

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2020

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Central University for the year ended June 30, 2020, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

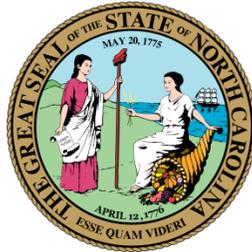


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 STATEMENT OF NET POSITION	11
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	13
A-3 STATEMENT OF CASH FLOWS.....	14
COMPONENT UNIT EXHIBITS	
B-1 STATEMENT OF FINANCIAL POSITION	16
B-2 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS.....	17
NOTES TO THE FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	60
C-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	62
C-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	63
C-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	64
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	65
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	66
ORDERING INFORMATION	68

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Central University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NCCU Real Estate Foundation, Inc., which represent 5 percent of the assets of the University; nor the financial statements of the North Carolina Central University Foundation, Inc. (NCCU Foundation, Inc.), the University's discretely presented component unit. Those statements were audited by other auditors, whose reports 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. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the University's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Central University, and its discretely presented component unit, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – 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, 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*

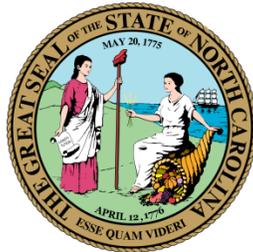
In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 1, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis is intended to give the reader an overview of factors that have affected operations and may affect operations in the future for North Carolina Central University (the University). Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements. The University is required by the Governmental Accounting Standards Board (GASB) to present three basic financial statements. Those statements are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the University.

In addition to the University's financial statements and accompanying notes, information for its component units are presented. The Statement of Financial Position, Statement of Activities and Changes in Net Assets, and certain notes for the North Carolina Central University Foundation, Inc. (NCCU Foundation) are discretely presented alongside the University financial statements; however, the discretely presented 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.

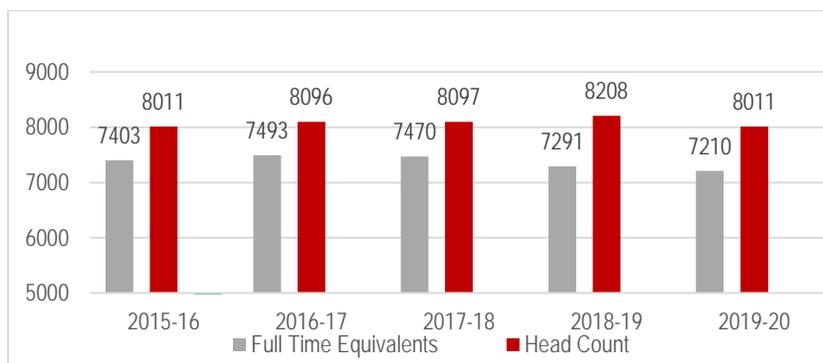
Brief Institutional Highlights

The University is dedicated to the field of research and continues to apply for grants. For the fiscal year ended June 30, 2020, the Office of Sponsored Research submitted 161 grant proposals and received 101 grant awards of \$34.8 million to be received over the next three to five years.

For fiscal year ended June 30, 2020, the University's adjusted state appropriations were \$86.4 million, which is an increase of \$0.9 million, from the fiscal year 2019 adjusted state appropriations of \$85.5 million. The University's fiscal year 2020 total state budget increased by \$0.3 million, or 0.2%, from \$139.7 million in 2019 to \$140.0 million in 2020. The stable state appropriations and budget are attributable to maintaining enrollment.

During fiscal year 2019-20, the University's total enrollment remained relatively constant. This marks five years of continuous stable enrollment from fiscal years 2015-16 through 2019-20. The first year full time freshman-to-sophomore retention rate remained relatively consistent at 76% from 2018-19 to 2019-20, and indicates satisfaction among the student body. The trends in both enrollment and retention can be attributed to the University's recruitment, marketing, and innovative programs to target high-caliber students.

FTE and Head Count 2016 to 2020



Financial Highlights

The Statement of Net Position reports all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The sum of assets and deferred outflows of resources, less the liabilities and deferred inflows of resources is reported as net position. The statement classifies those assets and liabilities as current and noncurrent depending on the availability of the assets or satisfaction of the obligation within 12 months (current) or longer (noncurrent). The reader may use net position to gauge the financial position of the University as of June 30, 2020.

Condensed Statement of Net Position

	2020	2019 (Restated)
Assets		
Current Assets	\$ 50,635,153	\$ 51,767,883
Capital Assets, Net	279,636,057	265,651,537
Other Noncurrent Assets	76,629,754	100,110,440
Total Assets	<u>406,900,964</u>	<u>417,529,860</u>
Deferred Outflows of Resources	<u>32,872,113</u>	<u>31,644,296</u>
Liabilities		
Current Liabilities		
Long-Term Liabilities - Current Portion	7,533,741	7,437,143
Other Current Liabilities	11,620,216	9,411,953
Total Current Liabilities	<u>19,153,957</u>	<u>16,849,096</u>
Noncurrent Liabilities		
Long-Term Liabilities, Net	303,121,093	295,849,910
Other Noncurrent Liabilities	3,398,364	4,013,435
Total Noncurrent Liabilities	<u>306,519,457</u>	<u>299,863,345</u>
Total Liabilities	<u>325,673,414</u>	<u>316,712,441</u>
Deferred Inflows of Resources	<u>62,014,544</u>	<u>79,991,313</u>
Net Position		
Net Investment in Capital Assets	197,967,880	200,919,035
Restricted - Nonexpendable	16,810,802	16,759,268
Restricted - Expendable	26,644,018	35,180,658
Unrestricted	<u>(189,337,581)</u>	<u>(200,388,559)</u>
Total Net Position	<u>\$ 52,085,119</u>	<u>\$ 52,470,402</u>

As of June 30, 2020, the University's total assets were \$406.9 million as compared to \$417.5 million in the prior year, a decrease of \$10.6 million. The change in assets reflects a decrease of \$1.1 million in current assets, an increase of \$14.0 million in net capital assets, and a decrease of \$23.5 million in other noncurrent assets. The net capital assets increase is driven by current year capital asset additions of \$22.5 million – see the capital assets section below for more details. The other noncurrent assets decrease of \$23.5 million is mainly attributable to the use of restricted bond proceeds to fund capital expenditures.

Deferred outflows of resources were \$32.9 million as of June 30, 2020, compared to \$31.6 million as of the prior fiscal year, an increase of \$1.3 million. This increase is primarily attributable to an increase of \$6.4 million in the deferred outflows related to other

postemployment benefits and an offsetting decrease of \$3.9 million in the deferred outflows related to pensions. Both of these deferred outflow measures fluctuate each year due to changes in pension and OPEB asset and liability assumptions and calculation inputs, such as differences between projected and actual investment plan earnings, and changes in the University's proportionate share of the assets and liabilities. Refer to Notes 14 and 15 for details of such changes. The overall net increase in pension and OPEB deferred outflows was further offset by a \$1.2 million decrease resulting from the amortization of the deferred loss on refunding on the 2016 Revenue Bonds and the elimination of the hedging derivative associated with refunding of the 2003A Revenue Bonds.

The University's liabilities totaled \$325.7 million at June 30, 2020, an increase of \$9.0 million from the prior fiscal year. The net increase is primarily attributable to the combined change in the net pension liability and net other postemployment benefits liability in accordance with GASB Statements No. 68 and No. 75, respectively. See Note 9 to the financial statements for additional information regarding debt and long-term liabilities.

The current liabilities balance of \$19.2 million was covered 2.6 times by current assets of \$50.6 million, which is an indication of the University's ability to pay current liabilities as they become due.

Deferred inflows of resources increased by \$18.0 million primarily as a result of changes in actuarial assumptions related to OPEB. See Note 15 to the financial statements for further details.

As of June 30, 2020, the University's total net position was \$52.1 million compared to \$52.5 million in the prior year (as restated), a decrease of \$0.4 million. See Note 21 to the financial statements for details on the net position restatement. Restricted expendable net position decreased \$8.5 million, primarily due to funds expended for campus enhancements and capital improvement projects. Unrestricted net position increased \$11.1 million, primarily due to an overall net decrease in obligations related to the pension and OPEB plans.

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

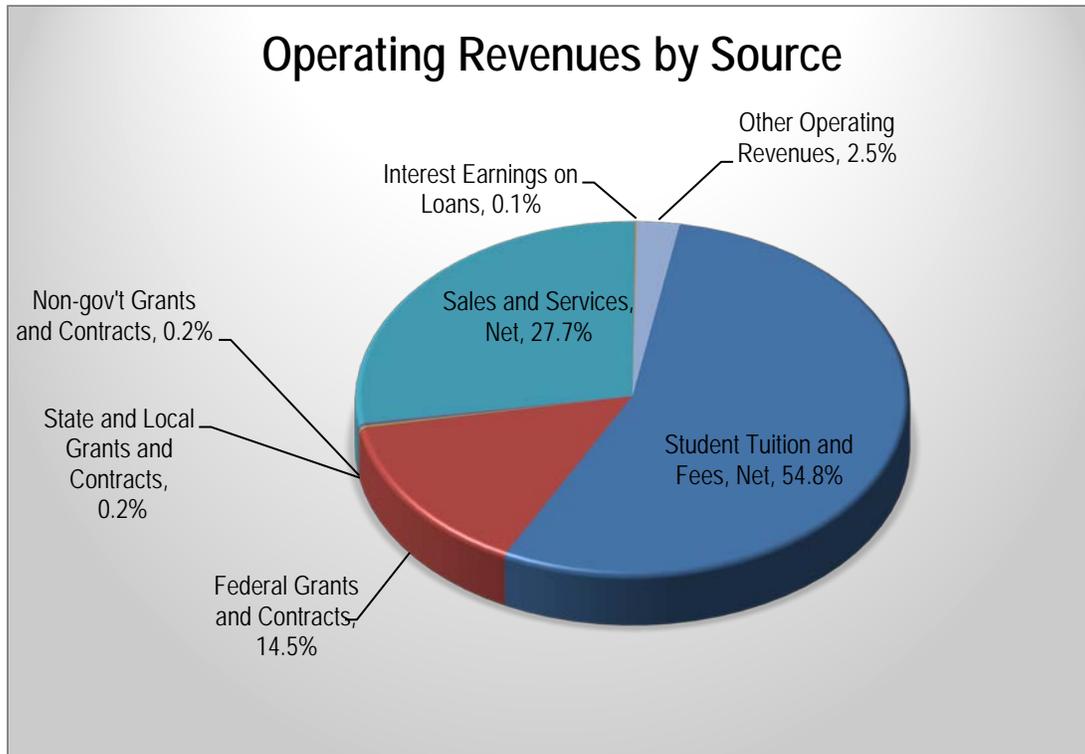
	2020	2019 (Restated)
Operating Revenues		
Student Tuition and Fees, Net	\$ 47,701,532	\$ 47,101,553
Contracts and Grants	12,991,760	13,266,790
Sales and Services, Net	24,047,088	28,093,437
Other Operating Revenues	2,264,008	2,378,645
Total Operating Revenues	<u>87,004,388</u>	<u>90,840,425</u>
Operating Expenses		
Salaries and Benefits	125,163,868	121,717,680
Supplies and Services	57,624,864	56,374,070
Scholarships and Fellowships	16,974,603	15,538,151
Utilities	5,044,811	5,016,748
Depreciation	8,475,261	8,559,031
Operating Expenses	<u>213,283,407</u>	<u>207,205,680</u>
Operating Loss	<u>(126,279,019)</u>	<u>(116,365,255)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	86,380,054	85,457,240
State Aid - Coronavirus Relief Fund	790,806	
Student Financial Aid	20,786,559	23,964,988
Federal Aid - COVID-19	8,932,234	
Noncapital Contributions	9,923,807	12,472,930
Investment Income, Net	2,045,705	3,806,290
Interest and Fees on Debt	(5,687,964)	(5,789,144)
Other Nonoperating Revenue	1,550,450	309,120
Income (Loss) Before Other Revenues	<u>(1,557,368)</u>	<u>3,856,169</u>
Additions to Endowments	165,023	120,738
Capital Grants and Appropriations	1,007,062	10,819,820
Increase (Decrease) in Net Position	(385,283)	14,796,727
Net Position - Beginning of Year as Restated	52,470,402	31,155,835
Restatement		<u>6,517,840</u>
Net Position - End of Year	<u>\$ 52,085,119</u>	<u>\$ 52,470,402</u>

Fiscal year 2020 total revenues are \$218,586,088 and total expenses are \$218,971,371.

Fiscal year 2019 total revenues are \$227,791,551 and total expenses are \$212,994,824.

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and expenses incurred during the fiscal year. The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position reported on the Statement of Net Position. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition and fees reported net of discounts and scholarship allowances, federal and state contracts and grants, and auxiliary sales and services revenues. Operating expenses consist of salaries, supplies and services, scholarships, utilities, and depreciation.

The University's operating revenues were \$87.0 million for fiscal year 2020 and \$90.8 million for fiscal year 2019, which equates to a decrease of \$3.8 million, or 4.2%. The decrease is primarily attributable to a \$4.0 million decrease in sales and services revenue as a result of student housing and dining refunds issued due to COVID-19.



Total operating expenses for fiscal year 2020 increased by \$6.1 million, or 2.9% over fiscal year 2019. Salaries and benefits expenses increased by \$3.4 million primarily due to an increase in pension expense recognized during the year. Supplies and services expense increased by \$1.3 million, primarily representing increases in student marketing and educational supplies. Scholarships and fellowships awarded increased by \$1.4 million due to the Higher Education Emergency Relief Fund (HEERF) which provided emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19. See Note 18 to the financial statements for further details.

Overall, the University sustained a total operating loss of \$126.3 million in fiscal year 2020, which is \$9.9 million higher than the fiscal year 2019 operating loss of \$116.4 million. Operating losses are projected to continue in the future, due to the accounting requirement to categorize state appropriations, a significant source of funding, as nonoperating revenues. The state appropriations for fiscal year 2020 were \$86.4 million.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's purpose for existence and for which no goods or services are provided. State appropriations, student financial aid, noncapital contributions, net investment income, and debt related interest primarily represent the nonoperating revenues and expenses. In fiscal year 2020, net investment income was \$2.0 million, a decrease of \$1.8 million from the prior fiscal year due to unfavorable market returns. Student financial aid decreased \$3.2 million primarily due to a decrease in Pell grants awarded. Noncapital

contributions decreased by \$2.5 million due to the impact of COVID-19; however, these decreases were offset by Coronavirus Federal Aid of \$8.9 million and State Aid of \$0.8 million. See Note 18 to the Financial Statements for further details. Capital grants and appropriations decreased \$9.8 million from the prior fiscal year due to less funding received in fiscal year 2020 from the State's Connect NC bond package.

Capital Assets and Debt Administration

As of June 30, 2020, there was \$26.4 million of construction in progress for design and construction work on the new Student Union building and the new School of Business. During fiscal year 2020, there was \$0.3 million in land purchases related to the new School of Business. For additional information concerning capital assets, see Notes 1(H), 6 and 17(A) to the financial statements.

As of June 30, 2020, the University had \$113.6 million in outstanding bonds, notes, and leases payable. This is comprised of \$51.7 million of 2016 Revenue Bonds issued to advance refund the 2009C UNC System Pool Revenue Bonds for the construction of Chidley North Residence Hall, Latham Parking Deck, and renovations to the Walker Athletic Complex, \$13.5 million of 2019 Revenue Bonds issued to advance refund the 2003A Revenue Bonds for the construction of Eagle's Landing Residence Hall, \$41.3 million of 2019 General Revenue Bonds for the new student center, \$6.4 million in notes from direct borrowings for energy and housing projects, and \$0.6 million in capital leases.

In 2019, the University entered into a partnership with a private entity for the construction of three new residence halls that will provide 1,270 new beds in semi-suite and apartment style units. The private entity borrowed approximately \$124.0 million for the construction of the units. For additional information regarding this service concession arrangement, see Note 7 to the financial statements.

The University's Moody's Investor Service rating at June 30, 2020 was A3 with a stable outlook. The rating has the potential to affect the cost of capital for any future borrowing that the University undertakes.

For additional information concerning debt administration, see Note 9 to the financial statements.

Economic Outlook

The University will stay the course for building upon the foundation that has produced stable enrollment and a freshman-to-sophomore retention rate that has remained greater than 76%. These positive trends are the result of strategic initiatives that include expanding partnerships with other academic institutions, building a robust online platform, offering innovative programs that increase opportunities to underserved populations, and increasing recruitment and marketing efforts to target high-caliber students.

The University has committed to raising funds for the Cheatham-White scholarships that will offer a fully funded four-year merit scholarship to cover all costs of attendance for up to 50 selected students. State appropriations will match the fundraising for the scholarships to the students who meet the merit requirements.

The continual growth of North Carolina especially in the Triangle area, the desirability of a college degree, the underserved community that are our customers, and our continued outreach through partnerships and innovative programs to not only traditional students but to non-traditional students as well is a basis for forecasting that there will be an increasing demand for our product.

The Eagle Promise has established the following strategic priorities: to embrace student success and offer multiple access points for students seeking higher education; to expand the University's portfolio of academic offerings and research initiatives and provide new opportunities for global immersion; to expand partnerships with higher education institutions, community colleges, K-12, private industry and nonprofits to recruit, support and employ students; to facilitate the development of innovative strategies with Durham County, the City of Durham, and the Research Triangle to create economic opportunity and revitalization in areas surrounding the University; to reinforce and invest in improved security measures to enhance campus safety and well-being; and to improve and build new infrastructure to better accommodate the University community as it grows and thrives.

The University remains at the forefront of research within the State of North Carolina. The Julius L. Chambers Biomedical/Biotechnology Research Institute (BBRI) and the Bio-manufacturing Research Institute and Technology Enterprise (BRITE) provide a wealth of research opportunities for undergraduate and Ph.D. students.

The University actively applies for grants in support of research and other academic programs, and receives grant funding from numerous sponsors. The above trends all point toward a bright future ahead for the University. Under the veteran leadership of Chancellor Akinleye, North Carolina Central University is prepared to deliver on the eagle promise and to soar to new heights.

In March 2020, at the onset of COVID-19, the University was progressing on a path toward enrollment growth for fall of 2020. Data related to fall applications for both undergraduate and graduate students reflected increases in total applications, admissions, and acceptances. While many institutions, including the University, were unsure what to expect for fall of 2020, we recognized moderate enrollment growth of slightly under 1.0% with a total enrollment of 8,079 versus 8,011 in the fall of 2019. The numbers are encouraging given the uncertainty of the current environment.

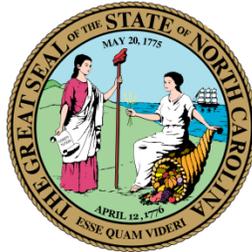
The University recognized in spring of 2020 the need to implement a plan that would minimize to the best degree possible the impact of the unknown for fiscal year 2020-21. To that end, the University leadership curtailed expenditures unrelated to COVID-19, collapsed general fund budgets, and pooled necessary resources to focus primarily on the safety and health of students, faculty, and staff.

In order to preserve the University's financial position and remain stable through the period of COVID-19 for fiscal year 2020-21, the University allocated 50% of operational budgets in the general fund. This had minimal impact on daily operations as many functions remain remote. Auxiliary unit budgets were realigned to support reduced operations based on fewer students on campus. This effort was completed to preserve fund balances. Based on the measures taken, the University expects to realize the revenue estimates developed. The preservation of University funds along with the one-time infusion of federal funds has allowed the University the ability to maintain the student experience within the new safety protocols of COVID-19.

It is important to note that in the midst of all of the uncertainty, the University continued to press forward on several significant projects. In August and September of 2020, the University, as a part of its private-public partnership student housing project, placed in service two new residential halls, George Street Residence Hall (suite style) and Alston Avenue Apartments. A third residence hall, Lawson Street Residence Hall is slated for opening in fall of 2021. A full-service Starbucks location was opened in fall 2020 as a part of the library expansion. Additionally, progress continues on the new Student Center, with expected completion in fall of 2022. The University expects to break ground on the new School of Business in March of 2021.

The University continues to be an economic engine for the Durham and Triangle areas. Our funded research as of November 2020 is \$18.3 million which includes groundbreaking research in the area of health disparities, cancer research, COVID-19 testing, and telemedicine. The new fiscal year also saw a realignment of the schools and colleges of the University to better align and recognize the health and social sciences. This will allow the University to engage and partner with even more research opportunities within the schools and colleges and our research institutes.

Based on the planning efforts of the University, the applications to date for the 2021-22 academic year, as well as the economic outlook provided from the State of North Carolina, the University expects that any impact to overall budgets going forward will be minimal and not significantly impact overall operations. The University expects the growth trajectory to continue at a conservative 1.2% annually for enrollment.



FINANCIAL STATEMENTS

North Carolina Central University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 22,814,593
Restricted Cash and Cash Equivalents	14,147,881
Restricted Short-Term Investments	1,927,699
Receivables, Net (Note 5)	11,392,223
Due from University Component Units	70,758
Inventories	265,146
Notes Receivable, Net (Note 5)	16,853

Total Current Assets	50,635,153
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	37,194,587
Endowment Investments	37,590,982
Restricted Investments	24,103
Notes Receivable, Net (Note 5)	1,624,505
Net Other Postemployment Benefits Asset	195,577
Capital Assets - Nondepreciable (Note 6)	37,709,626
Capital Assets - Depreciable, Net (Note 6)	241,926,431

Total Noncurrent Assets	356,265,811
-------------------------	-------------

Total Assets	406,900,964
--------------	-------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	16,196,157
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	16,675,956

Total Deferred Outflows of Resources	32,872,113
--------------------------------------	------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	7,804,427
Due to Primary Government	20,297
Funds Held for Others	70,758
Unearned Revenue	2,518,363
Interest Payable	1,206,371
Long-Term Liabilities - Current Portion (Note 9)	7,533,741

Total Current Liabilities	19,153,957
---------------------------	------------

Noncurrent Liabilities:

Deposits Payable	400
Funds Held for Others	1,318,154
U.S. Government Grants Refundable	2,079,810
Long-Term Liabilities, Net (Note 9)	303,121,093

Total Noncurrent Liabilities	306,519,457
------------------------------	-------------

Total Liabilities	325,673,414
-------------------	-------------

North Carolina Central University
Statement of Net Position
June 30, 2020

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	71,892
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	<u>61,942,652</u>
Total Deferred Inflows of Resources	<u>62,014,544</u>

NET POSITION

Net Investment in Capital Assets	197,967,880
Restricted:	
Nonexpendable	
Scholarships and Fellowships	4,930,544
Endowed Professorships	10,987,178
Loans	893,080
Expendable	
Scholarships and Fellowships	643,520
Research	61,378
Endowed Professorships	19,079,886
Departmental Uses	553,524
Capital Projects	6,305,066
Other	644
Unrestricted	<u>(189,337,581)</u>
Total Net Position	<u>\$ 52,085,119</u>

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

North Carolina Central University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2020

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 12)	\$ 47,701,532
Federal Grants and Contracts	12,638,545
State and Local Grants and Contracts	144,086
Nongovernmental Grants and Contracts	209,129
Sales and Services, Net (Note 12)	24,047,088
Interest Earnings on Loans	76,228
Other Operating Revenues	2,187,780
	<hr/>
Total Operating Revenues	87,004,388

OPERATING EXPENSES

Salaries and Benefits	125,163,868
Supplies and Services	57,624,864
Scholarships and Fellowships	16,974,603
Utilities	5,044,811
Depreciation	8,475,261
	<hr/>
Total Operating Expenses	213,283,407
	<hr/>
Operating Loss	(126,279,019)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	86,380,054
State Aid - Coronavirus Relief Fund	790,806
Student Financial Aid	20,786,559
Federal Aid - COVID-19	8,932,234
Noncapital Contributions	9,923,807
Investment Income (Net of Investment Expense of \$165,929)	2,045,705
Interest and Fees on Debt	(5,687,964)
Other Nonoperating Revenues	1,550,450
	<hr/>
Net Nonoperating Revenues	124,721,651
	<hr/>
Loss Before Other Revenues	(1,557,368)
Capital Appropriations	665,946
Capital Grants	341,116
Additions to Endowments	165,023
	<hr/>
Total Other Revenues	1,172,085
	<hr/>
Decrease in Net Position	(385,283)

NET POSITION

Net Position - July 1, 2019, as Restated (Note 21)	52,470,402
	<hr/>
Net Position - June 30, 2020	\$ 52,085,119

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

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 89,627,268
Payments to Employees and Fringe Benefits	(131,594,293)
Payments to Vendors and Suppliers	(63,300,318)
Payments for Scholarships and Fellowships	(16,974,603)
Collection of Loans	156,177
Interest Earned on Loans	32,933
Other Receipts	2,187,780
	<hr/>
Net Cash Used by Operating Activities	(119,865,056)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	86,380,054
State Aid - Coronavirus Relief Fund	790,806
Student Financial Aid	20,786,559
Federal Aid - COVID-19	8,932,234
Noncapital Contributions	8,984,828
Additions to Endowments	165,023
William D. Ford Direct Lending Receipts	88,351,662
William D. Ford Direct Lending Disbursements	(88,351,662)
Related Activity Agency Disbursements	(415,274)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	125,624,230

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	665,946
Capital Contributions	341,116
Acquisition and Construction of Capital Assets	(20,016,662)
Principal Paid on Capital Debt and Leases	(6,776,663)
Interest and Fees Paid on Capital Debt and Leases	(5,333,050)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(31,119,313)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,757,825
Investment Income	2,087,658
Purchase of Investments and Related Fees	(4,340,441)
	<hr/>
Net Cash Provided by Investing Activities	3,505,042
	<hr/>
Net Decrease in Cash and Cash Equivalents	(21,855,097)
	<hr/>
Cash and Cash Equivalents - July 1, 2019	96,012,158
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 74,157,061

North Carolina Central University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (126,279,019)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,475,261
Allowances, Write-Offs, and Amortizations	2,143,259
Other Nonoperating Income	1,550,450
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(798,175)
Inventories	418,073
Notes Receivable, Net	489,267
Net Other Postemployment Benefits Asset	(56,276)
Deferred Outflows Related to Pensions	3,922,178
Deferred Outflows Related to Other Postemployment Benefits	(6,362,501)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(1,345,907)
U.S. Governmental Grants Refundable	438,745
Unearned Revenue	1,135,630
Due to Primary Government	20,297
Net Pension Liability	1,110,626
Net Other Postemployment Benefits Liability	12,877,141
Compensated Absences	608,788
Workers' Compensation Liability	(236,124)
Deferred Inflows Related to Pensions	(417,207)
Deferred Inflows Related to Other Postemployment Benefits	(17,559,562)
Net Cash Used by Operating Activities	<u>\$ (119,865,056)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 2,443,119
Change in Fair Value of Investments	(41,953)
Amortization of Bond Premiums/Discounts	(215,987)
Increase in Receivables Related to Nonoperating Income	390,735
Funds Escrowed to Defease Debt	14,955,000

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

North Carolina Central University Foundation, Inc.
Statement of Financial Position
June 30, 2020

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,698,612
Accounts Receivable, Net	485
Contributions Receivable, Net	540,475
Investments	2,261,827
Prepaid Expenses	11,454

Total Current Assets	7,512,853
----------------------	-----------

Net Property and Equipment	156,508
----------------------------	---------

Other Assets:

Investments	14,643,255
Cash Surrender Value of Life Insurance	434,512
Contributions Receivable, Net	324,070
Funds Held on Behalf of Others	71,178
Beneficial Interest in Perpetual Trust	1,766,041

Total Other Assets	17,239,056
--------------------	------------

Total Assets	\$ 24,908,417
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 62,227
Due to University and Other Foundations	71,178

Total Current Liabilities	133,405
---------------------------	---------

Noncurrent Liabilities:

Long-term Debt	64,000
----------------	--------

Total Liabilities	197,405
-------------------	---------

NET ASSETS

Without Donor Restrictions	1,580,634
With Donor Restrictions	23,130,378

Total Net Assets	24,711,012
------------------	------------

Total Liabilities and Net Assets	\$ 24,908,417
----------------------------------	---------------

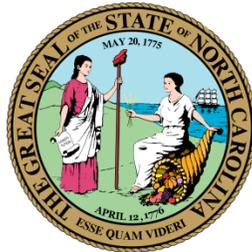
The accompanying notes to the financial statements are an integral part of this statement.

**North Carolina Central University Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2020**

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 564,312	\$ 3,413,172	\$ 3,977,484
Investment Return, Net	124,824	289,304	414,128
Change in Value of Beneficial Interest in Perpetual Trust		(110,730)	(110,730)
Other Income	43,770	287,594	331,364
Net Assets Released from Restrictions	3,529,718	(3,529,718)	
Total Support and Revenue	<u>4,262,624</u>	<u>349,622</u>	<u>4,612,246</u>
EXPENSES			
Program Services:			
Scholarships and Grants	1,098,685		1,098,685
University Support	2,109,555		2,109,555
Management and General	780,650		780,650
Provision for Bad Debts	40,875	79,975	120,850
Total Expenses	<u>4,029,765</u>	<u>79,975</u>	<u>4,109,740</u>
Changes in Net Assets Before Net Asset Transfers	<u>232,859</u>	<u>269,647</u>	<u>502,506</u>
Transfers	1,882	(1,882)	
Changes in Net Assets	<u>234,741</u>	<u>267,765</u>	<u>502,506</u>
NET ASSETS			
Net Assets at Beginning of Year	<u>1,345,893</u>	<u>22,862,613</u>	<u>24,208,506</u>
Net Assets at End of Year	<u>\$ 1,580,634</u>	<u>\$ 23,130,378</u>	<u>\$ 24,711,012</u>

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



NOTES TO THE FINANCIAL STATEMENT

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The Real Estate Foundation is governed by a three-member board, whose purpose is to acquire property and to construct and own residential facilities for students. Because the directors of the Real Estate Foundation are appointed by the Chancellor, and the Real Estate Foundation's sole purpose is to benefit North Carolina Central University, its financial statements have been blended with those of the University.

Separate financial statements for the Real Estate Foundation may be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

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

Discretely Presented Component Unit - The North Carolina Central University Foundation, Inc. (NCCU 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 NCCU Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The NCCU Foundation board consists of 18 members. Although the University does not control the timing or amount of receipts from the NCCU Foundation, the majority of resources, or income thereon, that the NCCU Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the NCCU Foundation can only be used by, or for the benefit of the University, the NCCU 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 NCCU Foundation is a private nonprofit organization that 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 NCCU Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2020, the NCCU Foundation distributed \$2,109,555 to the University for both restricted and unrestricted purposes. Complete financial statements for the NCCU Foundation can be obtained from the University Comptroller's Office, 1801 Fayetteville Street, Durham, North Carolina 27707, or by calling 919-530-7432.

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

Money market mutual funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

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

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

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	50-75 years
Machinery and Equipment	2-25 years
General Infrastructure	10-75 years

The art collection is capitalized at cost, acquisition value, or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- 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. **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, notes from direct borrowings, and capital leases payable. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. 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 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary

net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- K. 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.

- L. 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.

- M. 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 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- N. **Scholarship Discounts** - Student tuition and fees 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.
- O. **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.

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$73,892,128, 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, 2020. 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, 2020 was \$2,400. The carrying amount of the University's deposits not with the State Treasurer was \$262,533, and the bank balance was \$346,494. 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, 2020, \$12,533 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 of the University's component unit, the Real Estate Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds 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, 2020, the University's investments include \$31,756,350 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2020, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)	
	Amount	Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 66,195	\$ 66,195
Other Securities		
Domestic Stocks	7,720,239	
Total Non-Pooled Investments	\$ 7,786,434	

At June 30, 2020, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	Aaa
Money Market Mutual Funds	\$ 66,195	\$ 66,195

Rating Agency: Moody's

Total Investments - The following table presents the total investments at June 30, 2020:

	<u>Amount</u>
Investment Type	
Debt Securities	
Money Market Mutual Funds	\$ 66,195
Other Securities	
UNC Investment Fund	31,756,350
Domestic Stocks	<u>7,720,239</u>
Total Investments	<u>\$ 39,542,784</u>

Component Unit - Investments of the University's discretely presented component unit, the NCCU 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 NCCU 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:

	<u>Amount</u>
Investment Type	
Money Market Funds	\$ 462,858
Mutual Funds	2,440,410
Equity Securities	8,167,225
Debt Securities	2,194,306
U. S. Government Obligations	1,985,030
Commodities	<u>1,655,253</u>
Total Investments	<u>\$ 16,905,082</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the University’s investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Other Securities				
Domestic Stocks	\$ 7,720,239	\$ 7,720,239	\$ 0	\$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	73,892,128			
UNC Investment Fund	31,756,350			
Total Investments as a Position in an External Investment Pool	105,648,478			
Total Investments Measured at Fair Value	\$ 113,368,717			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool Investments are measured at fair value in accordance with GASB 72. The University’s position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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

Domestic Stocks - Equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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

U.S. GAAP 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 (i.e. the exit price). The NCCU Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets recorded at fair value are categorized within the fair value hierarchy based upon the level of judgement associated with the inputs used to measure their fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset.

The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1 – Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2 – Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuations techniques.

In determining fair value, the NCCU Foundation uses various approaches within the fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Money Market Funds: Money market funds are in active markets and classified within Level 1 of the valuation hierarchy.

Equity Securities: Equity securities listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Debt Securities: Investment in debt securities includes corporate and foreign bonds that are either exchange-traded and/or valued at last sale

price. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. These fixed income investments are classified within Level 2 of the valuation hierarchy.

U.S. Government Obligations: Investments in government and government agency obligations are either exchange-traded and/or valued at last sales prices. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. The fixed income investments are classified within Level 2 of the valuation hierarchy.

Mutual Funds and Commodities: Mutual funds and commodities listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

The following table summarizes the NCCU Foundation's investments within the fair value hierarchy at June 30, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Money Market Funds	\$ 462,858	\$ 462,858	\$ 0	\$ 0
Mutual Funds	2,440,410	2,440,410		
Equity Securities	8,167,225	8,167,225		
Debt Securities	2,194,306		2,194,306	
U. S. Government Obligations	1,985,030		1,985,030	
Commodities	1,655,253	1,655,253		
Total Investments by Fair Value Level	\$ 16,905,082	\$ 12,725,746	\$ 4,179,336	\$ 0

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 determined by 5.5% of the 12-quarter moving average of the fund's market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University's Board of Trustees of the Endowment Fund. At June 30, 2020, net appreciation of \$22,568,451 was available to be spent, of which \$19,723,406 was classified in net position as restricted expendable for scholarships, fellowships, and endowed professorships, as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 12,175,803	\$ 7,812,389	\$ 4,363,414
Accounts	355,413		355,413
Intergovernmental	6,575,877		6,575,877
Interest on Loans	97,519		97,519
Total Current Receivables	<u>\$ 19,204,612</u>	<u>\$ 7,812,389</u>	<u>\$ 11,392,223</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 105,874</u>	<u>\$ 89,021</u>	<u>\$ 16,853</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 6,270,063</u>	<u>\$ 4,645,558</u>	<u>\$ 1,624,505</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land	\$ 10,154,991	\$ 302,500	\$ 0	\$ 10,457,491
Art, Literature, and Artifacts	864,840			864,840
Construction in Progress	6,403,715	19,983,580		26,387,295
Total Capital Assets, Nondepreciable	17,423,546	20,286,080		37,709,626
Capital Assets, Depreciable:				
Buildings	328,656,941		28,818	328,628,123
Machinery and Equipment	52,455,685	2,157,169		54,612,854
General Infrastructure	22,319,280	16,532		22,335,812
Total Capital Assets, Depreciable	403,431,906	2,173,701	28,818	405,576,789
Less Accumulated Depreciation for:				
Buildings	110,364,436	5,558,395	28,818	115,894,013
Machinery and Equipment	28,534,206	2,422,085		30,956,291
General Infrastructure	16,305,273	494,781		16,800,054
Total Accumulated Depreciation	155,203,915	8,475,261	28,818	163,650,358
Total Capital Assets, Depreciable, Net	248,227,991	(6,301,560)		241,926,431
Capital Assets, Net	\$ 265,651,537	\$ 13,984,520	\$ 0	\$ 279,636,057

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR STUDENT HOUSING FACILITIES

The University entered into an agreement on June 20, 2019 with Provident Group – NCCU Properties LLC (Provident) and Corvias Management, LLC (Corvias) to initiate a private-public partnership to design, construct, and operate three student housing facilities. Provident will bear the responsibility for the design, development, permitting, construction, equipping, furnishing, financing, and operation of the construction project. The University entered into this agreement to address the shortage of student housing caused by recent enrollment growth as well as the need to renovate and replace aging facilities. The project will be developed in two phases over a two-year period. Phase I of the project was the construction and furnishing of two student housing facilities that was completed and suitable for occupancy in the fall of 2020. Phase II will consist of constructing and furnishing the last of the student housing facilities and will be completed and suitable for occupancy in the fall of 2021. The three student housing facilities, in the aggregate, will provide 1,270 student housing beds.

The project, with an estimated cost of \$102.5 million, is located on the campus of the University on land leased to Provident for 50 years. Upon final payment of all indebtedness owed under the agreement, Provident will transfer all of its interest in the facility for no cost to the University. The University will report the project as a capital asset and a related deferred inflow of resource beginning in fiscal year 2021 as assets are placed into service.

While the facilities will be primarily operated and managed by Corvias upon completion of the project, the University will be responsible for assigning beds to students, collecting student rents, and remitting the student rents to Corvias for the term of the management agreement.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2020, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,016,273
Accounts Payable - Capital Assets	3,013,498
Accrued Payroll	1,557,322
Contract Retainage	898,184
Intergovernmental Payables	319,150
	<u>7,804,427</u>
Total Accounts Payable and Accrued Liabilities	\$ 7,804,427

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 111,780,000	\$ 14,955,000	\$ 20,216,800	\$ 106,518,200	\$ 3,860,000
Plus: Unamortized Premium	10,517,284		320,785	10,196,499	
Less: Unamortized Discount	(104,798)		(104,798)		
	<u>122,192,486</u>	<u>14,955,000</u>	<u>20,432,787</u>	<u>116,714,699</u>	<u>3,860,000</u>
Total Revenue Bonds Payable, Net					
Notes from Direct Borrowings	7,709,162		1,293,467	6,415,695	1,339,147
Capital Leases Payable	853,047		221,396	631,651	538,529
	<u>130,754,695</u>	<u>14,955,000</u>	<u>21,947,650</u>	<u>123,762,045</u>	<u>5,737,676</u>
Total Long-Term Debt					
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	6,927,263	5,011,889	4,403,101	7,536,051	1,374,219
Net Pension Liability	34,800,513	1,110,626		35,911,139	
Net Other Postemployment Benefits Liability	127,899,991	12,877,141		140,777,132	
Workers' Compensation	2,904,591	52,509	288,633	2,668,467	421,846
	<u>172,532,358</u>	<u>19,052,165</u>	<u>4,691,734</u>	<u>186,892,789</u>	<u>1,796,065</u>
Total Other Long-Term Liabilities					
Total Long-Term Liabilities, Net	\$ 303,287,053	\$ 34,007,165	\$ 26,639,384	\$ 310,654,834	\$ 7,533,741

Additional information regarding capital lease obligations is included in Note 10.

Additional information regarding the net pension liability is included in Note 14.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

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

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
General Revenue Bonds Payable					
Student Union Revenue Bonds	2019	4.0% to 5.0%	04/01/2049	\$ 42,045,000	\$ 41,320,000
Refunded Bonds, Deferred Maintenance, and Infrastructure Improvements	2016	3.0% to 5.0%	10/01/2034	55,940,000	51,720,000
Total General Revenue Bonds				97,985,000	93,040,000
NCCU Real Estate Foundation, Inc.					
Refunded Suntrust Real Estate Foundation Housing System	2019	2.70%	10/01/2033	14,955,000	13,478,200
Total Revenue Bonds Payable (principal only)				\$ 112,940,000	106,518,200
Plus: Unamortized Premium					10,196,499
Total Revenue Bonds Payable, Net					\$ 116,714,699

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, 2020
Energy Performance Contract	Fifth Third Bank	4.81%	12/09/2026	\$ 6,532,959	\$ 3,756,563
2014 Refund Note 2004B Bonds	PNC Bank National Association	2.06%	04/01/2023	4,987,000	1,772,000
UNC ESCO Energy Project	Bank of America Public Capital Corp.	1.84%	02/14/2023	2,082,589	887,132
Total Notes from Direct Borrowings				\$ 13,602,548	\$ 6,415,695

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2020, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 3,860,000	\$ 4,319,534	\$ 1,339,147	\$ 231,401
2022	4,050,000	4,150,981	1,391,245	191,994
2023	4,260,000	3,960,666	1,363,602	150,810
2024	4,470,000	3,760,771	534,288	111,674
2025	4,710,000	3,550,729	564,223	85,795
2026-2030	27,025,000	14,295,570	1,223,190	89,033
2031-2035	31,288,200	8,822,477		
2036-2040	7,675,000	5,337,850		
2041-2045	9,730,000	3,290,000		
2046-2049	9,450,000	963,600		
Total Requirements	\$ 106,518,200	\$ 52,452,178	\$ 6,415,695	\$ 860,707

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

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

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreements in relation to the outstanding notes from direct borrowings of \$4,643,695. These agreements also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due; (2) an event of nonappropriation from the State occurs; (3) insurance coverage on the asset is not maintained; or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lenders or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days.

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

The University has an outstanding note from direct borrowing of \$1,772,000 from the refinancing of 2004B bonds that financed the costs of construction, renovation, and equipping of multiple residence halls. This agreement contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay in full any payments of principal or interest due to the lender; (2) the University fails to pay any payment of principal or interest due on any other debt obligations payable; or (3) 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 correction 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.

Capital Leases Payable - The capital leases do not contain any non-standard events of default and are limited to provisions related to failure to pay principal or interest on such obligations. In the event of default, the lessor may take any or all of the following actions: (1) declare all balances due immediately; (2) take possession of the assets; or (3) exercise all rights and remedies available under the agreement or under applicable law.

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

On October 31, 2019, the University issued \$14,955,000 in 2019 Eagle Landing fixed rate conversion refunding bonds with an average interest rate of 2.70%. The bonds were issued for a current refunding of \$14,955,000 of outstanding 2003A Educational Facilities Revenue bonds with an assumed variable rate of 2.81% on the 40% floating portion and 4.93% on the 40% swapped portion of the bonds. The refunding was undertaken to reduce total debt service payments by \$1,429,618 over the next 14 years and resulted in an economic gain of \$386,127. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2020, the outstanding balance of prior year defeased bonds was \$47,070,000.

NOTE 10 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2020:

NOTES TO THE FINANCIAL STATEMENTS

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 549,332
2022	60,809
2023	<u>35,472</u>
Total Minimum Lease Payments	645,613
Amount Representing Interest (2.98% to 4.03% Rates of Interest)	<u>13,962</u>
Present Value of Future Lease Payments	<u>\$ 631,651</u>

Machinery and equipment acquired under capital lease amounted to \$1,332,876 at June 30, 2020.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$475,124 at June 30, 2020.

- B. Operating Lease Obligations** - The University entered into operating leases for machinery and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	<u>\$ 59,985</u>

Rental expense for all operating leases during the year was \$475,005.

NOTE 11 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (19,786,874)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(186,405,606)</u>
Effect on Unrestricted Net Position	(206,192,480)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>16,854,899</u>
Total Unrestricted Net Position	<u>\$ (189,337,581)</u>

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 65,313,392	\$ 15,824,541	\$ 1,787,319	\$ 47,701,532
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 12,955,636	\$ 3,226,491	\$ 0	\$ 9,729,145
Dining	7,979,604	2,000,745		5,978,859
Student Union Services	1,161,238	289,362		871,876
Health, Physical Education, and Recreation Services	704,333	176,045		528,288
Bookstore	87,962			87,962
Parking	1,272,543			1,272,543
Athletic	1,420,847	195,669		1,225,178
Other	4,181,069			4,181,069
Sales and Services of Education and Related Activities	172,168			172,168
Total Sales and Services, Net	\$ 29,935,400	\$ 5,888,312	\$ 0	\$ 24,047,088

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 62,822,894	\$ 7,830,632	\$ 374,269	\$ 0	\$ 0	\$ 71,027,795
Research	6,578,471	5,441,575	190,365			12,210,411
Public Service	655,113	155,012				810,125
Academic Support	14,246,492	6,792,773				21,039,265
Student Services	4,184,756	1,738,735	146,648			6,070,139
Institutional Support	9,573,843	8,746,000				18,319,843
Operations and Maintenance of Plant	9,540,501	6,182,663		5,025,165		20,748,329
Student Financial Aid	2,055,097	105,346	11,589,625			13,750,068
Auxiliary Enterprises	15,192,343	20,174,474	4,673,696			40,040,513
Independent Operations	314,358	457,654		19,646		791,658
Depreciation					8,475,261	8,475,261
Total Operating Expenses	\$ 125,163,868	\$ 57,624,864	\$ 16,974,603	\$ 5,044,811	\$ 8,475,261	\$ 213,283,407

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 \$4,466,117 provided by the CARES Act – Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid – COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 12.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable 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 creditable 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, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were \$3,789,713, and the University's contributions were \$8,192,096 for the year ended June 30, 2020.

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 2019 *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 are the sole participants 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 2019 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2020, the University reported a liability of \$35,911,139 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. 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, 2019, the University's proportion was 0.346%, which was a decrease of 0.004 from its proportion measured as of June 30, 2018, which was 0.350%.

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	12/31/2018
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* 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, 2018 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, 2019 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The

long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 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, 2019 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%)
\$ 68,348,887	\$ 35,911,139	\$ 8,700,002

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2020, the University recognized pension expense of \$13,022,832. At June 30, 2020, 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	\$ 3,003,925	\$ 71,892
Changes of Assumptions	3,826,473	
Net Difference Between Projected and Actual Earnings on Plan Investments	688,366	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	485,297	
Contributions Subsequent to the Measurement Date	<u>8,192,096</u>	
Total	<u>\$ 16,196,157</u>	<u>\$ 71,892</u>

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 ended June 30, 2021. 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ 5,496,850
2022	1,440,202
2023	754,312
2024	<u>240,805</u>
Total	<u>\$ 7,932,169</u>

- 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, 2020, 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 \$98,809,013, of which \$27,442,859 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,646,572 and \$1,877,092, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *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 2019 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

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

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

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

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

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

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, 2020 was 6.47% of covered payroll. The University's contributions to the RHBF were \$5,862,127 for the year ended June 30, 2020.

2. Disability Income

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

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following

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

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

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term

disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The University's contributions to DIPNC were \$90,605 for the year ended June 30, 2020.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2020, the University reported a liability of \$140,777,132 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. 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, 2019, the University's proportion was 0.445%, which was a decrease of 0.004 from its proportion measured as of June 30, 2018, which was 0.449%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of \$195,577 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. 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, 2019, the University's proportion was 0.453%, which was a decrease of 0.006 from its proportion measured as of June 30, 2018, which was 0.459%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, 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, 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* 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, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (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, 2019 is 1.4%.

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, 2018 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 3.50%. 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 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

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 (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	\$ 167,293,725	\$ 140,777,132	\$ 119,544,548
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (165,649)	\$ (195,577)	\$ (224,658)

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 - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	\$ 115,919,039	\$ 140,777,132	\$ 173,460,842
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	\$ (195,922)	\$ (195,577)	\$ (195,256)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the University recognized OPEB contra-expense of \$5,221,314 for RHBF and expense of \$195,993 for DIPNC, resulting in a total OPEB contra-expense of \$5,025,321. At June 30, 2020, 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	\$ 0	\$ 199,797	\$ 199,797
Changes of Assumptions	6,771,052	21,665	6,792,717
Net Difference Between Projected and Actual Earnings on Plan Investments	93,746	37,253	130,999
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,567,188	32,523	3,599,711
Contributions Subsequent to the Measurement Date	5,862,127	90,605	5,952,732
Total	\$ 16,294,113	\$ 381,843	\$ 16,675,956

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 7,096,941	\$ 0	\$ 7,096,941
Changes of Assumptions	42,323,776	20,065	42,343,841
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	12,501,870		12,501,870
Total	\$ 61,922,587	\$ 20,065	\$ 61,942,652

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 ended June 30, 2021. 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 Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2021	\$ (16,627,788)	\$ 89,760
2022	(16,627,788)	60,937
2023	(16,614,234)	45,776
2024	(2,664,162)	30,356
2025	1,043,371	40,177
Thereafter		4,167
Total	<u>\$ (51,490,601)</u>	<u>\$ 271,173</u>

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% 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 up to the first six months of benefits and reimbursed by DIPNC for any additional short-

term benefits. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such 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 coverage. 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. The University maintains Broad Form Coverage on all University buildings, including those not supported by the General Fund. Broad Form covers loss from fire and lightning as well as, falling objects, weight of snow, ice or sleet, water damage, collapse, and glass breakage. All buildings have a \$5,000 deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These types of insurance include master musical insurance to cover musical instruments owned by the University; fine art insurance to protect items considered works of art; boiler and machinery insurance to cover heavy equipment; and postal bond insurances to cover possible losses of United States Postal Service property.

The University also carries professional internship insurance on students working in health fields. Departments that secure this coverage include Nursing, Psychology, Communication Disorders, Physical Education and Recreation, Athletic Training, and Social Work. Medical liability insurance is carried on employees of the University who are accredited medical professionals and who practice in a clinical setting on campus.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$21,965,361 at June 30, 2020.
- 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 18 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, actions were taken by the University in March 2020 to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of students, faculty, and staff.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the University, these programs included the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments and the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

The revenues from these programs are contingent upon meeting the terms and conditions of the programs and signed agreements with the funding agencies, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue captions of the financial statements:

Nonoperating Revenue:

State Aid - Coronavirus Relief Fund - This caption includes funds received from the CARES Act - CRF that were appropriated by the State of North Carolina in House Bill 1043 to the UNC Board of Governors (UNC-BOG) and allocated to the universities to cover COVID-19 expenses. These funds are reported separately from Federal Aid - COVID-19 revenues due to the reporting requirements of the State of North Carolina. The CRF funds must be expended by December 31, 2021.

Federal Aid - COVID-19 - This caption includes funds received from the CARES Act, other than the CRF funds appropriated in House Bill 1043, as follows:

The HEERF funds provided include: (1) a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19, (2) an institutional allocation to cover costs associated with significant changes to the delivery of instruction due to COVID-19 including the recovery of revenue lost due to those changes, and (3) an additional award to address needs directly related to COVID-19. As part of the earned revenue from the HEERF institutional allocation, the University reimbursed its auxiliary units for the prorated share of housing and dining fees refunded to students due to the actions taken to reduce the spread of COVID-19. The HEERF funds must be expended within one year of the grant award notification date.

Summary of State and Federal Aid - COVID-19 Revenue Activities for the Fiscal Year Ended June 30, 2020:

Program	Total Authorized Award	Earned Revenue
State Aid - Coronavirus Relief Fund:		
CRF - UNC-BOG Allocations	\$ 1,563,720	<u>\$ 790,806</u>
Federal Aid - COVID-19:		
HEERF - Student Allocation	\$ 4,466,117	\$ 4,466,117
HEERF - Institutional Allocation (1)	4,466,117	4,466,117
HEERF - Additional Award	18,233,155	<u> </u>
Total Federal Aid - COVID-19	N/A	<u><u>\$ 8,932,234</u></u>

(1) While the HEERF Institutional Portion is accounted for and recognized independently from the HEERF Student Portion, the CARES Act has a "Use of Funds" requirement that no less than 50% of the total HEERF Student and Institutional Portion funds must be used for emergency financial aid grants to students. This "Use of Funds" limitation is a contingency that limits the revenue recognized from the institutional portion to amounts spent and recognized for the student portion.

NOTE 19 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2020, is presented as follows:

*Condensed Statement of Net Position
June 30, 2020*

	University	Real Estate Foundation	Eliminations	Total
ASSETS				
Current Assets	\$ 48,035,506	\$ 6,584,363	\$ (3,984,716)	\$ 50,635,153
Capital Assets, Net	266,889,385	12,746,672		279,636,057
Other Noncurrent Assets	<u>76,629,754</u>			<u>76,629,754</u>
Total Assets	<u>391,554,645</u>	<u>19,331,035</u>	<u>(3,984,716)</u>	<u>406,900,964</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>32,872,113</u>			<u>32,872,113</u>
LIABILITIES				
Current Liabilities	18,254,638	899,319		19,153,957
Long-Term Liabilities, Net	290,307,893	12,813,200		303,121,093
Other Noncurrent Liabilities	<u>3,398,364</u>	<u>3,984,716</u>	<u>(3,984,716)</u>	<u>3,398,364</u>
Total Liabilities	<u>311,960,895</u>	<u>17,697,235</u>	<u>(3,984,716)</u>	<u>325,673,414</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>62,014,544</u>			<u>62,014,544</u>
NET POSITION				
Net Investment in Capital Assets	198,699,408	(731,528)		197,967,880
Restricted - Nonexpendable	16,810,802			16,810,802
Restricted - Expendable	26,644,018			26,644,018
Unrestricted	<u>(191,702,909)</u>	<u>2,365,328</u>		<u>(189,337,581)</u>
Total Net Position	<u>\$ 50,451,319</u>	<u>\$ 1,633,800</u>	<u>\$ 0</u>	<u>\$ 52,085,119</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2020

	University	Real Estate Foundation	Eliminations	Total
OPERATING REVENUES				
Operating Revenues, Net	\$ 87,004,388	\$ 4,700,741	\$ (4,700,741)	\$ 87,004,388
OPERATING EXPENSES				
Operating Expenses	208,066,463	1,442,424	(4,700,741)	204,808,146
Depreciation	8,137,261	338,000		8,475,261
Total Operating Expenses	216,203,724	1,780,424	(4,700,741)	213,283,407
Operating Income (Loss)	(129,199,336)	2,920,317		(126,279,019)
NONOPERATING REVENUES (EXPENSES)				
Slate Appropriations	86,380,054			86,380,054
State Aid - Coronavirus Relief Fund	790,806			790,806
Student Financial Aid	20,786,559			20,786,559
Federal Aid - COVID-19	8,932,234			8,932,234
Noncapital Contributions	9,923,807			9,923,807
Investment Income, Net	2,033,600	12,105		2,045,705
Interest and Fees on Debt	(4,484,781)	(1,203,183)		(5,687,964)
Other Nonoperating Revenues	1,550,450			1,550,450
Net Nonoperating Revenues (Expenses)	125,912,729	(1,191,078)		124,721,651
Capital Appropriations	665,946			665,946
Capital Grants	341,116			341,116
Additions to Endowments	165,023			165,023
Total Other Revenues	1,172,085			1,172,085
Increase (Decrease) in Net Position	(2,114,522)	1,729,239		(385,283)
NET POSITION				
Net Position, July 1, 2019, as Restated	52,565,841	(95,439)		52,470,402
Net Position, June 30, 2020	\$ 50,451,319	\$ 1,633,800	\$ 0	\$ 52,085,119

Condensed Statement of Cash Flows June 30, 2020

	University	Real Estate Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (120,812,653)	\$ 947,597	\$ (119,865,056)
Net Cash Provided by Noncapital Financing Activities	124,135,324	1,488,906	125,624,230
Net Cash Used by Capital and Related Financing Activities	(27,936,040)	(3,183,273)	(31,119,313)
Net Cash Provided by Investing Activities	3,505,042		3,505,042
Net Decrease in Cash and Cash Equivalents	(21,108,327)	(746,770)	(21,855,097)
Cash and Cash Equivalents, July 1, 2019	88,699,790	7,312,368	96,012,158
Cash and Cash Equivalents, June 30, 2020	\$ 67,591,463	\$ 6,565,598	\$ 74,157,061

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2020, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

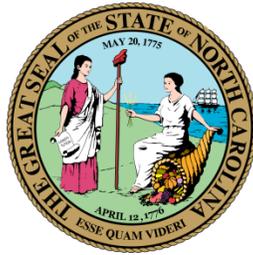
GASB Statement No. 89 establishes accounting requirements for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement have been applied prospectively.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018.

NOTE 21 - NET POSITION RESTATEMENT

As of July 1, 2019, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2019 Net Position as Previously Reported	\$ 45,952,562
Restatement	
To Correct Prior Year Blended Component Unit Activity	<u>6,517,840</u>
July 1, 2019 Net Position as Restated	<u>\$ 52,470,402</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

Teachers' and State Employees' Retirement System	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	0.346%	0.350%	0.355%	0.361%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 35,911,139	\$ 34,800,513	\$ 28,184,721	\$ 33,219,151
Covered Payroll	\$ 56,817,718	\$ 54,887,002	\$ 53,664,238	\$ 52,900,534
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	63.20%	63.40%	52.52%	62.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%
	2016	2015	2014	
Proportionate Share Percentage of Collective Net Pension Liability	0.363%	0.391%	0.394%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 13,381,322	\$ 4,589,911	\$ 23,919,815	
Covered Payroll	\$ 48,803,246	\$ 54,290,369	\$ 55,276,382	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	27.42%	8.45%	43.27%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 ending June 30.

**North Carolina Central University
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	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 8,192,096	\$ 6,982,898	\$ 5,916,819	\$ 5,355,691	\$ 4,840,399
Contributions in Relation to the Contractually Determined Contribution	8,192,096	6,982,898	5,916,819	5,355,691	4,840,399
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 63,161,882	\$ 56,817,718	\$ 54,887,002	\$ 53,664,238	\$ 52,900,534
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 4,465,497	\$ 4,717,833	\$ 4,604,523	\$ 4,155,823	\$ 2,762,230
Contributions in Relation to the Contractually Determined Contribution	4,465,497	4,717,833	4,604,523	4,155,823	2,762,230
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 48,803,246	\$ 54,290,369	\$ 55,276,382	\$ 55,857,838	\$ 56,029,005
Contributions as a Percentage of Covered Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

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

North Carolina Central University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2020

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Teachers' and State Employees' Retirement System	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

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 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 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 information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

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

Exhibit C-3

Retiree Health Benefit Fund	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.445%	0.449%	0.438%	0.492%
Proportionate Share of Collective Net OPEB Liability	\$ 140,777,132	\$ 127,899,991	\$ 143,564,788	\$ 214,062,825
Covered Payroll	\$ 84,846,454	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	165.92%	156.90%	179.69%	273.72%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset	0.453%	0.459%	0.471%	0.465%
Proportionate Share of Collective Net OPEB Asset	\$ 195,577	\$ 139,301	\$ 287,674	\$ 288,461
Covered Payroll	\$ 84,846,454	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.23%	0.17%	0.36%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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 ending June 30.

**North Carolina Central University
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	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 5,862,127	\$ 5,319,873	\$ 4,931,739	\$ 4,642,037	\$ 4,379,515
Contributions in Relation to the Contractually Determined Contribution	5,862,127	5,319,873	4,931,739	4,642,037	4,379,515
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 90,604,741	\$ 84,846,454	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 4,034,776	\$ 4,212,332	\$ 4,163,223	\$ 3,971,843	\$ 3,807,785
Contributions in Relation to the Contractually Determined Contribution	4,034,776	4,212,332	4,163,223	3,971,843	3,807,785
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 73,493,188	\$ 78,006,148	\$ 78,551,364	\$ 79,436,923	\$ 77,710,000
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%
	2020	2019	2018	2017	2016
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 90,605	\$ 118,785	\$ 114,123	\$ 303,610	\$ 320,643
Contributions in Relation to the Contractually Determined Contribution	90,605	118,785	114,123	303,610	320,643
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 90,604,741	\$ 84,846,454	\$ 81,516,349	\$ 79,897,368	\$ 78,205,625
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%
	2015	2014	2013	2012	2011
Contractually Required Contribution	\$ 301,322	\$ 342,227	\$ 345,626	\$ 413,072	\$ 404,092
Contributions in Relation to the Contractually Determined Contribution	301,322	342,227	345,626	413,072	404,092
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 73,493,188	\$ 78,006,148	\$ 78,551,364	\$ 79,436,923	\$ 77,710,000
Contributions as a Percentage of Covered Payroll	0.41%	0.44%	0.44%	0.52%	0.52%

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

North Carolina Central University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2020

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

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

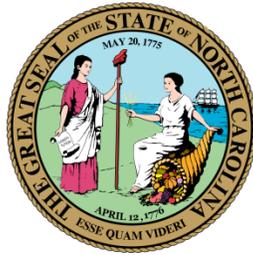
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.5%. 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 claims 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 year. 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 Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

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

Board of Trustees
North Carolina Central University
Durham, 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 North Carolina Central University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 1, 2021. Our report includes a reference to other auditors who audited the financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the NCCU Real Estate Foundation, Inc. and the NCCU 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

February 1, 2021

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <https://www.auditor.nc.gov>

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477** or download our free app.



https://play.google.com/store/apps/details?id=net.ncstateauditor.ncauditor&hl=en_US



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information, contact the North Carolina Office of the State Auditor at 919-807-7666



This audit required 920 hours at an approximate cost of \$95,680.