalize its Arts and Design or Historic collections. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

- J. Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

All trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.

- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds, revenue bonds from direct placement, notes from direct borrowings, and capital leases. Other long-term liabilities include: pollution remediation, asset retirement obligations, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds are not material to the accompanying financial statements and are expensed in the year incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- L. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon

termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

Proprietary Fund

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

Fiduciary Funds

Restricted Net Position - Fiduciary net position includes resources held in a custodial capacity for external pool participants in the University's External Investment Fund and for other organizations; these resources are not available for alternative use by the University.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2021, the amount shown on the Statement of Net Position and the Statement of Fiduciary Net Position as cash and cash equivalents includes \$529,884,428 for the proprietary fund and \$49,006,989 for fiduciary funds, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 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 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2021 was \$120,500. The carrying amount of the University's deposits not with the State Treasurer was \$3,812,166, and the bank balance was \$5,055,233. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2021, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$4,253,549.

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

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

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

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

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

Investments of the Endowment Fund, including those invested in the Investment Fund, a University component unit, 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 University utilizes investment pools to manage investments and distribute investment income.

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

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

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

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund's internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University's reporting entity represent the Investment Fund's external participants. The external portion of the Investment Fund is now presented in the fiduciary fund financial statements. The Investment Fund includes the Long-Term Investment Pool (LTIP) and the Intermediate Term Fund (ITF) which was

established on July 3, 2014 for the collective investment of the participants' excess operating funds.

Oversight of the Investment Fund is provided by its Members Board and Board of Directors. The Members Board is responsible for providing governance and oversight to the Investment Fund. The Members Board has chosen not to make individual security or manager selection decisions. The Board of Directors' primary role is to oversee all aspects of the investment program, including development and approval of the Investment Policy Statement and any changes made to it after its initial adoption, in a prudent manner with regard to preserving principal while providing reasonable returns. An Investment Committee of the Board of Directors is responsible for oversight of the ITF.

Bank of New York Mellon is the custodian for the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Investment Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund's investments. The annual financial report for the Investment Fund may be obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695 or by calling (919) 513-7149 or at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund>.

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

The following table presents investments by type and investments subject to interest rate risk at June 30, 2021, for the Investment Fund.

	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Collective Investment Funds	\$ 191,178,651	\$147,221,769	\$ 17,186,122	\$ 26,770,760
Debt Mutual Funds	234,462,112	-	199,754,300	34,707,812
Total Debt Securities	425,640,763	\$147,221,769	\$ 216,940,422	\$ 61,478,572
Other Securities				
UNC Investment Fund	1,307,232,760			
Private Equity Limited Partnerships	48,357,011			
Total Investment Fund	\$ 1,781,230,534			

At June 30, 2021, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P rating):

	Amount	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Collective Investment Funds	\$ 191,178,651	\$ 15,271,037	\$ 26,770,759	\$ -	\$ 1,915,085	\$ 147,221,770
Debt Mutual Funds	234,462,112	-	-	139,128,908	34,707,802	60,625,402
Totals	<u>\$ 425,640,763</u>	<u>\$ 15,271,037</u>	<u>\$ 26,770,759</u>	<u>\$ 139,128,908</u>	<u>\$ 36,622,887</u>	<u>\$ 207,847,172</u>

UNC Investment Fund, LLC - At June 30, 2021, the University's investments include \$1,307,232,760, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type at June 30, 2021, for the University's non-pooled investments.

Non-Pooled Investments

	Amount
Investment Type	
Domestic Stocks	408,111
Collections and Mineral Rights	65,134
Total Non-Pooled Investments	<u>\$ 473,245</u>

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

	Amount
Investment Type	
Debt Securities	
Collective Investment Funds	\$ 191,178,651
Debt Mutual Funds	234,462,112
Other Securities	
UNC Investment Fund	1,307,232,760
Private Equity Limited Partnerships	48,357,011
Domestic Stocks	408,111
Collections and Mineral Rights	65,134
Total Investments	<u>\$ 1,781,703,779</u>

Total investments include \$664,180,057 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

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

	Proprietary Fund	Fiduciary Fund	Total
Cash on Hand	\$ 120,500	\$ -	\$ 120,500
Amount of Deposits with Private Financial Institutions	3,812,166	-	3,812,166
Deposits in the Short-Term Investment Fund	529,884,428	49,006,989	578,891,417
Investment Fund	698,691,887	418,358,591	1,117,050,478
Non-Pooled Investments	473,244	-	473,244
Total Deposits and Investments	\$ 1,232,982,225	\$ 467,365,580	\$ 1,700,347,805
Deposits			
Current:			
Cash and Cash Equivalents	\$ 192,959,747	\$ 49,006,989	\$ 241,966,736
Restricted Cash and Cash Equivalents	177,157,763	-	177,157,763
Noncurrent:			
Restricted Cash and Cash Equivalents	163,699,584	-	163,699,584
Total Deposits	533,817,094	49,006,989	582,824,083
Investments			
Noncurrent:			
Endowment Investments	522,702,478	-	522,702,478
Other Long-Term Investments	176,462,653	-	176,462,653
Intermediate Investments	-	19,602,214	19,602,214
Long-Term Investments	-	398,756,377	398,756,377
Total Investments	699,165,131	418,358,591	1,117,523,722
Total Deposits and Investments	\$ 1,232,982,225	\$ 467,365,580	\$ 1,700,347,805

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University'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:

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

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

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Collective Investment Funds	\$ 191,178,651	\$ 191,178,651	\$ -	\$ -
Debt Mutual Funds	234,462,112	234,462,112	-	-
Total Investments by Fair Value Level	425,640,763	\$ 425,640,763	\$ -	\$ -
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	48,357,011			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	578,891,417			
UNC Investment Fund	1,307,232,760			
Total Investments as a Position in an External Investment Pool	1,886,124,177			
Total Investments Measured at Fair Value	\$ 2,360,121,951			

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

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University’s position in the pool is measured

and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2021.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships	\$ 48,357,011	\$ 52,489,278	N/A	N/A

Private Equity Limited Partnerships - Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity, and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

NOTE 4 - ENDOWMENT INVESTMENTS

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

for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long-term investment pool (for a twenty quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2021, net appreciation of \$353,952,375 was available to be spent, of which \$326,416,277 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,025,720	\$ 1,265,539	\$ 760,181
Student Sponsors	1,657,408	-	1,657,408
Accounts	22,425,046	1,523,306	20,901,740
Intergovernmental	38,112,160	-	38,112,160
Grant Sponsors	27,275,442	-	27,275,442
Interest on Loans	565,685	538,689	26,996
Total Current Receivables	<u>\$92,061,461</u>	<u>\$ 3,327,534</u>	<u>\$88,733,927</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,215,363	\$ 12,386	\$ 2,202,977
Institutional Student Loan Programs	310,864	770	310,094
Total Notes Receivable - Current	<u>\$ 2,526,227</u>	<u>\$ 13,156</u>	<u>\$ 2,513,071</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,995,458	\$ 779,253	\$ 3,216,205
Institutional Student Loan Programs	240,615	166,309	74,306
Total Notes Receivable - Noncurrent	<u>\$ 4,236,073</u>	<u>\$ 945,562</u>	<u>\$ 3,290,511</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 78,542,761	\$ -	\$ -	\$ 78,542,761
Construction in Progress	216,068,020	112,976,614	206,506,034	122,538,600
Computer Software in Development	545,042	3,489,843	3,322,159	712,726
Total Capital Assets, Nondepreciable	295,155,823	116,466,457	209,828,193	201,794,087
Capital Assets, Depreciable:				
Buildings	2,423,773,093	194,936,947	7,835,626	2,610,874,414
Machinery and Equipment	433,703,642	32,071,695	16,279,988	449,495,349
General Infrastructure	250,178,267	11,569,087	498,122	261,249,232
Computer Software	34,854,345	3,322,159	-	38,176,504
Total Capital Assets, Depreciable	3,142,509,347	241,899,888	24,613,736	3,359,795,499
Less Accumulated Depreciation/Amortization for:				
Buildings	875,601,529	77,833,363	5,497,140	947,937,752
Machinery and Equipment	257,858,647	28,102,434	14,642,188	271,318,893
General Infrastructure	85,193,597	6,045,510	44,623	91,194,484
Computer Software	26,512,319	2,966,131	-	29,478,450
Total Accumulated Depreciation/Amortization	1,245,166,092	114,947,438	20,183,951	1,339,929,579
Total Capital Assets, Depreciable, Net	1,897,343,255	126,952,450	4,429,785	2,019,865,920
Capital Assets, Net	\$ 2,192,499,078	\$ 243,418,907	\$ 214,257,978	\$ 2,221,660,007

Due to an electrical fire, the University incurred an impairment loss of \$453,499 that was netted against an insurance recovery of \$2,179,535.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Proprietary Fund	Fiduciary Fund
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	\$ 15,151,030	\$ 215,538
Accounts Payable - Capital Assets	14,954,442	
Accrued Payroll	7,240,077	
Contract Retainage	5,786,946	
Other	11,456,091	
Total Current Accounts Payable and Accrued Liabilities	\$ 54,588,586	\$ 215,538

NOTE 8 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM AND LINE OF CREDIT

The University has available Commercial Paper Program financing for short-term debt credit up to \$100,000,000 to finance capital construction projects. The University’s available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2021, the Commercial Paper balance was zero. The commercial paper contains a provision that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

The NC State University Partnership Corporation (Corporation), through the NC State University Centennial Development LLC, has available a Line of Credit, from TowneBank, up to \$300,000 for operations at the Lonnie Poole Golf Course. The line is unsecured and must maintain a zero balance for at least 30 consecutive days during each twelve months. As of June 30, 2021, the Line of Credit balance was zero. The Line of Credit contains an event of default provision that if the Corporation is unable to make any payment when due, all commitments and obligations of the Lender immediately will terminate and, at Lender’s option, all indebtedness immediately will become due and payable. Also, upon default, the interest rate on the Line of Credit will be increased by an additional 3% margin, subject to the maximum interest rate limitations under applicable law.

Short-term debt activity for the year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Draws	Repayments	Balance June 30, 2021
Commercial Paper Program	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -
Partnership Corporation - Line of Credit	46,168	-	46,168	-
Total Short-Term Debt	\$ 50,046,168	\$ -	\$ 50,046,168	\$ -

Unused Line of Credit - The NC State University Partnership Corporation, through the NC State University Centennial Development LLC, has an unused portion of their Line of Credit in the amount of \$300,000.

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Revenue Bonds	\$ 393,795,000	\$ 266,780,000	\$ 189,175,000	\$ 471,400,000	\$ 16,355,000
Revenue Bonds from Direct Placements	37,713,828	-	4,296,318	33,417,510	4,408,612
Plus: Unamortized Premium	27,229,610	19,294,654	18,942,961	27,581,303	-
Total Revenue Bonds, Net	458,738,438	286,074,654	212,414,279	532,398,813	20,763,612
Notes from Direct Borrowings	56,706,394	-	4,987,708	51,718,686	5,500,029
Capital Leases Payable	196,456	436,604	199,056	434,004	114,643
Total Long-Term Debt	515,641,288	286,511,258	217,601,043	584,551,503	26,378,284
Other Long-Term Liabilities					
Pollution Remediation Payable	4,399,615	-	108,571	4,291,044	104,929
Asset Retirement Obligations	13,846,001	492,275	-	14,338,276	-
Employee Benefits					
Compensated Absences	85,363,517	49,759,743	50,154,199	84,969,061	4,179,517
Net Pension Liability	234,403,118	39,649,195	-	274,052,313	-
Net Other Postemployment Benefits Liability	1,228,738,701	-	145,797,694	1,082,941,007	-
Workers' Compensation	10,997,750	1,466,507	2,085,839	10,378,418	1,626,091
Total Other Long-Term Liabilities	1,577,748,702	91,367,720	198,146,303	1,470,970,119	5,910,537
Total Long-Term Liabilities, Net	\$ 2,093,389,990	\$ 377,878,978	\$ 415,747,346	\$ 2,055,521,622	\$ 32,288,821

Additional information regarding capital lease payable is included in Note 10.
 Additional information regarding the net pension liability is included in Note 14.
 Additional information regarding the net other postemployment benefits liability is included in Note 15.
 Additional information regarding worker's compensation is included in Note 16.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2021	Principal Outstanding June 30, 2021
<u>General Revenue</u>						
Various Construction Projects	2010A	5%	10/01/2022	\$ 18,065,000	\$ 15,035,000	\$ 3,030,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2023	132,440,000	125,125,000	7,315,000
Adv Refund 2005A / Talley Student Union	2013B	2.223% - 4%	10/01/2041	141,650,000	14,255,000	127,395,000
Refund 2003B and 2015	2018	5%	10/01/2028	87,165,000	18,410,000	68,755,000
Refund 2010B / Carmichael	2020A	2.375% - 5%	10/01/2044	82,335,000	-	82,335,000
Adv Refund 2013A / Fitts-Woolard; Plant Sciences	2020B	0.702% - 3.02%	10/01/2042	184,445,000	1,875,000	182,570,000
Total Revenue Bonds				646,100,000	174,700,000	471,400,000
<u>General Revenue Bonds from Direct Placement</u>						
Various Construction Projects	2017	2.58%	10/01/2031	50,438,952	17,021,442	33,417,510
Total Revenue Bonds and Revenue Bonds from Direct Placement (principal only)				\$ 696,538,952	\$ 191,721,442	504,817,510
Plus: Unamortized Premium						27,581,303
Total Revenue Bonds Payable and Bonds from Direct Placement						\$ 532,398,813

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2021	Principal Outstanding June 30, 2021
Energy Conservation Loan	BB&T	3.245%	09/01/2028	\$ 19,700,703	\$ 7,752,400	\$ 11,948,303
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	16,289,627	39,770,383
Total Notes from Direct Borrowings				\$ 75,760,713	\$ 24,042,027	\$ 51,718,686

D. 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					
	Revenue Bonds		Revenue Bonds from Direct Placement		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 16,355,000	\$ 15,776,712	\$ 4,408,612	\$ 805,301	\$ 5,500,029	\$ 1,913,907
2023	16,650,000	15,112,851	4,523,840	690,072	6,085,066	1,691,346
2024	18,090,000	14,400,224	3,629,012	584,900	6,600,585	1,446,955
2025	18,785,000	13,676,476	3,419,944	493,969	7,194,130	1,180,860
2026	19,370,000	12,975,471	3,358,417	406,528	7,747,122	892,109
2027-2031	133,865,000	53,520,567	11,872,606	1,021,696	18,591,754	826,431
2032-2036	86,875,000	34,858,435	2,205,079	28,445	-	-
2037-2041	104,525,000	18,573,990	-	-	-	-
2042-2046	56,885,000	2,164,129	-	-	-	-
Total Requirements	\$ 471,400,000	\$ 181,058,855	\$ 33,417,510	\$ 4,030,911	\$ 51,718,686	\$ 7,951,608

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

Revenue Bonds and Revenue Bonds from Direct Placement - The outstanding revenue bonds and revenue bonds from direct placement contain provisions that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the outstanding notes from direct borrowings. The outstanding notes from direct borrowings also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, or (3) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the

lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 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.

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

On July 7, 2020, the University issued \$82,335,000 in General Revenue Bonds, Series 2020A, with an average interest rate of 3.823%. A portion of the proceeds was used for a current refunding of \$59,565,000 of outstanding General Revenue Bonds, Series 2010B (Build America Bonds), with an average interest rate of 5.928%. The refunding was undertaken to reduce total debt service payments by \$14,327,605 over the next 15 years and resulted in an economic gain of \$12,575,467.

On July 7, 2020, the University issued \$184,445,000 in Taxable General Revenue Bonds, Series 2020B bonds with an average interest rate of 2.308%. A portion of the proceeds were used to advance refund \$113,945,000 of outstanding General Revenue Bonds, Series 2013A, with an average interest rate of 4.671%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$16,216,875 over the next 22 years and resulted in an economic gain of \$13,698,132. At June 30, 2021, the outstanding balance was \$113,945,000 for the defeased General Revenue Bonds, Series 2013A.

G. Pollution Remediation Payable - The University has recognized a pollution remediation liability for remediation of Lot 86 which the University used as a burial site for hazardous chemical and low level radioactive waste generated in the University's laboratories. The amount of the estimated liability is \$4,291,044. This estimate was calculated at its expected amount, using the expected cash flow technique. This liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

H. Asset Retirement Obligations - The University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor

facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The amount of the estimated liability is \$14,338,276. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the NC State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 42 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The University is a State government organization and decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of NC General Statute 116-11(9)(a).

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 132,986
2023	121,774
2024	120,573
2025	<u>98,413</u>
Total Minimum Lease Payments	473,746
Amount Representing Interest (8.39% Rate of Interest)	<u>39,742</u>
Present Value of Future Lease Payments	<u>\$ 434,004</u>

Machinery and equipment acquired under capital lease amounted to \$730,511 at June 30, 2021.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$288,169 at June 30, 2021.

B. Operating Lease Obligations - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 12,300,274
2023	10,864,272
2024	10,554,774
2025	9,892,315
2026	7,236,860
2027-2031	<u>15,291,121</u>
Total Minimum Lease Payments	<u>\$ 66,139,616</u>

Rental expense for all operating leases during the year was \$21,497,049.

NOTE 11 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (166,579,062)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(1,447,151,244)</u>
Effect on Unrestricted Net Position	(1,613,730,306)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>361,153,779</u>
Total Unrestricted Net Position	<u>\$ (1,252,576,527)</u>

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 438,524,751	\$ 109,267,789	\$ 175,433	\$ 329,081,529
Sales and Services, Net	\$ 190,676,725	\$ 11,354,951	\$ 282,886	\$ 179,038,888
Other Revenues, Net	\$ 19,447,820	\$ -	\$ 188,760	\$ 19,259,060

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 405,329,795	\$ 70,673,079	\$ -	\$ 160	\$ -	\$ 476,003,034
Research	190,856,647	102,374,342	-	877,585	-	294,108,574
Public Service	86,718,295	35,750,470	-	402,600	-	122,871,365
Academic Support	50,329,526	42,380,227	-	76,367	-	92,786,120
Student Services	19,775,574	8,010,682	-	393,979	-	28,180,235
Institutional Support	88,765,449	21,362,570	-	2,674	-	110,130,693
Operations and Maintenance of Plant	39,445,354	25,473,307	-	21,294,591	-	86,213,252
Student Financial Aid	1,189,086	1,498,653	69,942,018	-	-	72,629,757
Auxiliary Enterprises	70,806,978	62,137,629	-	6,140,333	-	139,084,940
Depreciation/ Amortization	-	-	-	-	114,947,438	114,947,438
Total Operating Expenses	\$ 953,216,704	\$ 369,660,959	\$ 69,942,018	\$ 29,188,289	\$ 114,947,438	\$ 1,536,955,408

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$8,947,941 provided by the Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 12.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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 University'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 \$20,695,027, and the University's contributions were \$50,978,750 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 University reported a liability of \$274,052,313 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 University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 2.26827%, which was an increase of 0.00721 from its proportion measured as of June 30, 2019, which was 2.26106%.

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>
\$ 493,229,800	\$ 274,052,313	\$ 90,207,760

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021, the University recognized pension expense of \$80,993,759. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 15,101,756	\$ -
Changes of Assumptions	9,286,864	-
Net Difference Between Projected and Actual Earnings on Plan Investments	30,307,376	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,798,505	-
Contributions Subsequent to the Measurement Date	50,978,750	-
Total	\$ 107,473,251	\$ -

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:

Year Ending June 30:	Amount
2022	\$ 19,782,181
2023	15,461,724
2024	12,221,770
2025	9,028,826
Total	\$ 56,494,501

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in ORP. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2021, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$825,186,530, of which \$329,974,142 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$19,798,449 and \$22,570,231, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Forfeitures reduced the University's pension expense during the fiscal year by \$1,028,070.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two

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

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

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 University's contractually-required contribution rate for the year ended June 30, 2021 was 6.68% of covered payroll.

The University's contributions to the RHBF were \$45,082,736 for the year ended June 30, 2021.

2. Disability Income

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

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for

Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were \$607,402 for the year ended June 30, 2021.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2021, the University reported a liability of \$1,082,941,007 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 University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 3.90378%, which was an increase of 0.02022 from its proportion measured as of June 30, 2019, which was 3.88356%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of \$1,946,380 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 University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 3.95654%, which was an increase of 0.03586 from its proportion measured as of June 30, 2019, which was 3.92068%.

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 University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)			
	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
RHBF	\$ 1,284,300,444	\$ 1,082,941,007	\$ 920,713,852
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
DIPNC	\$ (1,680,976)	\$ (1,946,380)	\$ (2,204,070)

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	\$ 873,046,903	\$ 1,082,941,007	\$ 1,363,494,594
	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	\$ (1,949,585)	\$ (1,946,380)	\$ (1,943,571)

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

OPEB Plan	Amount
RHBF	\$ (35,532,712)
DIPNC	1,431,641
Total OPEB Expense	\$ (34,101,071)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 981,066	\$ 1,409,992	\$ 2,391,058
Changes of Assumptions	47,493,144	151,338	47,644,482
Net Difference Between Projected and Actual Earnings on Plan Investments	2,281,331	-	2,281,331
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	83,913,229	-	83,913,229
Contributions Subsequent to the Measurement Date	45,082,736	607,402	45,690,138
Total	\$ 179,751,506	\$ 2,168,732	\$ 181,920,238

**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	\$ 42,365,984	\$ -	\$ 42,365,984
Changes of Assumptions	439,474,559	153,276	439,627,835
Net Difference Between Projected and Actual Earnings on Plan Investments	-	329,738	329,738
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>62,121,200</u>	<u>114,446</u>	<u>62,235,646</u>
Total	<u>\$ 543,961,743</u>	<u>\$ 597,460</u>	<u>\$ 544,559,203</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:**

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2022	\$ (158,389,780)	\$ 376,669
2023	(158,270,862)	244,283
2024	(38,478,228)	109,682
2025	(19,868,554)	195,383
2026	(34,285,549)	7,065
Thereafter	<u>-</u>	<u>30,788</u>
Total	<u>\$ (409,292,973)</u>	<u>\$ 963,870</u>

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans**1. State Health Plan**

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

The University is required to maintain all risk (Special Perils) 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 University 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 component within the composite premium rate. Coverage for all remaining risks for all buildings is charged to the University. 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. Flood insurance can also be purchased as separate coverage for high risk flood exposures.

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$5,000,000 in the aggregate per fiscal year via contract with a private insurance company. Effective June 22, 2021, the aggregate coverage limit was increased to \$10,000,000 as another layer of coverage was placed with another private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property, musical instruments, campers accident and sickness

coverage, athletic accident, boiler and machinery, watercraft, oceanographic equipment, cyber and data breach, student health, business travel, unmanned aerial systems liability, equine mortality, event cancellation, liquor liability, internship liability, volunteer liability, and nuclear energy liability.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts and other purchases were \$78,833,512 at June 30, 2021.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$750,000 as of June 30, 2021.

- B. Pending Litigation and Claims** - As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

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

NOTE 18 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, the federal government provided grants to the State and the University 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 captions 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 University.

Federal Aid - COVID-19 - This caption includes grant funds received directly by the University from the U.S. Department of Education, Higher Education Emergency Relief Funds (HEERF).

This caption also includes pass-through grant funds from the Governors Emergency Education Relief (GEER) Fund.

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

Program	Total Authorized Award	2020 Earned Revenue	2021 Earned Revenue
State Aid - Coronavirus:			
CRF UNC-BOG Allocations	\$ 4,500,000	\$ 500,000	\$ 4,000,000
CRF UNC-BOG Allocations - Digital Learning and Coaching	369,930	9,300	360,630
CRF UNC-BOG Allocations - PPE and Testing	1,308,634	-	1,308,634
CRF OSBM - Dedicated LEO Salaries (1)	1,968,363	-	1,968,363
Total State Aid - Coronavirus:	N/A	<u>\$ 509,300</u>	<u>\$ 7,637,627</u>
Federal Aid - COVID-19:			
HEERF I Funds - Student Allocation	\$ 8,947,941	\$ 8,947,941	\$ -
HEERF II Funds - Student Allocation	8,947,941	-	8,947,941
HEERF III Funds - Student Allocation	25,189,169	-	-
HEERF I Funds - Institutional Allocation	8,947,940	-	8,947,940
HEERF II Funds - Institutional Allocation	19,208,621	-	8,103,069
HEERF III Funds - Institutional Allocation	25,014,854	-	-
GEER Funds	483,875	-	364,500
Total Federal Aid - COVID-19	N/A	<u>\$ 8,947,941</u>	<u>\$ 26,363,450</u>

(1) This was money received from OSBM for COVID Relief as a reduction in state appropriations.

NOTE 19 - RELATED PARTIES

Foundations - There are 8 separately incorporated nonprofit foundations associated with the University. These foundations are North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., NC State Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for amounts reported within the fiduciary statements and support from each organization to the University. This support approximated \$83,911,176 for the year ended June 30, 2021.

Reynolds Coliseum - The NC State Student Aid Association, Inc. agreed to fund \$20,000,000 of the \$35,000,000 project to renovate the University's Reynolds Coliseum. Funding was completed in fiscal year 2021.

Nonprofit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$55,542 for each men's and \$24,300 for each women's basketball game to compensate the Authority for facility rental and operating expenses for games held during fiscal year 2021. Due to the global pandemic, the agreement was revised to compensate the Authority for actual expenses per each men's basketball game of \$13,925. There were no women's basketball games held in the arena in fiscal year 2021. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

NOTES TO THE FINANCIAL STATEMENTS

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over 15 years.

NOTE 20 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2021, is presented as follows:

Condensed Statement of Net Position Proprietary Fund June 30, 2021

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 446,812,585	\$ 35,705,152	\$ 5,296,760	\$ -	\$ 487,814,497
Capital Assets, Net	2,201,714,010	-	19,945,997	-	2,221,660,007
Other Noncurrent Assets	169,409,719	698,691,887 ¹	-	-	868,101,606
Primary Government Receivable from Component Unit	2,785,750	-	-	(2,785,750)	-
Total Assets	2,820,722,064	734,397,039	25,242,757	(2,785,750)	3,577,576,110
TOTAL DEFERRED OUTFLOWS OF RESOURCES	302,799,755	-	-	-	302,799,755
LIABILITIES					
Current Liabilities	172,332,873	614,155	761,991	-	173,709,019
Long-Term Liabilities, Net	2,023,232,801	-	-	-	2,023,232,801
Other Noncurrent Liabilities	77,009,856	-	319,361	-	77,329,217
Component Unit Payable to Primary Government	-	-	2,785,750	(2,785,750)	-
Total Liabilities	2,272,575,530	614,155	3,867,102	(2,785,750)	2,274,271,037
TOTAL DEFERRED INFLOWS OF RESOURCES	544,559,203	-	-	-	544,559,203
NET POSITION					
Net Investment in Capital Assets	1,620,659,468	-	16,719,439	-	1,637,378,907
Restricted - Nonexpendable	(558,004,263)	733,782,884 ²	-	-	175,778,621
Restricted - Expendable	500,747,016	-	217,608	-	500,964,624
Unrestricted	(1,257,015,135)	-	4,438,608	-	(1,252,576,527)
Total Net Position	\$ 306,387,086	\$ 733,782,884	\$ 21,375,655	\$ -	\$ 1,061,545,625

¹ Total investments in the NC State Investment Fund, Inc. audit report included \$664,180,057 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

² Restricted nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

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

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenue	\$ 874,348,695	\$ -	\$ 10,030,725	\$ (5,701,402)	\$ 878,678,018
OPERATING EXPENSES					
Operating Expenses	1,417,532,631	2,198,178	7,978,563	(5,701,402)	1,422,007,970
Depreciation/Amortization	114,479,233	-	468,205	-	114,947,438
Total Operating Expenses	1,532,011,864	2,198,178	8,446,768	(5,701,402)	1,536,955,408
Operating Income (Loss)	(657,663,169)	(2,198,178)	1,583,957	-	(658,277,390)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	520,557,104	-	-	-	520,557,104
Student Financial Aid	51,538,568	-	-	-	51,538,568
COVID-19 Aid	34,001,077	-	-	-	34,001,077
Noncapital Contributions	100,365,195	-	-	-	100,365,195
Investment Income, Net	(30,073,653)	191,314,403	-	-	161,240,750
Other Nonoperating Expenses	(18,443,892)	-	(3,080)	-	(18,446,972)
Net Nonoperating Revenues (Expenses)	657,944,399	191,314,403	(3,080)	-	849,255,722
Capital Appropriations	7,740,538	-	-	-	7,740,538
Capital Contributions	106,812,355	-	-	-	106,812,355
Additions to Endowments	8,332,544	-	-	-	8,332,544
Total Other Revenues	122,885,437	-	-	-	122,885,437
Increase in Net Position	123,166,667	189,116,225	1,580,877	-	313,863,769
NET POSITION					
Net Position, July 1, 2020	183,220,419	544,666,659	19,794,778	-	747,681,856
Net Position, June 30, 2021	\$ 306,387,086	\$ 733,782,884	\$ 21,375,655	\$ -	\$ 1,061,545,625

**Condensed Statement of Cash Flows
Proprietary Fund
June 30, 2021**

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (592,215,712)	\$ -	\$ 2,656,093	\$ (589,559,619)
Cash Provided by Noncapital Financing Activities	693,067,453	-	-	693,067,453
Net Cash Used by Capital and Related Financing Activities	(43,218,658)	-	(284,804)	(43,503,462)
Net Cash Provided (Used) by Investing Activities	(28,047,510)	5,163,671	-	(22,883,839)
Net Increase in Cash and Cash Equivalents	29,585,573	5,163,671	2,371,289	37,120,533
Cash and Cash Equivalents, July 1, 2020, as Restated	464,243,437	30,541,481	1,911,643	496,696,561
Cash and Cash Equivalents, June 30, 2021	\$ 493,829,010	\$ 35,705,152	\$ 4,282,932	\$ 533,817,094

NOTE 21 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2021, the University 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 22 - NET POSITION RESTATEMENT

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

	Fiduciary Activities – Custodial Funds		
	External Investment Pool	Other Funds	Total
July 1, 2020 Net Position as Previously Reported	\$ -	\$ -	\$ -
Restatement GASB Statement No. 84 Implementation	<u>281,575,229</u>	<u>48,870,917</u>	<u>330,446,146</u>
July 1, 2020 Net Position as Restated	<u>\$ 281,575,229</u>	<u>\$ 48,870,917</u>	<u>\$ 330,446,146</u>

The University’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 University’s fiduciary activities are now reported on separate financial statements. As a result, fiduciary net position was restated to \$330,446,146 as of July 1, 2020. This restatement had no effect on the July 1, 2020 net position of the University’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 Fiduciary Statement of Net Position.

NOTE 23 - DISCRETELY PRESENTED COMPONENT UNITS

The University’s discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units’ audited financial statements follow:

North Carolina State University Foundation, Inc.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2021 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 1,175,956	\$ 1,175,956
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	250,844,755	501,661,885
SRI Fund	51,533,497	71,929,103
Life Income Funds	<u>4,930,146</u>	<u>5,977,245</u>
Total	<u>\$ 308,484,354</u>	<u>\$ 580,744,189</u>

Life Income Funds

The consolidated financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2021 have asset balances of \$5,977,245.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$4,859,634 at June 30, 2021. Payments from these funds were \$689,567 during the year ended June 30, 2021. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2021, the CGA reserve balance was \$5,137.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 8,276,308
Receivable in One to Five Years	14,640,197
Receivable in Greater than Five Years	<u>1,232,611</u>
Total Gross Pledges Receivable	24,149,116
Less Allowance for Uncollectible Pledges	(1,208,000)
Less Unamortized Discount (Discount Rate of 0.07% to 1.23%)	<u>(265,198)</u>
Net Pledges Receivable	<u>\$ 22,675,918</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. These three donors represented approximately \$5.9 million of total undiscounted pledges

receivable at June 30, 2021. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

The North Carolina Agricultural Foundation, Inc.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2021 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 121,725	\$ 121,725
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	57,025,903	131,854,696
Life Income Funds	<u>8,856,972</u>	<u>10,564,261</u>
Total	<u>\$ 66,004,600</u>	<u>\$ 142,540,682</u>

Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift and marked to market thereafter. Life income funds at June 30, 2021 have asset balances of \$10,564,261.

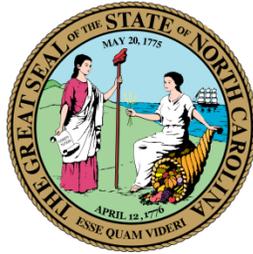
The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$5,678,005 at June 30, 2021. Payments from these funds were \$588,739 during the year ended June 30, 2021. An unrestricted reserve account has been established in the Foundation’s Charitable Gift Annuity (“CGA”) pool to receive 10% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation’s CGA pool. As of June 30, 2021, the CGA reserve balance was \$93,543.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 2,111,728
Receivable in One to Five Years	2,763,448
Receivable in Greater than Five Years	<u>200,000</u>
Total Gross Pledges Receivable	5,075,176
Less Allowance for Uncollectible Pledges	(254,000)
Less Unamortized Discount (Discount Rate of 0.07% to 1.23%)	<u>(51,716)</u>
Net Pledges Receivable	<u><u>\$ 4,769,460</u></u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina State University
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 D-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	2.26827%	2.26106%	2.22637%	2.22596%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 274,052,313	\$ 234,403,118	\$ 221,659,379	\$ 176,617,483
Covered Payroll	\$ 353,653,996	\$ 346,742,820	\$ 331,594,965	\$ 324,634,557
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	77.49%	67.60%	66.85%	54.41%
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	2.20202%	2.13940%	2.14599%	2.11750%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 202,388,385	\$ 78,841,126	\$ 25,160,037	\$ 128,553,827
Covered Payroll	\$ 312,155,082	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	64.84%	25.55%	8.24%	41.99%
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.

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

Exhibit D-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 50,978,750	\$ 45,868,923	\$ 42,614,693	\$ 35,745,937	\$ 32,398,529
Contributions in Relation to the Contractually Determined Contribution	50,978,750	45,868,923	42,614,693	35,745,937	32,398,529
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$344,917,119	\$353,653,996	\$346,742,820	\$331,594,965	\$324,634,557
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	\$ 28,562,190	\$ 28,231,407	\$ 26,535,242	\$ 25,503,618	\$ 22,231,989
Contributions in Relation to the Contractually Determined Contribution	28,562,190	28,231,407	26,535,242	25,503,618	22,231,989
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$312,155,082	\$308,539,969	\$305,353,765	\$306,165,883	\$298,817,058
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.

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

Changes of Benefit Terms:

Cost of Living Increase

	<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 the most recent available information included in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

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

Exhibit D-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	3.90378%	3.88356%	3.83759%	3.54230%	3.97671%
Proportionate Share of Collective Net OPEB Liability	\$ 1,082,941,007	\$ 1,228,738,701	\$ 1,093,258,395	\$ 1,161,399,772	\$ 1,730,004,018
Covered Payroll	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834	\$ 593,161,610
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	158.04%	183.68%	170.67%	186.65%	291.66%
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	3.95654%	3.92068%	3.89123%	3.85175%	3.71882%
Proportionate Share of Collective Net OPEB Asset	\$ 1,946,380	\$ 1,691,773	\$ 1,182,000	\$ 2,354,190	\$ 2,309,387
Covered Payroll	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834	\$ 593,161,610
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.28%	0.25%	0.18%	0.38%	0.39%
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.

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

Exhibit D-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 45,082,736	\$ 44,335,350	\$ 41,942,484	\$ 38,751,588	\$ 36,150,856
Contributions in Relation to the Contractually Determined Contribution	45,082,736	44,335,350	41,942,484	38,751,588	36,150,856
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834
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	\$ 33,217,050	\$ 31,585,734	\$ 29,986,156	\$ 28,822,840	\$ 26,143,971
Contributions in Relation to the Contractually Determined Contribution	33,217,050	31,585,734	29,986,156	28,822,840	26,143,971
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 593,161,610	\$ 575,332,134	\$ 555,299,176	\$ 543,827,170	\$ 522,879,422
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	\$ 607,402	\$ 685,245	\$ 936,515	\$ 896,731	\$ 2,364,428
Contributions in Relation to the Contractually Determined Contribution	607,402	685,245	936,515	896,731	2,364,428
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834
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	\$ 2,431,963	\$ 2,358,862	\$ 2,443,316	\$ 2,392,840	\$ 2,718,973
Contributions in Relation to the Contractually Determined Contribution	2,431,963	2,358,862	2,443,316	2,392,840	2,718,973
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 593,161,610	\$ 575,332,134	\$ 555,299,176	\$ 543,827,170	\$ 522,879,422
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.

North Carolina State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 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 five 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 five options of the RHBF. Most of the changes were an increase in the amount from the previous year.

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

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed 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 University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

For the actuarial valuation measured as of June 30, 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 the most recent available 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



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
North Carolina State University
Raleigh, 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 North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 11, 2021. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc. and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc., a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with this entity.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 11, 2021

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This audit required 1,145 hours at an approximate cost of \$121,370.