

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

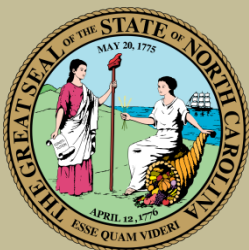
BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS

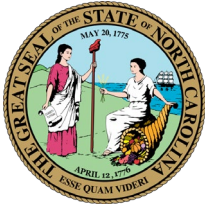
WINSTON-SALEM, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2021

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, University of North Carolina School of the Arts

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

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

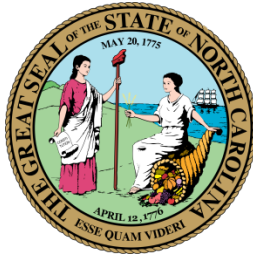
Beth A. Wood, CPA
State Auditor



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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of North Carolina School of the Arts
Winston-Salem, North Carolina

Report on the Audit of the Financial Statements

Opinions

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

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

We did not audit the financial statements of the University of North Carolina School of the Arts Housing Corporation, which represent 2.23 percent and 1.28 percent, respectively, of the assets and revenues of the University; nor the financial statements of the University of North Carolina School of the Arts Program Support Corporation, which represent 0.45 percent of the assets of the University. In addition, we did not audit the consolidated financial statements of the University of North Carolina School of the Arts Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's

Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University of North Carolina School of the Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.

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

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

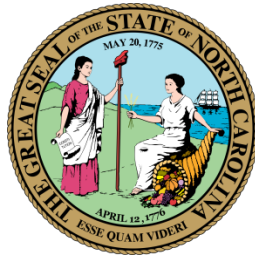
In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 3, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS

POWERING CREATIVITY



DANCE

DESIGN & PRODUCTION

DRAMA

FILMMAKING

MUSIC

LIBERAL ARTS

HIGH SCHOOL

INTRODUCTION

The University of North Carolina School of the Arts (University) provides the following management discussion and analysis as an overview of the financial position and activities for the fiscal year ended June 30, 2021. Comparative data for the year ended June 30, 2020 is also included. This discussion and analysis, the financial statements, and the notes to the financial statements have been prepared by management, and should be read in conjunction with each other. This discussion and analysis is designed to focus on the institution's current financial activities in comparison with the prior year, resulting changes, and current known facts or conditions.

USING THE FINANCIAL REPORT

The University's financial report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The Statement of Cash Flows presents information that allows the reader to evaluate the University's ability to meet its financial obligations on a current basis. For the purpose of this discussion and analysis, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The accompanying Notes to the Financial Statements should be read in conjunction with the financial statements to ascertain a full understanding of the data presented in this report. These disclosures provide information to better understand details, risk, and underlying assumptions associated with amounts reported in the financial statements.

In addition to the University's financial statements and accompanying notes, information for the University's component unit, the University of North Carolina School of the Arts Foundation, Inc. (Foundation) is presented. The Consolidated Statement of Financial Position, Consolidated Statement of Activities, and certain notes for the Foundation are discretely presented alongside the University's financial statements; however, the component unit is not

included in management's discussion and analysis. More information describing the relationship between the University and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

STATEMENT OF NET POSITION

The Statement of Net Position presents the readers of the University's financial report with a June 30th snapshot of the University's financial position. The Statement of Net Position includes assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the difference reported as net position. Assets and liabilities are classified as current or noncurrent. Current assets and liabilities include those resources and obligations that pertain to current operating requirements. Noncurrent assets and liabilities include those resources and obligations that pertain to future operating requirements. The Statement of Net Position is one indicator of the University's financial health as it assesses the balance of a University's assets - the resources it can use to provide service and operate the University - against its liabilities - its obligations to pay vendors and others.

Net position is divided into three major categories to show the availability to meet University obligations. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment, net of outstanding liabilities related to those capital assets. The next category is restricted net position, which is divided into two groups, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the permanent endowment funds that are only available for investment purposes. Restricted expendable net position provides funds that are available for use by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. This category includes restricted funds for endowment investments, capital projects, debt service, and other expendable restricted resources. The final category is unrestricted net position, where funds are not subject to external restrictions and are available to the University for any lawful purpose. The University uses these resources to enhance all areas of the University and to support the instructional and public service mission of the University.

Condensed Statement of Net Position

	6/30/2021	6/30/2020	Dollar Change	Percent Change
Assets				
Current Assets	\$ 39,519,155.58	\$ 29,566,958.12	\$ 9,952,197.46	33.7%
Capital Assets, Net	152,719,298.44	125,779,427.33	26,939,871.11	21.4%
Other Noncurrent Assets	63,730,218.25	78,389,463.36	(14,659,245.11)	(18.7%)
Total Assets	255,968,672.27	233,735,848.81	22,232,823.46	9.5%
Total Deferred Outflows of Resources	13,933,113.75	15,274,012.75	(1,340,899.00)	(8.8%)
Liabilities				
Current Liabilities	10,359,059.72	3,715,069.19	6,643,990.53	178.8%
Long-Term Liabilities, Net	107,285,063.49	112,545,605.19	(5,260,541.70)	(4.7%)
Other Noncurrent Liabilities	175,733.94	174,965.75	768.19	0.4%
Total Liabilities	117,819,857.15	116,435,640.13	1,384,217.02	1.2%
Total Deferred Inflows of Resources	19,826,489.00	18,027,643.00	1,798,846.00	10.0%
Net Position				
Net Investment in Capital Assets	117,026,872.31	117,221,765.01	(194,892.70)	(0.2%)
Restricted:				
Nonexpendable	22,390,695.16	19,793,866.32	2,596,828.84	13.1%
Expendable	32,146,489.75	21,989,067.88	10,157,421.87	46.2%
Unrestricted	(39,308,617.35)	(44,458,120.78)	5,149,503.43	11.6%
Total Net Position	\$ 132,255,439.87	\$ 114,546,578.43	\$ 17,708,861.44	15.5%

Total assets of the University increased by \$22.2 million, or 9.5% for the fiscal year ended June 30, 2021. Current assets increased by \$10.0 million, or 33.7%, capital assets, net increased by \$26.9 million or 21.4%, and other noncurrent assets decreased by \$14.7 million, or 18.7%. The largest increase was in capital assets, net, specifically construction in progress. The increase in construction in progress is mainly attributable to increases in the New Residence Hall "Artist Village" construction for undergraduate student housing of \$21.9 million, and the Performance Place renovation of \$1.6 million which includes improvements to Freedman and Catawba Theaters, air conditioning, and lighting. The increase in current assets was primarily due to an \$8.8 million increase in current restricted cash as a result of the increase in construction related payables discussed below.

Also, in noncurrent assets, there was a decrease in restricted cash and cash equivalents of \$28.0 million mainly due to the construction of the New Residence Hall "Artist Village" during fiscal year 2021, offset by an increase in endowment investments of \$13.3 million due to new endowment gifts of \$2.7 million and appreciation of unrealized gains of \$11.2 million.

The University recorded deferred outflows for pensions and deferred outflows for other postemployment benefits in the amount of \$4.8 million and \$9.1 million, respectively at June 30, 2021. For more information about the University's deferred outflows related to pensions and other postemployment benefits, refer to Notes 13 and 14 of the Notes to the Financial Statements.

Total liabilities of the University increased by \$1.4 million or 1.2% for the fiscal year ended June 30, 2021. The increase was the result of an increase in current liabilities and a decrease in long-term liabilities. Current liabilities increased \$6.6 million primarily due to an increase in accounts payable and accrued liabilities of \$6.0 million, which was the result of an increase in

accounts payable and contract retainage related to construction of the New Residence Hall "Artist Village". Long-term liabilities decreased \$5.3 million due primarily to the net change in pensions and postemployment benefits liabilities.

The University recorded deferred inflows for other postemployment benefits in the amount of \$19.8 million. Deferred inflows for other postemployment benefits increased by \$1.8 million based on the change in the University's proportionate share of the total liability and the difference between the University's contributions and proportional share of contributions. For more information about the University's deferred inflows related to other postemployment benefits, refer to Note 14 of the Notes to the Financial Statements.

The University's net position was \$132.3 million at June 30, 2021, an increase of \$17.7 million or 15.5% from the prior year. Expendable restricted net position increased \$10.2 million primarily due to the increase in endowment investments in fiscal year 2021 discussed above. Unrestricted net position increased \$5.1 million primarily due to reductions in pension and OPEB obligations as well as decreased operating expenses.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating, and any other revenues earned by the University.

Generally speaking, operating revenues are earned for providing goods and services to the various customers of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenues in accordance with GASB guidelines even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Position. Other revenues include capital contributions and additions to the principal of permanent endowments.

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

	6/30/2021	6/30/2020	Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 15,453,191.02	\$ 16,355,444.34	\$ (902,253.32)	(5.5%)
Sales and Services, Net	6,202,462.78	7,018,016.18	(815,553.40)	(11.6%)
Other Operating Revenues	1,227,277.60	762,498.53	464,779.07	61.0%
Total Operating Revenues	22,882,931.40	24,135,959.05	(1,253,027.65)	(5.2%)
Operating Expenses				
Salaries and Benefits	43,785,867.39	45,466,814.95	(1,680,947.56)	(3.7%)
Supplies and Services	15,191,223.12	16,795,456.17	(1,604,233.05)	(9.6%)
Scholarships and Fellowships	1,730,314.51	2,600,250.77	(869,936.26)	(33.5%)
Utilities	1,887,514.96	1,771,978.56	115,536.40	6.5%
Depreciation	4,154,727.01	4,114,489.38	40,237.63	1.0%
Total Operating Expenses	66,749,646.99	70,748,989.83	(3,999,342.84)	-5.7%
Operating Loss	(43,866,715.59)	(46,613,030.78)	2,746,315.19	(5.9%)
Nonoperating Revenues (Expenses)				
State Appropriations	32,240,042.65	33,813,217.00	(1,573,174.35)	(4.7%)
State Aid - Coronavirus	1,637,204.83	73,231.75	1,563,973.08	2135.6%
Student Financial Aid	1,711,668.67	1,854,094.82	(142,426.15)	(7.7%)
Federal Aid - COVID-19	1,275,319.63	423,800.00	851,519.63	200.9%
Noncapital Contributions	5,660,406.12	5,229,096.07	431,310.05	8.2%
Investment Income, Net	11,909,467.69	1,294,773.97	10,614,693.72	819.8%
Interest and Fees on Debt	(1,670,562.46)	(574,740.88)	(1,095,821.58)	190.7%
Other Nonoperating Revenues	371,968.36	1,393.86	370,574.50	26586.2%
Net Nonoperating Revenues	53,135,515.49	42,114,866.59	11,020,648.90	26.2%
Income (Loss) Before Other Revenues	9,268,799.90	(4,498,164.19)	13,766,964.09	(306.1%)
Capital Appropriations	1,846,953.39	511,384.03	1,335,569.36	261.2%
Capital Contributions	3,891,318.15	5,081,829.41	(1,190,511.26)	(23.4%)
Additions to Endowments	2,701,790.00	1,650,000.00	1,051,790.00	63.7%
Total Other Revenues	8,440,061.54	7,243,213.44	1,196,848.10	16.5%
Increase in Net Position	17,708,861.44	2,745,049.25	14,963,812.19	545.1%
Beginning Net Position	114,546,578.43	111,801,529.18	2,745,049.25	2.5%
Ending Net Position	\$ 132,255,439.87	\$ 114,546,578.43	\$ 17,708,861.44	15.5%

Total revenues for the June 30, 2021 fiscal year were \$86.1 million compared to \$74.1 million in the previous year, an increase of \$12.0 million. Some of the highlights of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Investment income, net increased by \$10.6 million due to appreciation of unrealized gains of \$11.2 million resulting from a significant increase in investment performance.
- Additions to endowments increased \$1.1 million due to the receipt of new endowment gifts.

Total expenses for June 30, 2021 were \$68.4 million compared to \$71.3 million in the previous year, a decrease of \$2.9 million.

Operating expenses totaled \$66.7 million for the year compared to \$70.7 million from the previous year, a decrease of \$4.0 million. The significant changes include:

- Salaries and benefits decreased \$1.7 million due to the University's net change in pension and other postemployment benefits expenses during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The University's capital assets, net of accumulated depreciation at June 30, 2021, was \$152.7 million, an increase of \$26.9 million. The increase represents the net effect of an increase in construction in progress (CIP) of \$20.7 million and an increase in capital assets, net of depreciation of \$6.3 million. The increase in construction in progress is mainly attributable to the net effect of increases in the New Residence Hall "Artist Village" construction of \$21.9 million, the Performance Place renovation of \$1.6 million, offset by the capitalization of completed projects such as the Semans Arts and Administration Building which decreased CIP in the amount of \$7.8 million.



During the 2021 fiscal year, the University closed on the 2021 Refunding Certificate of Participation. The refinancing's amortization mirrors the old 2015 Certificate's, so the final maturity remains June 1, 2030. The 2015 Certificate of Participation refinanced debt that originally financed the construction of Center Stage Apartments. The rate on the 2015 Certificate was 2.99%, and the rate on the 2021 Certificate was 2.00%. The refinancing generated \$140,756.94 of net present value interest savings for the University, equivalent to \$152,926.70 of cash flow savings. Refer to Note 8 of the Notes to the Financial Statements for more detailed information about the University's debt obligations.

ECONOMIC OUTLOOK

Although the global pandemic brought challenges to the 2020-2021 academic year, it also provided the opportunity to implement creative solutions, and to continue to deliver world class instruction and support to our highly talented students. The University's senior administration team, employees and students remained dedicated to maintaining in-person instruction, while utilizing technology to continue performing and engaging with guest artists. The University of North Carolina School of the Arts (UNCSA) continues to be recognized as a top-ranked creative and performing arts conservatory. Several industry trade publications highlighted or ranked various UNCSA schools this year, which continues to enhance the reputation of our excellent academic programs.



The School of Filmmaking was ranked in the top 10 by The Hollywood Reporter (THR), in the top 50 worldwide by Variety, in the top 5 by TheWrap, and was included in MovieMaker's unranked list of 39 top schools in the U.S. and Canada. THR also ranked the film music

composition No. 12 in the world. Finally, THR included Design & Production's costume design program in its Top 10.

The School of Dance received an Outstanding School Award at the Youth America Grand Prix (YAGP) Regional Semifinals, and high school students in the Visual Arts Program won awards in two North Carolina regions of the Scholastic Art and Writing Awards.



and more.

The recognition of our excellent academic programs continues to enhance our reputation with our patrons and supporters. During the 2021 fiscal year, UNCSCA was gifted over \$2.7 million in new and existing endowments. Powering Creativity: The Campaign for UNCSCA successfully concluded on June 30, 2021 with over \$75 million raised in support of scholarships, professorships,

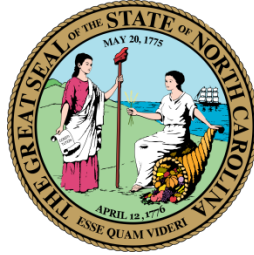
The University of North Carolina School of the Arts continued to manage and use its resources wisely in fiscal year 2021, due to effective institutional planning and continued support from the State to meet the educational needs of the University. The University's Chancellor and senior administration team remains fully committed to student affordability and prudent use of resources by spending carefully, wisely, and thoughtfully.



The continued receipt of federal and state funds dedicated to assist with the expenses encountered with confronting the coronavirus (COVID-19), allowed the University to continue to allocate its regular state and institutional trust fund resources to strategically support the University's core academic mission. Although the University lost revenue in auxiliary operations and the summer intensive programs because of COVID-19, we finished the 2021 fiscal year in relatively good condition, due to our history of prudent use of resources.



The University continues to recruit, admit, and retain top-caliber students even as we compete against the most selective public and private performing arts conservatory schools in the country. As fiscal year 2022 progresses, the University will build on its efforts to manage its resources to create unparalleled learning opportunities for our students and to establish strong ties to communities throughout the State and beyond. Management continues to maintain a close watch over resources to ensure the ability to respond to unknown internal and external issues and sustain its current high-quality financial position.



FINANCIAL STATEMENTS

University of North Carolina School of the Arts
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 23,203,500.75
Restricted Cash and Cash Equivalents	16,064,386.09
Receivables, Net (Note 5)	39,489.72
Due from University Component Units	47,465.97
Inventories	136,030.73
Prepaid Items	28,282.32
Total Current Assets	<u>39,519,155.58</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	23,317,425.95
Endowment Investments	40,335,395.30
Net Other Postemployment Benefits Asset	77,397.00
Capital Assets - Nondepreciable (Note 6)	37,967,131.50
Capital Assets - Depreciable, Net (Note 6)	<u>114,752,166.94</u>
Total Noncurrent Assets	<u>216,449,516.69</u>

Total Assets	<u>255,968,672.27</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	4,842,695.99
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	<u>9,090,417.76</u>
Total Deferred Outflows of Resources	<u>13,933,113.75</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	8,186,833.54
Due to Primary Government	6,803.53
Unearned Revenue	460,809.41
Interest Payable	703,342.43
Long-Term Liabilities - Current Portion (Note 8)	<u>1,001,270.81</u>
Total Current Liabilities	<u>10,359,059.72</u>

Noncurrent Liabilities:

Funds Held for Others	63,328.47
U.S. Government Grants Refundable	112,405.47
Long-Term Liabilities, Net (Note 8)	<u>107,285,063.49</u>
Total Noncurrent Liabilities	<u>107,460,797.43</u>
Total Liabilities	<u>117,819,857.15</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>19,826,489.00</u>
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University of North Carolina School of the Arts
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	117,026,872.31
Restricted:	
Nonexpendable	22,390,695.16
Expendable	32,146,489.75
Unrestricted	<u>(39,308,617.35)</u>
Total Net Position	<u><u>\$ 132,255,439.87</u></u>

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

University of North Carolina School of the Arts
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 11)	\$ 15,453,191.02
Federal Grants and Contracts	55,674.48
Sales and Services, Net (Note 11)	6,202,462.78
Other Operating Revenues	1,171,603.12

Total Operating Revenues	22,882,931.40
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OPERATING EXPENSES

Salaries and Benefits	43,785,867.39
Supplies and Services	15,191,223.12
Scholarships and Fellowships	1,730,314.51
Utilities	1,887,514.96
Depreciation	4,154,727.01

Total Operating Expenses	66,749,646.99
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Operating Loss	(43,866,715.59)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	32,240,042.65
State Aid - Coronavirus	1,637,204.83
Student Financial Aid	1,711,668.67
Federal Aid - COVID-19	1,275,319.63
Noncapital Contributions	5,660,406.12
Investment Income (Net of Investment Expense of \$170,580.98)	11,909,467.69
Interest and Fees on Debt	(1,670,562.46)
Other Nonoperating Revenues	371,968.36

Net Nonoperating Revenues	53,135,515.49
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Income Before Other Revenues	9,268,799.90
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Capital Appropriations	1,846,953.39
Capital Contributions	3,891,318.15
Additions to Endowments	2,701,790.00

Total Other Revenues	8,440,061.54
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Increase in Net Position	17,708,861.44
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NET POSITION

Net Position - July 1, 2020	114,546,578.43
Net Position - June 30, 2021	\$ 132,255,439.87

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

University of North Carolina School of the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 23,317,387.96
Payments to Employees and Fringe Benefits	(44,311,114.37)
Payments to Vendors and Suppliers	(16,972,696.02)
Payments for Scholarships and Fellowships	(1,730,314.51)
William D. Ford Direct Lending Receipts	6,967,591.00
William D. Ford Direct Lending Disbursements	(6,967,591.00)
Related Activity Agency Receipts	768.19
	<hr/>
Net Cash Used by Operating Activities	(39,695,968.75)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	32,240,042.65
State Aid - Coronavirus	1,643,866.25
Student Financial Aid	1,711,668.67
Federal Aid - COVID-19	1,275,319.63
Noncapital Contributions	4,912,345.75
Additions to Endowments	2,701,790.00
	<hr/>
Total Cash Provided by Noncapital Financing Activities	44,485,032.95

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	1,846,953.39
Capital Contributions	3,891,318.15
Acquisition and Construction of Capital Assets	(25,274,413.89)
Principal Paid on Capital Debt	(624,841.83)
Interest and Fees Paid on Capital Debt	(1,197,057.79)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(21,358,041.97)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	905,000.80
Investment Income	202,894.42
Purchase of Investments and Related Fees	(2,545,903.47)
	<hr/>
Net Cash Used by Investing Activities	(1,438,008.25)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(18,006,986.02)
	<hr/>
Cash and Cash Equivalents - July 1, 2020	80,592,298.81
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 62,585,312.79

University of North Carolina School of the Arts
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (43,866,715.59)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,154,727.01
Allowances, Write-Offs, and Amortizations	1,500.24
Other Nonoperating Income	391,671.05
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	41,285.27
Prepaid Items	(6,945.90)
Inventories	6,409.50
Net Other Postemployment Benefits Asset	(10,178.00)
Deferred Outflows Related to Pensions	(583,214.00)
Deferred Outflows Related to Other Postemployment Benefits	1,924,113.00
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	182,501.09
Funds Held for Others	768.19
Net Pension Liability	1,866,996.00
Net Other Postemployment Benefits Liability	(5,671,227.00)
Compensated Absences	259,022.39
Workers' Compensation Liability	(185,528.00)
Deferred Inflows Related to Pensions	(18,338.00)
Deferred Inflows Related to Other Postemployment Benefits	1,817,184.00
Net Cash Used by Operating Activities	<u>\$ (39,695,968.75)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 7,338,528.78
Change in Fair Value of Investments	11,175,486.46
Loss on Disposal of Capital Assets	(19,702.69)
Amortization of Bond Premiums	(100,690.34)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(732,852.00)
Funds Escrowed to Defeasement Debt	3,518,000.00

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

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2021

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 15,113,861
Investments	81,723,885
Prepaid Expenses and Other Current Assets	47,978
Pledges Receivable, Net	2,359,113
Beneficial Interest in Perpetual Trusts	822,542
Property	47,442
	<hr/>
Total Assets	<u>\$ 100,114,821</u>

LIABILITIES

Accounts Payable and Accrued Expenses	130,604
Due to UNCSA	47,466
	<hr/>
Total Liabilities	<u>178,070</u>

NET ASSETS

Without Donor Restrictions:	
Unappropriated	2,081,276
Board Appropriated	466,786
With Donor Restrictions	97,388,689
	<hr/>
Total Net Assets	<u>99,936,751</u>
	<hr/>
Total Liabilities and Net Assets	<u>\$ 100,114,821</u>

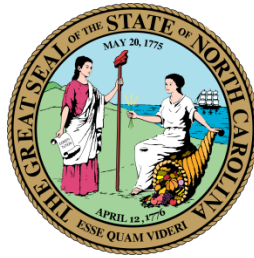
The accompanying notes to the financial statements are an integral part of this statement.

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2021

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER INCOME			
Gifts and Grants	\$ 1,073,720	\$ 3,106,194	\$ 4,179,914
Interest and Dividend Income	26,420	-	26,420
Change In Fair Value of Perpetual Trusts	-	167,647	167,647
Realized and Unrealized Gains (Losses) on Other Investments, Net of Losses and Fees	(186,098)	24,635,492	24,449,394
Other Income	30,220	104,955	135,175
Net Assets Released from Restrictions	4,575,266	(4,575,266)	-
Total Revenue, Gains, and Other Income	5,519,528	23,439,022	28,958,550
EXPENSES			
Program Services:			
Scholarships and Awards	2,146,559	-	2,146,559
School Programs	1,774,667	-	1,774,667
Advancement Costs	452,550	-	452,550
Total Program Services	4,373,776	-	4,373,776
Support Services:			
Administrative	559,844	-	559,844
Total Expenses	4,933,620	-	4,933,620
Change in Net Assets Before Transfers	585,908	23,439,022	24,024,930
Transfers to UNCSA	-	(42,399)	(42,399)
Change in Net Assets	585,908	23,396,623	23,982,531
NET ASSETS			
Net Assets at Beginning of Year	1,962,154	73,992,066	75,954,220
Net Assets at End of Year	\$ 2,548,062	\$ 97,388,689	\$ 99,936,751

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Units - Although legally separate, the University of North Carolina School of the Arts Housing Corporation (Housing Corporation) and the University of North Carolina School of the Arts Program Support Corporation (Program Support Corporation), component units of the University, are reported as if they were part of the University.

The Housing Corporation is governed by a five-member board. Its purpose is to aid, support, and promote the University, specifically by the ownership of the Center Stage apartment complex at 900 Center Stage Court, Winston-Salem, NC 27127. Because the directors are appointed by the Chancellor and its primary purpose is to benefit the University, its financial statements have been blended with those of the University.

The Program Support Corporation board consists of at least three and no more than 12 appointed directors. Its purpose is to foster, promote, manage, assist, and support the schools of Dance, Design and Production, Drama, Filmmaking, and Music, and any other related activity of the University. Because the directors are appointed by the Chancellor and its primary purpose is to benefit the University, its financial statements have been blended with those of the University.

Separate financial statements for the Housing Corporation and the Program Support Corporation may be obtained from the University

Controller's Office, P.O. Box 12189, Winston-Salem, NC 27127, or by calling (336)770-3305.

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

Discretely Presented Component Unit - The University of North Carolina School of the Arts Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of not less than 12, nor more than 21 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2021, the Foundation distributed \$3,998,760.91 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University of North Carolina School of the Arts Foundation, Inc., P.O. Box 12189, Winston-Salem, NC 27117.

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

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	2-50 years
General Infrastructure	10-50 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, certificates of participation, 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 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. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary

net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

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

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

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

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

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

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.

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

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

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

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

- 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** - The University has 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 \$59,839,505.66, 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 \$720.70. The carrying amount of the University's deposits not with the State Treasurer was \$2,745,086.43, and the bank balance was \$2,772,064.33. 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, \$2,068,716.66 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments

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

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

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

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

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

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

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the value of investments. The University 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.

UNC Investment Fund, LLC - At June 30, 2021, the University's investments include \$40,335,395.30, 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.

Component Unit - Investments of the University's discretely presented 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Amount
UNC Investment Fund	\$ 81,723,885

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the

various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

Short-Term Investment Fund - At year-end, the University's investments held in the STIF were valued at \$59,839,505.66. 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 - At year-end, the University's investments held in the UNC Investment Fund were valued at \$40,335,395.30. 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.

Component Unit - Because the Foundation reports under the FASB reporting model, the disclosure of fair value measurements differ from the GASB reporting model used by the University.

The fair value of cash and cash equivalents and accounts payable and accrued expenses is not materially different than their carrying amounts, as reported,

since they approximate the amount for which the assets could be sold or the liabilities could be settled. The discount rate used for pledges receivable approximates a market interest rate. Accordingly, the carrying value approximates fair value. The fair value of annuity obligations approximate carrying amounts as discount rates on these obligations approximate market. Investments are carried at fair value.

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1	Quoted market prices in active markets for identical assets or liabilities;
Level 2	Observable market-based inputs or unobservable inputs that are corroborated by market data;
Level 3	Unobservable inputs that are not corroborated by market data.

There were no assets measured at fair value as of June 30, 2021.

FASB topic 820, *Fair Value Measurement*, Subtopic 820-10, provides a practical expedient allowing investments that are measured at fair value using the net asset value per share (or its equivalent) not to be classified in the fair value hierarchy. The Foundation's investments of \$81,723,885 with the UNC Investment Fund and beneficial interests in perpetual trusts of \$822,542 are measured at net asset value and are therefore not required to be categorized within the fair value hierarchy.

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 by which the rate of spending for a fiscal year is calculated between 2% and 5% of the trailing

three-year average, if applicable. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2021, net appreciation of \$18,454,076.05 was available to be spent and was classified in net position as restricted expendable for scholarships, instruction, and other as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 48,609.55	\$ 40,788.15	\$ 7,821.40
Accounts	31,668.32	-	31,668.32
Total Current Receivables	<u>\$ 80,277.87</u>	<u>\$ 40,788.15</u>	<u>\$ 39,489.72</u>

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 4,313,652.83	\$ -	\$ -	\$ 4,313,652.83
Art, Literature, and Artifacts	1,853,008.62	-	-	1,853,008.62
Construction in Progress	11,148,259.72	30,145,053.91	9,492,843.58	31,800,470.05
Total Capital Assets, Nondepreciable	<u>17,314,921.17</u>	<u>30,145,053.91</u>	<u>9,492,843.58</u>	<u>37,967,131.50</u>
Capital Assets, Depreciable:				
Buildings	150,923,391.46	9,492,843.58	-	160,416,235.04
Machinery and Equipment	16,945,089.55	969,246.90	51,913.97	17,862,422.48
General Infrastructure	7,653,979.49	-	-	7,653,979.49
Total Capital Assets, Depreciable	<u>175,522,460.50</u>	<u>10,462,090.48</u>	<u>51,913.97</u>	<u>185,932,637.01</u>
Less Accumulated Depreciation for:				
Buildings	55,479,398.57	3,178,363.14	-	58,657,761.71
Machinery and Equipment	9,516,746.30	822,203.38	32,211.28	10,306,738.40
General Infrastructure	2,061,809.47	154,160.49	-	2,215,969.96
Total Accumulated Depreciation	<u>67,057,954.34</u>	<u>4,154,727.01</u>	<u>32,211.28</u>	<u>71,180,470.07</u>
Total Capital Assets, Depreciable, Net	<u>108,464,506.16</u>	<u>6,307,363.47</u>	<u>19,702.69</u>	<u>114,752,166.94</u>
Capital Assets, Net	<u>\$ 125,779,427.33</u>	<u>\$ 36,452,417.38</u>	<u>\$ 9,512,546.27</u>	<u>\$ 152,719,298.44</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 300,677.32
Accounts Payable - Capital Assets	6,517,901.32
Accrued Payroll	215,011.13
Contract Retainage	<u>1,153,243.77</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 8,186,833.54</u></u>

NOTE 8 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Current Portion</u>
Long-Term Debt					
Revenue Bonds Payable	\$ 42,485,000.00	\$ -	\$ -	\$ 42,485,000.00	\$ -
Certificates of Participation	3,854,000.00	3,518,000.00	3,854,000.00	3,518,000.00	346,000.00
Plus: Unamortized Premium	<u>3,020,711.65</u>	<u>-</u>	<u>100,690.34</u>	<u>2,920,021.31</u>	<u>-</u>
Total Revenue Bonds Payable and Certificates of Participation, Net	49,359,711.65	3,518,000.00	3,954,690.34	48,923,021.31	346,000.00
Notes from Direct Borrowings	<u>821,968.88</u>	<u>-</u>	<u>288,841.83</u>	<u>533,127.05</u>	<u>300,501.31</u>
Total Long-Term Debt	<u>50,181,680.53</u>	<u>3,518,000.00</u>	<u>4,243,532.17</u>	<u>49,456,148.36</u>	<u>646,501.31</u>
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	2,595,741.55	1,471,814.04	1,212,791.65	2,854,763.94	186,826.98
Net Pension Liability	9,160,243.00	1,866,996.00	-	11,027,239.00	-
Net Other Postemployment Benefits Liability	49,185,946.00	-	6,404,079.00	42,781,867.00	-
Workers' Compensation	<u>2,351,844.00</u>	<u>13,205.00</u>	<u>198,733.00</u>	<u>2,166,316.00</u>	<u>167,942.52</u>
Total Other Long-Term Liabilities	<u>63,293,774.55</u>	<u>3,352,015.04</u>	<u>7,815,603.65</u>	<u>58,830,185.94</u>	<u>354,769.50</u>
Total Long-Term Liabilities, Net	<u><u>\$ 113,475,455.08</u></u>	<u><u>\$ 6,870,015.04</u></u>	<u><u>\$ 12,059,135.82</u></u>	<u><u>\$ 108,286,334.30</u></u>	<u><u>\$ 1,001,270.81</u></u>

Additional information regarding the net pension liability is included in Note 13.

Additional information regarding the net other postemployment benefits liability is included in Note 14.

Additional information regarding workers' compensation is included in Note 15.

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021	See Table Below
Revenue Bonds Payable						
UNCSA General Revenue Bonds						
New Residence Hall (the "2020 Project")	2020	2.00%-5.00%	02/01/2050	\$ 42,485,000.00	\$ 42,485,000.00	
Certificates of Participation						
Student Housing Project, Series 2021	(A)	2.00%	06/01/2030	3,518,000.00	3,518,000.00	(1)
Total Revenue Bonds Payable and Certificates of Participation (principal only)				<u>\$ 46,003,000.00</u>	46,003,000.00	
Plus: Unamortized Premium					<u>2,920,021.31</u>	
Total Revenue Bonds Payable and Certificates of Participation, Net					<u>\$ 48,923,021.31</u>	

(A) University of North Carolina School of the Arts Student Housing Project, Series 2021 (Refunding of 2015 COPs)

The University has pledged future revenues, net of specific operating expenses, to repay certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	For the Year Ended June 30, 2021			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 3,888,917.00	\$ 684,220.52	\$ 336,000.00	\$ 106,530.76	63%

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
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	2/14/2023	<u>\$ 1,929,618.00</u>	<u>\$ 533,127.05</u>

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ -	\$ 1,669,875.00	\$ 346,000.00	\$ 75,637.00	\$ 300,501.31	\$ 7,763.37
2023	535,000.00	1,669,875.00	357,000.00	63,440.00	232,625.74	2,145.76
2024	565,000.00	1,643,125.00	368,000.00	56,300.00	-	-
2025	595,000.00	1,614,875.00	378,000.00	48,940.00	-	-
2026	620,000.00	1,585,125.00	390,000.00	41,380.00	-	-
2027-2031	4,040,000.00	7,449,775.00	1,679,000.00	85,220.00	-	-
2032-2036	7,095,000.00	6,198,625.00	-	-	-	-
2037-2041	8,720,000.00	4,575,225.00	-	-	-	-
2042-2046	10,490,000.00	2,803,425.00	-	-	-	-
2047-2050	9,825,000.00	811,037.50	-	-	-	-
Total Requirements	\$ 42,485,000.00	\$ 30,020,962.50	\$ 3,518,000.00	\$ 370,917.00	\$ 533,127.05	\$ 9,909.13

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 - These funds are payable solely from the Available Funds of the University or of the Board held for the University. "Available Funds" is defined in the General Indenture as any legally available funds of the University, or the Board held for the University, in each fiscal year, but excluding (1) appropriations by the General Assembly of the State from the State General Fund, (2) tuition payments by University students, (3) funds whose purpose has been restricted by the terms of the gift, grant, or payee thereof, (4) revenues generated by special facilities, and (5) funds restricted by law. The Available Funds are not pledged to the Trustee, but rather are the source from which principal and interest on the Bonds will be paid.

The indenture agreements for the University's outstanding revenue bonds of \$42,485,000.00 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, or (2) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the University of North Carolina Board of Governors by the Trustee of the bonds, specifying such failure and requesting that it be remedied. The Trustee may give such notice in its discretion and must give such notice at the written request of the owners of the bonds of not less than 25% in aggregate principal amount of the bonds then outstanding, unless the Trustee, or the Trustee and owners (specified in the general indenture), agree in writing to an extension of such period prior to its expiration.

Upon the occurrence of any event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be due and payable immediately. The Trustee may exercise all remedies available by law or in the equity provided under the agreement, including

a sum sufficient to pay all matured installments of the principal of and interest on all bonds which will have become due otherwise than by reason of such declaration and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee.

Certificates of Participation - The University has pledged the Center Stage Apartment complex as collateral for its outstanding Certificates of Participation of \$3,518,000.00, maturing on June 1, 2030. Rentals from the apartment complex are pledged for the retirement of this debt. The indenture of trust, the use agreement, and the deed of trust contain provisions related to events of default and remedies. Significant to the indenture's provisions, an event of default occurs when: (1) the University fails to pay the principal, interest, or premium when due and payable, (2) the University or the University of North Carolina School of the Arts Housing Corporation (Housing Corporation), a blended component unit of the University, fails to observe and perform any covenant, condition, agreement, or provision within thirty days of receiving written notice by the trustee, or (3) a default, as defined in the use agreement, or the deed of trust, occurs and continues.

In addition to the above, an event of default per the deed of trust occurs if: (1) any of the representations or warranties contained in or affecting the deed of trust are untrue or incorrect in any material respect and not remedied within thirty days after notice from the trustee, or (2) the Housing Corporation exhibits that it is insolvent, is bankrupt, or otherwise cannot make payments as required per the deed of trust.

Per the use agreement, if net project revenues from the housing complex are not sufficient to cover base rental payments for two consecutive years, an event of default will occur under the indenture. Additionally, a rate covenant exists under the terms of the use agreement, wherein the University must periodically revise fees, rents, and charges so that housing complex revenues are sufficient in each fiscal year to equal an amount necessary to maintain a debt service coverage ratio of at least 1.15, plus an amount not less than the sum of the required deposit to the Maintenance and Equipment Reserve Fund and the required deposit to the Reserve Fund. In addition, such fees, rents, and charges should be sufficient in each fiscal year to equal at least 110% of the principal and interest requirements. Failure by the University to maintain the ratio and requirements for two consecutive years will be considered an event of default.

In the event of a default, the trustee of the bonds may, with the consent of or at the direction of the insurer, or shall, if required by a majority in aggregate principal amount of the owners of the Certificates, declare the obligations of the University to be immediately due and payable, whereupon they will, without further action become due and payable. The trustee may also exercise all remedies available and permissible by law or in equity, to the extent provided under the applicable agreements, that may appear necessary or desirable to enforce all rights against the University or the secured property.

In addition to the above, per the deed of trust, in the event of a default, the trustee may also: (1) manage and operate the mortgaged property and carry on business and receive all earnings from the mortgaged property after deducting expenses, (2) foreclose the deed of trust, or (3) take such steps to protect and enforce its rights whether by action, suit, or proceedings in equity or at law for the specific performance of any covenant, condition, or agreement in the indenture or the deed of trust.

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

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

- F. Current Refunding** - On May 11, 2021, the University issued \$3,518,000.00 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2021, with an interest rate of 2.00%. The certificates were issued for a current refunding of \$3,518,000.00 of outstanding University of North Carolina School of the Arts Student Housing Project Certificates of Participation, Series 2015, with an average interest rate of 2.99%. The refunding was undertaken to reduce total debt service payments by \$175,714.00 over the next nine years and resulted in an economic gain of \$140,756.94.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for copiers and apartments. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 232,706.53
2023	40,701.42
2024	10,674.65
Total Minimum Lease Payments	\$ 284,082.60

Rental expense for all operating leases during the year was \$943,383.82.

NOTE 10 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (6,184,543.01)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(53,586,130.82)</u>
Effect on Unrestricted Net Position	(59,770,673.83)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>20,462,056.48</u>
Total Unrestricted Net Position	<u>\$ (39,308,617.35)</u>

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

NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 21,569,361.30</u>	<u>\$ 6,114,670.04</u>	<u>\$ 1,500.24</u>	<u>\$ 15,453,191.02</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 4,076,999.12	\$ 848,623.01	\$ -	\$ 3,228,376.11
Dining	2,340,412.88	658,693.59	-	1,681,719.29
Health, Physical Education, and Recreation Services	354,793.15	-	-	354,793.15
Parking	94,140.76	-	-	94,140.76
Other	17,615.69	-	-	17,615.69
Sales and Services of Education and Related Activities:				
University Production Revenues	825,817.78	-	-	825,817.78
Total Sales and Services, Net	<u>\$ 7,709,779.38</u>	<u>\$ 1,507,316.60</u>	<u>\$ -</u>	<u>\$ 6,202,462.78</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 16,033,226.24	\$ 1,911,712.34	\$ -	\$ -	\$ -	\$ 17,944,938.58
Public Service	712,191.76	855,236.85	-	-	-	1,567,428.61
Academic Support	5,408,677.70	793,293.24	-	-	-	6,201,970.94
Student Services	1,198,102.78	454,650.39	-	-	-	1,652,753.17
Institutional Support	10,231,649.29	5,518,519.46	-	3,646.28	-	15,753,815.03
Operations and Maintenance of Plant	6,384,437.01	1,938,775.09	-	1,735,341.04	-	10,058,553.14
Student Financial Aid	-	-	1,730,314.51	-	-	1,730,314.51
Auxiliary Enterprises	3,817,582.61	3,719,035.75	-	148,527.64	-	7,685,146.00
Depreciation	-	-	-	-	4,154,727.01	4,154,727.01
Total Operating Expenses	<u>\$ 43,785,867.39</u>	<u>\$ 15,191,223.12</u>	<u>\$ 1,730,314.51</u>	<u>\$ 1,887,514.96</u>	<u>\$ 4,154,727.01</u>	<u>\$ 66,749,646.99</u>

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 \$442,165.00 provided by the Higher Education Emergency Relief Fund (HEERF) and \$53,401.00 provided by the Governor's Emergency Education Relief Fund (GEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid – COVID-19 revenue and student financial aid operating expenses. Since

the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 11.

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were \$864,163.21, and the University's contributions were \$2,128,722.04 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 \$11,027,239.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. The 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 0.09127%, which was an increase of 0.00291 from its proportion measured as of June 30, 2019, which was 0.08836%.

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%)
\$ 19,846,439.71	\$ 11,027,239.00	\$ 3,629,754.05

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 \$3,512,065.00. 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	\$ 607,660.00	\$ -
Changes of Assumptions	373,681.95	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,219,500.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	513,132.00	-
Contributions Subsequent to the Measurement Date	2,128,722.04	-
Total	\$ 4,842,695.99	\$ -

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	\$ 1,017,777.00
2023	756,944.00
2024	575,954.00
2025	363,298.95
Total	\$ 2,713,973.95

- 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 \$33,456,950.61, of which \$13,136,817.05 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$788,209.02 and \$898,558.29, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator

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

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The

plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution

rate for the year ended June 30, 2021 was 6.68% of covered payroll. The University's contributions to the RHBF were \$1,839,641.09 for the year ended June 30, 2021.

2. Disability Income

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

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

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were \$24,785.58 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 \$42,781,867.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 0.15422%, which was a decrease of 0.00124 from its proportion measured as of June 30, 2019, which was 0.15546%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of \$77,397.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 0.15733%, which was an increase of 0.00155 from its proportion measured as of June 30, 2019, which was 0.15578%.

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	\$ 50,736,674.33	\$ 42,781,867.00	\$ 36,373,076.93
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (66,843.22)	\$ (77,397.00)	\$ (87,643.82)

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	\$ 34,489,979.79	\$ 42,781,867.00	\$ 53,865,262.98
	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	\$ (77,524.36)	\$ (77,397.00)	\$ (77,285.22)

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

OPEB Plan	Amount
RHBF	\$ (26,037.00)
DIPNC	58,765.00
Total OPEB Expense	\$ 32,728.00

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	\$ 38,757.00	\$ 56,068.00	\$ 94,825.00
Changes of Assumptions	1,876,229.09	6,018.00	1,882,247.09
Net Difference Between Projected and Actual Earnings on Plan Investments	90,125.00	-	90,125.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	5,156,811.00	1,983.00	5,158,794.00
Contributions Subsequent to the Measurement Date	1,839,641.09	24,785.58	1,864,426.67
Total	\$ 9,001,563.18	\$ 88,854.58	\$ 9,090,417.76

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 1,673,679.00	\$ -	\$ 1,673,679.00
Changes of Assumptions	17,361,557.00	6,095.00	17,367,652.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	13,112.00	13,112.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	770,591.00	1,455.00	772,046.00
Total	\$ 19,805,827.00	\$ 20,662.00	\$ 19,826,489.00

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

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

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2022	\$ (4,879,537.00)	\$ 15,905.00
2023	(4,874,839.00)	10,640.00
2024	(1,124,889.00)	5,288.00
2025	(304,998.00)	8,693.00
2026	(1,459,641.91)	631.00
Thereafter	-	2,250.00
Total	<u>\$ (12,643,904.91)</u>	<u>\$ 43,407.00</u>

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. 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. However, some agencies have chosen a higher deductible for a reduction in premium.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$16,081,397.92 and on other purchases were \$1,603,925.94 at June 30, 2021.
- B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - THE CORONAVIRUS PANDEMIC EMERGENCY

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

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

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

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

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

Program	Total Authorized Award	2020 Earned Revenue	2021 Earned Revenue	2021 Unearned Revenue (1)
State Aid - Coronavirus:	N/A	<u>\$ 73,231.75</u>	<u>\$ 1,637,204.83</u>	<u>\$ 6,661.42</u>
Federal Aid - COVID-19:				
HEERF Funds	\$ 4,407,013.00	\$ 423,800.00	\$ 1,218,920.32	\$ -
GEER Funds	206,747.00	-	56,399.31	-
Total Federal Aid - COVID-19	N/A	<u>\$ 423,800.00</u>	<u>\$ 1,275,319.63</u>	<u>\$ -</u>

(1) CARES amounts that can be used until December 31, 2021 (Included in Carryforward)

NOTE 18 - 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	Housing Corporation	Program Support Corporation	Total
ASSETS				
Current Assets	\$ 37,664,828.58	\$ 1,775,074.00	\$ 79,253.00	\$ 39,519,155.58
Capital Assets, Net	147,715,913.44	3,920,760.00	1,082,625.00	152,719,298.44
Other Noncurrent Assets	63,730,218.25	-	-	63,730,218.25
Total Assets	249,110,960.27	5,695,834.00	1,161,878.00	255,968,672.27
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,933,113.75	-	-	13,933,113.75
LIABILITIES				
Current Liabilities	9,988,917.72	370,125.00	17.00	10,359,059.72
Long-Term Liabilities, Net	104,113,063.49	3,172,000.00	-	107,285,063.49
Other Noncurrent Liabilities	175,733.94	-	-	175,733.94
Total Liabilities	114,277,715.15	3,542,125.00	17.00	117,819,857.15
TOTAL DEFERRED INFLOWS OF RESOURCES	19,826,489.00	-	-	19,826,489.00
NET POSITION				
Net Investment in Capital Assets	115,541,486.31	402,761.00	1,082,625.00	117,026,872.31
Restricted - Nonexpendable	22,390,695.16	-	-	22,390,695.16
Restricted - Expendable	32,146,489.75	-	-	32,146,489.75
Unrestricted	(41,138,801.35)	1,750,948.00	79,236.00	(39,308,617.35)
Total Net Position	\$ 128,939,869.87	\$ 2,153,709.00	\$ 1,161,861.00	\$ 132,255,439.87

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

	University	Housing Corporation	Program Support Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenues, Net	\$ 16,677,343.62	\$ -	\$ 3,125.00	\$ -	\$ 16,680,468.62
Sales and Services, Net	5,114,458.78	1,088,004.00	-	-	6,202,462.78
Total Operating Revenues	21,791,802.40	1,088,004.00	3,125.00	-	22,882,931.40
OPERATING EXPENSES					
Operating Expenses	62,247,296.75	415,383.00	19,227.00	(86,986.77)	62,594,919.98
Depreciation	4,044,136.01	110,591.00	-	-	4,154,727.01
Total Operating Expenses	66,291,432.76	525,974.00	19,227.00	(86,986.77)	66,749,646.99
Operating Income (Loss)	(44,499,630.36)	562,030.00	(16,102.00)	86,986.77	(43,866,715.59)
NONOPERATING REVENUES (EXPENSES)					
Investment Income, Net	11,901,947.69	7,520.00	-	-	11,909,467.69
Interest and Fees on Debt	(1,561,031.46)	(109,531.00)	-	-	(1,670,562.46)
Other Nonoperating Revenues	42,889,530.03	94,067.00	-	(86,986.77)	42,896,610.26
Net Nonoperating Revenues (Expenses)	53,230,446.26	(7,944.00)	-	(86,986.77)	53,135,515.49
Capital Appropriations	1,846,953.39	-	-	-	1,846,953.39
Capital Contributions	3,891,318.15	-	-	-	3,891,318.15
Additions to Endowments	2,701,790.00	-	-	-	2,701,790.00
Total Other Revenues	8,440,061.54	-	-	-	8,440,061.54
Increase (Decrease) in Net Position	17,170,877.44	554,086.00	(16,102.00)	-	17,708,861.44
NET POSITION					
Net Position, July 1, 2020	111,768,992.43	1,599,623.00	1,177,963.00	-	114,546,578.43
Net Position, June 30, 2021	\$ 128,939,869.87	\$ 2,153,709.00	\$ 1,161,861.00	\$ -	\$ 132,255,439.87

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

	University	Housing Corporation	Program Support Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (40,331,225.75)	\$ 649,997.00	\$ (14,740.00)	\$ (39,695,968.75)
Total Cash Provided by Noncapital Financing Activities	44,398,045.95	86,987.00	-	44,485,032.95
Net Cash Used by Capital and Related Financing Activities	(20,916,730.97)	(441,311.00)	-	(21,358,041.97)
Net Cash Provided (Used) by Investing Activities	(1,445,528.25)	7,520.00	-	(1,438,008.25)
Net Increase (Decrease) in Cash and Cash Equivalents	(18,295,439.02)	303,193.00	(14,740.00)	(18,006,986.02)
Cash and Cash Equivalents, July 1, 2020	79,050,943.81	1,448,392.00	92,963.00	80,592,298.81
Cash and Cash Equivalents, June 30, 2021	\$ 60,755,504.79	\$ 1,751,585.00	\$ 78,223.00	\$ 62,585,312.79

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 84, Fiduciary Activities

GASB Statement No. 93, Replacement of Interbank Offered Rates

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

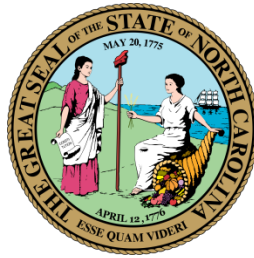
GASB Statement No. 98, The Annual Comprehensive Financial Report

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

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

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.09127%	0.08836%	0.08627%	0.08229%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,027,239.00	\$ 9,160,243.00	\$ 8,589,118.00	\$ 6,529,251.00
Covered Payroll	\$ 14,379,392.79	\$ 14,130,569.35	\$ 13,354,295.15	\$ 14,185,193.23
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	76.69%	64.83%	64.32%	46.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.08293%	0.08008%	0.08128%	0.08190%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 7,622,124.00	\$ 2,951,107.00	\$ 952,944.00	\$ 4,972,165.00
Covered Payroll	\$ 12,263,260.70	\$ 12,074,597.76	\$ 12,111,613.34	\$ 12,300,093.04
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	62.15%	24.44%	7.87%	40.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

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

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

Exhibit C-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 2,128,722.04	\$ 1,865,007.25	\$ 1,736,646.97	\$ 1,439,593.02	\$ 1,415,682.28
Contributions in Relation to the Contractually Determined Contribution	<u>2,128,722.04</u>	<u>1,865,007.25</u>	<u>1,736,646.97</u>	<u>1,439,593.02</u>	<u>1,415,682.28</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$14,402,720.16	\$14,379,392.79	\$14,130,569.35	\$13,354,295.15	\$14,185,193.23
Contributions as a Percentage of Covered Payroll	14.78%	12.97%	12.29%	10.78%	9.98%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 1,122,088.35	\$ 1,104,825.70	\$ 1,052,499.20	\$ 1,024,597.75	\$ 881,137.64
Contributions in Relation to the Contractually Determined Contribution	<u>1,122,088.35</u>	<u>1,104,825.70</u>	<u>1,052,499.20</u>	<u>1,024,597.75</u>	<u>881,137.64</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$12,263,260.70	\$12,074,597.76	\$12,111,613.34	\$12,300,093.04	\$11,843,247.87
Contributions as a Percentage of Covered Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

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

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

Changes of Benefit Terms:

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

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

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

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

N/A - Not Applicable

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

Exhibit C-3

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.15422%	0.15546%	0.14585%	0.13584%	0.13984%
Proportionate Share of Collective Net OPEB Liability	\$ 42,781,867.00	\$ 49,185,946.00	\$ 41,551,270.00	\$ 44,537,750.00	\$ 60,835,153.00
Covered Payroll	\$ 28,736,227.17	\$ 28,650,939.39	\$ 27,052,868.06	\$ 26,876,635.75	\$ 23,564,162.96
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	148.88%	171.67%	153.59%	165.71%	258.17%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.15733%	0.15578%	0.15100%	0.14901%	0.13272%
Proportionate Share of Collective Net OPEB Asset	\$ 77,397.00	\$ 67,219.00	\$ 45,868.00	\$ 91,075.00	\$ 82,419.00
Covered Payroll	\$ 28,736,227.17	\$ 28,650,939.39	\$ 27,052,868.06	\$ 26,876,635.75	\$ 23,564,162.96
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.27%	0.23%	0.17%	0.34%	0.35%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	113.00%	108.47%	116.23%	116.06%

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

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

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

Exhibit C-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 1,839,641.09	\$ 1,859,233.90	\$ 1,796,413.90	\$ 1,636,698.52	\$ 1,561,532.54
Contributions in Relation to the Contractually Determined Contribution	1,839,641.09	1,859,233.90	1,796,413.90	1,636,698.52	1,561,532.54
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 27,539,537.21	\$ 28,736,227.17	\$ 28,650,939.39	\$ 27,052,868.06	\$ 26,876,635.75
Contributions as a Percentage of Covered Payroll	6.68%	6.47%	6.27%	6.05%	5.81%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 1,319,593.13	\$ 1,227,235.27	\$ 1,176,662.93	\$ 1,118,610.09	\$ 1,026,001.49
Contributions in Relation to the Contractually Determined Contribution	1,319,593.13	1,227,235.27	1,176,662.93	1,118,610.09	1,026,001.49
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 23,564,162.96	\$ 22,354,012.20	\$ 21,790,054.27	\$ 21,105,850.83	\$ 20,520,029.83
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	\$ 24,785.58	\$ 28,736.23	\$ 40,111.32	\$ 37,874.02	\$ 102,131.22
Contributions in Relation to the Contractually Determined Contribution	24,785.58	28,736.23	40,111.32	37,874.02	102,131.22
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 27,539,537.21	\$ 28,736,227.17	\$ 28,650,939.39	\$ 27,052,868.06	\$ 26,876,635.75
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	\$ 96,613.07	\$ 91,651.45	\$ 95,876.24	\$ 92,865.74	\$ 106,704.16
Contributions in Relation to the Contractually Determined Contribution	96,613.07	91,651.45	95,876.24	92,865.74	106,704.16
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 23,564,162.96	\$ 22,354,012.20	\$ 21,790,054.27	\$ 21,105,850.83	\$ 20,520,029.83
Contributions as a Percentage of Covered Payroll	0.41%	0.41%	0.44%	0.44%	0.52%

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

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

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

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

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

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

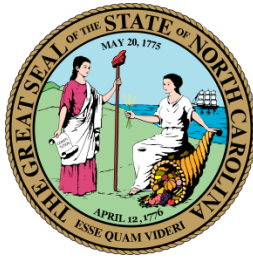
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
University of North Carolina School of the Arts
Winston-Salem, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of North Carolina School of the Arts (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 3, 2021. Our report includes a reference to other auditors who audited the financial statements of the University of North Carolina School of the Arts Housing Corporation, the University of North Carolina School of the Arts Program Support Corporation, and the discretely presented component unit, the University of North Carolina School of the Arts Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the University of North Carolina School of the Arts Housing Corporation, the University of North Carolina School of the Arts Program Support Corporation, and the University of North Carolina School of the Arts Foundation, Inc. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 3, 2021

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919-807-7666



This audit required 560 hours at an approximate cost of \$59,360.