State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

East Carolina University

Greenville, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2021

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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Auditor's Transmittal

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

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

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

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

Beth A. Wood

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State Auditor

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

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, 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 East Carolina University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of East Carolina University, and its discretely presented component unit, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for East Carolina University Foundation, Inc. and Consolidated Affiliates, are based solely on the report of the other auditors.

Basis for Opinions

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

East Carolina University (ECU or University) provides this Management's Discussion and Analysis to assist in understanding the financial statements and related notes for the fiscal year ended June 30, 2021. The University is one of the 16 universities in the University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Annual Comprehensive Financial Report*.

The University's financial report includes five financial statements:

- ECU Statement of Net Position, Proprietary Fund;
- ECU Statement of Revenues, Expenses, and Changes in Net Position, Proprietary Fund;
- ECU Statement of Cash Flows, Proprietary Fund;
- ECU Statement of Fiduciary Net Position; and
- ECU Statement of Changes in Fiduciary Net Position.

The financial report also includes two financial statements from the discretely presented component unit:

- ECU Foundation, Inc. and Consolidated Affiliates Consolidated Statements of Financial Position; and
- ECU Foundation, Inc. and Consolidated Affiliates Consolidated Statements of Activities.

Four Required Supplementary Information (RSI) schedules are provided as follows:

- Schedule of the Proportionate Share of the Net Pension Liability Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan;
- Schedule of University Contributions Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan;
- Schedule of the Proportionate Share of the Net OPEB Liability or Asset Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans; and
- Schedule of University Contributions Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans.

The University's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. In previous years, the University's financial statements combined all proprietary and fiduciary funds of the University, except for the discretely presented component unit that includes the ECU Foundation, Inc. and its two consolidated affiliates, East Carolina University Real Estate Foundation, Inc. and Green Town Properties, Inc.

The GASB issued Statement No. 84, *Fiduciary Activities*, that requires the presentation of separate proprietary and fiduciary fund financial statements. This is the first year of implementation. Trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements. These include the custodial funds held by the University for three separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., the East Carolina University Medical and Health Sciences Foundation, Inc., and the East

Carolina University Alumni Association, Inc. Fiduciary funds and the discretely presented component unit are excluded from this Management's Discussion and Analysis, unless specifically noted.

This discussion and analysis provides an overview of the University's financial position and activities for the year ended June 30, 2021, emphasizing current year data and significant changes between the prior and current fiscal years. Comparative information for the year ended June 30, 2020 is provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements that are included in this annual report. The Statement of Net Position Proprietary Fund reports the University's overall financial position. The Statement of Revenues, Expenses, and Changes in Net Position Proprietary Fund provides a summation of the results of operations, and the Statement of Cash Flows Proprietary Fund identifies the sources of cash and how cash was used during the year.

For the fiscal year ended June 30, 2021, the University's financial position remains stable and continues to strengthen. Total net position increased $159.1 million, reflecting general financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The University recognized over $1.0 billion in revenues and incurred $879.0 million in expenses. The University is positioned to meet financial demands created by COVID-19 in the upcoming fiscal year.

COVID-19

To minimize the risk of the spread of COVID-19 and to protect the health of students, faculty, and staff, the UNC System transitioned from on campus instruction to virtual and online course delivery in March 2020. Additionally, the UNC System directed each constituent institution to (a) direct students who occupy university housing to return to their permanent residences unless granted an exception by the institution, (b) reduce campus dining operations to takeout or similar options, and (c) utilize teleworking arrangements for employees that were not designated mandatory for continued on campus operations. The UNC System further instructed constituent institutions in April 2020 to provide prorated reimbursements to students for unused housing and dining services for the Spring 2020 semester as a result of the UNC System's response to the outbreak. These measures remained in place until the Fall 2020, when the University began the semester with in-person coursework. After a significant increase in COVID-19 cases among students, the University transitioned to primarily online coursework on August 26, 2020 for the remainder of the Fall semester. The University provided prorated refunds for housing, dining, and parking to students who departed campus after moving into the University's residence halls earlier that month. A limited amount of student housing and other auxiliary services remained open for those students remaining on campus. The University primarily continued with online course delivery for the Spring 2021 and summer sessions.

Statement of Net Position Proprietary Fund

The Statement of Net Position Proprietary Fund presents a fiscal snapshot of the University's financial position at a point-in-time, specifically, as of June 30, 2021 and includes all assets, deferred outflows and inflows of resources, liabilities, and net position of the University. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted, or unrestricted. Net position represents the residual interest in the University's assets and deferred outflows of resources net of its liabilities and deferred inflows of resources. The change in net position is an indicator of whether the overall financial condition of the University has improved or worsened during the year. The following table presents a summarized comparison of these accounts at a specific point in time, June 30, 2021 and 2020.

Condensed Statement of Net Position
Proprietary Fund
(Dollars in Thousands)

	2021	2020 Restated	Change
Assets			
Current Assets	$ 380,745	$ 341,912	$ 38,833
Noncurrent Assets:			
Capital Assets, Net	1,243,393	1,214,389	29,004
Other Noncurrent Assets	138,629	113,405	25,224
Total Assets	1,762,767	1,669,706	93,061
Deferred Outflows of Resources	166,406	178,800	(12,394)
Liabilities			
Current Liabilities:			
Long-Term Liabilities - Current Portion	21,790	20,995	795
Other Current Liabilities	72,971	67,787	5,184
Total Current Liabilities	94,761	88,782	5,979
Noncurrent Liabilities:			
Long-Term Liabilities, Net	1,235,658	1,327,057	(91,399)
Other Noncurrent Liabilities	19,664	22,096	(2,432)
Total Noncurrent Liabilities	1,255,322	1,349,153	(93,831)
Total Liabilities	1,350,083	1,437,935	(87,852)
Deferred Inflows of Resources	353,071	343,669	9,402
Net Position			
Net Investment in Capital Assets	859,404	814,571	44,833
Restricted	144,558	116,861	27,697
Unrestricted	(777,943)	(864,530)	86,587
Total Net Position	$ 226,019	$ 66,902	$ 159,117

Total assets and deferred outflows of resources increased by $80.7 million. Total liabilities and deferred inflows of resources decreased by $78.4 million, for a net growth of $159.1 million in the University's total net position.

Current assets increased $38.8 million, primarily from a $35.9 million increase in unrestricted cash. Cash increased due to:

- Significant decreases in salaries and other expenditures across campus as the University placed some staff on furloughs, implemented a hiring freeze, and kept expenditures to a minimum due to the pandemic;

- Reimbursements to housing, dining, and other auxiliary lost revenues from the US Department of Education, Higher Education Emergency Relief Funds (HEERF) program; and
- Increases in administrative overhead receipts due to higher grant activity.

Capital assets, net, increased $29.0 million and are discussed in detail in the capital assets section of this discussion and analysis. Other noncurrent assets increased $25.2 million from the prior fiscal year end and includes an increase in endowment investments of $17.2 million and a net increase in restricted cash of $9.8 million. The increase in endowment investments is due to an effective market strategy and favorable market conditions that achieved a 32.3% return on investments. The change in restricted cash is primarily the net effect of:

- The University, under Management Flexibility Legislation, maintained $15.6 million in unspent funds restricted for capital purposes. Minimal funds were held for capital purposes in the prior year under this legislation; and
- The University spent $5.7 million of capital improvement funds and accumulated bond proceeds for construction costs of various projects. (See Note 8.)

Noncurrent long-term liabilities, net, decreased $91.4 million largely due to the net effect of:

- The net other postemployment benefits (OPEB) liability decreased $97.7 million;
- The net pension liability increased $20.0 million; and
- The revenue bonds and bond direct placements liabilities decreased $12.1 million. (See Note 8.)

Changes to the net OPEB and pension liabilities are based on actuarial calculations and are due to changes in the plans' economic and demographic assumptions, actual versus expected experience, and the University's proportionate share of the liabilities. (See Notes 13 and 14.) Bonds payable decreased as scheduled bond payments were made. In addition, the University issued General Revenue Bonds to pay off the Series 2010B and 2014A General Revenue Bonds to reduce debt service payments and achieved substantial economic gains. (See Note 8.)

The University's liquidity remains strong. The current ratio of 4.0, defined as current assets divided by current liabilities, indicates the University could pay its current obligations four times before current assets are exhausted. Working capital, defined as current assets minus current liabilities, is $286.0 million on June 30, 2021, a $32.9 million increase from the prior year. The amount of available working capital remains strong and is a measure of the University's ability to meet its short-term obligations.

The University's net position consists of three primary classifications: net investment in capital assets, restricted, and unrestricted. The balance of each classification increased $44.8, $27.7, and $86.6 million, respectively, for a total net position increase of $159.1 million. The increase in net investment in capital assets is primarily due to the increase in the University's capital assets, net of accumulated depreciation, and a decrease in debt liabilities. Reference the Capital Assets and Capital Debt sections for further details.

Restricted net position includes the University's permanent endowment fund and expendable funds subject to externally imposed restrictions governing their use. $17.2 million of the increase is due to an increase in endowments, primarily as a result of large unrealized gains. $9.8 million of the increase is from the change in restricted cash as previously discussed.

The unrestricted portion of the University's net position is net equity available for any lawful purpose of the University. The deficit in unrestricted net position has been significantly affected by the reporting of net pension liability and net OPEB liability, and the related deferred outflows of resources and deferred inflows of resources. Excluding the effect of these items, the positive unrestricted net position grew from $221.1 to $253.4, or $32.3 million. (See Note 10.)

Statement of Revenues, Expenses and Changes in Net Position Proprietary Fund

The Statement of Revenues, Expenses, and Changes in Net Position Proprietary Fund presents revenues earned and expenses incurred during the fiscal year, providing information to evaluate the University's management of operations and maintenance of financial strength. Activities are classified and reported as operating, nonoperating, or other revenues. In general, operating revenues are generated by providing goods and services and operating expenses are incurred to acquire or produce the goods and services needed to fulfill the mission of the University. The University consistently shows an operational loss (operating revenues minus operating expenses) because public universities are dependent on state appropriations, which are not included in operating revenues. State appropriations, federal aid for COVID-19, noncapital contributions (grants and gifts), and investment income (net of investment expense) are classified as nonoperating because they are revenues received for which goods and services are not provided. When the nonoperating revenues, net of nonoperating expenses (chiefly interest and fee payments on capital assets), are added to the operational loss, the University shows an increase in income before other revenues of $96.2 million. Other revenues include capital appropriations, capital contributions (grants and gifts), and additions to endowments. When these other revenues are added, the University shows a $159.1 million increase in net position as of June 30, 2021. The following table presents a summarized comparison of the statements as of June 30, 2021 and June 30, 2020.

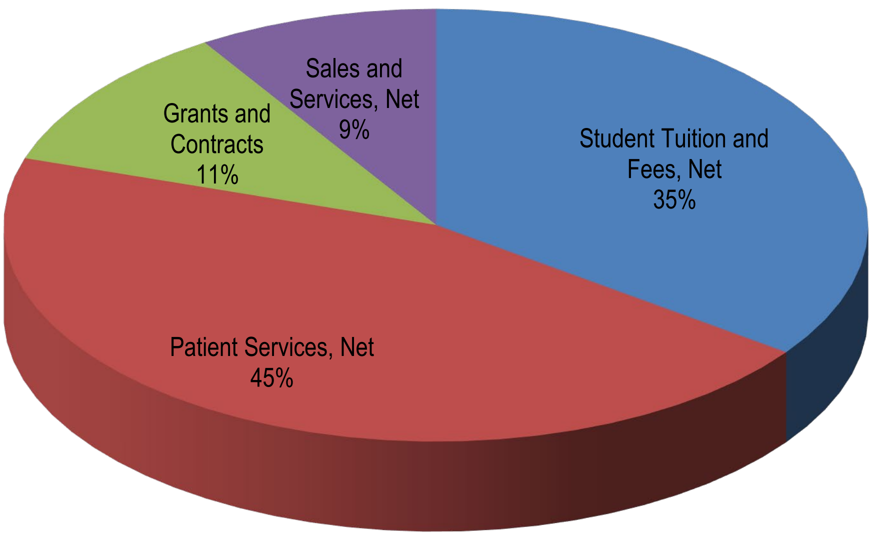
Condensed Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
(Dollars in Thousands)

	2021	2020	Change
Operating Revenues			
Student Tuition and Fees, Net	$ 180,794	$ 187,624	$ (6,830)
Patient Services, Net	233,128	227,071	6,057
Grants and Contracts	58,858	52,900	5,958
Sales and Services, Net	46,984	81,251	(34,267)
Other	1,466	1,867	(401)
Total Operating Revenues	521,230	550,713	(29,483)
Operating Expenses			
Salaries and Benefits	571,439	609,386	(37,947)
Supplies and Services	186,215	200,549	(14,334)
Scholarships and Fellowships	54,832	51,860	2,972
Utilities	15,398	17,225	(1,827)
Depreciation/Amortization	36,739	35,019	1,720
Total Operating Expenses	864,623	914,039	(49,416)
Operating Loss	(343,393)	(363,326)	(19,933)
Nonoperating Revenues (Expenses)			
State Appropriations and Aid	320,201	312,240	7,961
Federal Aid - COVID-19	31,072	17,461	13,611
Noncapital Contributions and Grants	82,547	68,042	14,505
Investment Income, Net	20,065	4,466	15,599
Other Nonoperating (Expenses)	(14,291)	(15,683)	1,392
Net Nonoperating Revenues	439,594	386,526	53,068
Income Before Other Revenues	96,201	23,200	73,001
Capital Appropriations	15,605	-	15,605
Capital Contributions	45,602	21,085	24,517
Additions to Endowments	1,709	1,966	(257)
Increase in Net Position	159,117	46,251	112,866
Net Position-July 1	66,902	20,651	46,251
Net Position-June 30	$ 226,019	$ 66,902	$ 159,117

Fiscal year 2020-2021 total revenues are $1,038,134 and total expenses are $879,017.
Fiscal year 2019-2020 total revenues are $976,343 and total expenses are $930,092.

The University generates operating revenues by providing goods and services related to its instruction, research, and public service missions. Total operating revenues decreased $29.5 million. The largest change was a $34.3 million decrease in sales and services, net due to COVID-19. Sales and services are generated by on campus operations and the pivot to online instruction impacted the University's ability to collect these revenues throughout most of fiscal year 2021.

The following chart shows each operating revenue component as it relates to total operating revenues:



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University and are reported by natural classification. Classification amounts changed at varying rates with an overall net decrease of $49.4 million. Salaries and benefits decreased $37.9 million due to turnover of staff and a hiring freeze, staff furloughs (particularly in areas that experienced significant revenue declines such as auxiliary services), and a decrease in expenses for pension and other postemployment benefits. Supplies and services decreased $14.3 million. With students, faculty and staff staying off campus for nearly all of fiscal year 2021, the University spent significantly less than the prior year, with the highest reductions in contracted food services and travel costs.

The following chart shows each operating expense component as it relates to total operating expenses and illustrates the consistency between the two years:

2021 OPERATING EXPENSES: $864.6 Million

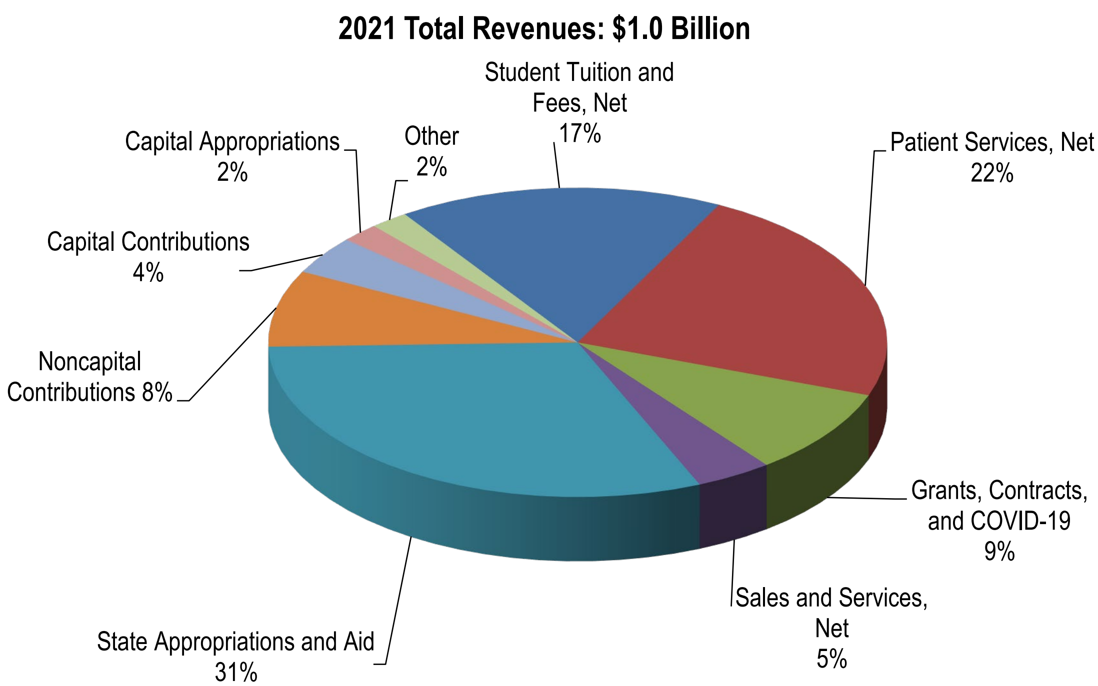
	% to Total 2021	% to Total 2020
Salaries and Benefits	66%	67%
Supplies and Services	22%	22%
Scholarships and Fellowships	6%	5%
Utilities	2%	2%
Depreciation / Amortization	4%	4%
Total	100%	100%

The University generates revenues and expenses in addition to its principal operations. These items are classified as nonoperating. Total nonoperating revenues, net, increased $53.1 million from the prior year. The increase is the net effect of changes in state appropriations and aid, federal funds for COVID-19, noncapital contributions (grants and gifts), investment income, and other nonoperating revenues and expenses such as interest and fees expenses. The largest changes include:

- An increase of $13.6 million received in COVID-19 federal aid of which $13.0 million was from the HEERF program as discussed in Note 17;
- A $14.5 million increase in noncapital grants and gifts. Of this, $11.5 million represents the University's share of an allocation from the State Health Plan for cost savings over a six-year period to the State Retiree Health Benefit Fund. This is the first year the allocation occurred; and
- A $15.6 million increase in investment income, net, resulting from higher earnings on investments and significant unrealized gains due to favorable market conditions from the previous year.

Other revenues include capital appropriations and capital contributions (grants and gifts). Capital appropriations increased $15.6 million as a result of the Management Flexibility Legislation discussed above. Capital contributions increased $24.5 million for support received from the State, primarily for the Life Sciences and Biotechnology Center funded by the statewide Connect NC bond.

The following chart illustrates the University's total revenues by source (operating, nonoperating and other revenues) which totals $1.0 billion for fiscal year end 2021:



Note: Accounts with less than 0.5% of total revenues are shown as "Other".

Capital Assets

Capital assets for the University are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and construction in progress. Depreciable assets include buildings, machinery and equipment, general infrastructure, and computer software. Completed buildings comprise 69.8% of the University's capital assets, net of accumulated depreciation.

The acquisition, construction and improvement of its capital assets are vital to the University's mission. The University continues to implement its long-range plan to modernize older teaching, research, and residential facilities with renovations and new construction.

Capital assets on June 30, 2021 and June 30, 2020, are as follows:

Capital Assets
(Dollars in Thousands)

	2021	2020	Change
Land	$ 52,713	$ 51,961	$ 752
Construction in Progress	84,980	43,419	41,561
Buildings	1,191,557	1,188,064	3,493
Machinery and Equipment	178,563	168,649	9,914
General Infrastructure	203,362	198,094	5,268
Computer Software	13,335	13,335	-
Total Capital Assets	1,724,510	1,663,522	60,988
Accumulated Depreciation	481,117	449,133	31,984
Capital Assets, Net	$ 1,243,393	$ 1,214,389	$ 29,004

Capital additions consist primarily of replacement, improvement, and new capital assets construction, as well as significant investments in equipment, including information technology. The University's capital assets, as of fiscal year end 2021, are $1.2 billion, representing a net increase of $29.0 million from the prior year.

The University uses debt financing, student fees, state capital contributions, and University sources to provide funding for capital projects. The amount of construction in progress (CIP) changes as construction costs on existing projects are incurred, completed projects are removed, and new projects are added. As construction projects are completed, depreciable assets increase with an appropriate increase in accumulated depreciation. During fiscal year 2021, construction costs of $49.9 million on new facilities and renovations on older buildings to modernize the campus were added to CIP while construction projects of $8.3 million were completed, removed from CIP, and transferred to depreciable asset accounts, primarily buildings and general infrastructure.

A significant portion, $41.3 million or 82.8%, of the $49.9 million in construction costs were spent on the Life Sciences and Biotechnology Building.

Capitalized costs for completed buildings and infrastructure were $3.4 and $4.9 million, respectively, for multiple projects. Capitalized costs for the largest building project were $1.9 million for the Legacy and Jones Residence Halls. Capitalized costs for the largest infrastructure project were $3.9 million for the Steam Plant on Main Campus.

The new Life Sciences and Biotechnology Building represents 86.5% of the construction in progress balance at fiscal year end 2021. This building will have 141,500 gross square feet of space and is a $90 million project funded by the statewide $2 billion Connect NC bond referendum approved by voters in Spring 2016. As costs are incurred, funding is requested and received from the State. The Life Sciences and Biotechnology Building will house interdisciplinary programs that involve external partners, faculty, and students in the fields of biology, chemistry, and biomedical/process engineering. The project will include classrooms, laboratories, offices, and support spaces that will provide for a more direct interface between the University, community, and regional partners. This new science facility will provide the state-of-the-art facilities needed to attract top-quality faculty in applied research, increase student access to modern science education, and facilitate the application, translation, and communication of scientific research and scholarship to broader audiences. This building will create opportunities for partnerships and discovery with our local industry partners; provide for research programs that will be globally competitive; and produce higher-skilled graduates that will be able to compete successfully in the global workplace.

Capital Debt

The University uses revenue bonds, bonds from direct placements, notes from direct borrowings, and capital leases to finance construction projects and purchase equipment. On October 14, 2020 the University issued $16.8 million in General Revenue Refunding Bonds, Series 2020. These bonds were issued for a current refunding of the outstanding taxable General Revenue Series 2010B Build America Bonds. The refunding reduced total debt service payments by $3.6 million. On June 17, 2021, the University issued $50.1 million in Taxable General Revenue Bonds, Series 2021, to advance refund $44.7 million of outstanding General Revenue Bonds, Series 2014A, and reduce total debt service payments by $7.7 million. (See Note 8 for additional details.)

On September 21, 2020, Standard & Poor's Global Ratings provided a rating of AA- with a negative outlook on the Board of Governors of the University of North Carolina, General Revenue Refunding Series 2020. On September 18, 2020, Moody's Investors Service assigned a rating of Aa3 on East Carolina University's General Revenue Refunding Bonds, Series 2020.

On May 12, 2021, Standard & Poor's Global Ratings assigned its AA- rating, with a stable outlook, to University of North Carolina Board of Governors' Series 2021 taxable revenue bonds, issued for ECU, and affirmed its AA- rating on ECU's existing debt with a revised outlook from negative to stable. The outlook remains stable. Moody's Investors Service also assigned a rating of Aa3 with a stable outlook on the Taxable General Revenue Bonds, Series 2021, on May 13, 2021.

As reflected in the following chart, total capital debt decreased by $13.3 million in 2021. Note 8 to the financial statements provides information on debt administration.

Capital Debt Summary
Dollars in Thousands

	2021	2020	Change
Revenue Bonds Payable	$ 347,375	$ 356,890	$ (9,515)
Bonds from Direct Placements	18,975	20,125	(1,150)
Bond Discounts/Premiums	14,606	16,002	(1,396)
Notes from Direct Borrowings	1,697	2,617	(920)
Capital Leases Payable	1,071	1,345	(274)
Total Capital Debt	$ 383,724	$ 396,979	$ (13,255)

Economic and Strategic Outlook

The State of North Carolina has yet to approve the budget for fiscal year 2021-2022. Based on the recommendations of the House and Senate budget, the University of North Carolina System should receive significant funding for repairs and renovation projects, new capital projects, and enrollment funding. A new medical education building is included in both budgets. The University is funded in arrears based on the calendar year enrollment change. For fiscal year 2021-2022, the University anticipates receiving $4.7 million more in state appropriations. Tuition rates did not increase for 2021-22 and fees increased by 2.7%.

Fall 2021 enrollment decreased 2.8% in total headcount and the retention rate of first-time freshmen was 81%, compared to 83.5% in the previous year. The University's retention rates have been between 81%-83% since 2012. The University has plans for several strategic initiatives to help increase enrollment and retention rates. For the next recruitment cycle, the University will expand in-person recruiting events across the state in new locations and expand its presence in out-of-state markets through in-person recruiting events. The University is implementing a new communications platform that will help reach more students, more often, through a variety of digital means. The University will expand its purchase of lists of high school seniors to facilitate targeted outreach while expanding outreach to high school sophomore and junior students. The University will add a more fully online learning option for undergraduate students for Fall 2022 and implement initiatives to extend its reach into the adult learning and international spaces.

The University started Fall 2021 with all residence halls experiencing full occupancy except for the residence hall designated for isolation/quarantine rooms. The University continues to monitor COVID-19 cases very closely and has a Committee that meets weekly to review data and make recommendations for adjustments to operations. The University's goal for the 2021-22 academic year is to remain on campus and fully operational to serve students.

The University has received a third allocation of HEERF funding totaling $53,154,932. Along with the unspent student portion of the HEERF II funds, the funds will be spent on student awards and invested in technology improvements, tutoring and mental health services, COVID mitigation, and recovery of lost revenues. Technology improvements include hybrid flexible (HyFlex) classroom equipment and infrastructure allowing for synchronous learning, updating our lecture capture system for better streaming, enhancing recruitment and student service outreach with artificial intelligence and automated services in student service areas such as financial aid and registrar offices.

The University hired the Chief Executive Officer (CEO) for Vidant Health as the Dean of Brody School of Medicine, effective July 1, 2021. The position has a dual role, serving as both the CEO of Vidant Health and Dean of Brody School of Medicine. These entities are moving towards full clinical integration and the creation of a distinctive health system brand, ECU Health - or similar branding, to serve the 1.4 million residents of eastern North Carolina. The organizations' academic and clinical leadership will work together to transform and build on combined strengths to create a regional health care, research, and educational enterprise.

ECU is committed to the continued success of the University and its students while navigating the challenges created by the COVID-19 pandemic. Management remains prudent, conservative, and strategic in managing the institution's financial affairs and remains dedicated to the University's mission of public service, regional transformation, and student success.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage (https://financialservices.ecu.edu/) or contacting Financial Services at (252) 737-1133.

FINANCIAL STATEMENTS

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

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	270,387,776
Restricted Cash and Cash Equivalents		50,464,306
Receivables, Net (Note 5)		51,494,970
Due from University Component Units		47,867
Inventories		2,740,305
Notes Receivable, Net (Note 5)		1,293,812
Other Assets		4,315,844
Total Current Assets		380,744,880
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		47,151,406
Receivables (Note 5)		9,180,196
Endowment Investments		74,958,046
Restricted Investments		44,332
Notes Receivable, Net (Note 5)		5,805,432
Investment in Joint Venture		267,715
Net Other Postemployment Benefits Asset		1,221,364
Capital Assets - Nondepreciable (Note 6)		137,693,329
Capital Assets - Depreciable, Net (Note 6)		1,105,700,033
Total Noncurrent Assets		1,382,021,853
Total Assets		1,762,766,733
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		5,273,597
Deferred Outflows Related to Pensions		64,273,674
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		96,858,786
Total Deferred Outflows of Resources		166,406,057
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		37,183,192
Due to Primary Government		6,365,591
Due to State of North Carolina Component Units		1,012,934
Deposits Payable		1,673,020
Unearned Revenue		23,867,145
Interest Payable		2,868,858
Long-Term Liabilities - Current Portion (Note 8)		21,790,171
Total Current Liabilities		94,760,911

Noncurrent Liabilities:		
Funds Held for Others		206,952
Unearned Revenue		9,808,069
U.S. Government Grants Refundable		9,648,199
Long-Term Liabilities, Net (Note 8)		1,235,658,311
Total Noncurrent Liabilities		1,255,321,531
Total Liabilities		1,350,082,442
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		1,907,731
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		351,163,514
Total Deferred Inflows of Resources		353,071,245
NET POSITION		
Net Investment in Capital Assets		859,403,840
Restricted:		
Nonexpendable:		
True Endowments		42,631,998
Student Loans and Other		4,017,308
Total Restricted-Nonexpendable Net Position		46,649,306
Expendable:		
Scholarships, Research, Instruction, and Other		40,031,496
Student Loans		42,035,319
Debt Service		15,842,401
Total Restricted-Expendable Net Position		97,909,216
Unrestricted		(777,943,259)
Total Net Position	$	226,019,103

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

East Carolina University
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2021 ***Exhibit A-2***

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 11)	$ 180,793,966
Patient Services, Net (Note 11)	233,127,641
Federal Grants and Contracts	36,766,334
State and Local Grants and Contracts	8,569,437
Nongovernmental Grants and Contracts	13,521,802
Sales and Services, Net (Note 11)	46,984,278
Interest Earnings on Loans	289,320
Other Operating Revenues	1,177,143
Total Operating Revenues	521,229,921
OPERATING EXPENSES	
Salaries and Benefits	571,439,085
Supplies and Services	186,214,998
Scholarships and Fellowships	54,831,839
Utilities	15,398,090
Depreciation/Amortization	36,738,693
Total Operating Expenses	864,622,705
Operating Loss	(343,392,784)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	296,470,173
State Aid - Coronavirus	23,731,237
Student Financial Aid	55,374,724
Federal Aid - COVID-19	31,071,523
Noncapital Contributions	27,172,010
Investment Income (Net of Investment Expense of $182,833)	20,065,233
Interest and Fees on Debt	(12,865,166)
Federal Interest Subsidy on Debt	103,486
Other Nonoperating Expenses	(1,529,221)
Net Nonoperating Revenues	439,593,999
Income Before Other Revenues	96,201,215
Capital Appropriations	15,605,028
Capital Contributions	45,602,221
Additions to Endowments	1,708,529
Total Other Revenues	62,915,778
Increase in Net Position	159,116,993
NET POSITION	
Net Position - July 1, 2020	66,902,110
Net Position - June 30, 2021	$ 226,019,103

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

East Carolina University
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 522,051,674
Payments to Employees and Fringe Benefits	(612,527,511)
Payments to Vendors and Suppliers	(198,255,784)
Payments for Scholarships and Fellowships	(54,831,839)
Loans Issued	(1,500)
Collection of Loans	1,720,854
Interest Earned on Loans	303,461
Student Deposits Received	878,243
Student Deposits Returned	(729,039)
William D. Ford Direct Lending Receipts	133,547,883
William D. Ford Direct Lending Disbursements	(133,441,493)
Related Activity Agency Receipts	27,482,038
Related Activity Agency Disbursements	(27,316,562)
Net Cash Used by Operating Activities	(341,119,575)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	296,470,173
State Aid - Coronavirus	24,744,171
Student Financial Aid	53,717,694
Federal Aid - COVID-19	31,071,523
Noncapital Contributions	15,640,628
Additions to Endowments	1,708,529
Cash Provided by Noncapital Financing Activities	423,352,718
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	19,243,468
Capital Appropriations	15,605,028
Capital Contributions	45,128,073
Acquisition and Construction of Capital Assets	(67,345,148)
Principal Paid on Capital Debt and Leases	(34,106,545)
Interest and Fees Paid on Capital Debt and Leases	(14,828,073)
Federal Interest Subsidy on Debt Received	194,578
Net Cash Used by Capital Financing and Related Financing Activities	(36,108,619)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,831,941
Investment Income	4,134,805
Investment in Joint Ventures	175,555
Purchase of Investments and Related Fees	(5,107,299)
Net Cash Provided by Investing Activities	3,035,002
Net Increase in Cash and Cash Equivalents	49,159,526
Cash and Cash Equivalents - July 1, 2020, as Restated (Note 20)	318,843,962
Cash and Cash Equivalents - June 30, 2021	$ 368,003,488

East Carolina University
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (343,392,784)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	36,738,693
Allowances and Write-Offs	(57,584)
Other Nonoperating Income	107,295
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(2,070,450)
Due from University Component Units	(2,133)
Inventories	1,698,315
Prepaid Assets	1,063,391
Notes Receivable, Net	1,719,354
Net Other Postemployment Benefits Asset	(139,783)
Deferred Outflows Related to Pensions	(3,860,851)
Deferred Outflows Related to Other Postemployment Benefits	18,455,496
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	1,588,477
Due to Primary Government	113,681
Funds Held for Others	94,216
Unearned Revenue	3,090,501
Net Pension Liability	20,023,813
Net Other Postemployment Benefits Liability	(86,144,908)
Compensated Absences	239,705
Deposits Payable	149,204
Workers' Compensation Liability	64,561
Deferred Inflows Related to Pensions	1,049,490
Deferred Inflows Related to Other Postemployment Benefits	8,352,726
Net Cash Used by Operating Activities	$ (341,119,575)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$ 474,148
Change in Fair Value of Investments	15,930,428
Gain on Investment in Joint Ventures	176,826
Loss on Disposal of Capital Assets	(1,249,242)
Bond Issuance Cost Withheld	(137,452)
Amortization of Bond Premiums/Discounts	(900,104)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(11,531,382)
Funds Escrowed to Defease Debt	49,757,380

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

East Carolina University
Statement of Fiduciary Net Position
Fiduciary Fund - Custodial Funds
June 30, 2021 *Exhibit B-1*

	Other Funds
ASSETS	
Cash and Cash Equivalents	$ 7,328,792
Total Assets	7,328,792
DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	-
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Restricted for:	
Other Organizations	7,328,792
Total Net Position	$ 7,328,792

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

East Carolina University
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Custodial Funds
June 30, 2021 *Exhibit B-2*

	Other Funds
ADDITIONS	
Contributions:	
Other Organizations	$ 16,053,388
DEDUCTIONS	
Withdrawals and Distributions	18,154,690
Decrease in Fiduciary Net Position	(2,101,302)
NET POSITION	
Net Position - July 1, 2020, as Restated (Note 20)	9,430,094
Net Position - June 30, 2021	$ 7,328,792

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

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Financial Position
June 30, 2021 *Exhibit C-1*

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	6,722,055
Current Portion of Unconditional Promises to Give, Net		488,752
Prepaid Expenses		19,709
Other Receivables		11,450
Total Current Assets		7,241,966
INVESTMENTS		
Investments		187,729,424
Real Estate Held for Investment		1,084,808
Total Investments		188,814,232
CAPITAL ASSETS		
Capital Assets, Net		7,714,908
OTHER ASSETS		
Life Insurance Policy - Cash Surrender Value		272,437
Student Loans, Net		54,863
Beneficial Interest in Charitable Remainder Trusts		5,822,565
Assets Held in Charitable Remainder Trusts and Annuities		702,425
Unconditional Promises to Give, Less Current Portion, Net		883,920
Other Assets		52,440
Total Other Assets		7,788,650
TOTAL ASSETS	$	211,559,756
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$	99,519
Accrued Expenses		5,908
Current Portion of Note Payable		438,329
Current Portion of Charitable Gift Annuities Payable		19,158
Agency Payables		2,367,433
Total Current Liabilities		2,930,347
LONG-TERM LIABILITES		
Refundable Advances		59,462
Note Payable, Less Current Portion		4,566,362
Charitable Gift Annuities Payable, Less Current Portion		91,279
Liabilities Under Charitable Remainder Trusts		206,707
Total Long-Term Liabilities		4,923,810
Total Liabilities		7,854,157
NET ASSETS		
Without Donor Restrictions		25,781,739
With Donor Restrictions		177,923,860
Total Net Assets		203,705,599
TOTAL LIABILITIES AND NET ASSETS	$	211,559,756

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

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Activities
For the Fiscal Year Ended June 30, 2021 — Exhibit C-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	$ 131,481	$ 13,655,601	$ 13,787,082
Gifts in Kind	34,000	75,316	109,316
Contributed Services and Facilities	2,063,849	-	2,063,849
Return on Investments			
Interest on Dividends	1,324,863	3,832,454	5,157,317
Net Unrealized and Realized Gains (Losses) on Investments	4,368,684	33,002,997	37,371,681
Other Income	1,159,403	219,205	1,378,608
Change in Value of Split Interest Agreements	-	3,569,909	3,569,909
Net Assets Released from Restrictions	7,863,306	(7,863,306)	-
Total Revenue, Gains and Other Support	16,945,586	46,492,176	63,437,762
EXPENSES AND LOSSES			
Program Services			
Program Development	3,251,727	-	3,251,727
Scholarships	4,025,386	-	4,025,386
Total Program Services	7,277,113	-	7,277,113
General and Administrative	1,358,996	-	1,358,996
Fundraising	1,623,611	-	1,623,611
Total Operating Expenses	10,259,720	-	10,259,720
Bad Debt Losses	-	88,000	88,000
Total Expenses	10,259,720	88,000	10,347,720
Change in Net Assets	6,685,866	46,404,176	53,090,042
NET ASSETS			
Net Assets at Beginning of Year	19,095,873	131,519,684	150,615,557
Net Assets at End of Year	$ 25,781,739	$ 177,923,860	$ 203,705,599

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. East Carolina University (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

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

Discretely Presented Component Unit - East Carolina University Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the University. East Carolina University Real Estate Foundation, Inc. and Green Town Properties, Inc. are the consolidated affiliates of the Foundation.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 64 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board revenue recognition criteria and presentation features. No modifications have been made to the

Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2021, the Foundation distributed $7,277,113 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 2200 Charles Blvd., Suite 2900, Greenville, NC 27858, or by calling (252) 737-1133.

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, 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.

Other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students, charges for services rendered to patients, and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

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

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

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

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 years
Computer Software	2-20 years

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

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

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

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

K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, 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 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 aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

Proprietary Fund

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

Fiduciary 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.

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

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

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

Q. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, 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 as cash and cash equivalents includes $367,818,202 for the proprietary fund and $7,328,792 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 $71,137. The carrying amount of the University's deposits not with the State Treasurer was $114,149, and the bank balance was $114,225. 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 was not exposed to custodial credit risk.

B. Investments

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

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

North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

Investments 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's Endowment Board has a formal policy that addresses interest rate risk. The policy states that fixed income investments should have a duration that is not greater than +/-40% that of Barclays Capital Aggregate Bond Index in order to minimize interest rate risk. The University has no formal investment policy that addresses interest rate risk for investments other than those under the control of the Endowment Board.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies. The aggregate fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. The aggregate fixed income portfolio shall not contain more than 20% of investments rated below investment grade (below Baa/BBB). No more than 60% of the portfolio shall be invested in either corporate or mortgage-backed securities. The committee will monitor the composition of the fixed income portfolio relative to the opportunity set available. The committee understands there may be periods when credit risk is acceptable for the returns expected and as such may choose minor deviations from the guidelines noted above, particularly in the case of investing in public debt funds where the manager's security selection decisions may include a small allocation to below investment grade bonds. The University has no formal investment policy that addresses credit risk for investments other than those under the control of the Endowment Board.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Currently, the Endowment Fund does not participate in a securities lending program, therefore counterparty risk is not material. With regard to the safety of assets held by the custodian, the Foundation and the Fund retain title to those assets; as such, in the event of the broker/dealer failure, the assets held do not become assets of the broker/dealer and are protected from any counterparty claimants. The University has no formal investment policy that addresses custodial credit risk for investments other than those under the control of the Endowment Board.

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 market unit valuation basis each month. Under this method, the total pool unit value is adjusted each month and participating fund's investment balance is determined based on its number of units owned. Valuation of the underlying assets is performed by the custodian. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund.

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

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Debt Mutual Funds	$ 10,194,459	$ -	$ 11,916	$ 5,811,371	$ 4,371,172
Money Market Mutual Funds	336,841	336,841	-	-	-
Total Debt Securities	10,531,300	$ 336,841	$ 11,916	$ 5,811,371	$ 4,371,172
Other Securities					
UNC Investment Fund	4,819,382				
International Mutual Funds	15,103,791				
Equity Mutual Funds	32,905,027				
Hedge Funds	3,923,590				
Private Equity Limited Partnerships	3,699,344				
Other Limited Partnerships	3,699,737				
Domestic Stocks	275,875				
Total Long-Term Investment Pool	$ 74,958,046				

At June 30, 2021, investments in the Long-Term Investment Pool 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	$ 10,194,459	$ -	$ -	$ 8,788,411	$ 1,394,132	$ -	$ 11,916
Money Market Mutual Funds	336,841	336,841	-	-	-	-	-
Totals	$ 10,531,300	$ 336,841	$ -	$ 8,788,411	$ 1,394,132	$ -	$ 11,916

Rating Agency: Moody's and Standard and Poor's

At June 30, 2021, investments in the Long-Term Investment Pool were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
Domestic Stocks	$ 275,875

UNC Investment Fund, LLC - At June 30, 2021, the University's investments include $4,819,382, 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

	Amount	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 44,332	$ 44,332

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

	Amount	AAA Aaa
Money Market Mutual Funds	$ 44,332	$ 44,332

Rating Agency: Moody's and Standard and Poor's

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

		Amount
Investment Type		
Debt Securities		
Debt Mutual Funds	$	10,194,459
Money Market Mutual Funds		381,173
Other Securities		
UNC Investment Fund		4,819,382
International Mutual Funds		15,103,791
Equity Mutual Funds		32,905,027
Hedge Funds		3,923,590
Private Equity Limited Partnerships		3,699,344
Other Limited Partnerships		3,699,737
Domestic Stocks		275,875
Total Investments	$	75,002,378

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

		Amount
Investment Type		
Common Stock	$	20,000
Mutual Funds		138,630,698
Total Marketable Securities		138,650,698
Alternative Investments		49,078,726
Total Investments	$	187,729,424

NOTE 3 - FAIR VALUE MEASUREMENTS

University - 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 Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 10,194,459	$ 10,194,459	$ -	$ -
Money Market Mutual Funds	381,173	381,173	-	-
Total Debt Securities	10,575,632	10,575,632	-	-
Other Securities				
International Mutual Funds	15,103,791	15,103,791	-	-
Equity Mutual Funds	32,905,027	32,905,027	-	-
Domestic Stocks	275,875	275,875	-	-
Total Investments by Fair Value Level	58,860,325	$ 58,860,325	$ -	$ -
Investments Measured at the Net Asset Value (NAV)				
Hedge Funds	3,923,590			
Private Equity Limited Partnerships	3,699,344			
Other Limited Partnerships	3,699,737			
Total Investments Measured at the NAV	11,322,671			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	375,146,994			
UNC Investment Fund	4,819,382			
Total Investments as a Position in an External Investment Pool	379,966,376			
Total Investments Measured at Fair Value	$ 450,149,372			

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.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Funds[A]				
Lighthouse Diversified Fund	$ 3,923,590	$ -	Quarterly	90 days
Private Equity Limited Partnerships[B]				
FEG Private Opportunities I	347,290	25,750	Ineligible	N/A
FEG Private Opportunities II	574,422	22,500	Ineligible	N/A
FEG Private Opportunities III	1,356,703	144,000	Ineligible	N/A
FEG Private Opportunities IV	1,266,196	900,000	Ineligible	N/A
Northgate Private Equity Partners I	9,466	12,000	Ineligible	N/A
Twin Bridge Narrow Gate	145,267	1,867,492	Ineligible	N/A
Other Limited Partnerships[C]				
Champlain Investment Partners, LLC	3,159,795	-	Monthly	30 days
Falcon Private Credit Opportunities VI, LP	450,236	284,805	Ineligible	N/A
Siguler Guff Distressed Opportunities III	89,706	15,000	Ineligible	N/A
Total Investments Measured at the NAV	$ 11,322,671			

A. **Hedge Funds** - This type includes investments in two hedge funds that are in the fund-of-funds category. The funds invest in both long and short positions across a globally allocated pool of various types of assets. The hedge fund investments pursue a variety of strategies, including real estate, debt, equity, and other hedging strategies. Management of each hedge fund has the ability to use leverage in the funds and to shift investments from value to growth strategies, from small to large capitalization stocks and from net long positions to net short positions. The fair values of the investments in this type have been determined using the NAV per share of the investments. Restriction periods ranged from 30 to 90 days on these investments as of June 30, 2021.

B. **Private Equity Limited Partnerships -** This type includes investments in six private equity funds that are in the fund-of-funds category. The funds generally invest in long positions across a globally allocated pool of various types of assets. The private equity investments include funds whose focus is on buyouts, distressed debt, real assets, and various real estate purchases. Management of each fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, invest in a variety of debt structures, and participate in buyout opportunities across a wide variety of industries. The fair values of the investments in this type have been determined using the NAV per share of the investments. A limited amount of the underlying managers use leverage in their return strategy. These are closed period funds which do not permit redemptions for an extended period of time or until the underlying managers liquidate and disburse funds.

C. **Other Limited Partnerships -** This type includes investments in a private equity limited liability company and a private distressed debt fund. The private equity limited liability fund holds equity investments that include stocks of small and medium sized companies. The portfolio consists of 65 to 100 actively managed common stocks from the Russell 2000, S&P SmallCap 600, and S&P MidCap 400. The fund is open for redemption with a 30-day notice period. The private distressed debt fund includes an investment in one private equity fund that is in the fund-of-funds category. The fund includes equity investments in limited partnership funds in banking, hedge funds, commercial real estate, distressed debt, residential real estate, real property, and hospitality. This is a closed period fund which does not permit redemptions for an extended period of time or until the underlying managers liquidate and disburse funds.

Component Unit - Fair value as defined under GAAP is an exit price, representing 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. In determining fair value, the Foundation uses various valuation approaches within the FASB ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FASB ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. FASB ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. These valuation methodologies have not changed and are consistent with prior years.

Mutual funds listed on a national market or exchanges are valued at the last sales price. If there is no sale, and the market is considered still active, equity securities are valued at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy. Investments in real estate are valued based on independent appraisals and county tax records and are classified within Level 2 of the valuation hierarchy.

Investments in charitable remainder trusts and annuities are valued at the market price of the investments held and are classified as Level 2 of the valuation hierarchy. While the Foundation has access to a detailed listing of the underlying assets held in these trusts and annuities, the majority of which are publicly traded and readily available in active markets, the trusts themselves do not have daily quoted active market prices. Investments in these trusts and annuities are valued per share based on the market prices of the underlying assets.

Beneficial interest in charitable remainder trusts is valued at the market price of the investments and is classified as Level 3 of the valuation hierarchy. While the Foundation has access to a detailed listing of the underlying assets held in these trusts, the majority of which are publicly traded and readily available in active markets, the beneficial interests are determined through discounted cash flow analysis.

The fair value of the Foundation's charitable gift annuity obligations is based on the net present value of the anticipated benefit using the difference between the assets received and the original contribution. As beneficiary payments are made, the liability is adjusted based on an amortization schedule. The annuity obligations are included in Level 2 of the fair value hierarchy.

The fair value of liabilities under charitable remainder trusts is based on the net present value of the anticipated benefit payments from the trust for which the Foundation is both a beneficiary and trustee. As beneficiary payments are made, the life expectancy of the beneficiary decreases and discount rates fluctuate year to year, the Foundation adjusts the liability accordingly. The trust liabilities are included in Level 2 of the fair value hierarchy.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2021:

	Financial Assets (Liabilities) at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments in Mutual Funds	$ 138,630,698	$ -	$ -	$ 138,630,698
Investments in Common Stock	20,000	-	-	20,000
Investments in Real Estate	-	1,084,808	-	1,084,808
Investments in Private Equity Funds Measured at Net Asset Value [(a)]	-	-	-	10,104,459
Investments in Private Credit Funds Measured at Net Asset Value [(a)]	-	-	-	678,951
Investments in Private Distressed Debt Funds Measured at Net Asset Value [(a)]	-	-	-	269,120
Investments in Public Equity Strategies Funds Measured at Net Asset Value [(a)]	-	-	-	5,620,374
Investments in Hedge Funds Measured at Net Asset Value [(a)]	-	-	-	32,405,822
Total	$ 138,650,698	$ 1,084,808	$ -	$ 188,814,232
Investments in Charitable Remainder Trusts and Annuities	$ -	$ 702,425	$ -	$ 702,425
Beneficial Interest in Charitable Remainder Trusts	$ -	$ -	$ 5,822,565	$ 5,822,565
Liabilities Under Charitable Gift Annuities	$ -	$ (110,437)	$ -	$ (110,437)
Liabilities Under Charitable Remainder Trust	$ -	$ (206,707)	$ -	$ (206,707)

[(a)]In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Consolidated Statements of Financial Position.

There were no transfers among Level 1, Level 2, or Level 3 assets during the year ended June 30, 2021. When transfers occur, they are recognized at the end of the reporting period.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Foundation's Board of Directors assesses and approves these policies and procedures. At least annually, management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2021:

	Amount
Balance, Beginning of Year	$ 2,439,512
Distributions from Level 3	-
Additions to Level 3	-
Revaluation of Split Interest Agreements	3,383,053
Balance, End of Year	$ 5,822,565

Revaluation of split interest agreements applicable to instruments valued using significant unobservable inputs (Level 3) shown on the previous page are included in the change in net assets for 2021 in the Consolidated Statements of Activities.

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Foundation's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and ranges of values for those unobservable inputs.

	Significant Unobservable Inputs at June 30, 2021			
	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values
Beneficial Interests in Charitable		Discounted	Payout Rate	5-7%
Remainder Trusts	$ 5,822,565	Cash Flows	Discount Rate	2.4-5.5%

	Alternative Investments at June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently available)	Redemption Notice Period
Private Equity Funds:				
FEG Private Opportunities Fund	$ 2,083,741	$ 154,000	Ineligible	N/A
FEG Private Opportunities Fund II	3,446,532	135,000	Ineligible	N/A
FEG Private Opportunities Fund III	2,035,055	216,000	Ineligible	N/A
FEG Private Opportunities Fund IV	2,215,843	1,575,000	Ineligible	N/A
Northgate Private Equity Partners	32,755	48,000	Ineligible	N/A
Twin Bridge	290,534	3,734,984	Ineligible	N/A
Total Private Equity Funds	10,104,459	5,862,984		
Private Credit Fund:				
Falcon Private Opportunities VI	678,951	406,861	Ineligible	N/A
Private Distress Debt:				
Siguler Guff Distressed Opportunities	269,120	45,000	Ineligible	N/A
Public Equity Strategies:				
Champlain Small Cap Fund, LLC	5,560,374	-	Monthly	30 days
Hedge Funds:				
Lighthouse Diversified Fund Ltd	9,563,522	-	Quarterly	90 days
UNCM	22,842,300	-	Monthly	30 days
Total Hedge Funds	32,405,822	-		
Total Alternative Investments	$ 49,078,726	$ 6,314,845		

The Foundation invests in alternative investment vehicles as a hedge against broader market risks by further diversifying the portfolio holdings. Investments in both private equity and hedge funds are in the fund-of-funds category. The private equity investments include funds whose focus is on buyouts and distressed debt purchases. The hedge fund investments pursue a variety of strategies, including real estate, equity, and other hedging strategies.

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

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from eligible University endowment funds are based on an adopted spending policy which provides a distribution of 4% of the endowment fund's twelve month weighted average balance. The annual payout each fiscal year end is communicated to departments in the fall of the following fiscal year and posted to their expendable funds in the fall of the fiscal year following the communication. To the extent that the total return for the current year exceeds the payout and a 1.25% administrative fee, the excess is added to accumulated earnings unless donor restrictions require that it be added to the principal. If current year earnings do not meet the payout requirements, to the extent possible the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2021, endowment net position of $29,266,959 were available to be spent, all of which was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 4,265,403	$ 1,362,045	$ 2,903,358
Student Sponsors	475,950	-	475,950
Patients	71,334,952	37,575,786	33,759,166
Accounts	3,964,232	13,283	3,950,949
Intergovernmental	2,891,755	-	2,891,755
Grant Sponsors	5,990,442	-	5,990,442
Interest on Loans	627,057	-	627,057
Other	917,690	21,397	896,293
Total Current Receivables	$ 90,467,481	$ 38,972,511	$ 51,494,970
Noncurrent Receivables:			
Athletic Seat Rights	$ 7,811,105	$ -	$ 7,811,105
Patients	1,369,091	-	1,369,091
Total Noncurrent Receivables	$ 9,180,196	$ -	$ 9,180,196
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,441,783	$ 148,471	$ 1,293,312
Institutional Student Loan Programs	500	-	500
Total Notes Receivable - Current	$ 1,442,283	$ 148,471	$ 1,293,812
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 6,329,817	$ 524,385	$ 5,805,432

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	$ 51,961,215	$ 751,949	$ -	$ 52,713,164
Construction in Progress	43,418,581	49,852,685	8,291,101	84,980,165
Total Capital Assets, Nondepreciable	95,379,796	50,604,634	8,291,101	137,693,329
Capital Assets, Depreciable:				
Buildings	1,188,063,741	3,493,254	-	1,191,556,995
Machinery and Equipment	168,648,718	15,917,172	6,003,392	178,562,498
General Infrastructure	198,093,726	5,268,329	-	203,362,055
Computer Software	13,335,538	-	-	13,335,538
Total Capital Assets, Depreciable	1,568,141,723	24,678,755	6,003,392	1,586,817,086
Less Accumulated Depreciation/Amortization for:				
Buildings	304,014,707	19,059,546	-	323,074,253
Machinery and Equipment	98,369,682	11,967,425	4,754,150	105,582,957
General Infrastructure	38,141,796	5,032,292	-	43,174,088
Computer Software	8,606,325	679,430	-	9,285,755
Total Accumulated Depreciation/Amortization	449,132,510	36,738,693	4,754,150	481,117,053
Total Capital Assets, Depreciable, Net	1,119,009,213	(12,059,938)	1,249,242	1,105,700,033
Capital Assets, Net	$ 1,214,389,009	$ 38,544,696	$ 9,540,343	$ 1,243,393,362

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 5,261,810
Accounts Payable - Capital Assets	8,365,005
Accrued Payroll	19,238,685
Contract Retainage	4,168,274
Other	149,418
Total Current Accounts Payable and Accrued Liabilities	$ 37,183,192

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 356,890,000	$ 66,940,000	$ 76,455,000	$ 347,375,000	$ 13,200,000
Bonds from Direct Placements	20,125,000	-	1,150,000	18,975,000	2,200,000
Plus: Unamortized Premium	19,242,064	2,060,848	3,787,013	17,515,899	-
Less: Unamortized Discount	3,240,252	-	330,131	2,910,121	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	393,016,812	69,000,848	81,061,882	380,955,778	15,400,000
Notes from Direct Borrowings	2,616,937	-	919,598	1,697,339	956,719
Capital Leases Payable	1,344,823	-	274,395	1,070,428	258,973
Total Long-Term Debt	396,978,572	69,000,848	82,255,875	383,723,545	16,615,692
Employee Benefits					
Compensated Absences	30,682,955	16,539,715	16,300,010	30,922,660	4,127,814
Net Pension Liability	145,168,499	20,023,813	-	165,192,312	-
Net Other Postemployment Benefits Liability	770,846,234	-	97,676,290	673,169,944	-
Workers' Compensation	4,375,461	285,685	221,125	4,440,021	1,046,665
Total Other Long-Term Liabilities	951,073,149	36,849,213	114,197,425	873,724,937	5,174,479
Total Long-Term Liabilities, Net	$ 1,348,051,721	$ 105,850,061	$ 196,453,300	$ 1,257,448,482	$ 21,790,171

Additional information regarding capital leases payable is included in Note 9.
Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14.
Additional information regarding workers' compensation is included in Note 15.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021
Revenue Bonds Payable					
General Revenue Bonds Payable					
Refunding of 2004C College Hill Dormitory Construction	2013A	2.5-4.0	10/01/2033	$ 10,905,000	$ 10,905,000
Gateway East and West Housing Project	2014A	5.0	10/01/2023	53,685,000	3,755,000
West Facility Student Center	2015A	3.0-5.0	10/01/2044	29,955,000	26,930,000
Refunding of 2009A Bonds Dining Project Croatan	2015A	3.0-5.0	10/01/2029	5,164,922	4,586,157
Refunding of 2009A Bonds Scott Residence Hall	2015A	3.0-5.0	10/01/2034	24,248,294	22,229,472
Refunding of 2009A Softball Field Project	2015A	3.0-5.0	10/01/2034	3,946,784	3,614,371
Refunding of 2006A Bonds College Hill Dormitory	2015A	3.0-5.0	10/01/2033	2,930,000	2,380,000
Refunding of 2006A Ref Bonds 2001A Bonds (Jones and Galley)	2015B	3.0	10/01/2021	4,895,657	1,000,000
East Union Project	2016A	2.25-5.0	10/01/2045	102,730,000	95,130,000
Housing Projects (White, Clement, & Greene)	2016A	2.25-5.0	10/01/2045	37,190,000	34,285,000
Dowdy Ficklen Stadium Renovation	2018A	2.25-5.0	10/01/2047	51,685,000	50,635,000
Greene Residence Hall	2018A	2.25-5.0	10/01/2047	24,110,000	23,025,000
Refunding of 2010B Bonds Tyler Dorm Project (BAB)	2020	1.5-4.0	10/01/2030	6,121,043	6,121,043
Refunding of 2010B Bonds Olympic Sports Facility (BAB)	2020	1.5-4.0	10/01/2035	10,718,957	10,718,957
Refunding of 2014A Gateway East and West Housing Project	2021	0.15-3.0	10//01/2043	50,100,000	50,100,000
Total General Revenue Bonds				418,385,657	345,415,000
The University of North Carolina System Pool Revenue Bonds					
Refunding of 2004C College Hill Dormitory Construction	2010A	5.0	10/01/2021	4,370,000	960,000
Refunding of 2004C College Hill Dormitory Construction	2011A	4.0	05/01/2023	2,545,000	1,000,000
Total The University of North Carolina System Pool Revenue Bonds				6,915,000	1,960,000
Bonds from Direct Placements					
Refunding of 2010A Pool East End Zone Project	2017A	2.19	10/01/2029	12,490,000	11,095,000
Refunding of Gen Rev Ref 2012-2003 WE Dining	2017B	1.99	10/01/2023	3,330,217	3,262,035
Refunding of Gen Rev Ref 2012-2004C Coll Hill	2017B	1.99	10/01/2026	4,814,783	4,617,965
Total Bonds from Direct Placements				20,635,000	18,975,000
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$ 445,935,657	366,350,000
Plus: Unamortized Premium					17,515,899
Less: Unamortized Discount					2,910,121
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					$ 380,955,778

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
Energy Savings	Banc of America	1.84%	02/14/2023	$ 4,797,969	$ 1,325,613
Energy Savings	Banc of America	1.84%	02/14/2023	1,345,439	371,726
Total Notes from Direct Borrowings				$ 6,143,408	$ 1,697,339

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

	Annual Requirements											
	Revenue Bonds Payable				Bonds from Direct Placements				Notes from Direct Borrowings			
Fiscal Year		Principal		Interest		Principal		Interest		Principal		Interest
2022	$	13,200,000	$	11,706,930	$	2,200,000	$	376,818	$	956,719	$	24,716
2023		12,485,000		11,437,517		2,260,000		330,230		740,620		6,832
2024		11,980,000		10,901,215		3,350,000		272,156		-		-
2025		12,530,000		10,358,294		2,270,000		213,952		-		-
2026		13,060,000		9,814,312		2,400,000		165,066		-		-
2027-2031		72,065,000		41,403,580		6,495,000		248,445		-		-
2032-2036		73,065,000		29,103,644		-		-		-		-
2037-2041		64,060,000		18,903,677		-		-		-		-
2042-2046		66,725,000		7,287,365		-		-		-		-
2047-2048		8,205,000		289,713		-		-		-		-
Total Requirements	$	347,375,000	$	151,206,247	$	18,975,000	$	1,606,667	$	1,697,339	$	31,548

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

Revenue Bonds Payable and Bonds from Direct Placements - The University's outstanding revenue bonds of $347,375,000 and bonds from direct placements of $18,975,000 contain provisions that in an event of a failure to pay in full any payments when due, they become immediately due and payable.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty days.

Upon the occurrence of any event of default, the lender may, without any further demand or notice, declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately. The lender may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

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

On October 14, 2020, the University issued $16,840,000 in General Revenue Refunding Bonds, Series 2020 with an average interest rate of 2.96%. The bonds were issued for a current refunding of $18,605,000 of outstanding Taxable General Revenue Bonds (Build America Bonds) with an average interest rate of 5.76%. The refunding was undertaken to reduce total debt service payments by $3,565,524 over the next 15 years and resulted in an economic gain of $3,249,651.

On June 17, 2021, the University issued $50,100,000 in Taxable General Revenue Bonds, Series 2021 with an average interest rate of 2.64%. The bonds were issued to advance refund $44,730,000 of outstanding General Revenue Bonds, Series 2014A with an average interest rate of 4.66%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $7,713,390 over the next 23 years and resulted in an economic gain of $5,778,302. At June 30, 2021, the outstanding balance was $44,730,000 for the defeased General Revenue Bonds, Series 2014A.

NOTE 9 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2022	$ 308,896
2023	284,769
2024	226,203
2025	133,492
2026	133,492
2027-2031	133,492
Total Minimum Lease Payments	1,220,344
Amount Representing Interest (0-6.15% Rate of Interest)	149,916
Present Value of Future Lease Payments	$ 1,070,428

Machinery and equipment acquired under capital lease amounted to $2,456,268 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 $1,078,454 at June 30, 2021.

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

Fiscal Year	Amount
2022	$ 5,249,567
2023	3,518,214
2024	1,944,758
2025	649,191
2026	570,754
2027-2031	117,301
Total Minimum Lease Payments	$ 12,049,785

Rental expense for all operating leases during the year was $6,182,736.

NOTE 10 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (102,826,369)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(928,514,184)
Effect on Unrestricted Net Position	(1,031,340,553)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	253,397,294
Total Unrestricted Net Position	$ (777,943,259)

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

NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 228,605,773	$ 47,012,777	$ 799,030	$ -	$ 180,793,966
Patient Services, Net	$ 450,611,577	$ -	$ 11,988,988	$ 205,494,948	$ 233,127,641
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 11,055,718	$ 4,138,667	$ -	$ -	$ 6,917,051
Dining	12,398,835	2,730,659	-	-	9,668,176
Health, Physical Education, and Recreation Services	3,152,227	-	-	-	3,152,227
Bookstore	5,541,695	626,231	-	-	4,915,464
Parking	2,004,509	-	-	-	2,004,509
Athletic	11,203,447	-	-	-	11,203,447
Other	2,362,008	-	-	-	2,362,008
Sales and Services of Education and Related Activities	6,761,396	-	-	-	6,761,396
Total Sales and Services, Net	$ 54,479,835	$ 7,495,557	$ -	$ -	$ 46,984,278

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 232,855,232	$ 31,916,831	$ -	$ 70,679	$ -	$ 264,842,742
Research	22,733,252	19,359,950	-	-	-	42,093,202
Public Service	19,947,714	3,743,554	-	19,185	-	23,710,453
Academic Support	22,010,849	17,253,631	-	17,522	-	39,282,002
Student Services	11,433,376	1,365,132	-	-	-	12,798,508
Institutional Support	43,961,374	20,031,866	-	97,165	-	64,090,405
Operations and Maintenance of Plant	25,957,171	11,488,598	-	14,797,336	-	52,243,105
Student Financial Aid	-	-	54,831,839	-	-	54,831,839
Auxiliary Enterprises	192,540,117	81,055,436	-	396,203	-	273,991,756
Depreciation/Amortization	-	-	-	-	36,738,693	36,738,693
Total Operating Expenses	$ 571,439,085	$ 186,214,998	$ 54,831,839	$ 15,398,090	$ 36,738,693	$ 864,622,705

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 $7,691,491 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 11.

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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 $12,542,460, and the University's contributions were $30,896,261 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 $165,192,312 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 1.36726%, which was a decrease of 0.03304 from its proportion measured as of June 30, 2019, which was 1.40030%.

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:

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%.

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%)
$ 297,307,364	$ 165,192,312	$ 54,375,123

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 $48,082,528. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 9,102,985	$ -
Changes of Assumptions	5,597,904	-
Net Difference Between Projected and Actual Earnings on Plan Investments	18,268,576	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	407,948	1,907,731
Contributions Subsequent to the Measurement Date	30,896,261	-
Total	$ 64,273,674	$ 1,907,731

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	$ 11,089,848
2023	8,170,846
2024	6,766,622
2025	5,442,366
Total	$ 31,469,682

As of June 30, 2021, the University recognized a current payable of $2,631,400 due to the State Treasurer for TSERS employee and employer contributions.

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 $419,278,004, of which $210,236,997 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $12,614,220 and $14,380,211, respectively. The amount of expense recognized in the current year related to ORP is $13,149,601, which is equal to the employer contributions minus ORP forfeitures of $1,230,609.

As of June 30, 2021, the University recognized a current payable of $719,745 due to the State Treasurer for ORP employee and employer contributions.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2020 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2020 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

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

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

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

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

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The 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 $28,007,771 for the year ended June 30, 2021.

2. Disability Income

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

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were $377,350 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 $673,169,944 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 2.42664%, which was a decrease of 0.0097 from its proportion measured as of June 30, 2019, which was 2.43634%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of $1,221,364 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 2.48275%, which was a decrease of 0.02381 from its proportion measured as of June 30, 2019, which was 2.50656%.

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	$ 798,337,721	$ 673,169,944	$ 572,327,606
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (1,054,821)	$ (1,221,364)	$ (1,383,066)

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	$ 542,697,215	$ 673,169,944	$ 847,565,827
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	$ (1,223,375)	$ (1,221,364)	$ (1,219,601)

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

OPEB Plan	Amount
RHBF	$ (32,000,666)
DIPNC	911,033
Total OPEB Expense	$ (31,089,633)

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	$ 609,843	$ 884,778	$ 1,494,621
Changes of Assumptions	29,522,344	94,965	29,617,309
Net Difference Between Projected and Actual Earnings on Plan Investments	1,418,105	-	1,418,105
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	35,916,753	26,877	35,943,630
Contributions Subsequent to the Measurement Date	28,007,771	377,350	28,385,121
Total	$ 95,474,816	$ 1,383,970	$ 96,858,786

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 26,335,236	$ -	$ 26,335,236
Changes of Assumptions	273,182,992	96,182	273,279,174
Net Difference Between Projected and Actual Earnings on Plan Investments	-	206,912	206,912
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	51,300,828	41,364	51,342,192
Total	$ 350,819,056	$ 344,458	$ 351,163,514

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	$ (108,370,186)	$ 241,129
2023	(108,296,265)	158,056
2024	(29,128,637)	73,593
2025	(14,819,382)	127,368
2026	(22,737,541)	15,335
Thereafter	-	46,681
Total	$ (283,352,011)	$ 662,162

As of June 30, 2021, the University recognized a current payable for RHBF and DIPNC contributions due to the State Treasurer of $2,681,912 and $36,126, respectively.

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to 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 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain 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. The only exception to this would be certain properties scheduled for demolition, which are allowed to be covered for demolition and debris removal. 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. There is also an Excess Annual Aggregate Policy for an additional $5,000,000 through another private insurance company. The University pays these premiums, based on a composite rate, payable through the North Carolina Association of Insurance Agents.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of policies purchased include: professional liability, midwifery liability, medical malpractice, accident and health, athletic accident and travel, commercial crime and theft, surety bond, student internship liability, youth camps and programs accident, watercraft, oceanographic equipment, leased equipment, boiler and machinery, inland marine property, drones, cyber insurance, fine arts, musical instruments, international students, study abroad students, business travel, and policies as the need for additional coverage arises.

The University provides medical malpractice insurance for Brody School of Medicine faculty physicians and employed independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwives, and Physician Assistants) in accordance with N.C.G.S. sec. 116-219. The University (Brody School of Medicine) purchased this authorized coverage from private insurance companies through the North Carolina Department of Insurance and the Brody School of Medicine's broker: Hayor, Freyer, and Coon. Each faculty physician and allied health provider has coverage of $3,000,000 per occurrence with

$5,000,000 annual aggregate coverage. There is a shared blanket policy for all other employees of ECU Physicians with coverage of $3,000,000 and $5,000,000 annual aggregate. The primary layer of medical malpractice insurance includes a $200,000 deductible. The primary layer of medical malpractice insurance is provided by a private professional liability insurance company secured through the North Carolina Department of Insurance and the Brody School of Medicine's broker Hayor, Freyer, and Coon. There is also a shared, excess policy in the amount of $10,000,000 per occurrence and in aggregate.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $19,726,926 and on other purchases were $42,084,745 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.

NOTE 17 - 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), the U.S. Department of Education, Elementary and Secondary School 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	$ 2,160	$ 23,731,237	$ 1,012,934
Federal Aid - COVID-19:				
HEERF Funds	$ 103,061,871	$ 17,461,198	$ 30,472,262	$ -
ESSER Funds	50,934	-	1,754	-
GEER Funds	597,507	-	597,507	-
Total Federal Aid - COVID-19	N/A	$ 17,461,198	$ 31,071,523	$ -

(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 18 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., the East Carolina University Medical and Health Sciences Foundation, Inc., and the East Carolina University Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for amounts reported within the fiduciary statements and support from each organization to the University. This support approximated $12,775,565 for the year ended June 30, 2021. The University had receivables from and payables to the related parties of $192,834 and $3,056, respectively, as of June 30, 2021.

NOTE 19 - 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 20 - 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 $9,430,094 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.

REQUIRED SUPPLEMENTARY INFORMATION

East Carolina University
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
*Last Eight Fiscal Years**
Exhibit D-1

Teachers' and State Employees' Retirement System	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net Pension Liability	1.36726%	1.40030%	1.41399%	1.38227%
Proportionate Share of TSERS Collective Net Pension Liability	$ 165,192,312	$ 145,168,499	$ 140,778,103	$ 109,675,398
Covered Payroll	$ 220,372,744	$ 216,897,740	$ 207,352,661	$ 199,309,636
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	74.96%	66.93%	67.89%	55.03%
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	1.33500%	1.34568%	1.37251%	1.32460%
Proportionate Share of TSERS Collective Net Pension Liability	$ 122,700,291	$ 49,590,972	$ 16,091,595	$ 80,416,718
Covered Payroll	$ 193,108,255	$ 190,483,460	$ 191,033,860	$ 186,582,942
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	63.54%	26.03%	8.42%	43.10%
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.

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

Exhibit D-2

Teachers' and State Employees' Retirement System	**2021**	**2020**	**2019**	**2018**	**2017**
Contractually Required Contribution	$ 30,896,261	$ 28,582,345	$ 26,656,732	$ 22,352,617	$ 19,891,102
Contributions in Relation to the Contractually Determined Contribution	30,896,261	28,582,345	26,656,732	22,352,617	19,891,102
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 209,041,007	$ 220,372,744	$ 216,897,740	$ 207,352,661	$ 199,309,636
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	$ 17,669,405	$ 17,429,237	$ 16,600,842	$ 15,542,359	$ 13,443,661
Contributions in Relation to the Contractually Determined Contribution	17,669,405	17,429,237	16,600,842	15,542,359	13,443,661
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 193,108,255	$ 190,483,460	$ 191,033,860	$ 186,582,942	$ 180,694,365
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.

Changes of Benefit Terms:

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

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.20% to 7.00% for the December 31, 2017 valuation. For the December 31, 2019 valuation, the discount rate was 7.00%.

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

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

N/A - Not Applicable

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

Exhibit D-3

Retiree Health Benefit Fund	**2021**	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability	2.42664%	2.43634%	2.42398%	2.27894%	2.61367%
Proportionate Share of Collective Net OPEB Liability	$ 673,169,944	$ 770,846,234	$ 690,547,382	$ 747,188,074	$ 1,137,035,289
Covered Payroll	$ 437,186,008	$ 432,020,151	$ 415,110,052	$ 398,444,199	$ 384,271,288
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	153.98%	178.43%	166.35%	187.53%	295.89%
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	2.48275%	2.50656%	2.52753%	2.45914%	2.42370%
Proportionate Share of Collective Net OPEB Asset	$ 1,221,364	$ 1,081,581	$ 767,763	$ 1,503,026	$ 1,505,118
Covered Payroll	$ 437,186,008	$ 432,020,151	$ 415,110,052	$ 398,444,199	$ 384,271,288
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.28%	0.25%	0.18%	0.38%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	113.00%	108.47%	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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

Exhibit D-4

Retiree Health Benefit Fund	**2021**	**2020**	**2019**	**2018**	**2017**
Contractually Required Contribution	$ 28,007,771	$ 28,285,935	$ 27,087,663	$ 25,114,158	$ 23,149,608
Contributions in Relation to the Contractually Determined Contribution	28,007,771	28,285,935	27,087,663	25,114,158	23,149,608
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 419,278,004	$ 437,186,008	$ 432,020,151	$ 415,110,052	$ 398,444,199
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	$ 21,519,192	$ 20,768,826	$ 20,270,787	$ 19,231,505	$ 17,661,628
Contributions in Relation to the Contractually Determined Contribution	21,519,192	20,768,826	20,270,787	19,231,505	17,661,628
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 384,271,288	$ 378,302,835	$ 375,384,941	$ 362,858,587	$ 353,232,567
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	$ 377,350	$ 437,186	$ 604,828	$ 581,154	$ 1,514,088
Contributions in Relation to the Contractually Determined Contribution	377,350	437,186	604,828	581,154	1,514,088
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 419,278,004	$ 437,186,008	$ 432,020,151	$ 415,110,052	$ 398,444,199
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	$ 1,575,512	$ 1,551,042	$ 1,651,694	$ 1,596,578	$ 1,836,809
Contributions in Relation to the Contractually Determined Contribution	1,575,512	1,551,042	1,651,694	1,596,578	1,836,809
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 384,271,288	$ 378,302,835	$ 375,384,941	$ 362,858,587	$ 353,232,567
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.

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

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

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

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

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

For the actuarial valuation measured as of June 30, 2020, the discount rate for the RHBF was updated to 2.21%. In the prior year, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claim costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed December 2019.

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
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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
East Carolina University
Greenville, 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 East Carolina University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 2021. Our report includes a reference to other auditors who audited the financial statements of East Carolina University Foundation Inc. and Consolidated Affiliates, as described in our report on the University's financial statements. The financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with East Carolina University Foundation, Inc. and Consolidated Affiliates.

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 12, 2021

Ordering Information

Copies of this report may be obtained by contacting:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.auditor.nc.gov

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline:

Telephone:1-800-730-8477

Internet: http://www.auditor.nc.gov/pub42/Hotline.aspx

For additional information contact the

North Carolina Office of the State Auditor at:

919-807-7666

This audit required 905 hours at an approximate cost of $95,930.