State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

Appalachian State University

Boone, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2021

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

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood

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State Auditor

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TABLE OF CONTENTS

Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Appalachian State University, as of June 30, 2021, and the changes in financial position and 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 Appalachian State University Foundation, Inc., which represent 15.68 percent and 12.54 percent, respectively, of the assets and revenues of the University; nor the financial statements of Appalachian Student Housing Corporation, which represent 7.67 percent and 1.03 percent, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended June 30, 2021, Appalachian State University adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to this matter.

As discussed in Note 21 to the financial statements, during the year ended June 30, 2021, Appalachian Student Housing Corporation was blended with the financial statements of the University. Previously, Appalachian Student Housing Corporation was presented as a discretely presented component unit. Our opinion is 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 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

December 9, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Appalachian State University (University) presents the following management discussion and analysis as a comparative overview of significant changes that have occurred during the fiscal year ended June 30, 2021. The discussion and analysis, prepared by management, is to be read in combination with the financial statements and notes to the financial statements.

Financial information for Appalachian State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation) is blended with the University for reporting purposes. Blending means that financial information will be presented as if the Foundation and the Corporation are part of the University's operations. As a result, balances from the Foundation's and Corporation's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are included in the comparative statements for the purposes of management's discussion and analysis.

The statements and accompanying notes that follow the discussion and analysis are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for financial reporting for public colleges and universities. The statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to understanding the financial statements.

Financial Highlights

In fiscal year 2021, beginning net position has been restated by $21.6 million to incorporate Appalachian Student Housing Corporation (Corporation) into the University's financial statements. Updates to the Corporation's bylaws and terms obligating the University for the Corporation's debt changed the nature of the relationship between the two entities, resulting in a reporting change under the applicable accounting standards. In prior years, the Corporation was not included in management's discussion and analysis and financial information was presented discretely alongside the University's financial statements. More information about the blending of component units and restatement of the Corporation's financial information can be found in Notes 1A, 19, and 21 to the University's financial statements.

Total net position increased by $101.2 million for the fiscal year ended June 30, 2021. Increases in restricted expendable net position and unrestricted net position totaling $46.3 million and $30.0 million, respectively, make up most of the change over the prior year's restated balances. Strong investment returns for both the University and Foundation account for most increases in restricted expendable net position.

Changes to the University's pension and other postemployment benefits plan (OPEB) accounted for most of the increase in unrestricted net position. Additionally, despite a continued disruption to operations that began in March of 2020 related to the coronavirus pandemic, which caused a negative impact on the revenues for areas such as housing and residential life, dining services, and athletics, the University was able to maintain and, in some cases, increase fund balances. This was accomplished through the combination of cost reduction measures, continued strong state support in appropriations, and the receipt of state and federal assistance for investing in technology for online learning, COVID-19 testing and mitigation, and lost revenues.

During fiscal year 2021 the University invested in facilities for academics, athletics, and housing and residential life. The University completed the renovation to Sanford Hall, which houses the Department of English, and the North End Zone facility, a mixed-use facility that will be used for athletics and other University events. Two new residence halls, Thunder Hill Hall and Raven Rocks Hall, were available for occupancy by the fall of 2020.

Adoption of New Accounting Standards

Effective for fiscal year 2021 GASB issued Statement No. 84, *Fiduciary Activities*. This standard improves guidance on the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Activities meeting the criteria defined in the standard would be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position.

The University and its component units have performed an analytical review of funds that could potentially create fiduciary relationships and determined there are no funds meeting the criteria of a fiduciary activity that are required to be reported in separate fiduciary fund financial statements.

Statement of Net Position

The Condensed Statement of Net Position represents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period(s) (Deferred Outflows of Resources);
- What the University owes or has received before services have been provided (Liabilities);
- The acquisition of net position related to a future reporting period(s) (Deferred Inflows of Resources); and
- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is similar to a balance sheet and presents the University's financial position at a single point in time. Restated prior year balances have been included for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year 2021	Fiscal Year 2020 (as Restated)	$ Change	% Change
Assets				
Current Assets	$ 192,527,042	$ 183,102,455	$ 9,424,587	5.1
Capital Assets, Net	798,673,938	693,792,408	104,881,530	15.1
Other Noncurrent Assets	280,426,635	210,373,990	70,052,645	33.3
Total Assets	1,271,627,615	1,087,268,853	184,358,762	17.0
Deferred Outflows of Resources	88,887,298	94,737,597	(5,850,299)	(6.2)
Liabilities				
Current Liabilities	51,591,698	54,516,563	(2,924,865)	(5.4)
Long-Term Liabilities, Net	734,810,161	701,659,120	33,151,041	4.7
Other Noncurrent Liabilities	17,219,352	5,306,767	11,912,585	224.5
Total Liabilities	803,621,211	761,482,450	42,138,761	5.5
Deferred Inflows of Resources	179,485,334	144,317,434	35,167,900	24.4
Net Position				
Net Investment in Capital Assets	467,525,035	448,474,806	19,050,229	4.2
Restricted - Nonexpendable	95,332,490	89,519,281	5,813,209	6.5
Restricted - Expendable	137,331,341	91,027,979	46,303,362	50.9
Unrestricted	(322,780,498)	(352,815,500)	30,035,002	(8.5)
Total Net Position	$ 377,408,368	$ 276,206,566	$101,201,802	36.6

Total Assets

For the year ended June 30, 2021, total assets increased by $184.4 million. Increases in capital assets and other noncurrent assets account for most of the changes. The $104.9 million increase in capital assets is the result of the construction and acquisition of buildings totaling $121.6 million offset by decreases in balances for work in progress of $15.3 million. Additional details related to the acquisition and construction of capital assets can be found in the Capital Assets and Debt Administration section below.

Changes in other noncurrent assets, representing a $70.1 million increase, are primarily related to significant increases in investment balances from unrealized gains related to funds held in the UNC Investment Fund. Unrealized gains for the University totaled $12.0 million and the Foundation totaled $41.3 million.

Noncurrent restricted cash and cash equivalents also increased $18.5 million for the fiscal year 2021. The Corporation had a significant increase in cash of $55.1 million due to unspent proceeds from the issuance of a direct placement note to construct a residence hall. Also, the University had unspent proceeds of $6.1 million from the issuance of a bond from direct placement for New River Light and Power. These increases were offset by the University spending down bond proceeds for the construction and acquisition of buildings. The University spent $9.7 million on the renovation of Sanford Hall from Series 2019A General Revenue bonds, while $13.1 million was spent from Series 2018 Millennial Campus Revenue bonds on a North End Zone facility. Additionally, proceeds from Series 2016C General Revenue bonds were spent to acquire Raven Rocks residence hall from a private developer totaling $24.7 million.

Deferred Outflows of Resources

Deferred outflows decreased slightly over the prior year. Changes in balances related to the Retiree Health Benefit Fund (RHBF) totaled $7.7 million. This decrease was offset by changes related to the Teachers' and State Employees' Retirement System (TSERS), which totaled $2.9 million. Refer to Notes 14 and 15 for further details regarding deferred outflows of resources relating to pensions and OPEB, respectively.

Total Liabilities

The most significant change in total liabilities occurred in noncurrent long-term liabilities, net and other noncurrent liabilities totaling $33.2 and $11.9 million, respectively. The increase in noncurrent long-term liabilities, net is primarily due to the issuance of debt by the Corporation offset by a decrease in the University's proportionate share of the net OPEB liability. The difference in other noncurrent liabilities is related to the University's participation in a service concession arrangement to construct and operate housing facilities. The residence halls are constructed, owned, and operated by a private company. In a service concession arrangement, the University records an asset once the facility is completed and a liability for any services related to the facility that are required to be provided by the University under the agreement. Any remaining difference between the asset and liability is recorded as a deferred inflow. Upon completion of the housing facility, the University recognized a $13.1 million liability for contractual obligations to provide facility management, custodial, maintenance, security, and waste disposal services directly related to the residence hall. Of this amount, $12.8 million was recorded as noncurrent.

Deferred Inflows of Resources

During fiscal year 2021, deferred inflows increased by 24.4%. The largest portion of the $35.2 million change is related to the recognition of a deferred inflow related to the service concession arrangement for housing facilities totaling $30.2 million recorded during the year. Changes related to the University's share of the RHBF comprise most of the remaining increase totaling $4.6 million.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position.

Net investment in capital assets represents the University's investment in assets such as land, construction in progress, buildings, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, deferred inflows of resources under service concession arrangement, and other liabilities related to the construction or acquisition of capital assets. Net investment in capital assets increased $19.1 million due to additions to buildings offset by depreciation/amortization of capital assets and additional related liabilities for the capital assets.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal balance. Balances in restricted nonexpendable funds did not change significantly during fiscal year 2021.

As discussed in the Financial Highlights section, the most significant changes in net position occurred in restricted expendable funds and unrestricted funds.

Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs (either by legislation or other third-party restrictions), unexpended capital project funds, and grants from third-party agencies with expenditure restrictions. A $46.3 million increase in net position mostly related to a favorable market producing significant investment earnings in the UNC Investment fund was recognized by the University and Foundation.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University. Changes in the deferred outflows of resources, liabilities, and deferred inflows of resources for the University's proportionate share in the State's pension and OPEB plans accounted for majority of the changes in fiscal year 2021, totaling $18.5 million. The remaining increase is mostly related to $12.0 million increases in unrestricted fund balances as a result of spending restrictions initiated by the University in response to the coronavirus pandemic and the receipt of state and federal support for pandemic related expenses and lost revenues in dining, housing, and residence life services.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's revenues and expenses incurred throughout the fiscal year. The change in net position from year-to-year is an indicator of the financial condition of the institution.

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

	Fiscal Year 2021	Fiscal Year 2020 (as Restated)	$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	$ 130,660,907	$ 129,025,927	$ 1,634,980	1.3
Grants and Contracts	10,065,173	9,123,382	941,791	10.3
Sales and Services, Net	69,378,735	83,905,647	(14,526,912)	(17.3)
Other Operating Revenues	3,452,002	1,655,296	1,796,706	108.5
Total Operating Revenues	213,556,817	223,710,252	(10,153,435)	(4.5)
Salaries and Benefits	263,694,625	273,461,406	(9,766,781)	(3.6)
Supplies and Services	88,062,413	92,821,043	(4,758,630)	(5.1)
Scholarships and Fellowships	46,451,745	31,734,505	14,717,240	46.4
Utilities	9,866,142	8,841,734	1,024,408	11.6
Depreciation/Amortization	24,429,628	22,415,178	2,014,450	9.0
Total Operating Expenses	432,504,553	429,273,866	3,230,687	0.8
Operating Loss	(218,947,736)	(205,563,614)	(13,384,122)	6.5
Nonoperating Revenues (Expenses)				
State Appropriations	149,535,625	150,155,122	(619,497)	(0.4)
State Aid - Coronavirus	6,392,972	908,568	5,484,404	603.6
Student Financial Aid	41,956,841	39,875,016	2,081,825	5.2
Federal Aid - COVID-19	37,059,391	8,395,223	28,664,168	341.4
Noncapital Contributions, Net	27,939,192	20,529,958	7,409,234	36.1
Investment Income, Net	56,016,856	4,930,216	51,086,640	1,036.2
Interst and Fees on Debt	(10,772,488)	(10,322,541)	(449,947)	4.4
Other Nonoperating Revenues	407,976	43,473	364,503	838.5
Net Nonoperating Revenues	308,536,365	214,515,035	94,021,330	43.8
Income Before Other Revenues	89,588,629	8,951,421	80,637,208	900.8
Capital Appropriations	3,031,676	-	3,031,676	
Capital Contributions	3,512,046	2,326,395	1,185,651	51.0
Additions to Endowments	5,069,451	4,258,790	810,661	19.0
Total Other Revenues	11,613,173	6,585,185	5,027,988	76.4
Increase in Net Position	101,201,802	15,536,606	85,665,196	551.4
Net Position				
Net Position at Beginning of Year	276,206,566	260,669,960	15,536,606	6.0
Net Position at End of Year	$ 377,408,368	$ 276,206,566	$ 101,201,802	36.6
Reconciliation of Increase in Net Position				
Total Revenues	$ 544,478,843	$ 455,133,013	$ 89,345,830	19.6
Less: Total Expenses	443,277,041	439,596,407	3,680,634	0.8
Increase in Net Position	$ 101,201,802	$ 15,536,606	$ 85,665,196	551.4

Total Revenues

Total revenues increased by $89.3 million over the prior year. This increase is mostly related to the receipt of state and federal coronavirus relief funds and investment income. These changes were offset by a decline in operating revenue, related to sales and services.

Investment earnings accounted for the largest increase in total revenues equating to a $51.1 million difference from the prior year due to a favorable market resulting in significant earnings. Investments held by the University primarily provide scholarship support and income for endowed professorships. Spending of earnings is managed through the University and Foundation's investment and spending policies.

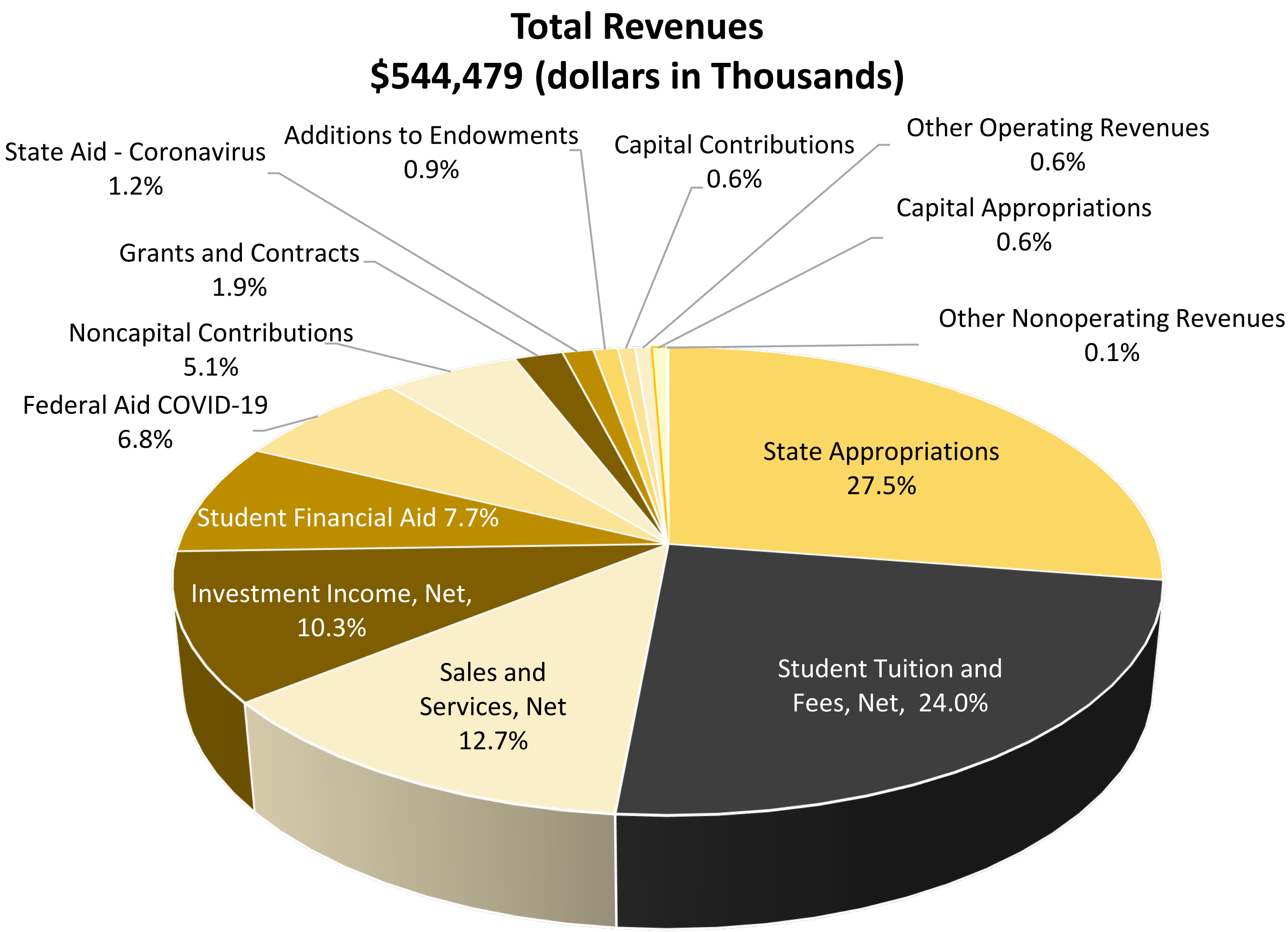
During fiscal year 2021, the University received $17.9 million in Higher Education Emergency Relief Funds (HEERF) from the federal government that was required to be disbursed as emergency aid for students affected by the coronavirus pandemic. Funds were made available under three different bills: $3.8 million from the Coronavirus, Aid Relief & Economic Security Act (CARES), $8.0 million from the Coronavirus Response & Relief Supplemental Appropriations Act (CRRSAA), and $6.1 million from the American Rescue Plan (ARP).

In addition to funds received for student awards, the University recognized $19.1 million in institutional awards that were eligible to be used to replace lost revenues, testing, and other risk mitigation measures. Of the institutional awards, $3.8 million from CARES was recognized as unearned revenue in the prior year was recorded, and the University received $15.3 million in institutional funds from CRRSAA.

Coronavirus relief funds totaling $6.4 million was also made available through state aid. These funds were primarily used to support efforts to transition to online learning and purchase personal protective equipment for faculty, staff, and students, in addition to testing services.

These increases in nonoperating revenues were offset by decreases in sales and services related to the auxiliary operations. Due to the disruption of services and other restrictions on large gatherings that were in place much of the year, auxiliary revenues of dining, residential living, athletics, and other auxiliaries dropped by $17.8 million. The most significant losses were related to athletics ticketing and other sales totaling $6.0 million, dining services sales totaling $5.5 million, housing and residence life revenues totaling $2.2 million, and a $4.1 million decrease in other auxiliary services mostly related to international programs, conferences, and camps.

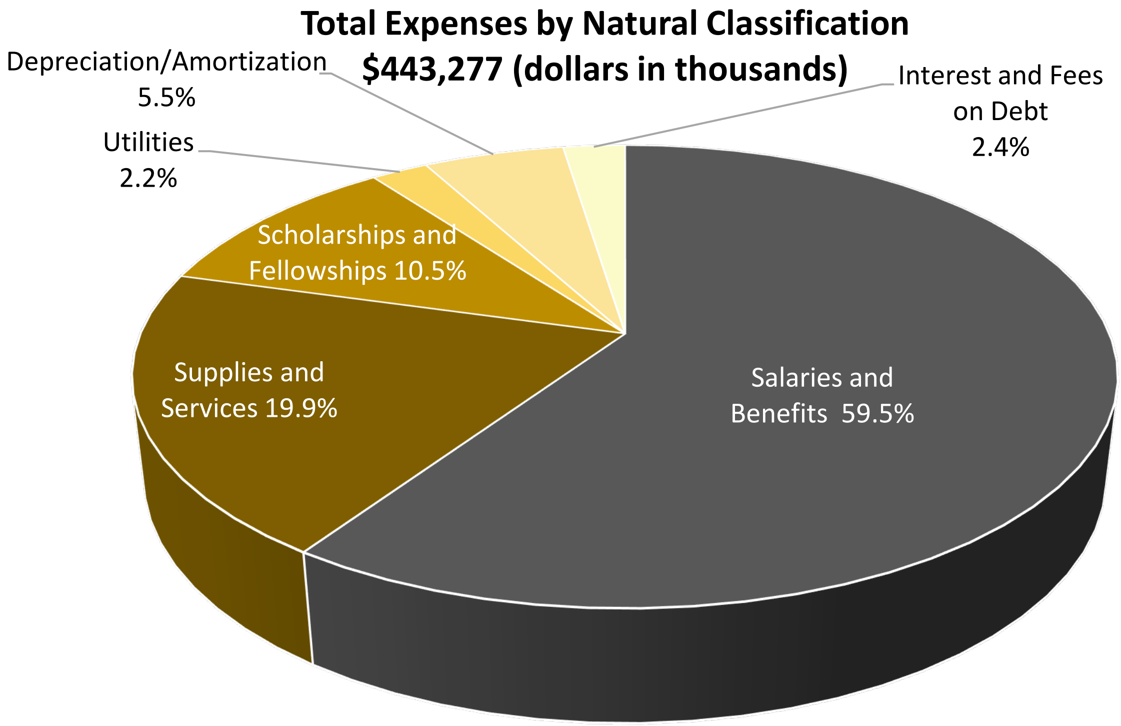
The chart below provides additional information regarding the University's revenue sources for fiscal year 2021.



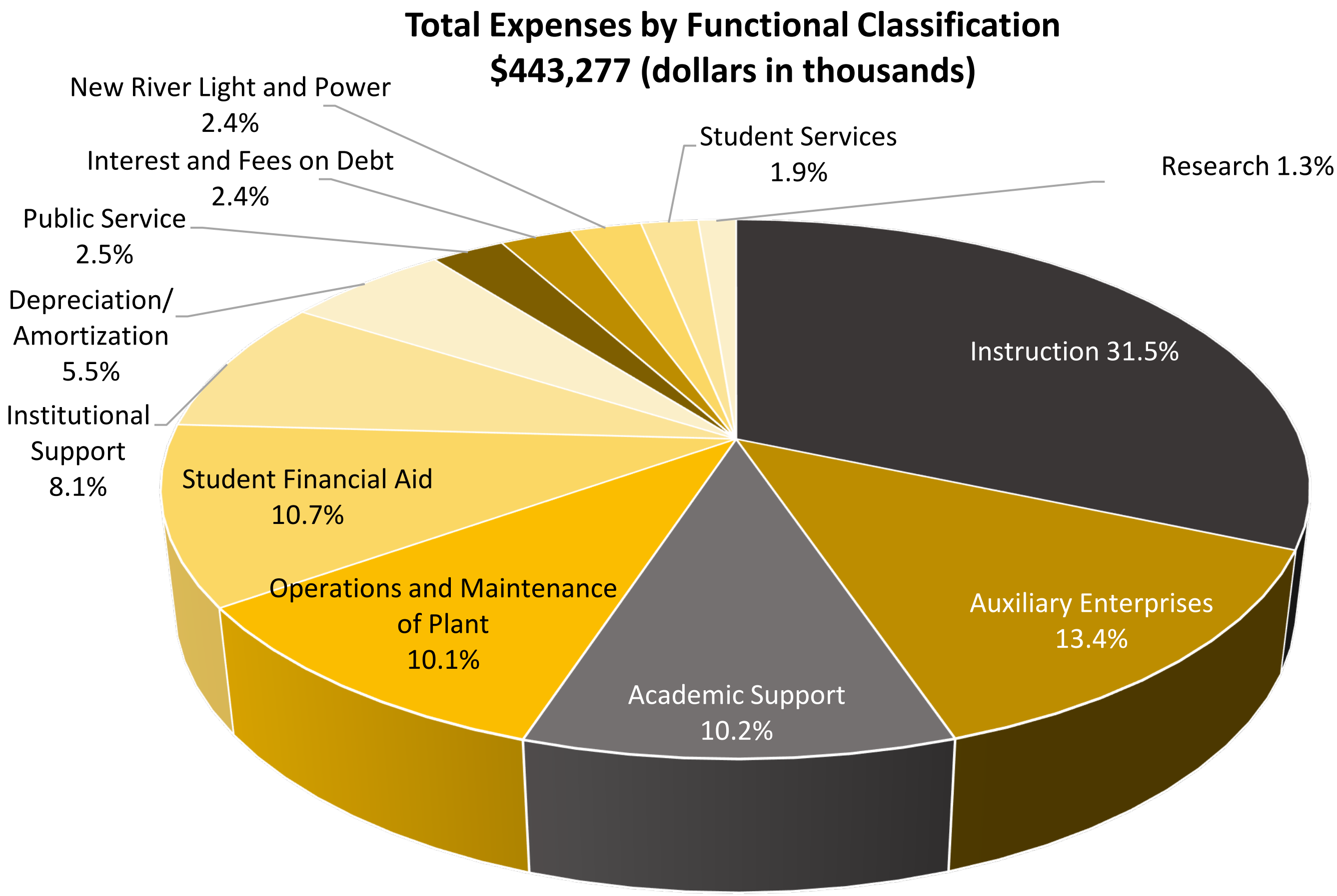
Total Expenses

Overall total expenses increased slightly by $3.7 million during fiscal year 2021. The most significant change is related to a $14.7 million increase in scholarships and fellowships expenses. This is mostly a result of student emergency grants related to the coronavirus pandemic funded by federal funds referenced in the total revenues discussion. Reductions in expenses for salaries and benefits due to changes in the University's OPEB plan totaling $9.8 million combined with reduced expenditures in supplies and services of $4.8 million offset the increases in scholarships and fellowships.

Expenses viewed by natural classification shows that overall salaries and benefits make up 59.5%. While this proportionate share of expenses is slightly down from 63.7% when compared to the prior year, due to the significant increase in scholarship expenses, it demonstrates how important the University's human resources are to fulfilling the mission of the institution.



The chart below shows the amount and percent of expenses by function for fiscal year 2021. The largest categories, making up 41.7% of expenses, are related to instruction and academic support followed by auxiliary services at 13.4%. When taking into consideration additional functions like student financial aid and student services, 67.7% of expenses are primarily utilized to support students with the remaining 32.3% providing indirect support through administration, and the operation and maintenance of facilities.



Capital Assets and Debt Administration

In fiscal year 2021, $71.5 million was moved from construction in progress to completed capital assets. Significant capitalized costs include $47.4 million for the North End Zone Facility, $16.9 million for the Sanford Hall renovation, $1.7 million for turf replacement at Kidd Brewer Stadium, and $1.6 million in additional expenses for Levine Hall. These decreases were offset by $35.4 million in costs added for projects completed or currently under construction. Two other buildings were acquired during the year. Raven Rocks Hall was acquired by the University using bond proceeds and cash reserves from Beyond Boone LLC, a private developer, for $27.4 million and Thunder Hill Hall was recorded as a right to use building under a service concession arrangement with Beyond Boone LLC for $44.1 million. Three residence halls were demolished to make way for a new residence hall and parking spaces. Gardner, Coltrain, and Justice Halls with a total book value of $814 thousand were disposed from the capital assets system. Depreciation and amortization expense recorded for the current year was $24.4 million.

Major capital projects currently underway or recently completed include:

- Track, Tennis, and Softball Relocation – This project, budgeted for $11.8 million, will be to construct a new track, formerly located at Kidd Brewer Stadium, on the property acquired from Watauga County in fiscal year 2018. In the future, softball and competition tennis facilities will also be relocated to this area. Planned tennis facilities include six indoor and six outdoor courts. The new softball facility will include seating for 100 to 150 spectators.
- New River Light & Power Warehouse renovation – This $750 thousand renovation will modernize 5,800 square feet of an existing warehouse with an emphasis on bringing the current facility up to current fire and safety codes.
- New River Light & Power Laydown Yard renovation – Improvements to the existing laydown yard budgeted for $490 thousand will address drainage issues and reconfiguration of a loading dock to address efficiency and storage issues.
- Child Development Center Expansion – The project is planned to add a 3,000 square foot addition to the current facility. This will allow the University to expand childcare services to an additional 40 to 50 children. The center currently serves the children of faculty, staff, and students. The project budget is $2.3 million.
- Appalachian Heights HVAC Upgrade and Dehumidification – Currently underway, the goals of this project are to repair and replace any failing equipment, piping, or controls in Appalachian Heights Residence Hall and to redesign the building's HVAC system to control building humidity. The project budget is $6.4 million and is funded by a contribution from the Appalachian Student Housing Corporation.
- Career Development Center Relocation – Construction for the relocation of the Career Development Center to the Plemmons Student Union has been completed and opened to students for the fall semester. This project budgeted for $2.0 million includes the renovation of space, furniture, and equipment creating a more accessible and convenient location for students and improves their career placement services.
- Sanford Hall – Construction on this project began in the summer of 2019. The project was a complete renovation of a 73 thousand square foot academic building. Project costs were budgeted at $18.0 million and were financed by Series 2019 General Revenue Bonds with debt service to be paid from student fees.
- Kidd Brewer Stadium, North End Zone facility – Construction on this 98 thousand square foot mixed use facility is complete. It will house various athletics programs and offices, catering services, and conference event space in addition to 1,000 premium seats. The facility budgeted for $50.0 million and was funded by proceeds from the sale of Series 2018 Millennial Campus Revenue bonds and private donations. The debt will be serviced by facility use charges to athletics, catering services, or other third parties that utilize the space.
- Raven Rocks Hall, with capacity to house 318 residents, was completed by a private entity and then subsequently purchased by the University. The University held bond proceeds from Series 2016C General Revenue bonds originally issued to replace Winkler residence hall.
- Thunder Hill Hall, constructed by Beyond Boone LLC, was completed for occupancy during the fiscal year and has the capacity to house 587 residents. This facility is part of a larger housing and parking project under a service concession arrangement

between Beyond Boone LLC and the University. The project replaces residence halls on the west side of campus and the construction of a parking deck with 475 spaces. The parking deck was completed in fiscal year 2020 and the University has a 10-year lease with an option to renew. Laurel Creek Hall, which will house 640 residents, is the final facility to be constructed under the agreement and is expected to be ready for occupancy in fiscal year 2022.

The facilities are financed by the private partner who receives housing receipts from students through the University to recover their investment, service the debt, and provide maintenance to the buildings. In exchange, the University will receive the use of housing facilities and any net revenues from the private entity.

- Replacement of Justice Hall – The replacement for Justice Residence Hall is currently underway and is financed through the Appalachian Student Housing Corporation (Corporation). It will result in the construction of a 683-bed residence hall and the addition of 300 surface parking spaces scheduled to be delivered for use and occupancy in the fall of 2022. The Corporation is a blended component unit of the University and construction in progress and a long-term liability associated with this project are included in the University's financial Statements.

In fiscal year 2021 the University issued direct placement bonds totaling $6.5 million in Utility System Revenue Bonds, Series 2020 for New River Light & Power at an interest rate of 1.73%. The term of the bonds is 20 years with a final maturity date of May 5th, 2040. The proceeds of the bonds are budgeted as follows:

- Substation replacement and transmission lines - $3.2 million
- Replacement of overhead lines with underground lines - $1.2 million
- Warehouse renovation - $700 thousand
- Parking lot improvements - $490 thousand
- Equipment and other facility improvements - $450 thousand
- Other capital improvements - $390 thousand
- Cost of issuance - $70 thousand

The University recognized additional debt through the Corporation as a blended component unit. The Corporation formed App Transformation LLC to issue a bank note for the construction of a residence hall on the main campus of the University to replace Justice Residence Hall. A total of $72.8 million was financed for the construction at a 2.08% interest rate for 10 years with a balloon payment due on December 1, 2030. The University pays the Corporation for use of the facility in amounts equal to the debt service owed by the LLC.

Economic Outlook

Reaching the 20 thousand student enrollment mark in Fall of 2020 represented a significant movement in history for the University and was accomplished despite the disruptions in operations caused by the coronavirus pandemic. Moving forward, the University looks to build upon the success of 2021 by continuing to focus on continued slow and steady enrollment growth with an emphasis of reaching first year, rural, and underrepresented students. By focusing on these populations now and maintaining the University's above average retention rates, leadership is positioning the University to remain competitive even as the projected number of new high school graduates level off in the upcoming years.

For the upcoming fiscal year, the University is planning on returning to pre-pandemic operations with safety measures in place to welcome students back to campus. As students return to campus and statewide restrictions on gatherings are being eased, the University does not anticipate lost revenues on the same scale that was experienced in fiscal years 2020 or 2021. Additionally, the University has $37.3 million in remaining authorization of funds awarded under the American Rescue Plan of which $15.2 million will be available for student emergency grants and $22.1 million for qualified institutional needs.

As a public institution the University's fiscal outlook is directly impacted by decisions at the State level as leaders evaluate the outlook for the economy in North Carolina. The outlook for the State was revised upward in the June general fund revenue forecast. Notable factors that have created a more favorable State budget outlook include large positive individual and corporate income tax collections received in April and May, large cash reserves built up by households that are anticipated to increase consumer spending, rising investment earnings and housing values are expected to result in higher household incomes, and higher than expected consumer spending combined with increased prices due to supply shortages are expected to increase business profits.[1]

The table below represents the most recent information regarding the projected University budget. A significant point is that despite the disruptions caused by the coronavirus pandemic, there are no planned reductions in appropriations. In fact, the University is anticipating the receipt of recurring funds for legislative approved salary increases totaling $5.2 million and $8.6 million in enrollment growth funding. All eligible employees will receive a 2.5% increase to their base salaries in fiscal year 2022 and 2023. In addition, eligible employees will receive a $1,000 bonus and others will receive an additional $500 bonus for those with a base salary less than $75 thousand per year.

The most significant impact of the State budget will be realized in capital appropriations for new projects and repairs and renovations. The University is expecting to receive $43.2 million in capital aid for repairs and renovations. The most significant improvements to facilities include the following:

- Duncan Hall Renovation - $20.0 million
- Wey Hall Renovation and Roof Repairs - $15.0 million
- Walker Hall Renovation and HVAC upgrades - $1.8 million
- Campus-Wide Electronic Door Access Installation - $1.5 million
- Smith Wright Hall Roof Repair - $1.0 million

In addition, the General Assembly approved capital funding for the Peacock Hall Renovation - $25.0 million over two years and $54.0 million in non-recurring funds for Appalachian's Innovation District Project. Examples of facilities planned for the district include a 15,000 square foot Conservatory for Biodiversity Education and Research, workspace for

[1] June 2021 Consensus General Fund Revenue Forecast. Office of State Budget & Management, General Assembly's Fiscal Research Division. Updated June 15, 2021. Accessed September 19, 2021. https://www.osbm.nc.gov/facts-figures/economy/revenue-forecasting.

multidisciplinary projects, research labs, conference rooms, and expanded exhibition space. The University is requesting additional funding in the short session.

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget	$ 150,541,341	$ 117,742,367	$ 268,283,708
FY22 Employee Benefit Adjustments	950,000	-	950,000
FY22 Legislative Salary Increase	4,250,000	-	4,250,000
UNC Enrollment Growth Allocation	8,560,685	-	8,560,685
Tuition Receipts Increase	-	2,000,000	2,000,000
Nonresident Veteran Tuition Waivers	650,647	(650,647)	-
Lab School Funding	383,750	3,200,615	3,584,365
Federal Work Study Match Allocation	105,000	-	105,000
UNC Campus Scholarship Funding	77,760	-	77,760
SBTDC Allocation (from NCSU)	72,135	-	72,135
UNC Teacher Recruitment Funding	67,386	-	67,386
UNC New Teacher Support Program	58,526	-	58,526
Other Appropriations/Receipts	(163,331)	1,250,000	1,086,669
Total Additions	15,012,558	5,799,968	20,812,526
Total Projected Budget	$ 165,553,899	$ 123,542,335	$ 289,096,234

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position — *Exhibit A-1*
June 30, 2021 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	119,843,698
Restricted Cash and Cash Equivalents		36,471,104
Receivables, Net (Note 5)		19,839,476
Inventories		12,539,691
Notes Receivable, Net (Note 5)		630,389
Other Assets		3,202,684
Total Current Assets		192,527,042
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		75,575,281
Receivables (Note 5)		13,332,372
Endowment Investments		152,978,741
Restricted Investments		23,045,244
Other Investments		11,250,700
Notes Receivable, Net (Note 5)		979,505
Beneficial Interest in Assets Held by Others		2,003,261
Net Other Postemployment Benefits Asset		532,589
Other Noncurrent Assets		728,942
Capital Assets - Nondepreciable (Note 6)		100,507,610
Capital Assets - Depreciable, Net (Note 6)		698,166,328
Total Noncurrent Assets		1,079,100,573
Total Assets		1,271,627,615
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		9,327,077
Deferred Outflows Related to Pensions		33,824,815
Deferred Outflows Related to Other Postemployment Benefits (Note 15)		45,735,406
Total Deferred Outflows of Resources		88,887,298
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 8)		14,051,941
Deposits Payable		232,122
Funds Held for Others		824,917
Unearned Revenue		15,345,697
U.S. Government Grants Refundable		20,195
Interest Payable		2,464,662
Long-Term Liabilities - Current Portion (Note 9)		18,652,164
Total Current Liabilities		51,591,698

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	12,808,129
Deposits Payable	222,175
Funds Held for Others	1,983,679
U.S. Government Grants Refundable	2,205,369
Long-Term Liabilities, Net (Note 9)	734,810,161
Total Noncurrent Liabilities	752,029,513
Total Liabilities	803,621,211
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Under Service Concession Arrangements (Note 7)	30,208,066
Deferred Inflows for Irrevocable Split-Interest Agreements	1,361,950
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	144,610,903
Deferred Inflows for Trusts Held by Others	3,304,415
Total Deferred Inflows of Resources	179,485,334
NET POSITION	
Net Investment in Capital Assets	467,525,035
Restricted:	
Nonexpendable:	
True Endowments	95,033,987
Student Loans and Other	298,503
Total Restricted-Nonexpendable Net Position	95,332,490
Expendable:	
Scholarships, Research, Instruction, and Other	124,585,279
Capital Projects	12,746,062
Total Restricted-Expendable Net Position	137,331,341
Unrestricted	(322,780,498)
Total Net Position	$ 377,408,368

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

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

Exhibit A-2

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 12)	$ 130,660,907
Federal Grants and Contracts	6,342,457
State and Local Grants and Contracts	3,135,370
Nongovernmental Grants and Contracts	587,346
Sales and Services, Net (Note 12)	69,378,735
Interest Earnings on Loans	53,567
Other Operating Revenues	3,398,435
Total Operating Revenues	213,556,817
OPERATING EXPENSES	
Salaries and Benefits	263,694,625
Supplies and Services	88,062,413
Scholarships and Fellowships	46,451,745
Utilities	9,866,142
Depreciation/Amortization	24,429,628
Total Operating Expenses	432,504,553
Operating Loss	(218,947,736)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	149,535,625
State Aid - Coronavirus	6,392,972
Student Financial Aid	41,956,841
Federal Aid - COVID-19	37,059,391
Noncapital Contributions	27,939,192
Investment Income (Net of Investment Expense of $624,425)	56,016,856
Interest and Fees on Debt	(10,772,488)
Other Nonoperating Revenues	407,976
Net Nonoperating Revenues	308,536,365
Income Before Other Revenues	89,588,629
Capital Appropriations	3,031,676
Capital Contributions	3,512,046
Additions to Endowments	5,069,451
Total Other Revenues	11,613,173
Increase in Net Position	101,201,802
NET POSITION	
Net Position - July 1, 2020, as Restated (Note 21)	276,206,566
Net Position - June 30, 2021	$ 377,408,368

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

Appalachian State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2021 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 214,932,548
Payments to Employees and Fringe Benefits	(278,006,379)
Payments to Vendors and Suppliers	(98,572,027)
Payments for Scholarships and Fellowships	(46,451,744)
Collection of Loans	485,248
Interest Earned on Loans	56,712
Student Deposits Received	6,908,321
Student Deposits Returned	(6,679,842)
William D. Ford Direct Lending Receipts	72,294,731
William D. Ford Direct Lending Disbursements	(73,328,733)
Related Activity Agency Receipts	5,464,311
Related Activity Agency Disbursements	(4,288,583)
Other Receipts	1,557,982
Net Cash Used by Operating Activities	(205,627,455)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	149,535,625
State Aid - Coronavirus	6,392,972
Student Financial Aid	41,956,841
Federal Aid - COVID-19	33,293,036
Noncapital Contributions	22,019,956
Additions to Endowments	5,069,451
Total Cash Provided by Noncapital Financing Activities	258,267,881
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	79,300,000
Capital Appropriations	3,031,676
Capital Contributions	3,323,958
Acquisition and Construction of Capital Assets	(90,838,996)
Principal Paid on Capital Debt	(16,499,031)
Interest and Fees Paid on Capital Debt	(10,888,108)
Net Cash Used by Capital Financing and Related Financing Activities	(32,570,501)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,694,441
Investment Income	1,030,629
Purchase of Investments and Related Fees	(2,835,374)
Net Cash Provided by Investing Activities	1,889,696
Net Increase in Cash and Cash Equivalents	21,959,621
Cash and Cash Equivalents - July 1, 2020, as Restated (Note 21)	209,930,462
Cash and Cash Equivalents - June 30, 2021	$ 231,890,083

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (218,947,736)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	24,429,628
Allowances, Write-Offs, and Amortizations	78,263
Other Nonoperating Expenses	(2,072,915)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(106,633)
Inventories	183,591
Other Assets	(1,220,304)
Notes Receivable, Net	485,248
Net Other Postemployment Benefits Asset	(69,374)
Deferred Outflows Related to Pensions	(2,875,840)
Deferred Outflows Related to Other Postemployment Benefits	7,870,729
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	363,591
Funds Held for Others	1,404,207
Unearned Revenue	4,652,981
Net Pension Liability	12,488,521
Net Other Postemployment Benefits Liability	(35,909,186)
Compensated Absences	(559,545)
Deposits Payable	38,831
Workers' Compensation Liability	71,561
Deferred Inflows Under Service Concession Arrangements	(449,233)
Deferred Inflows Related to Pensions	(139,795)
Deferred Inflows Related to Other Postemployment Benefits	4,655,955
Net Cash Used by Operating Activities	$ (205,627,455)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 4,256,019
Assets Acquired through a Gift	4,300
Assets Acquired through a Service Concession Arrangement	44,140,211
Change in Fair Value of Investments	53,313,195
Reinvested Distributions	(2,282,102)
Loss on Disposal of Capital Assets	(1,233,364)
Amortization of Bond Premiums	(1,006,349)
Increase in Receivables Related to Nonoperating/Other Revenues	3,514,234
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(4,932,066)
Payments Made on Behalf of the University	(234,591)
UNC Management Company Investment Management Fees	(624,348)

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

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

Blended Component Units - Although legally separate, Appalachain State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Foundation is governed by a 20-member board consisting of 7 ex officio directors and 13 elected public directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the University's Board of Trustees and the Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Corporation is governed by a board of directors consisting of no less than 3, and no more than 10 directors, of which three members are administrative officers of the University. The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. Because the majority of the Corporation's debt is expected to be paid using resources of the University, and the Corporation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the Vice Chancellor for University Advancement, Dougherty Administration

Building, 438 Academy Street, Boone, NC 28608, or by calling the Foundation Office at 828-262-2341.

Separate financial statements for the Corporation may be obtained from the Vice Chancellor for Student Affairs at Dougherty Administration Building, 438 Academy Street, Boone, NC 28608, or by calling the Office of Student Affairs at 828-262-2060.

Condensed combining information regarding blended component units is provided in Note 19.

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). Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* and GASB Statement No. 84, *Fiduciary Activities,* the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

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

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

Money market mutual funds that have a remining maturity at the time of purchase of one year or less and cash surrender value of life insurance 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. Additionally, endowment investments include accumulated investment earnings on Foundation principal amounts. Further, endowment investments also include amounts internally designated by the Foundation for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

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 computer software which is capitalized when the value or cost is $100,000 or greater and electric utility assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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.

There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be 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, and notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and bonds from direct placements are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred 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 on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

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

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

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:

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

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

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

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

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

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, motor pool, postal services, steam plant, electric utility, 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 $158,228,906, 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 $64,006. The carrying amount of the University's deposits not with the State Treasurer was $73,597,171, and the bank balance was $72,582,432. 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, $72,579,790 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

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

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

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

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

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

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

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

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

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. The University does not have a formal policy for custodial credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the percentage method. Under this method, each participating fund's investment balance is determined on percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board and the Foundation's Board of Trustees.

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

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 183,709,191
Alternative Income Fund	70,645
Private Equity Limited Partnerships	341,415
Total Long-Term Investment Pool	$ 184,121,251

UNC Investment Fund, LLC - At June 30, 2021, the University's investments include $183,709,191, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	More than 5
Investment Type				
Debt Securities				
Money Market Mutual Funds	$ 29,932	$ 29,932	$ -	$ -
Fixed Income Funds	470,558	35,334	41,302	393,922
Total Debt Securities	500,490	$ 65,266	$ 41,302	$ 393,922
Other Securities				
Equity Mutual Funds	1,408,933			
Investments in Real Estate	844,400			
Domestic Stocks	233,850			
Cash Surrender Value of Life Insurance	150,617			
Foreign Stocks (denominated in U.S. Dollars)	15,144			
Total Non-Pooled Investment Pool	$ 3,153,434			

At June 30, 2021, the University's non-pooled investments included $29,932 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm. Additionally, the University's non-pooled investments included $470,558 in fixed income funds for which Standard and Poor's credit quality rating distribution was between A and BBB.

At June 30, 2021, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 233,850
Foreign Stocks (denominated in U.S. Dollars)	15,144
Total	$ 248,994

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

	Amount
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 29,932
Fixed Income Funds	470,558
Other Securities	
UNC Investment Fund	183,709,191
Equity Mutual Funds	1,408,933
Alternative Income Funds	70,645
Investments in Real Estate	844,400
Private Equity Limited Partnerships	341,415
Domestic Stocks	233,850
Cash Surrender Value of Life Insurance	150,617
Foreign Stocks (denominated in U.S. Dollars)	15,144
Total Investments	$ 187,274,685

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and certain other assets and liabilities 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 or liabilities 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 or liability, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, and certain other assets and liabilities 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				
Money Market Mutual Funds	$ 29,932	$ 29,932	$ -	$ -
Fixed Income Funds	470,558	470,558	-	-
Total Debt Securities	500,490	500,490	-	-
Other Securities				
Equity Mutual Funds	1,408,933	1,408,933	-	-
Investments in Real Estate	844,400	-	-	844,400
Domestic Stocks	233,850	233,850	-	-
Foreign Stocks (denominated in U.S. Dollars)	15,144	15,144	-	-
Total Investments by Fair Value Level	3,002,817	$ 2,158,417	$ -	$ 844,400
Investments Measured at the Net Asset Value (NAV)				
Alternative Income Fund	70,645			
Private Equity Limited Partnerships	341,415			
Total Investments Measured at the NAV	412,060			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	158,228,906			
UNC Investment Fund	183,709,191			
Total Investments as a Position in an External Investment Pool	341,938,097			
Total Investments Measured at Fair Value	$ 345,352,974			
Other Assets or Liabilities Measured at Fair Value				
Beneficial Interest in Assets Held by Others	$ 2,003,261	$ -	$ -	$ 2,003,261
Pledge Receivable from Trusts	$ 1,828,320	$ -	$ -	$ 1,828,320
Split-Interest Obligations	$ (1,742,483)	$ -	$ -	$ (1,742,483)

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.

Investments in Real Estate - The Foundation holds interests in donated and acquired real estate with an estimated fair value of $844,400. These investments are classified in Level 3 of the fair value hierarchy. The amounts reported in the accompanying Statement of Net Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

Net Asset Value - 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	Other Redemption Restrictions	Redemption Notice Period
Alternative Income Fund[A]	$ 70,645	$ -	Not Applicable	Investor withdrawal requests on hold as fund is winding down.	Not applicable
Private Equity Limited Partnerships[B]	341,415	713,694	Quarterly	Initial lock-up after ten years	Written notice at least 45 days prior to redemption
Total Investments Measured at the NAV	$ 412,060				

A. **Alternative Income Fund** - Feeder fund invests in master fund. Originally offered as a multi-asset investment with an emphasis on capital preservation, investable universe included equipment, real estate, loans, asset-backed securities, and intangible assets such as royalty and intellectual property payments and insurance opportunities. In April 2015, the investment manager decided to commence wind down of the portfolio and return capital to all investors.

B. **Private Equity Limited Partnerships** - Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

Other Assets and Liabilities Measured at Fair Value

Beneficial Interests in Assets Held by Others - Beneficial interests in assets held by others classified in Level 3 of the fair value hierarchy are valued based on the fair value of the assets held in trust.

Pledge Receivable from Trusts - Pledge receivable from trusts classified in Level 3 of the fair value hierarchy are valued using the present value techniques based on IRS mortality tables and the value of the underlying securities as reported by the third-party trustees.

Split-Interest Agreement Obligations - Split-interest obligations classified in Level 3 of the fair value hierarchy are valued using the present value techniques based on the IRS mortality tables and the value of the split interest gifts.

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 the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the of the previous year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2021, net appreciation of $19,524,880 was available to be spent, which was classified in net position as restricted expendable.

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior three years through the fiscal year-end. In establishing this policy, the Foundation considered the long-term expected return on the endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The amounts of net appreciation on investments of donor restricted endowments that are available for authorization for expenditure by the Board of Directors was $59,395,614 at June 30, 2021. This amount is included in net position as restricted expendable in the accompanying Statement of Net Position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 4,165,870	$ 806,919	$ 3,358,951
Accounts	4,625,784	82,873	4,542,911
Intergovernmental	5,142,469	-	5,142,469
Pledges	7,755,454	1,102,131	6,653,323
Interest on Loans	36,579	-	36,579
Other	105,243	-	105,243
Total Current Receivables	$21,831,399	$ 1,991,923	$19,839,476
Noncurrent Receivables:			
Pledges	$13,332,372	$ -	$13,332,372
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 630,114	$ -	$ 630,114
Institutional Student Loan Programs	687	412	275
Total Notes Receivable - Current	$ 630,801	$ 412	$ 630,389
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 1,102,101	$ 122,596	$ 979,505

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 (as Restated)	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land	$ 67,526,348	$ -	$ -	$ 67,526,348
Art, Literature, and Artifacts	4,010,459	72,304	-	4,082,763
Construction in Progress	44,202,933	56,182,699	71,487,133	28,898,499
Total Capital Assets, Nondepreciable	115,739,740	56,255,003	71,487,133	100,507,610
Capital Assets, Depreciable:				
Buildings	773,282,695	140,650,093	2,939,734	910,993,054
Machinery and Equipment	60,103,447	3,162,851	2,237,935	61,028,363
General Infrastructure	87,891,305	1,963,708	47,110	89,807,903
Computer Software	1,019,139	-	100,523	918,616
Total Capital Assets, Depreciable	922,296,586	145,776,652	5,325,302	1,062,747,936
Less Accumulated Depreciation/Amortization for:				
Buildings	273,069,768	19,030,131	2,125,693	289,974,206
Machinery and Equipment	35,011,402	2,689,422	1,926,485	35,774,339
General Infrastructure	35,770,486	2,655,490	35,990	38,389,986
Computer Software	392,262	54,585	3,770	443,077
Total Accumulated Depreciation/Amortization	344,243,918	24,429,628	4,091,938	364,581,608
Total Capital Assets, Depreciable, Net	578,052,668	121,347,024	1,233,364	698,166,328
Capital Assets, Net	$ 693,792,408	$ 177,602,027	$ 72,720,497	$ 798,673,938

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR STUDENT HOUSING & PARKING DECK

The University entered a Service Concession Arrangement with Beyond Boone, LLC (Operator), the sole member of which is Beyond Owners Group, Inc., on February 13, 2019. The plan calls for the replacement and facility management for 1,485 beds of existing and 1,552 new beds of student housing. The University entered into this agreement to address the demand for updated on-campus housing, additional beds to meet on-campus housing demand, and to replace parking infrastructure that will be displaced by the construction of the residence halls.

The project, with an estimated total cost of $89.1 million, is located on the campus of the University on land leased to the Operator for 50 years. Upon final payment of all indebtedness owed under the agreement, the Operator will transfer all its interest in the facilities for no cost to the University. The University reports the housing components of the project as capital assets, liabilities, and related deferred inflows of resources as facilities are placed into service. Residence life programming will be managed by the University under the terms of the management agreement and operating agreement in conjunction with the ground lease and asset management agreement with the Operator.

All housing revenues generated by the residence halls during the terms of the agreement are transferred directly to the operator.

The project is being developed in two phases over three-and-a-half-years. Phase I of the project was completed in the fall of 2020 and resulted in the construction of Thunder Hill Hall (587-bed), Raven Rocks Hall, (318-bed), and a 475-space parking deck that replaced two existing residence halls with 674 beds and a surface parking lot. In February of 2021 the University exercised its right under the agreements to purchase Raven Rocks Hall for $27,414,599. This facility is no longer a part of the arrangement and has been capitalized as a depreciable asset by the University.

For the remaining residence hall, Thunder Hill, the University is required to provide certain services related to the facility under the agreement. These services include facility management, custodial and maintenance, security, and waste disposal. As a result, the University reports a liability, calculated at the present value of these services, over the term of the agreement. On June 30, 2021 the remaining liability totaled $13,137,197. The University also reports the facility as a capital asset with a carrying value of $43,559,419 at year end and a related deferred inflow of resources of $30,208,066 that is amortized using the straight-line method over the term of the agreement.

The use and operation of the parking deck facility is governed by a separate facility lease agreement. Under the terms of this agreement the University entered an operating lease for the facility from the operator for a 10-year term with an option to renew in 10-year increments. The University will operate the parking facility through its Parking and Transportation department. The facility lease will be accounted for separately from the service concession arrangement in accordance with GASB standards and rent payments are included in the operating lease note to the financial statements.

Phase II will result in the construction of a 640-bed residence hall and 230 surface parking spaces. The facilities are scheduled to be delivered for use and occupancy in fiscal year 2022.

NOTE 8 - 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	$	5,373,348
Accounts Payable - Capital Assets		3,628,515
Accrued Payroll		4,040,169
Contract Retainage		627,504
Intergovernmental Payables		36,689
Obligations Under a Service Concession Arrangement		345,716
Total Current Accounts Payable and Accrued Liabilities	$	14,051,941
Noncurrent Accounts Payable and Accrued Liabilities		
Obligations Under a Service Concession Arrangement	$	12,791,481
Other		16,648
Total Noncurrent Accounts Payable and Accrued Liabilities	$	12,808,129

NOTE 9 - LONG-TERM LIABILITIES

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 243,375,000	$ -	$ 11,045,000	$ 232,330,000	$ 10,790,000
Bonds from Direct Placements	14,926,000	6,500,000	3,076,000	18,350,000	3,132,000
Plus: Unamortized Premium	15,183,404	-	1,006,349	14,177,055	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	273,484,404	6,500,000	15,127,349	264,857,055	13,922,000
Notes from Direct Borrowings	31,507,679	72,800,000	3,177,012	101,130,667	1,827,024
Total Long-Term Debt	304,992,083	79,300,000	18,304,361	365,987,722	15,749,024
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	17,186,567	11,185,643	11,745,189	16,627,021	2,687,244
Net Pension Liability	69,829,749	12,488,521	-	82,318,270	-
Net Other Postemployment Benefits Liability	328,761,498	-	40,841,252	287,920,246	-
Workers' Compensation	537,505	441,291	369,730	609,066	215,896
Total Other Long-Term Liabilities	416,315,319	24,115,455	52,956,171	387,474,603	2,903,140
Total Long-Term Liabilities, Net	$ 721,307,402	$103,415,455	$ 71,260,532	$ 753,462,325	$ 18,652,164

Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.
Additional information regarding workers' compensation is included in Note 16.

B. Revenue Bonds Payable 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	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021	See Table Below
Revenue Bonds Payable						
Millennial Campus						
Millennial Campus Revenue Bonds - End Zone Facility	2018	4.14%	05/01/2049	$ 39,865,000	$ 39,090,000	(1)
ASU General Revenue Bonds						
ASU General Revenue Bonds - Housing, Student Union, Steam Utility System	2011	4.07%	10/01/2021	60,435,000	2,015,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	17,655,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	17,975,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	7,590,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	16,175,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000	21,550,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	2,570,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000	25,410,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000	10,390,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics, Student Union, and Steam Plant Utility System	2017A	2.82%	10/01/2036	56,390,000	55,950,000	
ASU General Revenue Bonds - Academic Building	2019	3.16%	10/01/2048	16,640,000	15,960,000	
Total ASU General Revenue Bonds				285,080,000	193,240,000	
Bonds from Direct Placements						
ASU Utility System Revenue Bonds - Utility System	2011	3.14%	12/20/2021	2,700,000	135,000	(2)
ASU Utility System Revenue Bonds - Utility System	2016	2.33%	05/05/2026	3,650,000	1,825,000	(2)
ASU General Revenue Refunding Bonds - Steam Utility System	2018A	2.99%	10/01/2023	9,270,000	5,720,000	
Millennial Campus Revenue Bonds - Athletic Turf Field	2020	1.68%	05/01/2030	2,552,000	2,315,000	
ASU General Revenue Refunding Bonds - Housing, Bookstore, Athletics	2020	1.56%	10/01/2025	2,259,000	1,855,000	
ASU Utility System Revenue Bonds - Utility System	2020	1.73%	05/05/2040	6,500,000	6,500,000	(2)
Total Bonds from Direct Placements				26,931,000	18,350,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$351,876,000	250,680,000	
Plus: Unamortized Premium					14,177,055	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					$ 264,857,055	

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and bonds from direct placements as shown in the table below:

			For the Year Ended June 30, 2021			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	University Charges to Athletics and Auxiliaries	$ 73,688,150	$ 2,473,617	$ 775,000	$ 1,755,250	100%
(2)	Electric Utilities	$ 9,780,212	$ 5,989,474	$ 635,000	$ 104,859	23%

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 Project	Sun Trust Bank	2.27%	04/29/2022	$ 5,263,401	$ 489,278
Energy Savings Project	T. D. Bank	1.98%	07/01/2027	16,499,917	8,670,953
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Group	1.84%	02/14/2023	1,495,951	413,311
Former Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000	15,475,000
Renovation of Schaefer Center	First Citizens Bank	4.10%	01/15/2027	5,362,147	2,386,618
Video Boards	Truist (BB&T)	2.76%	09/01/2022	3,582,027	895,507
Student Housing	PNC Bank	2.08%	04/01/2028	72,800,000	72,800,000
Total Notes from Direct Borrowings				$ 120,478,443	$ 101,130,667

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	$ 10,790,000	$ 8,951,656	$ 3,132,000	$ 361,347	$ 1,827,024	$ 1,813,361
2023	11,385,000	8,469,881	3,237,000	282,977	4,745,830	1,736,528
2024	12,005,000	7,934,731	3,307,000	204,104	4,487,062	1,651,143
2025	12,650,000	7,364,972	1,363,000	150,309	4,589,379	1,565,914
2026	13,570,000	6,775,631	1,114,000	125,503	4,693,783	1,477,946
2027-2031	60,410,000	26,178,616	2,762,000	429,607	72,512,589	2,367,307
2032-2036	48,115,000	16,002,813	1,840,000	230,130	4,000,000	-
2037-2041	24,405,000	9,799,200	1,595,000	63,607	4,275,000	-
2042-2046	24,455,000	5,550,759	-	-	-	-
2047-2049	14,545,000	1,008,725	-	-	-	-
Total Requirements	$ 232,330,000	$ 98,036,984	$ 18,350,000	$ 1,847,584	$ 101,130,667	$ 10,612,199

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

Revenue Bonds Payable - The University has outstanding General Revenue bonds totaling $193,240,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Millennial Campus Revenue bonds totaling $39,090,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for Revenue Bonds, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to immediately due and payable.

Bonds from Direct Placements - The University has outstanding direct placements for Series 2011 Utility System Bonds totaling $135,000, Series 2016 Utility System Bonds totaling $1,825,000 and Series 2020 Utility System Bonds totaling $6,500,000. These bonds are subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011. An event of default occurs when there is a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

For the 2016 and the 2020 Utility System Bonds, the Second and Third Series Indenture defines additional events of default as (1) any petition or action for relief under any bankruptcy, reorganization, insolvency, or other laws and such petition results in an entry of an order of relief or continues as pending for a period of 60 days, (2) one or more judgements, orders, decrees, or arbitration awards is entered against the University as a result of ownership, control, or operation of any portion of the project funded by the note as to any single or series of transactions, incidents, or conditions of $1,000,000 or more that remain unsatisfied pending appeal for 60 days after entry (3) any representation or warranty made or deemed to be made by the University that proves to be untrue or incomplete in any material respect, or (4) any material provision of the General Indenture or Second Series Indenture ceases to be binding on the University, or is declared null and void, or the validity is contested by the University, or if any proceeding is undertaken by any governmental agency or authority with jurisdiction over the University seeks to invalidate the enforceability of the indentures, or if the University denies that it has further obligation under the Second Series Indenture or on the 2016 Bonds.

The University has outstanding direct placements for Series 2018A General Revenue Refunding Bonds totaling $5,720,000, Series 2020 Millennial Campus Revenue Bonds of $2,315,000, and Series 2020 Revenue Refunding Bonds of $1,855,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. An event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for direct placements, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be 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 direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase I dated September 29, 2009 with an outstanding amount of $489,278. This agreement 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 within 10 days following the due date, (2) insurance coverage on the asset is not maintained, (3) the University fails to perform or abide by any condition, agreement or covenant for a period of thirty days of receiving written notice by the lender to the University specifying such failure and requesting that it be remedied, unless the University shall agree in writing to an extension of time prior to its expiration, (4) Lender's determination that any representation or made by warranty made by the University in the Agreement was untrue in any material respect upon execution of the Agreement or any Equipment Schedule, (5) the occurrence of an event of taxability, or (6) the filing of a petition in bankruptcy by or against the University, or failure by the University promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the University to carry on its governmental functions or assignments by the University for the benefit of its creditors, or the entry by the University into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of any adjustment of indebtedness of the University, or the dissolution or liquidation of the University.

Upon the occurrence of any event of default related to the Phase I agreement, 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.

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase II dated June 6, 2013 with an outstanding amount of $8,670,953. This agreement 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 within 30 days following the due date, (2) any representation or Warranty furnished by the University in the Agreement proves to be false or misleading in any material respect when made, or (3) any other material failure by the

University to perform or comply with the terms and conditions of the Agreement, unless corrected within 30 days after written notice to the University.

Upon the occurrence of any event of default related to the Phase II agreement, each party agrees to exercise good faith efforts to resolve the matter fairly, amicably and in a timely manner. The parties shall consider litigation as a last resort, to be employed only when alternative dispute resolution procedures fail.

The carrying value of the energy savings improvement assets associated with the agreements for both Phase I and Phase II of the Energy Savings and Performance Contracting is $13,437,700 and is subject to security provisions in the agreements to ensure timely debt service payments.

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, with an outstanding amount of $413,311. The carrying value of the energy savings improvement assets associated with the agreement is $289,592 and is subject to security provisions in the agreement to ensure timely debt service payments. 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.

The University has outstanding notes from direct borrowings of $15,475,000 through a long-term note agreement with Watauga County dated September 28, 2017. The University has pledged a land asset with a book value of $18,390,209, which is subject to security provisions in the agreement to ensure timely debt service payments. This agreement contains provisions related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 15 days from the due date, or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to maker.

Upon the occurrence of any default, the County may without further notice, declare the remainder of the principal sum, together with all the interest accrued due and payable. The unpaid principal, accrued interest, and all other sums due under the note will be subject interest at the rate of 5% per annum after default until paid.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2021, was $2,386,618. The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Foundation entered into a loan agreement with a financial institution on February 8, 2017, to finance a video boards project. The Foundation assigned donor pledges for the project to the bank as collateral for the loan. The outstanding balance as of June 30, 2021, was $895,507. The loan is payable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%.

The Appalachian Student Housing Corporation (Corporation) entered into a loan agreement with a financial institution on December 18, 2020, to finance the construction of New River Residence Hall and associated site improvements. The Corporation assigned to the bank, right, title and interest in lease and use agreements established between the University and the Corporation, and upon default, the Base Rentals, which includes all rental revenue from the facility, and payments received or receivable by the Corporation under these agreements, and a continuing security interest in the Base Rentals, as well as the lease and use agreements after the commencement of any proceeding under the Bankruptcy Code involving the Corporation. The bank has the right, power and authority to: (1) settle, compromise, release, extend the time of payment of, and make allowances, adjustments and discounts of any Base Rentals or other obligations; (2) enforce payment of Base Rentals; (3) enter on, take possession of and operate the residence hall if a default occurs; and, (4) perform any and all obligations of the Corporation. The outstanding balance as of June 30, 2021, was $72,800,000. The note is payable in semi-annual installments of principal due and quarterly installments of interest due each year with all remaining principal and interest due April 1, 2028. The loan carries an interest rate of 2.08%.

F. **Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2021, the outstanding balance of prior year defeased bonds was $44,864,000.

NOTE 10 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment, office space, a parking deck, and other facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

Fiscal Year	Amount
2022	$ 2,301,535
2023	1,970,332
2024	1,554,491
2025	1,411,068
2026	1,289,135
2027-2031	3,132,240
Total Minimum Lease Payments	$ 11,658,801

Rental expense for all operating leases during the year was $2,801,065.

NOTE 11 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (48,493,455)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(387,239,749)
Effect on Unrestricted Net Position	(435,733,204)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	112,952,706
Total Unrestricted Net Position	$ (322,780,498)

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$164,760,974	$ 33,656,047	$ 444,020	$130,660,907
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 26,041,365	$ 4,744,071	$ 13,892	$ 21,283,402
Dining	10,446,698	2,483,009	25,883	7,937,806
Student Union Services	13,677	-	-	13,677
Health, Physical Education, and Recreation Services	1,036,096	13,403	133,016	889,677
Bookstore	11,024,633	1,173,184	25,153	9,826,296
Parking	5,229,271	325,471	3,584	4,900,216
Athletic	5,711,166	-	-	5,711,166
Other	1,508,136	177,462	-	1,330,674
Sales and Services of Education and Related Activities	2,750,013	146,224	259,232	2,344,557
New River Light and Power	15,189,661	-	48,397	15,141,264
Total Sales and Services, Net	$ 78,950,716	$ 9,062,824	$ 509,157	$ 69,378,735

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 127,703,478	$ 11,819,760	$ 19,356	$ -	$ -	$ 139,542,594
Research	3,730,306	1,904,271	7,235	-	-	5,641,812
Public Service	4,613,685	5,882,470	480,363	2,313	-	10,978,831
Academic Support	32,355,123	12,234,800	568,569	3,261	-	45,161,753
Student Services	7,927,098	578,676	-	-	-	8,505,774
Institutional Support	25,543,406	10,448,365	-	1,777	-	35,993,548
Operations and Maintenance of Plant	17,292,382	23,372,631	-	4,255,960	-	44,920,973
Student Financial Aid	341,493	69,941	41,560,155	-	-	41,971,589
Auxiliary Enterprises	41,731,166	13,654,494	3,816,067	5,602,831	-	64,804,558
New River Light and Power	2,456,488	8,097,005	-	-	-	10,553,493
Depreciation/Amortization	-	-	-	-	24,429,628	24,429,628
Total Operating Expenses	$ 263,694,625	$ 88,062,413	$ 46,451,745	$ 9,866,142	$ 24,429,628	$ 432,504,553

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 $17,874,908 provided by the Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid – COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 12.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were $6,346,998, and the University's contributions were $15,634,771 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 $82,318,270 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 0.68133%, which was an increase of 0.00775 from its proportion measured as of June 30, 2019, which was 0.67358%.

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%)
$ 148,153,553	$ 82,318,270	$ 27,096,092

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 $26,086,059. 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	$ 4,536,179	$ -
Changes of Assumptions	2,789,535	-
Net Difference Between Projected and Actual Earnings on Plan Investments	9,103,557	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,760,773	-
Contributions Subsequent to the Measurement Date	15,634,771	-
Total	$ 33,824,815	$ -

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	$ 6,576,396
2023	5,182,263
2024	3,719,359
2025	2,712,026
Total	$ 18,190,044

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 $212,083,680, of which $87,066,747 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,224,005 and $5,955,365, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The amount of plan forfeitures reflected in pension expense was $707,137.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2021 was 6.68% of covered payroll. The University's contributions to the RHBF were $12,882,383 for the year ended June 30, 2021.

2. Disability Income

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

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were $173,565 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 $287,920,246 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 1.03789%, which was a decrease of 0.00120 from its proportion measured as of June 30, 2019, which was 1.03909%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of $532,589 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 1.08263%, which was an increase of 0.00913 from its proportion measured as of June 30, 2019, which was 1.07350%.

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	$ 341,454,331	$ 287,920,246	$ 244,788,308
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (459,966)	$ (532,589)	$ (603,101)

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	$ 232,115,193	$ 287,920,246	$ 362,509,518
	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	$ (533,466)	$ (532,589)	$ (531,820)

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

OPEB Plan	Amount
RHBF	$ (10,809,232)
DIPNC	396,842
Total OPEB Expense	$ (10,412,390)

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	$ 260,835	$ 385,817	$ 646,652
Changes of Assumptions	12,626,946	41,411	12,668,357
Net Difference Between Projected and Actual Earnings on Plan Investments	606,535	-	606,535
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	18,751,919	5,995	18,757,914
Contributions Subsequent to the Measurement Date	12,882,383	173,565	13,055,948
Total	$ 45,128,618	$ 606,788	$ 45,735,406

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 11,263,794	$ -	$ 11,263,794
Changes of Assumptions	116,842,582	41,941	116,884,523
Net Difference Between Projected and Actual Earnings on Plan Investments	-	90,226	90,226
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	16,341,745	30,615	16,372,360
Total	$ 144,448,121	$ 162,782	$ 144,610,903

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	$ (43,473,097)	$ 105,358
2023	(43,441,481)	69,133
2024	(11,695,755)	32,302
2025	(4,140,564)	55,750
2026	(9,450,989)	890
Thereafter	-	7,008
Total	$ (112,201,886)	$ 270,441

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the

State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchased flood insurance for some buildings and contents and all risk coverage on all state-owned buildings and contents through the Fund. Losses are subject to a $100,000 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 $10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

3. **Employee Dishonesty and Computer Fraud**

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

4. **Statewide Workers' Compensation Program**

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

   Additional details on the state-administered risk management programs are disclosed in the State's *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. These coverages provide insurance for participants in international educational and study abroad programs, participants in the University camp programs, boiler and machinery, drone liability, business travel, fine art coverage, student blanket professional liability, business travel insurance, professional liability for specific athletic trainers, athletic accident insurance, medical malpractice coverage, volunteer liability policy, inland marine policy for equipment as needed, a leased computerized business equipment policy, cyber insurance, and excess liability on certain policies.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $53,634,226 and on other purchases were $7,242,205 at June 30, 2021.

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

C. **Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Harry M. Davis Distinguished Professorship in Banking	$ 334,000

NOTE 18 - THE CORONAVIRUS PANDEMIC EMERGENCY

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

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

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

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

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

Program	Total Authorized Award	2020 Earned Revenue	2021 Earned Revenue
State Aid - Coronavirus:	N/A	$ 908,568	$ 6,392,972
Federal Aid - COVID-19:			
HEERF Funds	$ 82,614,463	$ 8,395,223	$ 37,059,391

NOTE 19 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position
June 30, 2021

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
ASSETS					
Current Assets	$ 149,994,451	$ 36,940,725	$ 5,712,312	$ (120,446)	$ 192,527,042
Capital Assets, Net	759,789,826	2,075,792	36,808,320	-	798,673,938
Other Noncurrent Assets	64,983,457	160,349,259	55,093,919	-	280,426,635
Total Assets	974,767,734	199,365,776	97,614,551	(120,446)	1,271,627,615
TOTAL DEFERRED OUTFLOWS OF RESOURCES	88,887,298	-	-	-	88,887,298
LIABILITIES					
Current Liabilities	48,052,144	1,550,760	2,109,240	(120,446)	51,591,698
Long-Term Liabilities, Net	659,832,816	2,177,345	72,800,000	-	734,810,161
Other Noncurrent Liabilities	15,730,598	1,488,754	-	-	17,219,352
Total Liabilities	723,615,558	5,216,859	74,909,240	(120,446)	803,621,211
TOTAL DEFERRED INFLOWS OF RESOURCES	174,818,969	4,666,365	-	-	179,485,334
NET POSITION					
Net Investment in Capital Assets	449,687,442	191,791	17,645,802	-	467,525,035
Restricted - Nonexpendable	17,371,835	77,960,655	-	-	95,332,490
Restricted - Expendable	35,561,098	101,770,243	-	-	137,331,341
Unrestricted	(337,399,870)	9,559,863	5,059,509	-	(322,780,498)
Total Net Position	$ 165,220,505	$ 189,482,552	$ 22,705,311	$ -	$ 377,408,368

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

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	$ 130,660,907	$ -	$ -	$ -	$ 130,660,907
Grants and Contracts	10,065,173	-	-	-	10,065,173
Sales and Services, Net	64,173,952	272,893	5,430,152	(498,262)	69,378,735
Other Operating Revenues	3,370,847	7,067	74,088	-	3,452,002
Total Operating Revenues	208,270,879	279,960	5,504,240	(498,262)	213,556,817
OPERATING EXPENSES					
Operating Expenses	404,535,874	27,565,605	3,162,233	(27,188,787)	408,074,925
Depreciation/Amortization	23,835,975	1,806	591,847	-	24,429,628
Total Operating Expenses	428,371,849	27,567,411	3,754,080	(27,188,787)	432,504,553
Operating Income (Loss)	(220,100,970)	(27,287,451)	1,750,160	26,690,525	(218,947,736)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	149,535,625	-	-	-	149,535,625
State Aid - Coronavirus	6,392,972	-	-	-	6,392,972
Student Financial Aid	41,956,841	-	-	-	41,956,841
Federal Aid - COVID-19	37,059,391	-	-	-	37,059,391
Noncapital Contributions	27,360,711	15,244,331	-	(14,665,850)	27,939,192
Investment Income, Net	14,709,566	41,293,729	13,561	-	56,016,856
Interest and Fees on Debt	(9,824,808)	(142,737)	(804,943)	-	(10,772,488)
Other Nonoperating Revenues (Expenses)	(545,934)	4,794,586	108,966	(3,949,642)	407,976
Net Nonoperating Revenues (Expenses)	266,644,364	61,189,909	(682,416)	(18,615,492)	308,536,365
Capital Appropriations	3,031,676	-	-	-	3,031,676
Capital Contributions	9,269,374	1,613,665	-	(7,370,993)	3,512,046
Additions to Endowments	704,040	5,069,451	-	(704,040)	5,069,451
Total Other Revenues	13,005,090	6,683,116	-	(8,075,033)	11,613,173
Increase in Net Position	59,548,484	40,585,574	1,067,744	-	101,201,802
NET POSITION					
Net Position, July 1, 2020, as Restated	105,672,021	148,896,978	21,637,567	-	276,206,566
Net Position, June 30, 2021	$ 165,220,505	$ 189,482,552	$ 22,705,311	$ -	$ 377,408,368

Condensed Statement of Cash Flows
June 30, 2021

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	$ (207,410,110)	$ (27,233,816)	$ 2,470,848	$ 26,545,623	$ (205,627,455)
Total Cash Provided by Noncapital Financing Activities	251,273,410	26,169,101	-	(19,174,630)	258,267,881
Net Cash Provided (Used) by Capital and Related Financing Activities	(79,793,939)	198,162	54,396,269	(7,370,993)	(32,570,501)
Net Cash Provided (Used) by Investing Activities	3,715,156	(1,839,021)	13,561	-	1,889,696
Net Increase (Decrease) in Cash and Cash Equivalents	(32,215,483)	(2,705,574)	56,880,678	-	21,959,621
Cash and Cash Equivalents, July 1, 2020, as Restated	170,816,078	35,600,077	3,514,307	-	209,930,462
Cash and Cash Equivalents, June 30, 2021	$ 138,600,595	$ 32,894,503	$ 60,394,985	$ -	$ 231,890,083

NOTE 20 - 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 21 - NET POSITION RESTATEMENT

As of July 1, 2020, net position as previously reported was restated to account for the blending of the Appalachian Student Housing Corporation. In prior years, the Corporation has been discretely presented. Due to changes in the Corporation's bylaws and an obligation on the Corporation's debt, the relationship now meets blending criteria in accordance with GASB standards. The restatement is summarized as follows:

	Amount
July 1, 2020 Net Position as Previously Reported	$ 254,568,998
Restatement:	
Blend Appalachian Student Housing Corporation	21,637,568
July 1, 2020 Net Position as Restated	**$ 276,206,566**

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

Teachers' and State Employees' Retirement System	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net Pension Liability	0.68133%	0.67358%	0.62781%	0.62049%
Proportionate Share of TSERS Collective Net Pension Liability	$ 82,318,270	$ 69,829,749	$ 62,505,322	$ 49,232,413
Covered Payroll	$ 105,255,412	$ 101,764,996	$ 94,335,041	$ 89,737,238
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	78.21%	68.62%	66.26%	54.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%

	2017	**2016**	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.59985%	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 55,132,411	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered Payroll	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	64.58%	25.68%	8.30%	42.73%
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.

Appalachian State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years *Exhibit B-2*

Teachers' and State Employees' Retirement System	**2021**	**2020**	**2019**	**2018**	**2017**
Contractually Required Contribution	$ 15,634,771	$ 13,651,627	$ 12,506,918	$ 10,169,317	$ 8,955,776
Contributions in Relation to the Contractually Determined Contribution	15,634,771	13,651,627	12,506,918	10,169,317	8,955,776
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 105,783,295	$ 105,255,412	$ 101,764,996	$ 94,335,041	$ 89,737,238
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	$ 7,811,944	$ 7,605,144	$ 6,916,329	$ 6,586,802	$ 5,756,472
Contributions in Relation to the Contractually Determined Contribution	7,811,944	7,605,144	6,916,329	6,586,802	5,756,472
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247	$ 77,371,931
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.

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

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

N/A - Not Applicable

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Five Fiscal Years** *Exhibit B-3*

Retiree Health Benefit Fund	**2021**	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability	1.03789%	1.03909%	1.00750%	0.96582%	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 287,920,246	$ 328,761,498	$ 287,017,119	$ 316,660,087	$ 469,945,468
Covered Payroll	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	148.54%	174.12%	160.29%	183.51%	285.74%
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	1.08263%	1.07350%	1.04545%	1.05029%	1.01711%
Proportionate Share of Collective Net OPEB Asset	$ 532,589	$ 463,215	$ 317,566	$ 641,937	$ 631,625
Covered Payroll	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.27%	0.25%	0.18%	0.37%	0.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	113.00%	108.47%	116.23%	116.06%

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

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

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

Exhibit B-4

Retiree Health Benefit Fund	**2021**	**2020**	**2019**	**2018**	**2017**
Contractually Required Contribution	$ 12,882,383	$ 12,540,749	$ 11,838,264	$ 10,832,891	$ 10,025,603
Contributions in Relation to the Contractually Determined Contribution	12,882,383	12,540,749	11,838,264	10,832,891	10,025,603
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711
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	$ 9,210,050	$ 8,743,687	$ 8,201,682	$ 7,935,118	$ 7,280,234
Contributions in Relation to the Contractually Determined Contribution	9,210,050	8,743,687	8,201,682	7,935,118	7,280,234
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 164,465,182	$ 159,265,704	$ 151,882,994	$ 149,719,202	$ 145,604,674
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	$ 173,565	$ 193,829	$ 264,331	$ 250,678	$ 655,719
Contributions in Relation to the Contractually Determined Contribution	173,565	193,829	264,331	250,678	655,719
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711
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	$ 674,307	$ 652,989	$ 668,285	$ 658,764	$ 757,144
Contributions in Relation to the Contractually Determined Contribution	674,307	652,989	668,285	658,764	757,144
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 164,465,182	$ 159,265,704	$ 151,882,994	$ 149,719,202	$ 145,604,674
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.

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

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-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 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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

Board of Trustees
Appalachian State University
Boone, 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 Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2021. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. The financial statements of those entities 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 those entities.

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 opinion 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

December 9, 2021

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This audit required 666 hours at an approximate cost of $70,596.