

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA WILMINGTON

WILMINGTON, 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



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the University of North Carolina Wilmington 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
BUSINESS-TYPE ACTIVITIES:	
A-1 STATEMENT OF NET POSITION	20
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	22
A-3 STATEMENT OF CASH FLOWS.....	23
FIDUCIARY ACTIVITIES:	
B-1 STATEMENT OF FIDUCIARY NET POSITION.....	25
B-2 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	26
NOTES TO THE FINANCIAL STATEMENTS	27
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	73
C-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	74
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	75
C-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	76
C-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	77
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	78
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 <i>GOVERNMENT AUDITING STANDARDS</i>	79
ORDERING INFORMATION	81



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina Wilmington
Wilmington, North Carolina

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for 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 the University of North Carolina Wilmington 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 22 to the financial statements, during the year ended June 30, 2021, the University of North Carolina Wilmington 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 December 1, 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

December 1, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The University of North Carolina Wilmington (University or UNCW) provides the following Management's Discussion and Analysis (MD&A) as an overview of the proprietary fund financial activities for the fiscal year ended June 30, 2021. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the Financial Statements

The University's financial report includes three proprietary fund financial statements that depict the financial activity and fiscal condition of the University for the current year. The report also includes two fiduciary fund financial statements as a result of the implementation of Government Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during fiscal year 2021. These financial statements include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; the Statement of Fiduciary Net Position; and the Statement of Changes in Fiduciary Net Position. The proprietary fund financial statements account for the University's primary activities. The fiduciary fund financial statements account for the University's fiduciary activities which are considered custodial funds. These financial statements are prepared in accordance with GASB principles and using the accrual basis of accounting. This method of accounting requires that revenues and assets be recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all the University's proprietary fund assets, deferred outflows and inflows, liabilities, and net position. The University's proprietary fund net position (the monetary difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources) is one indicator of the University's financial viability. Over time, changes in the proprietary fund net position provide information on the improvement or erosion of the University's financial condition when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's proprietary fund revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues. With state appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit.

An important factor to consider when evaluating the financial viability of the University is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents proprietary fund information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position present the University's fiduciary fund assets, liabilities, net position, additions, and deductions related to resources held by the University in a custodial capacity for the four related parties described in Note 20.

Financial Highlights

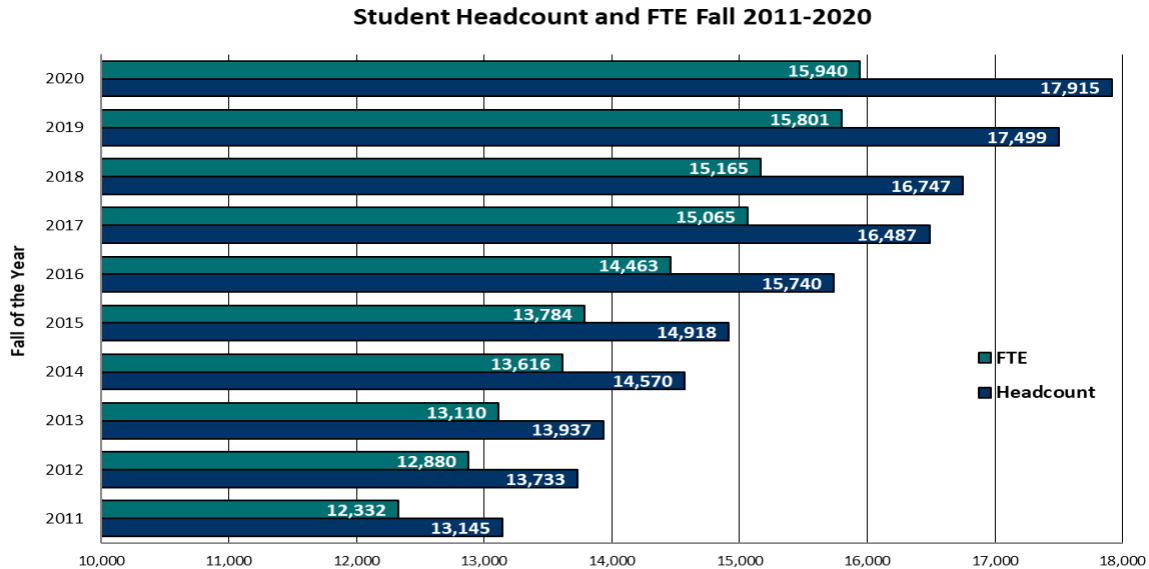
The coronavirus (COVID-19) pandemic challenged the University to reimagine the way that it delivered its academic experience to students in fiscal year 2021. While students were welcomed back to campus in the fall of 2020, a significant number enrolled in distance education courses. Mandatory fees charged for distance education courses are significantly less than those for traditional courses. As a result, tuition and fees and sales and services revenues decreased \$16.8 million and \$5.7 million, respectively. Scholarships and fellowships expenses increased \$10.0 million to help keep students enrolled. In addition to the funds remaining from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) awarded during fiscal year 2020, relief for both students and the University was provided by the federal government in December 2020 and again in March 2021 when the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) and the American Rescue Plan (ARP) Act of 2021 were signed into law. The CRRSAA and ARP provided relief in the form of the Higher Education Emergency Relief Fund II (HEERF II) and Higher Education Emergency Relief Fund III (HEERF III). The University received \$39.4 million in HEERF funding in fiscal year 2021 with a portion allocated specifically to students in the form of scholarships and fellowships and the remainder to the University to defray expenses associated with COVID-19 and to cover shortfalls in operating revenues highlighted above. See Note 19 for additional information related to the impact of COVID-19 on fiscal year 2021.

Despite the challenges discussed above, the University continued to grow during fiscal year 2021 as evidenced by the \$9.5 million (6.4%) increase in the original state appropriations budget to \$158.0 million from \$148.5 million in the prior year. Included in state appropriations was \$9.8 million of enrollment growth funding, one of the largest amounts received to date by the University. The amount reported in the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2021, however, was \$148.9 million, \$9.1 million less than the original budget. The difference was due to Chapter 116, Section 30.3(f) of the North Carolina General Statutes Section which was rewritten during the fiscal year and required that the \$7.8 million the University was able to carry forward in management flexibility budget be recorded as capital appropriations as it is restricted for repairs and renovations. In addition, \$1.3 million of the enrollment growth funding which is normally received directly from the State as appropriations was received from the University of North Carolina System Office resulting in classification as noncapital contributions.

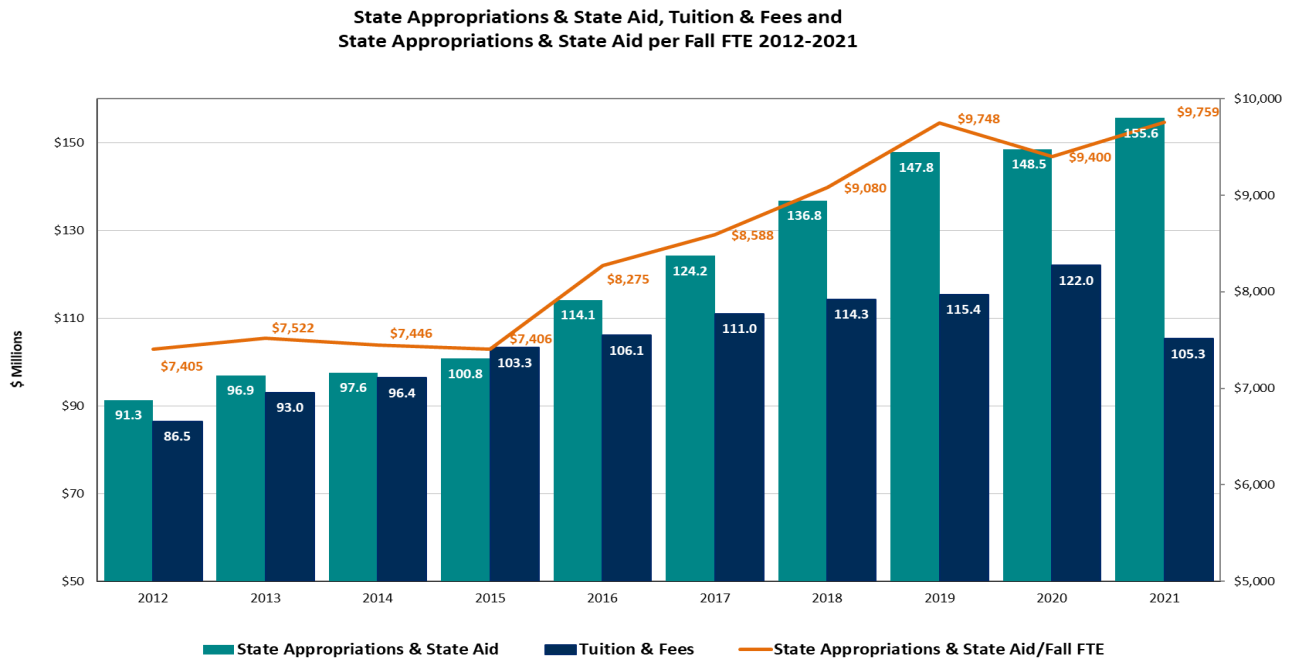
During fiscal year 2021, the University again operated on a base budget from fiscal year 2019 as the State of North Carolina did not adopt a new State budget. Various bills passed during fiscal year 2021 including one that provided for a building reserve allocation of \$2.8 million. UNCW also requested \$20.0 million from the Capital Improvements-Project Reserve Fund for the balance of funding for the Randall Library renovation and expansion which remains unapproved.

It has been three years since Hurricane Florence made landfall near the University's campus on September 14, 2018 and the associated capital projects and repairs are nearly complete. Dobo Hall, the University's primary science classroom and laboratory facility, which was significantly damaged during the storm, reopened in August 2020. Both expenses and insurance and Federal Emergency Management Agency (FEMA) reimbursements related to the hurricane have decreased significantly. The University expects expenditures to be complete next fiscal year with recoveries to continue into future fiscal years. For more information on the impact of Hurricane Florence, see Note 18.

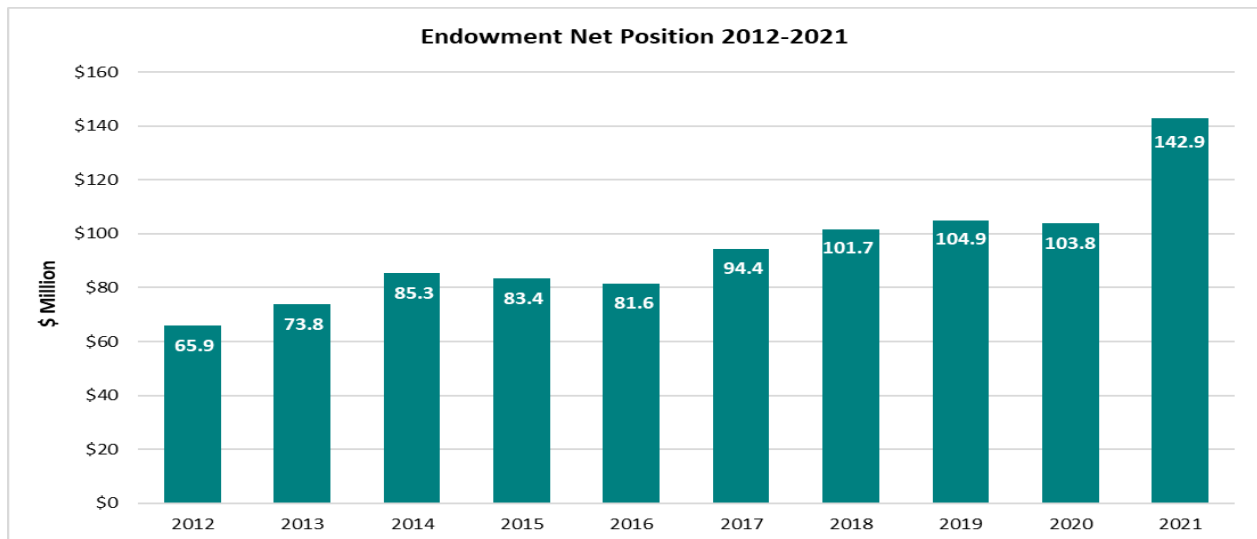
The University operates with a fixed tuition program for undergraduate resident students, which began with the fall 2016 freshman class. Under the program, the incoming freshman resident cohort tuition rate is fixed for four years. In addition, undergraduate and graduate tuition and mandatory and general fees remained fixed during fiscal year 2021. UNCW has not increased tuition for its undergraduate students since fiscal year 2018 and its graduate students since fiscal year 2019.



UNCW's fall 2020 full-time equivalent (FTE) of 15,940 was a slight increase of 0.9% over fall 2019. UNCW has experienced steady growth with a continuing focus on quality as demonstrated by an average incoming Scholastic Assessment Test score of 1234 for fall 2020.



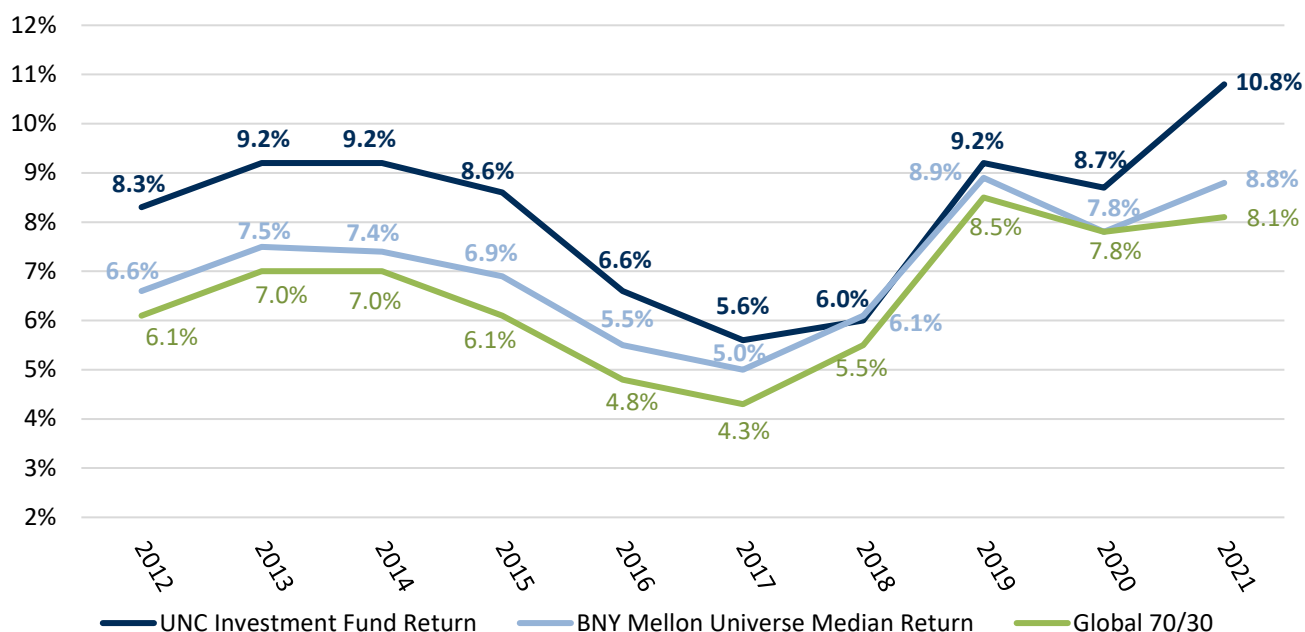
Continued enrollment growth combined with an increase in state appropriations led to state aid per fall student FTE increasing to \$9,759 in fall 2021. Due to the pandemic and flat tuition rates, tuition and fee revenue decreased 13.7% in fiscal year 2021.



The net position of the endowments grew from \$103.8 million to \$142.9 million over the twelve months ending June 30, 2021. Net investment returns of \$39.8 million and new gifts/additions to the endowment of \$7.2 million funded withdrawals for spending distributions and administrative fees in the amount of \$5.2 million. Additionally, nonrecurring withdrawals of \$2.7 million were made to fund capital projects including the Film Studies building.

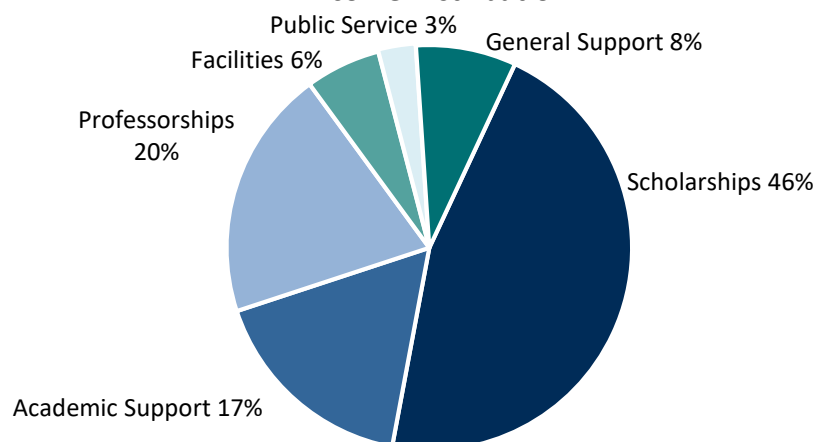
The endowment fund's investments with the UNC Investment Fund (UNCIF) returned 42.3% for the 12-month period ended June 30, 2021, its best fiscal year return since inception. The fund's performance for fiscal year 2021 is significantly ahead of the 26.3% return on the Global 70/30 Portfolio. UNCW's endowment is fully invested with the UNC Investment Fund, and it is their allocation to equities, both public and private, which drove performance. Private equity and long equity returned an impressive 90.6% and 40.8%, respectively, for the year. Long/short equity and fixed income also delivered strong performance, returning 33.3% and 23.6%, respectively, for the year.

UNC Investment Fund and Benchmark Funds 10 Year Annualized Returns Comparison



The ten-year annualized return of the UNC Investment Fund, at June 30, 2021, of 10.8% easily exceeded the 6.4% return of our long-term objective. Additionally, the ten-year return exceeded both the Global 70/30 Portfolio and the median return of the BNY Mellon Endowment and Foundation Universe, which returned 8.1% and 8.8%, respectively.

2021 Donor Funded Endowment Income Distribution



Consistent with prior years, the Endowment primarily supported student scholarships (46%), professorships (20%) and academic programs (17%).

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (total assets plus deferred outflows minus total liabilities and deferred inflows) of the University's proprietary funds. This statement provides a fiscal snapshot of the University's financial position as of June 30, 2021. This statement includes information on assets available for continuing operations and amounts due to vendors, investors, and lending institutions. In the condensed statement of net position below, other noncurrent assets and liabilities in the proprietary fund at June 30, 2020 were restated as a result of the implementation of GASB Statement No. 84 during fiscal year 2021 as discussed further in Note 23 of the financial statements.

Condensed Statement of Net Position Proprietary Fund June 30, as Indicated

	2021	2020 (as Restated)	Change	% Change
Assets				
Current Assets	\$ 200,029,823	\$ 181,509,686	\$ 18,520,137	10.2%
Capital Assets, Net	721,337,336	639,533,672	81,803,664	12.8%
Other Noncurrent Assets	166,874,729	133,054,874	33,819,855	25.4%
Total Assets	1,088,241,888	954,098,232	134,143,656	14.1%
Deferred Outflows of Resources				
Deferred Loss on Refunding	6,125,547	6,507,217	(381,670)	-5.9%
Deferred Outflows Related to Pensions	22,265,012	20,807,463	1,457,549	7.0%
Deferred Outflows Related to OPEB	52,716,342	62,767,942	(10,051,600)	-16.0%
Total Deferred Outflows of Resources	81,106,901	90,082,622	(8,975,721)	-10.0%
Liabilities				
Current Liabilities	36,452,730	35,740,197	712,533	2.0%
Long-Term Liabilities, Net	507,533,227	543,895,807	(36,362,580)	-6.7%
Other Noncurrent Liabilities	6,137,460	6,537,609	(400,149)	-6.1%
Total Liabilities	550,123,417	586,173,613	(36,050,196)	-6.2%
Deferred Inflows of Resources				
Deferred Inflows Under SCA	68,012,640	-	68,012,640	100.0%
Deferred Gain on Refunding	1,211,675	1,396,270	(184,595)	-13.2%
Deferred Inflows Related to Pensions	-	87,451	(87,451)	-100.0%
Deferred Inflows Related to OPEB	112,605,135	108,017,930	4,587,205	4.2%
Total Deferred Inflows of Resources	181,829,450	109,501,651	72,327,799	66.1%
Net Position				
Net Investment in Capital Assets	428,354,122	406,245,302	22,108,820	5.4%
Restricted - Nonexpendable	72,859,495	64,944,542	7,914,953	12.2%
Restricted - Expendable	136,453,823	104,005,159	32,448,664	31.2%
Unrestricted	(200,271,518)	(226,689,413)	26,417,895	11.7%
Total Net Position	\$ 437,395,922	\$ 348,505,590	\$ 88,890,332	25.5%

On June 30, 2021, total University assets were \$1.1 billion. The largest asset categories were the University's cash and cash equivalents of \$188.6 million, endowment investments of \$134.6 million, and net capital assets of \$721.3 million.

Assets

The primary driver in the \$18.5 million increase in current assets was an increase of \$11.7 million in pooled cash with the State Treasurer due to the \$5.3 million decrease in auxiliary service related expenses due to the pandemic and \$4.7 million of pledge receivables cash collected during fiscal year 2021. In addition, the NC Department of Insurance (DOI) receivable recorded as due from primary government related to additional Hurricane Florence insurance recoveries increased \$6.6 million due to ongoing analysis of claims by the DOI.

Capital assets, net increased \$81.8 million during fiscal year 2021. This was largely due to the two dormitories (\$64.4 million), a utility building (\$0.6 million), and land (\$4.4 million) recorded as part of the service concession arrangement described in Note 7. There was also a \$24.8 million increase in construction in progress due to continuing construction on Shore Dining Hall, Film Studies, and other building projects, as well as, increases to machinery and equipment totaling \$4.3 million. These increases were offset by \$16.7 million in depreciation.

Other noncurrent assets increased by \$33.8 million due primarily to the \$39.7 million increase in endowment investments because of the endowment performance detailed in the financial highlights section above and a \$7.8 million increase in restricted noncurrent cash because of the legislature's designation of the management flexibility portion of the fiscal year 2021 cash carryforward as capital related. These were offset by a \$14.6 million decrease in the portion of the NC Department of Insurance receivable recorded as restricted due from primary government related specifically to Dobo Hall.

Deferred Outflows of Resources

For fiscal year 2021, total deferred outflows of resources decreased \$9.0 million. Deferred outflows fluctuate yearly due to changes in pension and OPEB liability/asset assumptions and actuarial inputs, such as differences between projected and actual investment earnings and changes in the University's proportion of the liabilities/assets. Deferred outflows for OPEB decreased \$10.1 million due mainly to changes in assumptions and changes in the University's proportionate share of the liability and contributions during the year of \$2.5 million and \$8.6 million, respectively.

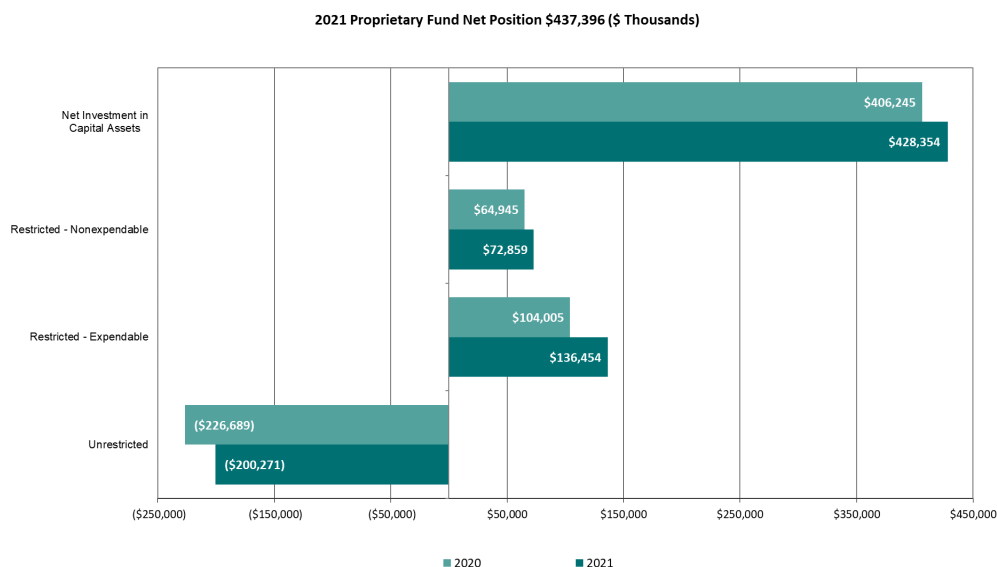
Liabilities

Long-term liabilities, net decreased \$36.4 million mainly due to a decrease of \$32.0 million related to the net OPEB liability offset by an increase of \$6.7 million related to the net pension liability. See sections on deferred outflows/inflows of resources related to pensions and OPEB for more details on these fluctuations, as well as Notes 14 and 15 of the Notes to the Financial Statements. In addition, long-term debt decreased \$11.4 million due to fiscal year 2021 debt payments.

Deferred Inflows of Resources

Total deferred inflows of resources increased \$72.3 million during fiscal year 2021. This was primarily a result of the \$68.0 million deferred inflow recorded as part of the service concession arrangement described in Note 7. Deferred inflows also fluctuate yearly due to changes in pension and OPEB liability/asset assumptions and actuarial inputs, such as differences between projected and actual investment earnings and changes in the University's proportion of the liabilities/assets. Deferred Inflows for OPEB increased \$4.6 million due to a \$14.3 million

increase related to changes in actuarial assumptions, offset by a \$5.6 million decrease in the proportionate liability and a \$4.2 million decrease due to the difference between actual and expected actuarial experience.



The \$22.1 million increase in net investment in capital assets was due primarily to the \$81.8 million increase in capital assets discussed above, a \$5.6 million decrease in capital related liabilities and an \$11.4 million decrease in capital debt. These were offset by the \$68.0 million service concession arrangement discussed in Note 7.

Restricted expendable and nonexpendable net position increased \$40.4 million due largely to the performance of the endowment discussed in the endowment section above during fiscal year 2021.

Unrestricted net position improved \$26.4 million due to the \$11.7 million increase in pooled cash and the \$32.0 million decrease in the net OPEB liability offset by the \$9.9 million decrease in the deferred outflows related to OPEB, and increases of \$6.7 million and \$4.5 million in the net pension liability and deferred inflows related to OPEB, respectively, as discussed above.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position includes the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses received or expended by the University's proprietary funds.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided; examples include state appropriations, noncapital grants and gifts, and

investment income. Nonoperating expenses include interest and fees on debt, loss on sale of assets, and other expenses not involved in the normal operations of the University.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For Year Ended June 30, as Indicated

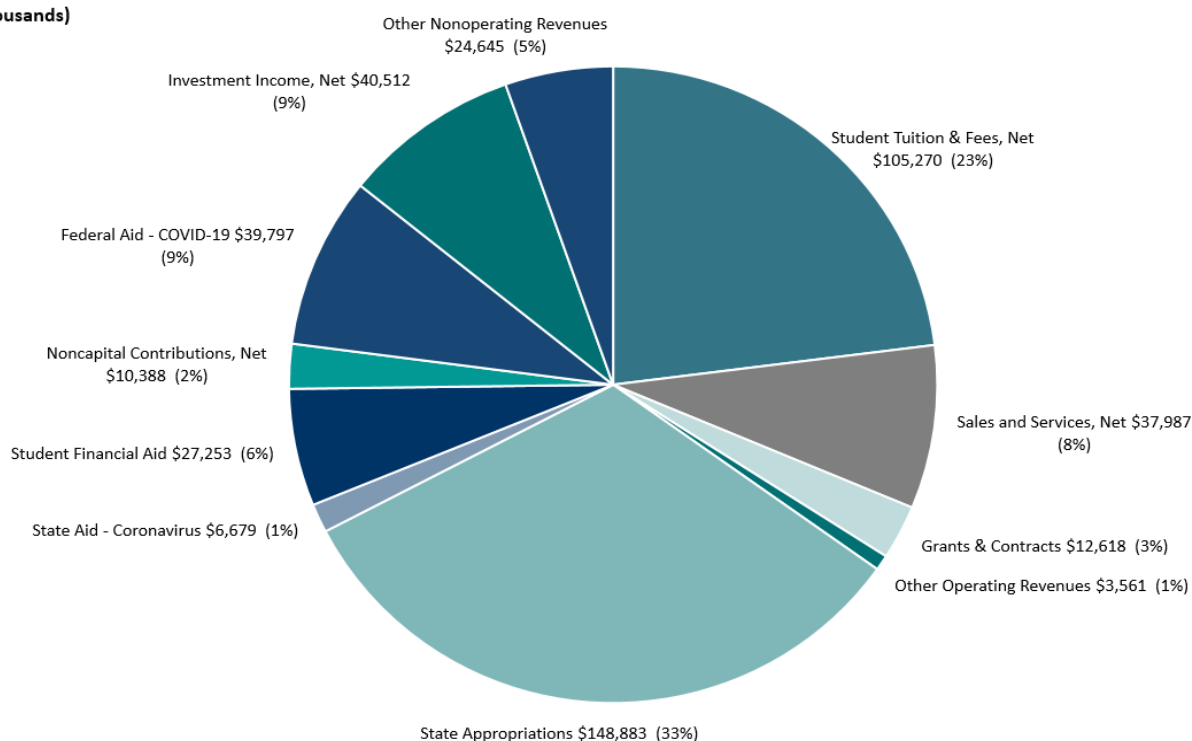
	2021	2020	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 105,270,023	\$ 122,039,460	\$ (16,769,437)	-13.7%
Sales and Services, Net	37,987,226	43,668,723	(5,681,497)	-13.0%
Grants and Contracts	12,618,196	11,254,589	1,363,607	12.1%
Other Operating Revenues	3,561,117	3,391,452	169,665	5.0%
Total Operating Revenues	159,436,562	180,354,224	(20,917,662)	-11.6%
Operating Expenses				
Salaries and Benefits	217,064,717	214,906,118	2,158,599	1.0%
Supplies and Services	74,296,115	80,729,975	(6,433,860)	-8.0%
Scholarships and Fellowships	42,185,426	32,152,476	10,032,950	31.2%
Utilities	7,254,663	7,221,660	33,003	0.5%
Depreciation	16,741,545	15,500,957	1,240,588	8.0%
Total Operating Expenses	357,542,466	350,511,186	7,031,280	2.0%
Operating Loss	(198,105,904)	(170,156,962)	(27,948,942)	16.4%
Nonoperating Revenues (Expenses)				
State Appropriations	148,882,748	148,520,674	362,074	0.2%
State Aid - Coronavirus	6,679,340	4,597	6,674,743	145197.8%
Student Financial Aid and Noncapital Contributions	37,640,986	33,273,829	4,367,157	13.1%
Federal Aid - COVID-19	39,796,415	4,376,550	35,419,865	809.3%
Investment Income, Net	40,511,581	5,354,963	35,156,618	656.5%
Interest and Fees on Debt	(7,775,982)	(8,267,256)	(491,274)	5.9%
Hurricane Florence Disaster Costs	(3,384,095)	(22,218,079)	18,833,984	-84.8%
Hurricane Florence Insurance Recoveries	-	7,879,333	(7,879,333)	-100.0%
Federal Interest Subsidy on Debt	-	344,151	(344,151)	-100.0%
Other Nonoperating Revenues (Expenses)	35,235	(520,422)	(555,657)	-106.8%
Other Revenues				
Capital Appropriations	7,835,934	-	7,835,934	100.0%
Capital Contributions	9,565,258	39,669,358	(30,104,100)	-75.9%
Additions to Endowments	7,208,816	2,543,186	4,665,630	183.5%
Total Net Nonoperating and Other Revenues	286,996,236	210,960,884	76,035,352	36.0%
Increase in Net Position	88,890,332	40,803,922	48,086,410	117.8%
Net Position - Beginning of Year	348,505,590	307,701,668	40,803,922	13.3%
Net Position - End of Year	\$ 437,395,922	\$ 348,505,590	\$ 88,890,332	25.5%
Reconciliation of Change in Net Position				
Total Revenues	\$ 457,592,875	\$ 422,320,865	\$ 35,272,010	8.4%
Less: Total Expenses	368,702,543	381,516,943	(12,814,400)	-3.4%
Increase in Net Position	\$ 88,890,332	\$ 40,803,922	\$ 48,086,410	117.8%

Overall, net position increased \$88.9 million during the year ended June 30, 2021 which was an increase of \$48.1 million when compared with the fiscal year 2020 overall increase of \$40.8 million. This was due to the comparative increase in net nonoperating revenues and other revenues of \$76.0 million and offset by the increase in total operating expenses of \$7.0 million and the decrease in total operating revenues of \$20.9 million, respectively.

Operating Revenues

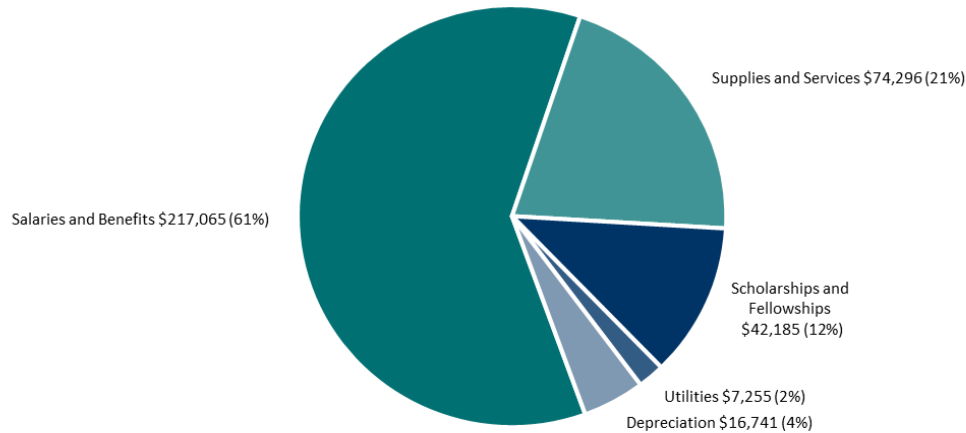
Student tuition and fees, net decreased \$16.8 million due to a shift to distance education courses as discussed above. The \$5.7 million decrease in sales and services was also due primarily to the shift to online courses and the reduction in students on campus. Specifically, dining, parking, and recreational services revenues decreased \$3.1 million, \$1.0 million, and \$1.0 million, respectively.

2021 Revenue by Source \$457,593
(\$ Thousands)



Operating Expenses

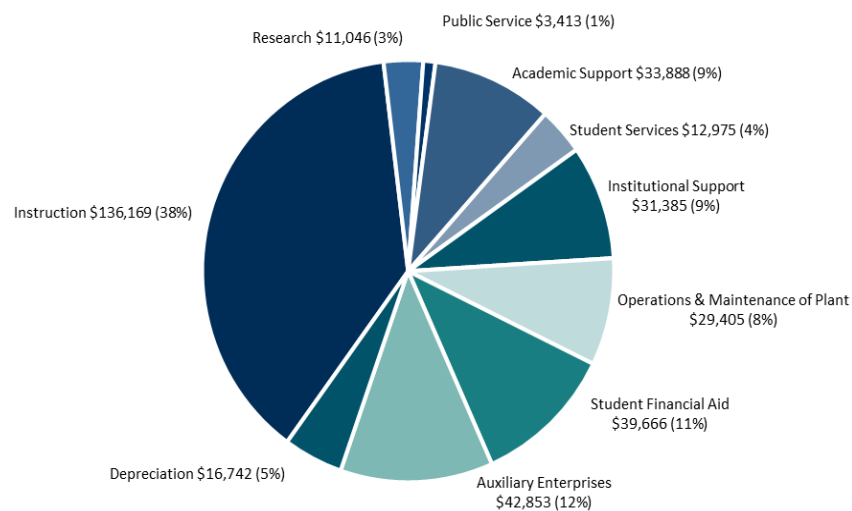
2021 Operating Expense by Nature \$357,542
(\$ Thousands)



Supplies and services decreased 8.0% or \$6.4 million mainly due to the suspension of employee travel due to the pandemic (\$4.4 million decrease) and a decrease in food service expenses of \$3.0 million because of the decrease in students on campus during fiscal year 2021.

Scholarships and fellowships increased 31.2% or \$10.0 million in fiscal year 2021 largely due to the fact that the University received and allocated \$14.4 million in federal student coronavirus aid compared with only \$4.4 million in the prior fiscal year.

2021 Operating Expense by Function \$357,542
(\$ Thousands)



Instruction expense of \$136.2 million remains the largest expense by function. The overall increase in operating expense of \$7.0 million was due in large part to the increase in student financial aid related to scholarships and fellowships of \$10.0 million as discussed in the operating expenses section above.

Nonoperating Revenues and Expenses

State aid - coronavirus increased \$6.7 million due to Coronavirus Relief Fund grant funds appropriated to the University by the State during the fiscal year. Federal aid - COVID-19 Higher Education Emergency Relief Funds (HEERF) revenue increased \$35.1 million due to the additional pandemic relief provided by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan (ARP) Act signed into law on December 27, 2020 and March 11, 2021, respectively. See Note 19 for additional information regarding the impact on the University's financial statements.

As discussed in the financial highlights section, the endowment fund had its best fiscal year since inception which resulted in an increased in investment income of 656.5% or \$35.2 million in fiscal year 2021.

Hurricane Florence disaster costs during fiscal year 2021 were \$3.4 million as it had been nearly three years since the hurricane made landfall. In fiscal year 2020, UNCW reported other hurricane losses and insurance recoveries, of \$22.2 million and \$7.9 million, respectively. As a result, net Hurricane Florence related nonoperating expenses decreased \$11.0 million in fiscal year 2021. Financial activity related to Hurricane Florence will continue into the next fiscal year and will include mostly collections reimbursements due from the North Carolina Department of Insurance (DOI) and the Federal Emergency Management Agency (FEMA). See Note 18 for additional information related to Hurricane Florence's impact on the University.

Other Revenues

In the prior fiscal year, no capital appropriations were approved by the State. During fiscal year 2021, the legislature designated the management flexibility portion of the annual cash carryforward be used for capital projects and as a result, \$7.8 million is shown as capital appropriations in the financial statements.

Capital contributions revenue decreased \$30.1 million due primarily to funding of \$30.9 million for Veteran's Hall in fiscal year 2020 compared with only \$4.6 million in fiscal year 2021.

Statement of Cash Flows

The Statement of Cash Flows provides information about proprietary fund cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the University's:

- Ability to generate future net cash flows;
- Ability to meet its obligations as they come due; and
- Need for external financing.

Condensed Statement of Cash Flows
Proprietary Fund
For Year Ended June 30, as Indicated

	2021	2020 (as Restated)	Change	% Change
Cash Provided (Used) by:				
Operating Activities	\$ (189,596,553)	\$ (164,939,670)	\$ (24,656,883)	14.9%
Noncapital Financing Activities	246,483,201	187,118,223	59,364,978	31.7%
Capital Financing Activities	(36,563,932)	(61,658,436)	25,094,504	-40.7%
Investing Activities	2,538,961	6,562,348	(4,023,387)	-61.3%
Net Change In Cash	22,861,677	(32,917,535)	55,779,212	169.5%
Cash Beginning of Year	165,722,600	198,640,135	(32,917,535)	-16.6%
Cash Ending of Year	\$ 188,584,277	\$ 165,722,600	\$ 22,861,677	13.8%

Operating Activities

Major cash sources of \$160.5 million were generated from student tuition and fees, sales and services, and contracts and grants. Major cash uses were compensation to employees of \$224.6 million, payments to vendors and suppliers for goods and services of \$82.3 million, and disbursements to students for scholarships and fellowships of \$42.2 million. Payments to employees and fringe benefits increased \$8.1 million largely due to additional staffing costs and an increase in the contractually-required contribution rate for the University's defined benefit plan. The \$10.0 million increase in payments for scholarships and fellowships was directly attributed to federal aid issued to students as part of the HEERF grant. The decrease in cash received from customers of \$21.9 million was the result of the \$16.4 million and \$5.7 million decreases in mandatory fees and sales and services, respectively, due to the pandemic. Payments to vendors and suppliers decreased \$17.0 million due primarily to the net decrease of \$12.4 million in repairs and maintenance expenses and a \$3.0 million decrease in food service expenses as a result of the decrease in students on campus due to the pandemic. These decreases were offset by a \$1.1 million increase in property insurance premiums.

Noncapital Financial Activities

The largest cash inflow was state appropriations of \$148.9 million. While GASB standards require that this revenue be classified as nonoperating, these funds were essentially used to maintain operations. The increase of \$59.4 million in noncapital financing activities was due primarily to the increase in federal and state pandemic aid of \$46.7 million. In addition, net Hurricane Florence related activities decreased \$6.0 million during fiscal year 2021 due to the fact that the related repairs and maintenance are nearing completion. Additions to endowments increased \$5.3 million due to a capital campaign initiative.

Capital Financing Activities

Cash provided decreased \$44.2 million during fiscal year 2021 due to the fact that no new debt was issued compared with \$22.6 million in fiscal year 2020. Capital grants and aid decreased \$21.3 million as \$30.9 million was received in fiscal year 2020 for Veteran's Hall. This decrease was offset by capital related management flexibility carryforward funds of \$7.8 million in fiscal year 2021. Cash used of \$54.1 million was primarily for the completion of Dobo Hall and other capital projects (\$34.9 million) and principal and interest payments on capital debt of \$19.2 million.

Investing Activities

Cash provided included sales and maturities of investments of \$0.5 million and investment income of \$2.4 million. Cash used reflected the purchase of investments and related fees of \$0.3 million.

Capital Assets and Debt Administration

Capital Assets

The University had \$721.3 million invested in capital assets at June 30, 2021, as reported in the table below, an increase of \$81.8 million from 2020.

Capital Assets Net of Depreciation
June 30, as Indicated

	2021	2020	Change
Land and Permanent Easements	\$ 14,848,968	\$ 10,491,557	\$ 4,357,411
Art, Literature, and Artifacts	2,173,325	2,161,967	11,358
Construction In Progress	25,951,648	57,556,736	(31,605,088)
Buildings, Net	604,893,331	496,222,134	108,671,197
Machinery and Equipment, Net	21,239,649	21,261,928	(22,279)
General Infrastructure, Net	52,230,415	51,839,350	391,065
Total Capital Assets	\$ 721,337,336	\$ 639,533,672	\$ 81,803,664

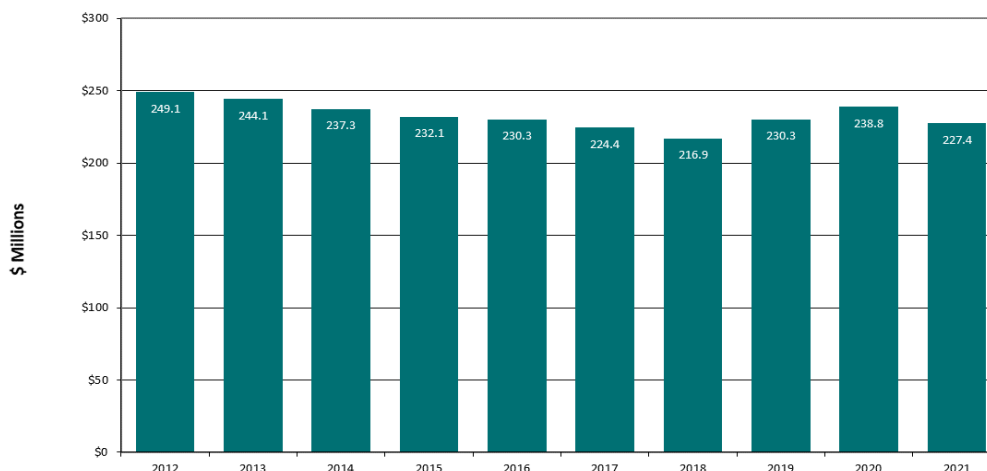
During fiscal year 2021, the University placed into service several capital assets associated with the service concession arrangement with CHF-Wilmington, LLC. As a result, land increased \$4.4 million due to land preparation costs associated with the project and buildings, net, increased by \$64.4 million for two dormitories and \$0.6 million for utility building. See Note 7 for further information regarding the service concession arrangement. The additional increase in buildings, net, was due to the completion of Dobo Hall during the year, \$51.0 million, and other building additions of \$2.2 million offset by a net increase in accumulated depreciation of \$15.3 million.

Construction in progress decreased \$31.6 million during the fiscal year due to the capitalization of Dobo Hall, \$51.0 million, offset by additions related to Shore Dining Hall, \$9.4 million, Film Studies, \$2.9 million, and other additions totaling \$7.1 million.

Debt

As of June 30, 2021, the University's \$227.4 million in long-term debt included outstanding revenue bonds payable, limited obligation bonds, and bonds from direct placements of \$217.1 million, notes from direct borrowings of \$9.5 million, and capital leases payable of \$0.8 million.

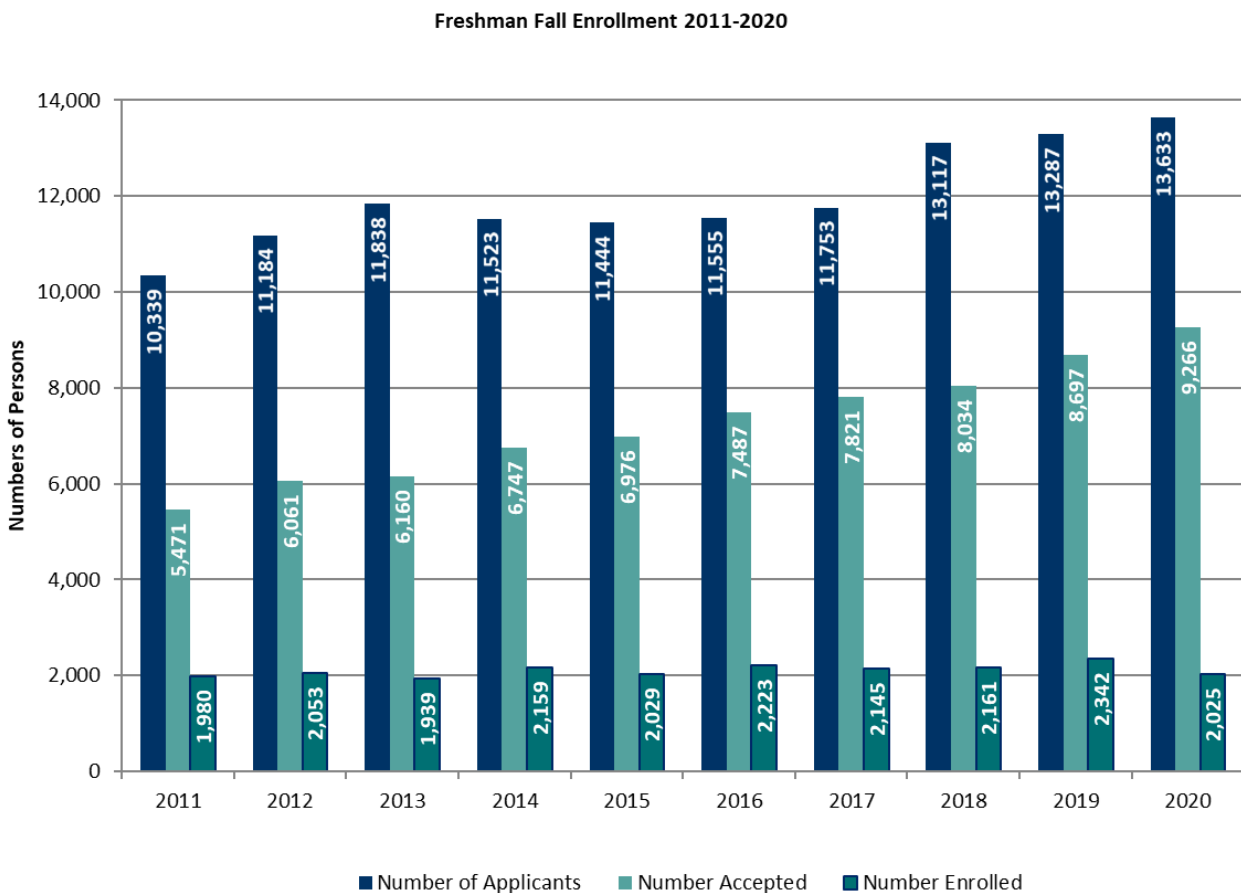
Debt Analysis 2012-2021



For additional information on capital assets and debt administration, see Notes 6, 9, and 10 of the financial statements.

Economic Forecast

UNCW is committed to the continued success of the University and its students while navigating the challenges created by the COVID-19 pandemic. In fall 2020, the number of freshman applications climbed to 13,633 while enrollment decreased slightly to 2,025. Overall enrollment increased to 17,915 students driven primarily by the increase in graduate enrollment of 551 students in fall 2020. Despite the pandemic, preliminary data shows fall 2021 freshman applications reaching 15,792, an increase of 15.8% and freshman enrollment of 2,435, an increase of 20.2%. Preliminary data for fall 2021 also shows total enrollment increasing to 18,031.



For fiscal year 2022, UNCW requested an enrollment growth allocation of \$14.0 million. To further support growth and operations of the University, UNCW anticipates that enrollment growth and building reserve funds from fiscal year 2021, that were funded with non-recurring funds, will be made permanent in fiscal year 2022.

UNCW continues the fixed tuition program for undergraduate resident students which stipulates that tuition remain fixed for four years. UNCW has not increased tuition for its undergraduate students since fiscal year 2018 and its graduate students since fiscal year 2019. The University did increase fees for fiscal year 2022. Specifically, health services fees increased \$27 to \$246 to

respond to the increased need for counseling services as a result of the pandemic and campus security fees increased \$30 to \$60 to provide for new initiatives, staffing, and security measures.

The University leadership continues to pursue actions to mitigate the financial impact caused by the pandemic and is limiting purchases of goods and services, eliminating non-essential travel, and limiting certain employment actions. The University's primary focus remains the health and safety of students, faculty, and staff as we continue to develop and implement strategies to respond to the virus.

Excellence, integrity, diversity, and innovation shape the student-centered learning experience at UNCW. These values, along with our ever-present dedication to community engagement, are among the distinctive qualities that make UNCW one of the best institutions of higher education in the nation. The University was ranked among the top 100 national public universities by *U.S. News & World Report* for the third year since it was first elevated to the list in 2018 and is one of only three UNC System schools on the list. In February 2021, the University publicly launched its \$100.0 million 'Like No Other: The Campaign for UNCW' effort which is a multi-year fundraising campaign to support students, faculty, programs, and facilities that has raised \$86.0 million to date. In addition, UNCW opened a COVID-19 vaccination clinic in March 2021 to support the safety and well-being of the campus community and support its participation in the White House's College Vaccine Campus Challenge and help it achieve its goal of at least a 70% COVID-19 vaccination rate in the United States. In the coming years, the University intends to continue to expand degree programs that support innovation and advance technology to improve lives in our region, the State, and beyond. Looking ahead, UNCW intends to develop a new multi-year strategic plan in fiscal year 2022 aimed at building on the success of the 2016-2021 Giving Flight to Imagination campaign which will help challenge the University to reach even higher in the years to come.

Contacting the University's Financial Management

This financial report is designed to provide our students, citizens, investors, and creditors with a general overview of the University's finances and demonstrate accountability of all funds. Contact the Controller's Office at (910) 962-3144 for additional financial information or access the Controller's Office web page at http://www.uncw.edu/controller/financial_reports.html.



FINANCIAL STATEMENTS

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

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 125,123,887
Restricted Cash and Cash Equivalents	38,075,807
Receivables, Net (Note 5)	9,446,322
Due from Primary Government	26,324,753
Inventories	454,727
Prepaid Items	56,371
Notes Receivable, Net (Note 5)	547,956
	<hr/>
Total Current Assets	200,029,823

Noncurrent Assets:

Restricted Cash and Cash Equivalents	25,384,583
Receivables, Net (Note 5)	4,462,755
Endowment Investments	134,626,607
Notes Receivable, Net (Note 5)	1,984,834
Net Other Postemployment Benefits Asset	415,950
Capital Assets - Nondepreciable (Note 6)	42,973,941
Capital Assets - Depreciable, Net (Note 6)	678,363,395
	<hr/>
Total Noncurrent Assets	888,212,065
	<hr/>
Total Assets	1,088,241,888

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	6,125,547
Deferred Outflows Related to Pensions	22,265,012
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	52,716,342
	<hr/>
Total Deferred Outflows of Resources	81,106,901

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	5,555,146
Deposits Payable	55,028
Funds Held for Others	8,601
Unearned Revenue	18,197,664
Interest Payable	1,289,375
Long-Term Liabilities - Current Portion (Note 9)	11,346,916
	<hr/>
Total Current Liabilities	36,452,730

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

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:

Accounts Payable	201,705
Funds Held for Others	439,376
Unearned Revenue	3,621,484
U.S. Government Grants Refundable	1,874,895
Long-Term Liabilities, Net (Note 9)	507,533,227

Total Noncurrent Liabilities	513,670,687
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Total Liabilities	550,123,417
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Under Service Concession Arrangements	68,012,640
Deferred Gain on Refunding	1,211,675
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	112,605,135

Total Deferred Inflows of Resources	181,829,450
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NET POSITION

Net Investment in Capital Assets	428,354,122
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Restricted:

Nonexpendable:

True Endowments	72,345,650
Student Loans and Other	513,845

Total Restricted-Nonexpendable Net Position	72,859,495
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Expendable:

Scholarships, Research, Instruction, and Other	81,341,546
Student Loans	963,335
Capital Projects	53,895,543
Debt Service	253,399

Total Restricted-Expendable Net Position	136,453,823
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Unrestricted	(200,271,518)
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Total Net Position	\$ 437,395,922
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The accompanying notes to the financial statements are an integral part of this statement.

University of North Carolina Wilmington
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)	\$ 105,270,023
Federal Grants and Contracts	7,292,531
State and Local Grants and Contracts	3,570,901
Nongovernmental Grants and Contracts	1,754,764
Sales and Services, Net (Note 12)	37,987,226
Interest Earnings on Loans	7,568
Other Operating Revenues	3,553,549
	<hr/>
Total Operating Revenues	159,436,562

OPERATING EXPENSES

Salaries and Benefits	217,064,717
Supplies and Services	74,296,115
Scholarships and Fellowships	42,185,426
Utilities	7,254,663
Depreciation	16,741,545
	<hr/>
Total Operating Expenses	357,542,466
	<hr/>
Operating Loss	(198,105,904)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	148,882,748
State Aid - Coronavirus	6,679,340
Student Financial Aid	27,252,838
Federal Aid - COVID-19	39,796,415
Noncapital Contributions	10,388,148
Investment Income (Net of Investment Expense of \$418,237)	40,511,581
Interest and Fees on Debt	(7,775,982)
Hurricane Florence Disaster Costs	(3,384,095)
Other Nonoperating Revenues	35,235
	<hr/>
Net Nonoperating Revenues	262,386,228

Income Before Other Revenues	64,280,324
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Capital Appropriations	7,835,934
Capital Contributions	9,565,258
Additions to Endowments	7,208,816
	<hr/>
Total Other Revenues	24,610,008

Increase in Net Position	88,890,332
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NET POSITION

Net Position - July 1, 2020	348,505,590
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Net Position - June 30, 2021	\$ 437,395,922

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

University of North Carolina Wilmington
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	\$ 160,476,466
Payments to Employees and Fringe Benefits	(224,622,663)
Payments to Vendors and Suppliers	(82,272,092)
Payments for Scholarships and Fellowships	(42,185,426)
Loans Issued	(61,077)
Collection of Loans	497,876
Interest Earned on Loans	34,330
William D. Ford Direct Lending Receipts	69,784,278
William D. Ford Direct Lending Disbursements	(69,784,278)
Related Activity Agency Receipts	27,398,372
Related Activity Agency Disbursements	(27,371,875)
Other Payments	(1,490,464)
Net Cash Used by Operating Activities	(189,596,553)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	148,882,748
Proceeds from All-Risk Insurance	7,956,433
Hurricane Recovery Payments to Vendors and Suppliers	(3,790,522)
State Aid - Coronavirus	6,679,340
Student Financial Aid	26,743,028
Federal Aid - COVID-19	45,336,283
Noncapital Contributions	7,381,218
Additions to Endowments	7,294,673
Net Cash Provided by Noncapital Financing Activities	246,483,201

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	7,835,934
Capital Contributions	9,467,677
Proceeds from Sale of Capital Assets	281,222
Acquisition and Construction of Capital Assets	(34,933,694)
Principal Paid on Capital Debt and Leases	(10,699,424)
Interest and Fees Paid on Capital Debt and Leases	(8,515,647)
Net Cash Used by Capital Financing and Related Financing Activities	(36,563,932)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	472,765
Investment Income	2,357,342
Purchase of Investments and Related Fees	(291,146)
Net Cash Provided by Investing Activities	2,538,961
Net Increase in Cash and Cash Equivalents	22,861,677
Cash and Cash Equivalents - July 1, 2020, as Restated (Note 23)	165,722,600
Cash and Cash Equivalents - June 30, 2021	\$ 188,584,277

University of North Carolina Wilmington
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	\$ (198,105,904)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,741,545
Amortization of Service Concession Arrangement	(1,312,524)
Allowances and Write-Offs	(178,950)
Other Nonoperating Income	128,640
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	287,820
Inventories	(59,806)
Prepaid Items	21,084
Notes Receivable, Net	436,799
Net Other Postemployment Benefits Asset	(55,799)
Deferred Outflows Related to Pensions	(1,457,549)
Deferred Outflows Related to Other Postemployment Benefits	10,051,600
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(283,388)
Funds Held for Others	26,497
Unearned Revenue	609,670
Net Pension Liability	6,686,598
Net Other Postemployment Benefits Liability	(28,115,264)
Compensated Absences	404,535
Deposits Payable	(5,333)
Workers' Compensation Liability	83,422
Deferred Inflows Related to Pensions	(87,451)
Deferred Inflows Related to Other Postemployment Benefits	4,587,205
Net Cash Used by Operating Activities	<u>\$ (189,596,553)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 228,413
Assets Acquired through a Service Concession Arrangement	69,325,164
Assets Acquired through a Gift	97,581
Change in Fair Value of Investments	39,854,239
Reinvested Distributions	64,173
Loss on Disposal of Capital Assets	(93,405)
Amortization of Bond Premiums	(961,024)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(3,897,766)

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

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

Exhibit B-1

	<u>Other Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,150,932
Total Assets	<u>3,150,932</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
LIABILITIES	<u>-</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>
NET POSITION	
Restricted for:	
Other Organizations	<u>3,150,932</u>
Total Net Position	<u><u>\$ 3,150,932</u></u>

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

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

Exhibit B-2

	<u>Other Funds</u>
ADDITIONS	
Contributions:	
Other Organizations	\$ 2,321,856
Investment Activity:	
Investment Income	<u>15,589</u>
Total Additions	<u>2,337,445</u>
DEDUCTIONS	
Withdrawals and Distributions	<u>2,841,760</u>
Decrease in Fiduciary Net Position	(504,315)
NET POSITION	
Net Position - July 1, 2020, as Restated (Note 23)	<u>3,655,247</u>
Net Position - June 30, 2021	<u><u>\$ 3,150,932</u></u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina Wilmington (University or UNCW) 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 blended 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 UNCW Corporation (Corporation), the UNCW Corporation II (Corporation II), the UNCW Research Foundation (Research Foundation), and the Donald R. Watson Foundation, Inc. (Watson Foundation), component units of the University, are reported as if they were part of the University.

The Corporation was organized to enhance the University of North Carolina Wilmington's educational mission, including overseeing and assisting in the acquisition and financing of capital assets for the University. The Corporation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standards Board (GASB) Statements. The Corporation is governed by a six-member board of which three are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Corporation II includes the activities of the single member entities, UNCW Corporation Real Property I, LLC (Real Property), and UNCW Corporation College Station, LLC (College Station). The Corporation II was organized to enhance the University of North Carolina Wilmington's educational mission, including constructing or managing

facilities for the University. These entities acquire real property that is used solely by the University for auxiliary support, off-campus parking, or other agreed upon activities. The Corporation II is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Corporation II is governed by a seven-member board of which four are delegates of the University. The remaining three positions are filled by persons external to the University's operations and business functions and are appointed by the UNCW Chancellor to serve on the board. As the Corporation II's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Research Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC, MARBIONC Development Group, LLC, The CREST Millennial Campus, LLC, the UNCW Center for Innovation and Entrepreneurship, LLC, and the UNCW Innovation Coalition Corporation. The Research Foundation was organized to enhance the University of North Carolina Wilmington's educational mission. These entities, through collaborative research relationships, pursue commercialization opportunities and the economic development of research discoveries, materials, and intellectual properties for the benefit of the University. The Research Foundation is a public not-for-profit organization that reports its financial results under Governmental Accounting Standard Board (GASB) Statements. The Research Foundation is governed by a four-member board, all of which are delegates of the University. As the Research Foundation's sole purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

The Watson Foundation was organized to support charitable, religious, scientific, and educational institutions located in the State of North Carolina provided that each supported organization is tax exempt and eligible to receive charitable donations. The Watson Foundation is a public not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from that of GASB. The financial statement format of the Watson Foundation was modified to make it compatible with the University's financial statement format. The Watson Foundation is governed by a five-member board of which three are appointed by the Board of Trustees, and two are appointed by the benefactor. Because a majority of the directors of the Watson Foundation are appointed by the members of the University of North Carolina Wilmington's Board of Trustees and the Watson Foundation's primary purpose is to benefit the University of North Carolina Wilmington, its financial statements have been blended with those of the University.

Separate financial statements for the Corporation, the Corporation II, the Research Foundation, and the Watson Foundation may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5918, or by calling 910-962-3139.

Condensed combining information regarding blended component units is provided in Note 21.

- 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 Fund - 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Prepaid Items** - Prepaid items are comprised of prepayments for study abroad programs taking place in future periods.
- I. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 years

The Randall Library Special collection is capitalized at cost or acquisition value at the date of donation. The collection is considered inexhaustible and is therefore not depreciated.

- J. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not

available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- K. 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 custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.

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

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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.

- M. 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.

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

- O. Net Position** - The 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. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

Fiduciary Fund

Restricted Net Position - Fiduciary net position includes resources held in a custodial capacity for other organizations that are not available for alternative use by the University.

- P. 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.
- Q. 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.

- R. 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 physical plant, copy centers, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2021, the amount shown on the Statement of Net Position and the Statement of Fiduciary Net Position as cash and cash equivalents includes \$187,984,875 for the proprietary fund and \$3,150,932 for the fiduciary fund, 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 \$32,715. The carrying amount of the University's deposits not with the State Treasurer was \$566,687, and the bank balance was \$519,412. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2021, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$163,020.

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

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

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

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their

sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, the pool uses a unit basis to determine each participating fund's market value and to determine the fund's earnings. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund. At year-end, the pooled investments subject to interest rate risk were all held with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2021, the University's investments include \$132,847,133, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 483,781	\$ -	\$ 131,303	\$ 352,478
Money Market Mutual Funds	21,894	21,894	-	-
Total Debt Securities	505,675	\$ 21,894	\$ 131,303	\$ 352,478
Other Securities				
Equity Mutual Funds	1,273,799			
Total Non-Pooled Investment Pool	\$ 1,779,474			

At June 30, 2021, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 483,781	\$ 235,705	\$ 19,148	\$ 48,720	\$ 92,619	\$ 73,893	\$ 13,696
Money Market Mutual Funds	21,894	21,894	-	-	-	-	-
Totals	\$ 505,675	\$ 257,599	\$ 19,148	\$ 48,720	\$ 92,619	\$ 73,893	\$ 13,696

Rating Agency: Standard & Poor's

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

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 483,781
Money Market Mutual Funds	21,894
Other Securities	
UNC Investment Fund	132,847,133
Equity Mutual Funds	1,273,799
Total Investments	\$ 134,626,607

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				
Debt Mutual Funds	\$ 483,781	\$ 483,781	\$ -	\$ -
Money Market Mutual Funds	21,894	21,894	-	-
Total Debt Securities	505,675	505,675	-	-
Equity Mutual Funds	1,273,799	1,273,799	-	-
Total Investments by Fair Value Level	1,779,474	\$ 1,779,474	\$ -	\$ -
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	191,135,807			
UNC Investment Fund	132,847,133			
Total Investments as a Position in an External Investment Pool	323,982,940			
Total Investments Measured at Fair Value	\$ 325,762,414			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance

with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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

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

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.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 4.5% of the average market value of the endowment over three previous years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2021, net appreciation of \$69,529,055 was available to be spent, of which \$60,149,153 was classified in net position as restricted, expendable for specific purposes, including scholarships and fellowships, research, endowed professorships, departmental uses, and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

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

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,998,831	\$ 238,026	\$ 1,760,805
Accounts	3,103,130	3,646	3,099,484
Intergovernmental	960,186	-	960,186
Pledges	3,403,843	40,384	3,363,459
Interest on Loans	79,126	-	79,126
Other	183,262	-	183,262
Total Current Receivables	\$ 9,728,378	\$ 282,056	\$ 9,446,322
Noncurrent Receivables:			
Pledges	\$ 4,514,217	\$ 51,462	\$ 4,462,755
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 60,770	\$ 2,446	\$ 58,324
Institutional Student Loan Programs	489,632	-	489,632
Total Notes Receivable - Current	\$ 550,402	\$ 2,446	\$ 547,956
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,732,684	\$ 207,922	\$ 1,524,762
Promissory Note	449,283	-	449,283
Institutional Student Loan Programs	10,789	-	10,789
Total Notes Receivable - Noncurrent	\$ 2,192,756	\$ 207,922	\$ 1,984,834

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	\$ 10,491,557	\$ 4,357,411	\$ -	\$ 14,848,968
Art, Literature, and Artifacts	2,161,967	11,358	-	2,173,325
Construction in Progress	57,556,736	24,810,640	56,415,728	25,951,648
Total Capital Assets, Nondepreciable	70,210,260	29,179,409	56,415,728	42,973,941
Capital Assets, Depreciable:				
Buildings	679,530,839	119,677,941	-	799,208,780
Machinery and Equipment	57,568,676	4,310,858	1,754,917	60,124,617
General Infrastructure	68,985,843	2,167,356	87,500	71,065,699
Total Capital Assets, Depreciable	806,085,358	126,156,155	1,842,417	930,399,096
Less Accumulated Depreciation for:				
Buildings	183,308,705	11,006,744	-	194,315,449
Machinery and Equipment	36,306,748	4,046,010	1,467,790	38,884,968
General Infrastructure	17,146,493	1,688,791	-	18,835,284
Total Accumulated Depreciation	236,761,946	16,741,545	1,467,790	252,035,701
Total Capital Assets, Depreciable, Net	569,323,412	109,414,610	374,627	678,363,395
Capital Assets, Net	\$ 639,533,672	\$ 138,594,019	\$ 56,790,355	\$ 721,337,336

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR STUDENT HOUSING AUTHORITY

The University entered an agreement on December 20, 2018 with CHF-Wilmington, LLC (CHF) to construct and operate a Student Housing Facility. The University entered into this agreement to address a shortage of student housing caused by enrollment growth. The Student Housing Facility consists of a 1,038-bed, two-building student housing facility delivered for occupancy in the fall semester of fiscal year 2021 (Phase I) and a 776-bed student housing facility to be delivered for occupancy during the fall semester of fiscal year 2022 (Phase II). The project is on property located on the campus of the University of North Carolina at Wilmington and leased to CHF for 50 years. Upon final payment of all indebtedness owed under the agreement, CHF will transfer all of its interest in the facility for no cost to the University. The University also reports the facility as a capital asset with a carrying amount of \$69,000,326 at year-end and a related deferred inflow of resources of \$68,012,640. The net effect of this arrangement is reflected in the Statement of Net Position as an increase to net investment in capital assets of \$987,686.

The student housing facility is managed by the University under the terms of the management agreement. The University operates the facility with budgetary oversight from CHF.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,429,849
Accounts Payable - Capital Assets	1,578,974
Accrued Payroll	636,672
Contract Retainage	897,807
Intergovernmental Payables	<u>11,844</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 5,555,146</u></u>

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 Payable	\$ 73,925,000	\$ -	\$ 3,325,000	\$ 70,600,000	\$ 2,945,000
Limited Obligation Bonds	110,210,000	-	3,845,000	106,365,000	4,410,000
Bonds from Direct Placements	24,654,000	-	1,848,000	22,806,000	2,308,000
Plus: Unamortized Premium	18,246,344	-	961,024	17,285,320	-
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net	227,035,344	-	9,979,024	217,056,320	9,663,000
Notes from Direct Borrowings	10,481,575	-	953,162	9,528,413	790,177
Capital Leases Payable	1,293,733	228,413	728,262	793,884	163,222
Total Long-Term Debt	238,810,652	228,413	11,660,448	227,378,617	10,616,399
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	12,430,820	8,024,920	7,620,384	12,835,356	375,380
Net Pension Liability	43,683,247	6,686,598	-	50,369,845	-
Net Other Postemployment Benefits Liability	259,553,742	-	32,013,030	227,540,712	-
Workers' Compensation	672,191	438,755	355,333	755,613	355,137
Total Other Long-Term Liabilities	316,340,000	15,150,273	39,988,747	291,501,526	730,517
Total Long-Term Liabilities, Net	\$ 555,150,652	\$ 15,378,686	\$ 51,649,195	\$ 518,880,143	\$ 11,346,916

Additional information regarding capital leases 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 workers' compensation is included in Note 16.

B. Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements - The University was indebted for revenue bonds payable, limited obligation bonds, and bonds from direct placements for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021
Revenue Bonds Payable					
UNCW General Revenue Bonds					
Parking Deck	2019	3.0 - 5.0	04/01/2049	\$ 21,350,000	\$ 21,350,000
Refund Series 2010 and 2010D; Dining Facility (2019B)	2019B	2.25 - 5.0	10/01/2049	41,395,000	41,065,000
Refund 2010C	2020A	5.0	10/01/2026	11,180,000	8,185,000
Total UNCW General Revenue Bonds				<u>73,925,000</u>	<u>70,600,000</u>
Limited Obligation Bonds					
Student Housing-Seahawk Village & Seahawk Landing	2015	3.0 - 5.0	06/01/2037	59,550,000	51,025,000
Student Housing-Seahawk Crossing & Parking Deck	2016	2.0 - 5.0	06/01/2038	57,235,000	55,340,000
Total Limited Obligation Bonds				<u>116,785,000</u>	<u>106,365,000</u>
Bonds from Direct Placements					
Refund 2006A	2016	2.17	10/01/2033	11,484,000	7,840,000
Refund 2011 and 2012	2020B	1.83	01/01/2028	15,868,000	14,966,000
Total Bonds from Direct Placements				<u>27,352,000</u>	<u>22,806,000</u>
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements (principal only)				<u>\$ 218,062,000</u>	199,771,000
Plus: Unamortized Premium					<u>17,285,320</u>
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net					<u>\$ 217,056,320</u>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021
College Station	Truist Bank	Variable	11/05/2022	\$ 1,394,730	\$ 217,596
Energy Conservation Loan	Truist Bank	1.99%	03/01/2030	4,542,387	3,146,928
Energy Conservation Loan	PNC Equipment Finance, LLC	3.42%	06/30/2033	6,846,011	5,383,962
Truist Hall	Truist Bank	2.99%	06/10/2029	1,014,649	779,927
Total Notes from Direct Borrowings				<u>\$ 13,797,777</u>	<u>\$ 9,528,413</u>

The University plans to refinance the notes maturing on June 10, 2029 with other long-term financing.

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 Payable		Limited Obligation Bonds		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest*
2022	\$ 2,945,000	\$ 2,834,113	\$ 4,410,000	\$ 4,393,625	\$ 2,308,000	\$ 445,273	\$ 790,177	\$ 269,811
2023	2,305,000	2,702,863	4,905,000	4,196,775	3,013,000	402,530	735,838	247,615
2024	1,530,000	2,606,988	5,075,000	4,025,625	3,075,000	344,238	714,051	227,947
2025	1,605,000	2,528,613	5,320,000	3,771,875	3,131,000	284,747	752,104	207,472
2026	1,690,000	2,446,238	5,565,000	3,532,225	3,176,000	224,115	799,265	186,041
2027-2031	10,600,000	10,788,563	31,470,000	14,001,825	6,424,000	451,000	4,729,603	540,193
2032-2036	13,495,000	7,944,719	38,600,000	6,858,175	1,679,000	59,287	1,007,375	41,781
2037-2041	17,000,000	4,772,725	11,020,000	510,700	-	-	-	-
2042-2046	11,095,000	2,447,800	-	-	-	-	-	-
2047-2050	8,335,000	566,800	-	-	-	-	-	-
Total Requirements	\$ 70,600,000	\$ 39,639,422	\$ 106,365,000	\$ 41,290,825	\$ 22,806,000	\$ 2,211,190	\$ 9,528,413	\$ 1,720,860

*Interest on the variable rate College Station note from direct borrowings is calculated based on LIBOR plus 2.05% at 2.14% at June 30, 2021.

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

The outstanding **Revenue Bonds Payable** of \$70,600,000 and **Bonds from Direct Placements** of \$22,806,000 (together, "General Revenue Bonds") contain provisions that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

The outstanding **Limited Obligation Bonds (LOBs)** of \$106,365,000 are obligations of the UNCW Corporation secured by revenues which include rentals payable by the University under leases and use agreements on the facilities financed and refinanced with the LOBs. The LOBs are further secured by a deed of trust on the property financed and refinanced with the LOBs. The outstanding LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. Additionally, the bonds become immediately due and payable if an event of default occurs under the leases or use agreements or under the deed of trust. The Trustee may also take property secured under the deed of trust held as security, including foreclosure on the property held as security.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for UNC System Guaranteed Energy Savings Installment Financing Agreements in relation to the outstanding notes from direct borrowing of \$8,530,890. These agreements also contain provisions related to events of default and remedies. Significant to these provisions,

an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonable corrected within 30 days. Upon the occurrence of any event of default, the lender may declare the outstanding amount 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.

UNCW has one outstanding note from direct borrowing of \$217,596 dated October 21, 2011, which is an obligation of UNCW Corporation College Station, LLC. It contains provisions that in the event of default, the lender may take any or all of the following actions: (1) declare all balances due immediately; (2) require additional pledged collateral; (3) take possession and foreclose upon the collateral; (4) exercise all rights and remedies available under the agreement or under applicable law; and (5) cease any obligation to advance funds.

UNCW has one outstanding note from direct borrowing of \$779,927 dated July 3, 2019, which is an obligation of UNCW Corporation Real Property I, LLC. It contains provisions that in the event of default, the lender may take any or all of the following actions: (1) declare all balances due immediately; (2) require additional pledged collateral; (3) take possession and foreclose upon the collateral; (4) exercise all rights and remedies available under the agreement or under applicable law; and (5) cease any obligation to advance funds.

NOTE 10 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to laundry equipment and printers 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	\$ 177,400
2023	177,400
2024	171,596
2025	110,924
2026	50,400
2027-2029	<u>151,199</u>
Total Minimum Lease Payments	838,919
Amount Representing Interest (1.83 - 6.00% Rate of Interest)	<u>45,035</u>
Present Value of Future Lease Payments	<u>\$ 793,884</u>

Machinery and equipment acquired under capital lease amounted to \$1,045,254 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 \$249,470 at June 30, 2021.

B. Operating Lease Obligations - The University entered into operating leases for \$1,216,679 for an aquaculture facility, land, an elementary school, and landscape equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 123,273
2023	121,981
2024	91,425
2025	40,000
2026	40,000
2027-2031	200,000
2032-2036	200,000
2037-2041	200,000
2042-2046	200,000
Total Minimum Lease Payments	\$ 1,216,679

Rental expense for all operating leases during the year was \$567,943.

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	\$ (28,104,833)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(287,738,344)
Effect on Unrestricted Net Position	(315,843,177)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	115,571,659
Total Unrestricted Net Position	\$ (200,271,518)

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.

Net investment in capital assets has been significantly affected by a transaction that resulted in the acquisition of capital assets and the recognition of deferred inflows of resources as shown in the following table:

	Amount
Carrying Value of Capital Assets Acquired Under Service Concession Arrangement	\$ 69,000,326
Deferred Inflows Under Service Concession Arrangement	(68,012,640)
Net Effect on Net Investment in Capital Assets	987,686
Total Net Investment in Capital Assets Before Recognition of Service Concession Arrangement	427,366,436
Total Net Investment in Capital Assets	\$ 428,354,122

See Note 7 for detailed information regarding the amortization of the deferred inflows of resources under the service concession arrangement.

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 123,725,953	\$ 18,407,783	\$ 48,147	\$ 105,270,023
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 22,085,893	\$ 2,861,789	\$ 20,522	\$ 19,203,582
Dining	11,795,940	1,327,242	11,893	10,456,805
Parking	2,986,360	-	5,190	2,981,170
Recreation Services	1,276,582	-	11,230	1,265,352
Printing and Duplicating	38,828	-	-	38,828
Bookstore	709,937	-	-	709,937
Postal Services	148,925	-	269	148,656
Other	740,581	-	25,546	715,035
Sales and Services of Education and Related Activities	2,469,562	-	1,701	2,467,861
Total Sales and Services, Net	\$ 42,252,608	\$ 4,189,031	\$ 76,351	\$ 37,987,226

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	Total
Instruction	\$ 119,192,454	\$ 16,216,488	\$ 658,815	\$ 100,836	\$ -	\$ 136,168,593
Research	6,681,274	4,146,541	218,032	242	-	11,046,089
Public Service	2,341,352	937,529	133,967	-	-	3,412,848
Academic Support	19,969,378	13,881,626	20,536	16,404	-	33,887,944
Student Services	10,588,545	2,214,364	170,406	2,128	-	12,975,443
Institutional Support	24,678,999	6,612,064	93,763	512	-	31,385,338
Operations and Maintenance of Plant	16,950,218	7,388,180	-	5,066,857	-	29,405,255
Student Financial Aid	-	-	39,666,502	-	-	39,666,502
Auxiliary Enterprises	16,662,497	22,899,323	1,223,405	2,067,684	-	42,852,909
Depreciation	-	-	-	-	16,741,545	16,741,545
Total Operating Expenses	\$ 217,064,717	\$ 74,296,115	\$ 42,185,426	\$ 7,254,663	\$ 16,741,545	\$ 357,542,466

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 \$14,389,210 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 \$4,296,127, and the University's contributions were \$10,582,792 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 \$50,369,845 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 0.41690%, which was a decrease of 0.00447 from its proportion measured as of June 30, 2019, which was 0.42137%.

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		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 90,653,892	\$ 50,369,845	\$ 16,579,867

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 \$15,717,548. 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 Outflows of Resources
Difference Between Actual and Expected Experience	\$ 2,775,649	\$ -
Changes of Assumptions	1,706,893	-
Net Difference Between Projected and Actual Earnings on Plan Investments	5,570,389	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,629,289	-
Contributions Subsequent to the Measurement Date	10,582,792	-
Total	\$ 22,265,012	\$ -

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	\$ 4,454,836
2023	3,333,035
2024	2,234,881
2025	1,659,468
Total	\$ 11,682,220

- 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 \$175,885,880, of which \$82,297,931 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$4,937,876 and \$5,629,178, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$703,730 recognized during the period.

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 \$10,280,523 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 \$138,510 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 \$227,540,712 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 0.82024%, which was a decrease of 0.00011 from its proportion measured as of June 30, 2019, which was 0.82035%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of \$415,950 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 0.84553%, which was an increase of 0.01088 from its proportion measured as of June 30, 2019, which was 0.83465%.

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)					
	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)		
RHBF	\$ 269,848,887	\$ 227,540,712	\$ 193,454,428		
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)		
DIPNC	\$ (359,232)	\$ (415,950)	\$ (471,019)		

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	\$ 183,438,958	\$ 227,540,712	\$ 286,488,649		
	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	\$ (416,635)	\$ (415,950)	\$ (415,350)		

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

OPEB Plan	Amount
RHBF	\$ (3,412,346)
DIPNC	299,586
Total OPEB Expense	\$ (3,112,760)

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	\$ 206,135	\$ 301,322	\$ 507,457
Changes of Assumptions	9,979,024	32,343	10,011,367
Net Difference Between Projected and Actual Earnings on Plan Investments	479,339	-	479,339
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	31,299,146	-	31,299,146
Contributions Subsequent to the Measurement Date	10,280,523	138,510	10,419,033
Total	\$ 52,244,167	\$ 472,175	\$ 52,716,342

Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 8,901,673	\$ -	\$ 8,901,673
Changes of Assumptions	92,339,614	32,756	92,372,370
Net Difference Between Projected and Actual Earnings on Plan Investments	-	70,466	70,466
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	11,200,512	60,114	11,260,626
Total	\$ 112,441,799	\$ 163,336	\$ 112,605,135

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ending June 30:	RHBF	DIPNC
2022	\$ (29,226,296)	\$ 75,624
2023	(29,201,309)	47,332
2024	(4,957,240)	18,567
2025	367,504	36,884
2026	(7,460,879)	(3,820)
Thereafter	-	(4,259)
Total	\$ (70,478,220)	\$ 170,328

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 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. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a \$25,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. 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. 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. Policies include cyber, boiler and machinery, crime, oceanographic equipment, watercraft and watercraft pollution coverage, and professional 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 were \$12,317,896 and on other purchases were \$8,150,600 at June 30, 2021.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Endowment Pledges	\$ 1,736,414

NOTE 18 - HURRICANE FLORENCE

In September 2018, Hurricane Florence impacted areas of the southeastern United States, including Wilmington, NC, and specifically UNCW's campus. The hurricane caused significant damage to our facilities, infrastructure, and grounds. Dobo Hall, a science classroom and laboratory facility on the campus of UNCW, was closed and did not reopen until August 2020. The University Apartments, used for student housing, were condemned and demolished. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, impairment

NOTES TO THE FINANCIAL STATEMENTS

gains and losses, related to Dobo Hall and the University Apartments, respectively, were recognized during the fiscal year ended June 30, 2019.

During the fiscal year ending June 30, 2021, the University reported disaster costs of \$3,384,095 associated with Hurricane Florence as nonoperating expenses in the Statement of Revenues, Expenses and Changes in Net Position.

The following table presents the components of total disaster costs and insurance recoveries referenced in the previous paragraphs as well as additional revenue sources related to Hurricane Florence:

Capital Asset Impairments				
	2021	2020	2019	Total
Building Impairment - University Apartments	\$ -	\$ -	\$ (984,788)	\$ (984,788)
Building Impairment - Dobo Hall	-	-	(10,663,140)	(10,663,140)
Insurance Recoveries - University Apartments	-	-	763,557	763,557
Insurance Recoveries - Dobo Hall	-	-	32,851,242	32,851,242
Net Gain Related to Capital Asset Impairments	\$ -	\$ -	\$ 21,966,871	\$ 21,966,871
Other Hurricane Losses				
	2021	2020	2019	Total
Restoration of Buildings and Grounds	\$ (2,674,066)	\$ (20,894,074)	\$ (52,431,186)	\$ (75,999,326)
Equipment Replacements	(707,056)	(1,164,205)	(3,475,499)	(5,346,760)
Other Incremental Disaster-Related Operating Costs	(2,973)	(159,800)	(1,771,926)	(1,934,699)
Total Disaster Costs	(3,384,095)	(22,218,079)	(57,678,611)	(83,280,785)
Hurricane Florence Insurance Recoveries	-	7,879,333	31,226,266	39,105,599
Net Loss Related to Other Hurricane Losses	(3,384,095)	(14,338,746)	(26,452,345)	(44,175,186)
Total Net Loss before Additional Revenue Sources	\$ (3,384,095)	\$ (14,338,746)	\$ (4,485,474)	\$ (22,208,315)
Additional Revenue Sources				
	2021	2020	2019	Total
Capital Contributions (Hurricane Florence Disaster Relief)	\$ -	\$ 8,000,000	\$ 27,215,501	\$ 35,215,501
Noncapital Contributions (FEMA)	\$ -	\$ 1,444,598	\$ 453,608	\$ 1,898,206
Capital Expenditures (included in Buildings)				
	2021	2020	2019	Total
Dobo Hall Restoration	\$ (3,689,777)	\$ (43,424,151)	\$ (3,913,733)	\$ (51,027,661)

Financial activity related to Hurricane Florence will continue in future fiscal years. The University maintains “all-risk” insurance through the North Carolina Department of Insurance, and reimbursements are generally provided after costs are incurred. In addition, UNCW qualifies for assistance through FEMA. As a result of the insurance coverage and FEMA eligibility, UNCW anticipates reimbursements for substantially all incurred Hurricane Florence related costs.

NOTE 19 - 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 U.S. Department of Education, Elementary and Secondary School Emergency Relief (ESSER) Fund, and 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	2021 Unearned Revenue (1)
State Aid - Coronavirus:	N/A	\$ 4,597	\$ 6,679,340	\$ -
Federal Aid - COVID-19:				
HEERF Funds	\$ 57,209,536	\$ 4,376,550	\$ 39,431,998	\$ 6,446,345
ESSER Funds	1,124,774	-	50,902	-
GEER Funds	325,957	-	313,515	-
Total Federal Aid - COVID-19	N/A	\$ 4,376,550	\$ 39,796,415	\$ 6,446,345

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

NOTE 20 - RELATED PARTIES

Foundations - There are four separately incorporated nonprofit foundations associated with the University. These foundations are the UNCW Student Aid Association, Inc. (Student Aid), the Foundation of the University of North Carolina at Wilmington, Inc. (Foundation), the Alumni Association of the University of North Carolina at Wilmington (Alumni), and the Friends of the University of North Carolina at Wilmington, Inc. (Friends). The University maintains a cash balance for each of the four foundations. This fiduciary relationship meets certain criteria of GASB 84 and the cash balances and related activities are reported as custodial funds in the fiduciary fund financial statements.

Student Aid fosters and promotes the education of student athletes by obtaining donations for the scholarship program at the University. The association also raises funds for the improvement and construction of physical facilities used by the University for athletic purposes, for the University's athletic scholarship fund, and to provide operational and supplementary support for the entire sports program. In addition, the association exists to encourage a fraternal spirit of loyalty and interest in the University by alumni, friends, and benefactors. Direct support from Student Aid totaled \$1,226,130 for the year ended June 30, 2021. The University maintains a cash balance for Student Aid which was \$2,312,259 as of June 30, 2021.

The Foundation assists the University by soliciting and receiving private gifts from individuals, corporations, and other organizations. These gifts support the University by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds for academic programs. In addition, the Foundation can accept and liquidate non-cash gifts for the University and acquire property on the University's behalf. The Foundation's direct support to the University totaled \$1,398,777 for the year ended June 30, 2021. The University maintains a cash balance for the Foundation which was \$431,870 as of June 30, 2021.

Alumni serves to connect and involve alumni, students, and friends in the promotion and advancement of the University. Occasionally donations are made from this association to the University. This support totaled \$25,750 for the year ended June 30, 2021. The University maintains a cash balance for the Alumni which was \$388,740, as of June 30, 2021.

Friends contributes gifts to the University based on grant requests and may at a donor's request, contribute to a University academic scholarship fund. This support totaled \$9,125 for the year ended June 30, 2021. The University maintains a cash balance for Friends which was \$18,063 as of June 30, 2021.

All of these foundations are self-sustaining; however, the University does support their operations through donated support services. The University's proprietary fund financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. Separate financial statements for these foundations may be obtained from the Office of Associated Entities, 601 S. College Road, Wilmington, NC 28403-5952, or by calling (910) 962-3139.

NOTE 21 - 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

	University	Donald R. Watson Foundation, Inc.	UNCW Corporation	UNCW Corporation II	UNCW Research Foundation	Eliminations*	Total
ASSETS							
Current Assets	\$ 199,592,451	\$ -	\$ -	\$ -	\$ 437,372	\$ -	\$ 200,029,823
Capital Assets, Net	719,408,282	-	-	1,929,054	11,833	(11,833)	721,337,336
Other Noncurrent Assets	165,095,255	1,779,474	-	-	-	-	166,874,729
Component Unit Receivable from Primary Government	-	-	115,408,490	795,847	-	(116,204,337)	-
Total Assets	1,084,095,988	1,779,474	115,408,490	2,724,901	449,205	(116,216,170)	1,088,241,888
TOTAL DEFERRED OUTFLOWS OF RESOURCES	81,106,901	-	5,412,773	-	-	(5,412,773)	81,106,901
LIABILITIES							
Current Liabilities	35,625,689	6,563	358,176	455,484	6,818	-	36,452,730
Long-Term Liabilities, Net	391,661,262	-	115,050,314	821,651	-	-	507,533,227
Other Noncurrent Liabilities	6,137,460	-	-	-	-	-	6,137,460
Primary Government Payable to Component Unit	116,204,337	-	-	-	-	(116,204,337)	-
Total Liabilities	549,628,748	6,563	115,408,490	1,277,135	6,818	(116,204,337)	550,123,417
TOTAL DEFERRED INFLOWS OF RESOURCES	181,829,450	-	5,412,773	-	-	(5,412,773)	181,829,450
NET POSITION							
Net Investment in Capital Assets	426,626,745	-	-	1,727,377	-	-	428,354,122
Restricted - Nonexpendable	71,859,699	999,796	-	-	-	-	72,859,495
Restricted - Expendable	135,540,924	773,115	-	-	139,784	-	136,453,823
Unrestricted	(200,282,677)	-	-	(279,611)	302,603	(11,833)	(200,271,518)
Total Net Position	\$ 433,744,691	\$ 1,772,911	\$ -	\$ 1,447,766	\$ 442,387	\$ (11,833)	\$ 437,395,922

* The elimination net position amount of \$11,833 is a result of the Research Foundation having a lower capitalization threshold than the University.

NOTES TO THE FINANCIAL STATEMENTS

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

	University	Donald R. Watson Foundation, Inc.	UNCW Corporation	UNCW Corporation II	UNCW Research Foundation	Eliminations*	Total
OPERATING REVENUES							
Student Tuition and Fees, Net	\$ 105,270,023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,270,023
Federal Grants and Contracts	7,292,531	-	-	-	-	-	7,292,531
State and Local Grants and Contracts	3,570,901	-	-	-	-	-	3,570,901
Nongovernmental Grants and Contracts	1,754,764	-	-	-	-	-	1,754,764
Sales and Services, Net	37,728,286	-	4,875,507	40,865	243,870	(4,901,302)	37,987,226
Interest Earnings on Loans	7,568	-	-	-	-	-	7,568
Other Operating Revenues	3,477,187	2,234	17,665	189,874	224,306	(357,717)	3,553,549
Total Operating Revenues	159,101,260	2,234	4,893,172	230,739	468,176	(5,259,019)	159,436,562
OPERATING EXPENSES							
Operating Expenses	340,582,064	86,873	17,665	55,085	521,866	(462,632)	340,800,921
Depreciation	16,741,545	-	-	-	-	-	16,741,545
Total Operating Expenses	357,323,609	86,873	17,665	55,085	521,866	(462,632)	357,542,466
Operating Income (Loss)	(198,222,349)	(84,639)	4,875,507	175,654	(53,690)	(4,796,387)	(198,105,904)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	148,882,748	-	-	-	-	-	148,882,748
State Aid - Coronavirus Relief Fund	6,679,340	-	-	-	-	-	6,679,340
Student Financial Aid	27,252,838	-	-	-	-	-	27,252,838
Federal Aid - COVID-19	39,796,415	-	-	-	-	-	39,796,415
Noncapital Contributions	10,375,002	-	-	-	13,146	-	10,388,148
Investment Income, Net	40,187,518	401,183	-	-	-	(77,120)	40,511,581
Interest & Fees on Debt	(7,735,117)	-	(4,875,507)	(40,865)	-	4,875,507	(7,775,982)
Hurricane Florence Disaster Costs	(3,384,095)	-	-	-	-	-	(3,384,095)
Other Nonoperating Revenues	35,235	-	-	-	-	-	35,235
Net Nonoperating Revenues (Expenses)	262,089,884	401,183	(4,875,507)	(40,865)	13,146	4,798,387	262,386,228
Capital Appropriations	7,835,934	-	-	-	-	-	7,835,934
Capital Contributions	9,565,258	-	-	-	-	-	9,565,258
Additions to Endowments	7,208,816	-	-	-	-	-	7,208,816
Total Other Revenues	24,610,008	-	-	-	-	-	24,610,008
Increase (Decrease) in Net Position	88,477,543	316,544	-	134,789	(40,544)	2,000	88,890,332
NET POSITION							
Net Position, July 1, 2020	345,267,148	1,456,367	-	1,312,977	482,931	(13,833)	348,505,590
Net Position, June 30, 2021	\$ 433,744,691	\$ 1,772,911	\$ -	\$ 1,447,766	\$ 442,387	\$ (11,833)	\$ 437,395,922

* The elimination net position amount of \$11,833 is a result of the Research Foundation having a lower capitalization threshold than the University.

Condensed Statement of Cash Flows Proprietary Fund June 30, 2021

	University	Donald R. Watson Foundation, Inc.	UNCW Corporation	UNCW Corporation II	UNCW Research Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (198,279,687)	\$ (7,516)	\$ 8,364,754	\$ 417,942	\$ (92,046)	\$ (189,596,553)
Net Cash Provided by Noncapital Financing Activities	246,483,201	-	-	-	-	246,483,201
Net Cash Used by Capital and Related Financing Activities	(27,734,065)	-	(8,411,925)	(417,942)	-	(36,563,932)
Net Cash Provided by Investing Activities	2,538,961	-	-	-	-	2,538,961
Net Increase (Decrease) in Cash and Cash Equivalents	23,008,410	(7,516)	(47,171)	-	(92,046)	22,861,677
Cash and Cash Equivalents, July 1, 2020 (as Restated)	165,204,181	953	47,171	-	470,295	165,722,600
Cash and Cash Equivalents, June 30, 2021	\$ 188,212,591	\$ (6,563)	\$ -	\$ -	\$ 378,249	\$ 188,584,277

NOTE 22 - 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 23 - NET POSITION RESTATEMENT

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 \$3,655,247 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 24 - SUBSEQUENT EVENT

On August 3, 2021, the UNC Board of Governors on behalf of UNCW, issued \$8,420,000 in University of North Carolina Wilmington General Revenue, Series 2021 bonds with an average interest rate of 4.0%. The bonds were executed and delivered to construct recreation fields and facilities.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.41690%	0.42137%	0.38917%	0.37310%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 50,369,845	\$ 43,683,247	\$ 38,746,112	\$ 29,603,399
Covered Payroll	\$ 68,928,811	\$ 68,173,782	\$ 62,252,744	\$ 57,507,190
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	73.08%	64.08%	62.24%	51.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.35978%	0.35723%	0.36424%	0.38300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 33,067,499	\$ 13,164,633	\$ 4,270,426	\$ 23,252,003
Covered Payroll	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	61.70%	24.70%	8.07%	41.66%
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.

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

Exhibit C-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 10,582,792	\$ 8,940,067	\$ 8,378,558	\$ 6,710,846	\$ 5,739,218
Contributions in Relation to the Contractually Determined Contribution	<u>10,582,792</u>	<u>8,940,067</u>	<u>8,378,558</u>	<u>6,710,846</u>	<u>5,739,218</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 71,602,114	\$ 68,928,811	\$ 68,173,782	\$ 62,252,744	\$ 57,507,190
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	\$ 4,904,056	\$ 4,876,686	\$ 4,596,562	\$ 4,649,814	\$ 4,220,585
Contributions in Relation to the Contractually Determined Contribution	<u>4,904,056</u>	<u>4,876,686</u>	<u>4,596,562</u>	<u>4,649,814</u>	<u>4,220,585</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 53,596,237	\$ 53,297,118	\$ 52,894,845	\$ 55,820,098	\$ 56,728,297
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.

University of North Carolina Wilmington
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:

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

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

Exhibit C-3

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.82024%	0.82035%	0.74397%	0.70267%	0.77946%
Proportionate Share of Collective Net OPEB Liability	\$ 227,540,712	\$ 259,553,742	\$ 211,944,551	\$ 230,381,927	\$ 339,091,594
Covered Payroll	\$ 148,430,764	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	153.30%	177.81%	156.35%	184.67%	285.46%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.84553%	0.83465%	0.78348%	0.76875%	0.72922%
Proportionate Share of Collective Net OPEB Asset	\$ 415,950	\$ 360,151	\$ 237,990	\$ 469,860	\$ 452,846
Covered Payroll	\$ 148,430,764	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663	\$ 118,788,130
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.28%	0.25%	0.18%	0.38%	0.38%
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.

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

Exhibit C-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 10,280,523	\$ 9,603,470	\$ 9,152,250	\$ 8,200,987	\$ 7,252,952
Contributions in Relation to the Contractually Determined Contribution	10,280,523	9,603,470	9,152,250	8,200,987	7,252,952
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 153,900,045	\$ 148,430,764	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663
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	\$ 6,652,135	\$ 6,275,091	\$ 5,947,985	\$ 5,809,294	\$ 5,322,845
Contributions in Relation to the Contractually Determined Contribution	6,652,135	6,275,091	5,947,985	5,809,294	5,322,845
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 118,788,130	\$ 114,300,390	\$ 110,147,863	\$ 109,609,322	\$ 106,456,906
Contributions as a Percentage of Covered Payroll	5.60%	5.49%	5.40%	5.30%	5.00%
Disability Income Plan of North Carolina	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 138,510	\$ 148,431	\$ 204,356	\$ 189,775	\$ 474,053
Contributions in Relation to the Contractually Determined Contribution	138,510	148,431	204,356	189,775	474,053
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 153,900,045	\$ 148,430,764	\$ 145,968,903	\$ 135,553,502	\$ 124,750,663
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	\$ 487,031	\$ 468,632	\$ 484,651	\$ 482,281	\$ 553,576
Contributions in Relation to the Contractually Determined Contribution	487,031	468,632	484,651	482,281	553,576
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 118,788,130	\$ 114,300,390	\$ 110,147,863	\$ 109,609,322	\$ 106,456,906
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.

University of North Carolina Wilmington
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.

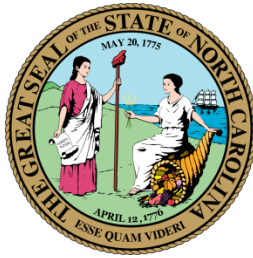
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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.

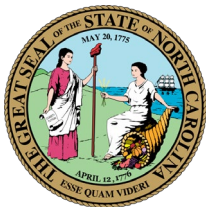
For the actuarial valuation measured as of June 30, 2020, the discount rate for the RHBF was updated to 2.21%. In the prior year, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the 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



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State Auditor

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

Board of Trustees
University of North Carolina Wilmington
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of the University of North Carolina Wilmington (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 1, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 1, 2021

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919-807-7666



This audit required 809 hours at an approximate cost of \$85,754.