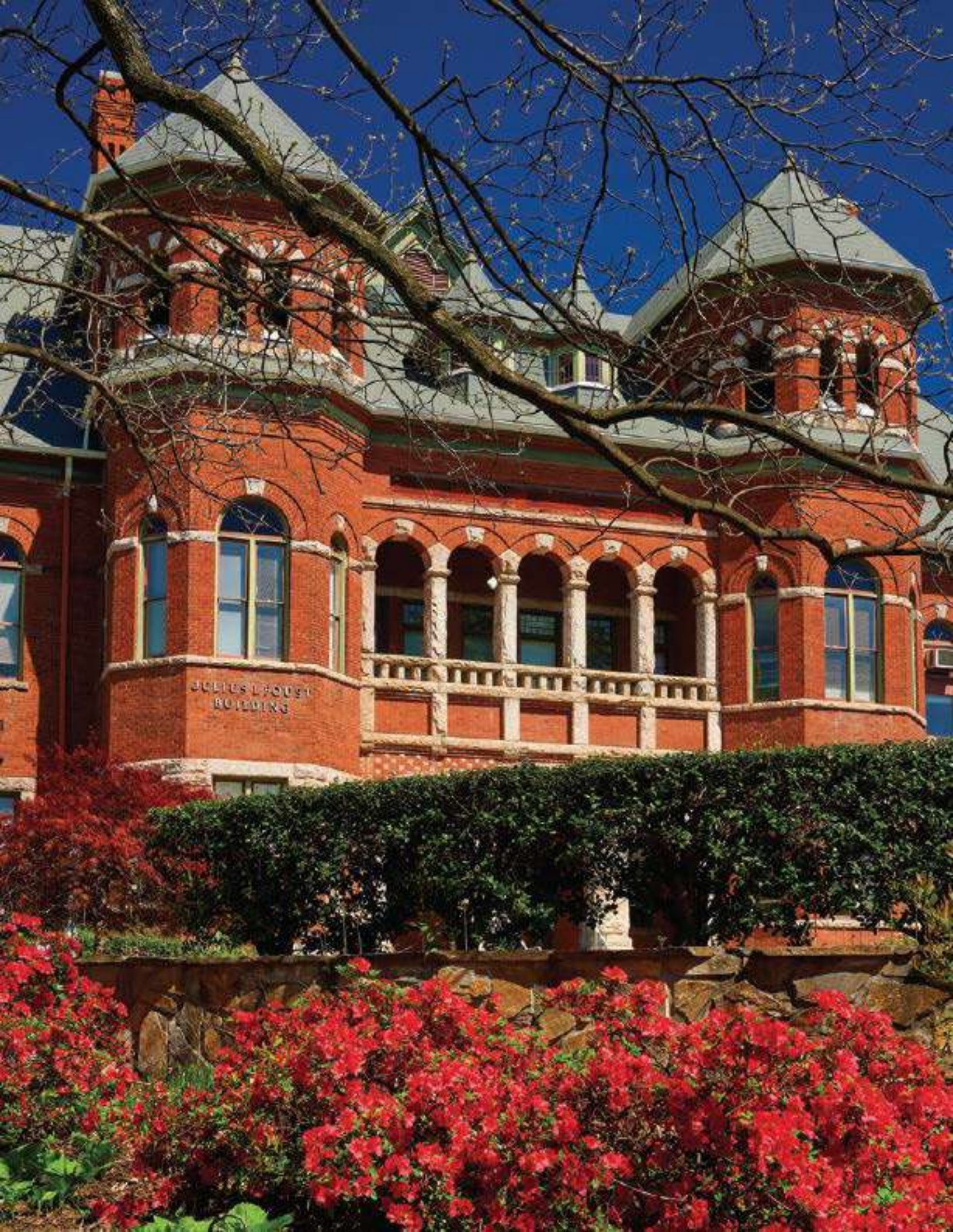




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2019-2020
FINANCIAL REPORT



JULIUS L. FOUET
BUILDING

TABLE OF CONTENTS

3	Letter from the Chancellor
4	Letter from the Vice Chancellor for Finance and Administration
10	Management’s Discussion and Analysis
18	Financial Statements
18	Report of the Independent Auditor
20	Statement of Net Position
22	Statement of Revenues, Expenses, and Changes in Net Position
23	Statement of Cash Flows
26	Index to the Notes to the Financial Statements
28	Notes to the Financial Statements
66	Required Supplementary Information
66	Schedule of the Proportionate Share of the Net Pension Liability
67	Schedule of University Contributions
68	Notes to Required Supplementary Information
69	Schedule of Proportionate Share of the Net OPEB Liability or Asset
70	Schedule of University Contributions
71	Notes to Required Supplementary Information
72	The Board of Trustees and University Officers





The year 2020 was one of adversity, unpredictability, and hardship for so many. It was also, at UNCG, a year of adaptability, resilience, and inspiration in so many ways. The multiple forces that we have had to face as an institution -- a global pandemic, a massive societal shift related to racial justice, a divisive political climate -- have all come in the context of major economic challenges. From reductions in state budgets to the implications of a small decline in undergraduate enrollment and credit hours here, UNCG has had to pursue its mission with new and real constraints on our resources. This is why I am so proud that we accomplished so much to educate students, transform lives, do groundbreaking research, and make a positive impact on the quality of life and prosperity of our community, region, and state.

First, as a clear indication that our commitment to student success is making a meaningful impact -- especially on our freshmen -- we can report that our first-year retention rates (the number of freshmen from last year who returned this year) leapt by 5% to 80.5%. That is a record for UNCG. Nationally, the average first-year student retention rate stands at 73.8%, with only 61.7% actually staying at their starting institutions. Retention progress of this magnitude in a single year is very unusual, and a strong sign that our recent efforts to reach best-in-class graduation rates are paying dividends in student success.

UNCG graduate student enrollment was up by 4.3%, and up nearly 12% over the last 5 years. This suggests that recent growth in research funding, new program launches, and a rising reputation among several graduate programs, have combined to attract an increasing number of highly qualified students. The University reported \$35M in research grant revenue for the current fiscal year (up nearly 18% over the prior year). This growth in grant revenue does not include \$7M in grant funds which have been committed to the University but not yet reported as revenue per GASB requirements.

Additionally, total online enrollment rose by about 5%, fueled by strong growth (18%) among online graduate students. We also saw a slight increase in continuing online students -- a testament to student success initiatives that help keep students enrolled and moving toward achieving their goal of earning a college degree.

We also know that once our students achieve that degree, their UNCG education pays off. For the second straight year, UNCG was ranked number 1 in North Carolina for social mobility, and we climbed 4 spots to number 23 in the nation. This category highlights the institutions that are most successful in enrolling and graduating students who come from disadvantaged backgrounds, propelling them forward to greater economic opportunities.

These are tremendous achievements by our institution. They demonstrate our rock solid foundation. And we were able to accomplish all of this while taking the vital, complex steps needed in the face of COVID-19 to keep our classes operating online, in-person, and in hybrid form for the entire semester. Students who chose to live on campus have been able to do so without interruption this Fall. And we have kept our community as safe as possible. This will remain our focus and top priority as we move into the Spring and beyond.

We have managed our resources carefully, strategically, and with the long-term health of UNCG and its constituents in mind. We have the right leadership in place, and a path forward that will help us maintain our strength and continue to invest in growth opportunities even as we face the economic and other challenges that lie ahead. We have a shared fate with our state, our community, and each other. In good times, we celebrate together. In the face of tough times, we must also come together. I am confident in our plans, our team, and our future. UNCG has survived many challenges in the past. We are facing another. And we will get through it together.

Sincerely,

A handwritten signature in black ink, reading "Franklin D. Gilliam, Jr." The signature is written in a cursive, flowing style.

FRANKLIN D. GILLIAM, JR.
Chancellor

**LETTER FROM THE
VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION**



2020 has been a historic year, presenting challenges across the world, our nation, our state and UNCG in dealing with the COVID-19 pandemic. I am thankful for the efforts of all UNCG faculty and staff during the pandemic, but especially in the professionals charged with the stewardship and reporting of the financial resources entrusted to us by students, parents, taxpayers and benefactors. They have again earned a “clean” audit, the hallmark of a professional finance team.

I am pleased to present the University’s Financial Report for the year ended June 30, 2020. The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which established standards for external financial reporting. The information within this financial report is accurate in all material respects and the University’s system of internal controls is sound and sufficient to disclose any material deficiencies to the auditors and audit committee. The report is comprised of four sections: management’s discussion and analysis; the financial statements; the related financial footnote disclosures; and the required supplementary information.

The financial report includes the University financial statement as well as four blended component units which include The UNCG Excellence Foundation, Inc., The Capital Facilities Foundation, Inc., The University of North Carolina at Greensboro Weatherspoon Arts Foundation, and The University of North Carolina at Greensboro Investment Fund, Inc. Although legally separate, these component units are reported as if they were part of the University.

As I mention in my opening paragraph, the COVID-19 pandemic has presented the University with many challenges, both operationally and fiscally, during the 2020 fiscal year. These challenges included the shift to remote work and distance learning, on March 20, 2020, for both the Spring and Summer sessions which had a significant impact on University auxiliary operations. These adverse financial impacts were partially offset by \$4.2 million in institutional funding received from the Higher Education Emergency Relief Fund (HEERF) which was applied toward covering expenses and lost revenue resulting from the shift to remote work and distance learning.

The shift to remote work and distance learning had a negative impact on operating revenues which declined by \$2.2 million or 1.1% compared to the prior year. Increases in student tuition and fees (\$3.2 million) and grants and contracts (\$5.3 million) revenues were offset by a decline in sales and services revenues attributable to refunds to students for unused housing days and dining meals in the Spring Semester. This decline in revenues was further exacerbated by the complete loss of housing and dining revenues associated with the Summer Sessions and summer camp programs.

Overall operating expenses increased by \$28.2 million or 6.6% over the prior year. The largest increase was in Scholarships and Fellowships and is directly related to the COVID-19 pandemic and includes \$8.0 million in federal funding that was disbursed directly to the students with the most financial need in the form of financial aid.

Investment returns remained strong with the Investment Fund earning a total return of 2.6% for the period ended June 30, 2020, contributing to an overall investment income of \$12.8 million for the fiscal year. While a 2.6% total return seems small, that performance puts UNCG among the top quartile endowment performances across the Cambridge Associates endowment universe in this persistent, historic low interest rate environment.

Overall nonoperating revenues increased by a modest 0.6%, despite receiving \$12.2 million in federal COVID-19 relief funds during the fiscal year. An additional \$40.3 million in Capital Grants from the State was received for the construction of the Nursing and Instructional Building. This four-story building will be opened and occupied in January 2021 and will allow for enrollment expansion in the School of Nursing as well as providing teaching and flexible laboratory space for the Biology, Chemistry, Health and Human Services, and Nursing programs.

Despite the adverse fiscal effects of the COVID-19 pandemic, the financial position of the University remains strong. UNC Greensboro remains committed to generating opportunities for socioeconomic growth for its students and graduates. In the next fiscal year and beyond, the University will continue its strong commitment to financial stewardship and will maximize resources to continue to strengthen UNC Greensboro's mission of enabling social mobility, fostering academic and research excellence and making valued and lasting cultural and financial contributions to our region.

Sincerely,



BOB SHEA

Vice Chancellor for Finance and Administration

A LEGACY ALL HER OWN

Fourth. Rachel Rouse is the fourth generation UNC Greensboro Spartan in her family. The UNCG Bryan School of Business and Economics student is following in her father's accounting footsteps; and she's lived in the same residence hall that her grandmother and great grandmother did years ago. The Greensboro native is making college memories all her own; blazing her own path on the soccer field; coordinating academic tutoring sessions for elementary and middle school students with her teammates; and scoring valuable business connections at leadership conferences with the goal of one day serving her community and country. Go Rachel!



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DESTINED FOR GLOBAL SUCCESS

When Abdullah Oguz's scooter battery failed on campus, his fellow UNC Greensboro graduate students pushed him to where he needed to go. The Turkey native values such teamwork, in-person and online. He is a doctoral student researching social behavior and business performance in the global virtual workplace. The future professor seeks ways to discourage and prevent cyberbullying, which enhance the ability of global virtual teams to work together to reach their final destination.



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DREAM TEAM

Selina and Eric Laws met while pursuing their master's degrees in chemistry. Now both PhD students at the Joint School of Nanoscience and Nanoengineering, they work in labs just down the hall from each other, making individual discoveries as they build a life together. They describe the process as "scary yet rewarding," but their advisors have guided and encouraged them throughout their experience. Eric plans for a life centered on teaching, while Selina has leading a research lab in mind – and both are absorbing all JSNN has to offer, from outstanding research facilities to inspiring mentorship.

"It's a place with high expectations," says Selina. "But every day we're surprised at just how much we can do."





CHANGING COURSE, CHANGING LIVES

Travis Barber has always wanted to teach. After working as a machinist, the U.S. Army Veteran pivoted to pursue his dream at UNC Greensboro. Enrolled within the School of Education's Haggai Academy and supported by the campus' Military-Affiliated Services office, Travis will be the first man in his family of farmers to graduate from a four-year college. Upon graduation, he plans to teach middle-schoolers, where he believes he can make the most impact as an educator.



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INTRODUCTION

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2020. This discussion, the preceding transmittal letters, the following financial statements, required supplementary information, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report.

The 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 purpose of the MD&A is to identify significant transactions that have financial impact on the institution and to highlight trends. This discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements, required supplementary information, and notes to the financial statements.

USING THE FINANCIAL REPORT

The following financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

Also included are the notes to the financial statements and required supplementary information which are essential to a comprehensive understanding of the financial position of the University. GASB standards require that assets and liabilities be separated into current and noncurrent categories and that financial statements be presented on a consolidated basis to focus on the University as a whole. Blended component units of the University include:

- The UNCG Excellence Foundation, Inc.
- The University of North Carolina at Greensboro Weatherspoon Arts Foundation
- Capital Facilities Foundation, Inc.
- The University of North Carolina at Greensboro Investment Fund, Inc.

A description of each blended component unit is discussed in Note 1 - Significant Accounting Policies.

COVID-19

The COVID-19 pandemic had a significant impact on the University's operations and financial results for fiscal year 2020. On March 20, 2020, the University shifted to remote work and distance learning for both the Spring and Summer sessions resulting in significant student refunds for unused dining and housing services. The University received \$8.0 million in federal funding from the Higher Education Emergency Relief Fund (HEERF) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and disbursed these funds directly to the students most severely affected by the pandemic. In addition, the University received \$4.2 million in institutional funding which was applied toward covering expenses associated with significant changes to the delivery of instruction due to the transition to remote learning and to partially reimburse dining operations for lost revenues resulting from the shift to remote work and distance learning. More information on the impact of COVID-19 can be found in Note 17 - The Coronavirus Pandemic Emergency.

STATEMENT OF NET POSITION

The Statement of Net Position is a snapshot of the University's financial position on the last day of the fiscal year and presents assets, liabilities, deferred inflows and deferred outflows of resources and the resulting net position. The Statement of Net Position is used to determine the extent of assets available for operations, as well as the amount owed to vendors, bond holders, and other creditors.

A condensed Statement of Net Position is reflected in the following table.

Condensed Statement of Net Position

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 165,502,407	\$ 172,207,622	\$ (6,705,215)	(3.9%)
Noncurrent Capital Assets, Net of Accumulated Depreciation	832,048,604	797,871,678	34,176,926	4.3%
Other Noncurrent Assets	<u>322,787,257</u>	<u>318,455,789</u>	<u>4,331,468</u>	1.4%
Total Assets	<u>1,320,338,268</u>	<u>1,288,535,089</u>	<u>31,803,179</u>	2.5%
Deferred Outflows of Resources				
Deferred Loss on Refunding	5,361,486	6,234,632	(873,146)	(14.0%)
Deferred Outflows Related to Pensions	26,272,454	31,594,520	(5,322,066)	(16.8%)
Deferred Outflows Related to OPEB	<u>65,749,869</u>	<u>33,585,728</u>	<u>32,164,141</u>	95.8%
Total Deferred Outflows of Resources	<u>97,383,809</u>	<u>71,414,880</u>	<u>25,968,929</u>	36.4%
Liabilities				
Current Liabilities	39,574,150	40,435,741	(861,591)	(2.1%)
Long-Term Liabilities, Net	703,449,520	669,313,553	34,135,967	5.1%
Other Noncurrent Liabilities	<u>9,613,248</u>	<u>8,314,527</u>	<u>1,298,721</u>	15.6%
Total Liabilities	<u>752,636,918</u>	<u>718,063,821</u>	<u>34,573,097</u>	4.8%
Deferred Inflows of Resources				
Deferred Inflows for Irrevocable Split-Interest Agreements	85,370	154,366	(68,996)	(44.7%)
Deferred Inflows Related to Pensions	132,847	744,368	(611,521)	(82.2%)
Deferred Inflows Related to OPEB	<u>137,015,347</u>	<u>169,392,058</u>	<u>(32,376,711)</u>	(19.1%)
Total Deferred Inflows of Resources	<u>137,233,564</u>	<u>170,290,792</u>	<u>(33,057,228)</u>	(19.4%)
Net Position				
Net Investment in Capital Assets	507,243,178	454,738,792	52,504,386	11.5%
Restricted - Nonexpendable	166,971,578	162,121,583	4,849,995	3.0%
Restricted - Expendable	161,828,275	163,592,500	(1,764,225)	(1.1%)
Unrestricted	<u>(308,191,436)</u>	<u>(308,857,519)</u>	<u>666,083</u>	(0.2%)
Total Net Position	<u>\$ 527,851,595</u>	<u>\$ 471,595,356</u>	<u>\$ 56,256,239</u>	11.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

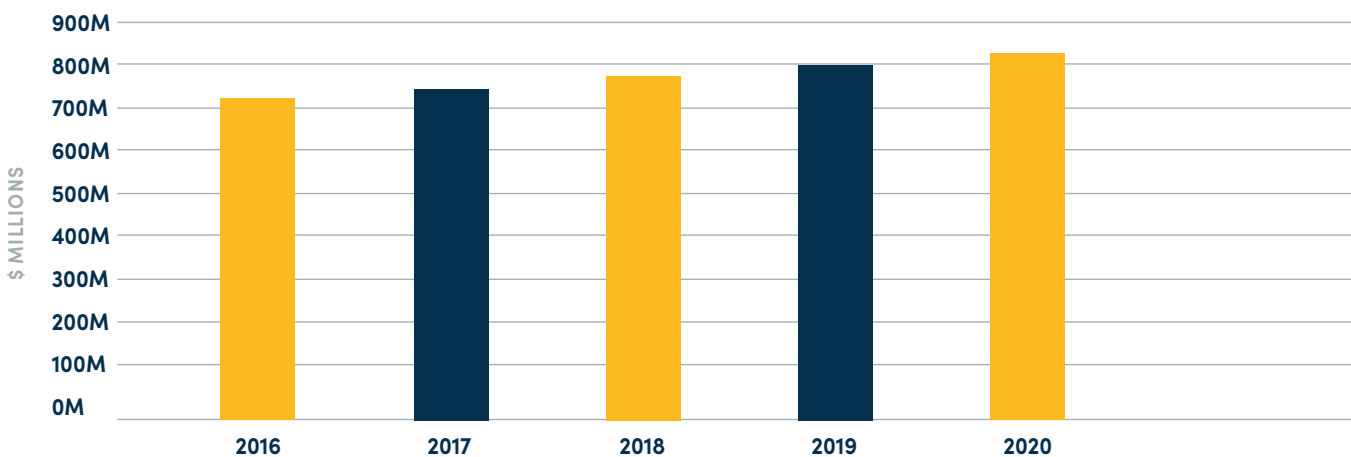
ASSETS

Total assets of the University increased by \$31.8 million over the prior year. This increase is the combination of a \$6.7 million decrease in current assets and an increase of \$38.5 million in noncurrent assets.

Current assets decreased as a result of an \$11.4 million decrease in cash and cash equivalents (unrestricted and restricted), a \$4.5 million increase in accounts receivable and a \$0.2 million increase in other current assets. Dining and housing refunds issued to students as a result of transitioning to remote learning, as well as specific costs incurred to address the COVID-19 pandemic caused current cash and cash equivalents to decrease by \$9.5 million. Accounts receivable increased over the prior year due to the recording of \$4.4 million in accounts receivable from the federal government for reimbursement of specific costs related to COVID-19. This reimbursement will be received in fiscal year 2021.

Noncurrent assets increased as a result of an \$34.2 million increase in capital assets, net of accumulated depreciation, \$5.0 million increase in cash and cash equivalents (restricted), and a \$0.7 million decrease in all other noncurrent assets. The increase is predominately due to the capitalization of construction costs associated with the Nursing and Instructional Building, as well as the transfer of unrestricted cash to repair and replacement projects. The University continues to invest in the addition and improvement of buildings and equipment on campus as is reflected on the Capital Assets graph below.

CAPITAL ASSETS 2016-2020



LIABILITIES

Total liabilities of the University increased by \$34.6 million as of June 30, 2020. Included within this change noncurrent liabilities increased by \$35.4 million while current liabilities decreased by \$0.8 million. This overall increase in total liabilities consists of a \$47.5 million increase in the net other postemployment employment benefits (OPEB) liability related to GASB Statement No. 75, a \$4.5 million increase in net pension liability, a \$16.6 million decrease in notes and bonds payable, a \$0.8 million decrease in accounts payable and accrued liabilities, and a \$0.1 million decrease in all other liability categories, both current and noncurrent.

The University has recognized its proportionate share of the State of North Carolina's net OPEB liability for fiscal year 2020, which increased when compared to the prior year. Additional information on the University's OPEB plans is provided in Note 14 of the notes to the financial statements and in the required supplementary information.

The University has also recognized its proportionate share of the State of North Carolina's net pension liability for fiscal year 2020, in accordance with GASB Statement No. 68. The overall net pension liability for the State of North Carolina increased in fiscal year 2020, thus the University's Statement of Net Position reflects a similar increase in net pension liability. Additional information on the University's pension plans is provided in Note 13 of the notes to the financial statements and in the required supplementary information.

The decrease in notes and bonds payable is related to a reduction in principal due to scheduled bond and note principal payments. The decrease in accounts payable and accrued liabilities consists of a \$4.6 million decrease in capital asset related payables, due to the completion of the fire alarm upgrade project for the Weil-Winfield residence hall, the Steam Distribution System replacement project, and the substantial completion of construction on the Nursing and Instructional Building, an increase in accounts payable of \$3.6 million primarily attributable to increases in research activity, and a \$0.2 million increase in payroll liabilities.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources increased by \$26.0 million due to increases in deferred outflows related to OPEB which represent the University's contributions to this plan during the fiscal year, the proportionate share of the accumulated difference between projected and actual earnings on OPEB investments, changes in actuarial assumptions, and changes between employer contributions and the proportionate share of contributions for the plan.

Deferred inflows of resources decreased by \$33.1 million primarily due to the decrease of deferred inflows related to OPEB which represents the University's proportionate share of the accumulated difference between actual and expected experience, changes in actuarial assumptions, and changes between employer contributions and the proportionate share of contributions for the plan (refer to Note 14 of the notes to the financial statements for details).

NET POSITION

Total net position increased by \$56.3 million over the prior year. Net position of the University is comprised of the following four categories:

- Net Investment in Capital Assets
- Restricted Nonexpendable
- Restricted Expendable
- Unrestricted

Net investment in capital assets increased by \$52.5 million due to the capitalization of construction costs associated with the Nursing and Instructional Building and the Ragsdale-Mendenhall residence hall renovation.

Restricted nonexpendable net position increased by \$4.9 million and represents endowed gifts received and invested during the year.

Restricted expendable net position decreased by \$1.8 million primarily due to the winding down of the Perkins Loan program.

The University's unrestricted net position continues to be significantly affected by reporting changes required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Both GASB statements require the University to recognize its proportionate share of the net position of the State Pension Plan and Retiree Health Benefit Fund (RHBF) as a component of unrestricted net position. The total impact of recognizing the University's share of the State's Pension Plan and Retiree Health Benefit was a \$418.6 million decrease in unrestricted net position as of June 30, 2020. Refer to Note 10 - Net Position for additional information.

Unrestricted net position before the recognition of the proportionate share of the State plans was \$110.4 million, down \$7.4 million over the prior year. This amount represents unrestricted funds held by the University and the blended component units of the University and includes authorized carryforwards by the State.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues earned by the institution.

Operating revenues are earned by providing goods and services to the various constituencies of the institution in the process of carrying out the mission of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University.

Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations and federal financial aid awards are included as nonoperating revenue in accordance with GASB guidelines even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt) and are netted against nonoperating revenues on the Statement of Revenues, Expenses, and Changes in Net Position. Other revenues include capital contributions and additions to the principal of permanent and term endowments.

A condensed Statement of Revenues, Expenses, and Changes in Net Position is reflected in the following table.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended**

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 114,749,020	\$ 111,552,992	\$ 3,196,028	2.9%
Grants and Contracts	35,275,463	29,983,381	5,292,082	17.7%
Sales and Services, Net	48,293,586	58,967,887	(10,674,301)	(18.1%)
Interest Earnings on Loans	143,417	112,336	31,081	27.7%
Other Operating Revenues	1,280,994	1,322,487	(41,493)	(3.1%)
Total Operating Revenues	<u>199,742,480</u>	<u>201,939,083</u>	<u>(2,196,603)</u>	<u>(1.1%)</u>
Operating Expenses				
Salaries and Benefits	288,338,362	273,922,960	14,415,402	5.3%
Supplies and Services	91,419,118	91,598,002	(178,884)	(0.2%)
Scholarships and Fellowships	44,584,598	29,908,994	14,675,604	49.1%
Utilities	7,942,339	8,713,306	(770,967)	(8.8%)
Depreciation	23,231,036	23,183,533	47,503	0.2%
Total Operating Expenses	<u>455,515,453</u>	<u>427,326,795</u>	<u>28,188,658</u>	<u>6.6%</u>
Operating Loss	<u>(255,772,973)</u>	<u>(225,387,712)</u>	<u>(30,385,261)</u>	<u>13.5%</u>
Nonoperating Revenues (Expenses)				
State Appropriations	181,445,203	179,541,641	1,903,562	1.1%
State Aid - Coronavirus Relief Fund	116,120	-	116,120	
Student Financial Aid	63,497,280	63,698,262	(200,982)	(0.3%)
Federal Aid - COVID-19	12,227,440	-	12,227,440	
Noncapital Contributions	5,871,778	12,556,339	(6,684,561)	(53.2%)
Investment Income (Net of Investment Expense)	12,810,700	18,903,796	(6,093,096)	(32.2%)
Interest and Fees on Debt	(11,474,450)	(11,757,376)	282,926	(2.4%)
Other Nonoperating Expenses	(374,926)	(352,552)	(22,374)	6.3%
Net Nonoperating Revenues	<u>264,119,145</u>	<u>262,590,110</u>	<u>1,529,035</u>	<u>0.6%</u>
Income Before Other Revenues	<u>8,346,172</u>	<u>37,202,398</u>	<u>(28,856,226)</u>	<u>(77.6%)</u>
Other Revenues				
Capital Appropriations	-	1,501,947	(1,501,947)	(100.0%)
Capital Contributions	40,297,537	30,563,771	9,733,766	31.8%
Additions to Endowments	7,612,530	3,921,127	3,691,403	94.1%
Total Other Revenues	<u>47,910,067</u>	<u>35,986,845</u>	<u>11,923,222</u>	<u>33.1%</u>
Increase in Net Position	<u>56,256,239</u>	<u>73,189,243</u>	<u>(16,933,004)</u>	<u>(23.1%)</u>
Net Position - July 1	<u>471,595,356</u>	<u>398,406,113</u>	<u>73,189,243</u>	<u>18.4%</u>
Net Position - June 30	<u>\$ 527,851,595</u>	<u>\$ 471,595,356</u>	<u>\$ 56,256,239</u>	<u>11.9%</u>
Reconciliation of Changes in Net Position				
Total Revenues	\$ 523,621,068	\$ 512,625,966	\$ 10,995,102	2.1%
Less: Total Expenses	<u>467,364,829</u>	<u>439,436,723</u>	<u>27,928,106</u>	<u>6.4%</u>
Increases in Net Position	<u>\$ 56,256,239</u>	<u>\$ 73,189,243</u>	<u>\$ (16,933,004)</u>	<u>(23.1%)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of \$56.3 million at the end of the year. Total revenues for the fiscal year were \$523.6 million, up \$11.0 million (2.1%) from the prior year. Total expenses were \$467.4 million, up \$28.0 million (6.4%) from the prior year. Highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues decreased by \$2.2 million (1.1%), from the prior year. Sales and services, net, experienced a decline of \$10.7 million as a result of COVID-19 impacts to housing, dining, and parking operations. Students were issued refunds from sales and services revenues for the unused housing days and dining meals in the Spring Semester and the University also experienced a complete loss of housing and dining revenues associated with the Summer Sessions and summer camp programs. Grants and contracts (federal, state, and nongovernmental) increased by \$5.3 million (17.7%) over the prior year due to increases in federally funded research activity at the University and to increases in state grant funding for community-based projects.
- Operating expenses, scholarships and fellowships, increased by \$14.7 million (49.1%) over the prior year. There are two primary factors, both related to the COVID-19 pandemic, for this substantial increase. The first is the \$8.0 million in funding from the Higher Education Emergency Relief Fund (HEERF) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was disbursed directly to the students most severely affected by the pandemic. Financial reporting guidelines from GASB and NACUBO require the full amount of these awards to be reported as scholarships and fellowships expense without consideration in the scholarship discounting calculation. The second factor is the housing and dining refunds, discussed earlier, significantly reduced the scholarship discount amount since these student costs, typically covered from financial aid, were refunded to the student thus increasing scholarship and fellowship expense. Salaries and benefits increased by \$14.4 million (5.3%) from the prior year due to a \$9.1 million increase in pension expense and increases in Exempt from Human Resources Act (EHRA) salaries.
- The Federal Aid - COVID-19 amount of \$12.2 million includes a HEERF student allocation of \$8.0 million (described in the preceding paragraph) and an institutional allocation of \$4.2 million. The institutional allocation is being used to cover costs associated with significant changes to the delivery of instruction due to COVID-19 and to partially reimburse dining operations for lost revenues due to the University's closure on March 20, 2020. Please refer to Note 17 - The Coronavirus Pandemic Emergency for more information on the Federal and State Funds received specifically for the COVID-19 pandemic. State appropriations increased slightly by \$1.9 million (1.1%) over the prior year due to increases in funding connected to benefit rate changes. Noncapital contributions decreased by \$6.7 million primarily due to a reduction in current restricted gifts. Investment income decreased by \$6.1 million, to an investment gain of \$12.8 million compared with an investment gain of \$18.9 million in the prior year. This decrease is the result of a significant increase in unrealized losses on investments due to decreases in overall financial markets near the end of the fiscal year.
- Other revenues for fiscal year 2020 consist of capital contributions and additions to endowments. The University received capital grants of \$39.8 million during fiscal year 2020 primarily for the funding of the construction of the new Nursing and Instructional Building. The University received \$7.6 million in endowment gifts during the fiscal year which was a substantial increase of \$3.7 million over the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During fiscal year 2020, the fire alarm upgrade project for the Weil-Winfield residence hall and the Steam Distribution System replacement project were completed and capitalized.

Major projects included in construction in progress consisted of the Nursing and Instructional Building and renovations to the Ragsdale-Mendenhall residence hall.

On April 1, 2020, the University issued \$9,548,000 in General Refunding Bonds, Series 2020 with an average interest rate of 1.72%. The bonds were issued for a current refunding of \$9,475,000 of outstanding UNC System Pooled Revenue

Bonds, Series 2010B-2 with an average interest rate of 4.85%. The refunding was undertaken to reduce total debt service payments by \$1,021,713 over the next six years and resulted in an economic gain of \$967,180.

For additional information concerning Capital Assets and Debt Administration, see Notes 6 and 8 in the notes to the financial statements.

**ECONOMIC AND
STRATEGIC OUTLOOK**

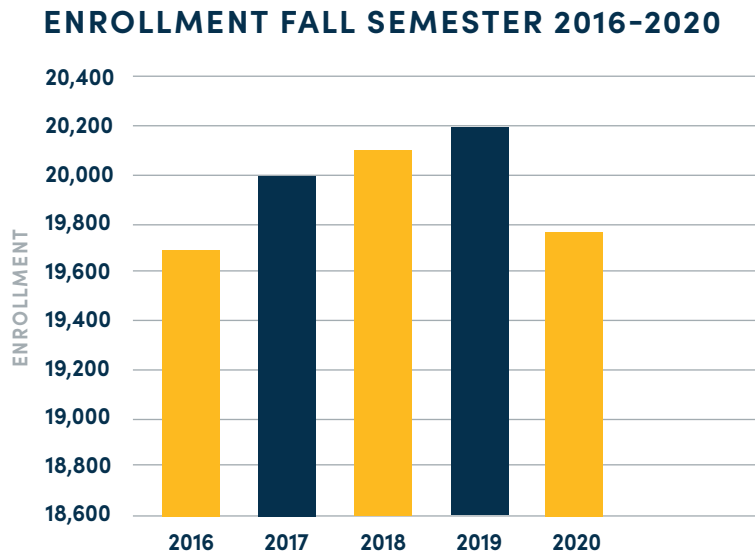
The COVID-19 pandemic and the measures imposed by state and local governments and health departments have significantly affected the University as discussed in previous sections of this MD&A. Although the University is currently open for the Fall 2020 semester with a mixture of face-to-face, online, and hybrid classes and on campus students occupying the residence halls, the pandemic has predictably caused a drop in the Fall 2020 enrollment headcount of 432 students, or 2.1%. Enrollment trend data is shown in the chart at right.

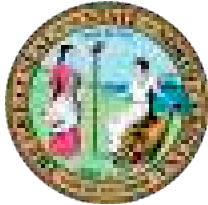
The University is directly addressing enrollment through the establishment of the Division of Enrollment Management which reports directly to the Chancellor and is responsible for facilitating the recruitment, retention, and graduation of a talented and diverse student population. While overall headcount enrollment declined, the University did see an increase in graduate student enrollment of 4.3% and an increase of 5.0% in total online enrollment when compared to the Fall 2019 semester.

Despite the COVID-19 pandemic the University has maintained its commitment to research as evidenced by an increase of \$5.3 million in grant activity compared to the prior year. The University will continue to invest in research infrastructure to drive faculty scholarship, to create a robust scholarly environment, and to create a greater community impact.

In March of 2016, North Carolina voters approved the Connect NC Bonds, which provided the University with \$105.0 million for the construction of a new Nursing and Instructional Building on the main campus. Construction began in early 2018 and will result in a four-story structure that will house the entire School of Nursing, which is currently located in four separate campus buildings. This facility, which will open in January 2021, will provide teaching and flexible laboratory space for the Biology, Chemistry, and Health and Human Services departments, and will enhance the University’s commitment to impactful research in the sciences and health fields.

The University will continue to invest resources in transformative activities designed to optimize student success and to enrich the academic enterprise of the University, while remaining committed to recruiting and graduating a student body that reflects the diversity of our community and increases access to students historically underserved in higher education. Through these investments and commitments, the University will be well positioned for growth in the post pandemic world and will continue to be a national model of how to expertly blend opportunity, excellence, and impact that transforms the lives of students by increasing their social mobility, and contributes to the future prosperity of the state and region.





Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Greensboro (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., which represent 12.74 percent and 1.01 percent, respectively, of the assets and revenues of the University; The UNCG Excellence Foundation, Inc., which represent 11.96 percent and 1.75 percent, respectively, of the assets and revenues of the University; nor the Capital Facilities Foundation, Inc., which represent 1.06 percent and 0.01 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. 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 University of North Carolina at Greensboro Investment Fund, Inc., The UNCG Excellence Foundation, Inc., and the Capital Facilities 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 opinion.

Opinion

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 financial position of The University of North Carolina at Greensboro, as of June 30, 2020, and the changes in financial position and 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 Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The letters from University management and other accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020 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. The report on internal control and compliance has been issued under a separate cover in the Financial Statement Audit Report of The University of North Carolina at Greensboro published by this office.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2020

**STATEMENT OF
NET POSITION**

JUNE 30, 2020

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	108,599,280
Restricted Cash and Cash Equivalents		24,272,457
Short-Term Investments		376,605
Restricted Short-Term Investments		10,307,717
Receivables, Net (Note 5)		20,785,977
Inventories		573,151
Notes Receivable, Net (Note 5)		458,089
Other Assets		129,131
Total Current Assets		<u>165,502,407</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		7,930,553
Receivables		1,315,164
Endowment Investments		309,809,381
Other Investments		1,359,729
Notes Receivable, Net (Note 5)		1,930,134
Net Other Postemployment Benefits Asset		442,296
Capital Assets - Nondepreciable (Note 6)		179,568,245
Capital Assets - Depreciable, Net (Note 6)		652,480,359
Total Noncurrent Assets		<u>1,154,835,861</u>
Total Assets		<u>1,320,338,268</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding		5,361,486
Deferred Outflows Related to Pensions		26,272,454
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		65,749,869
Total Deferred Outflows of Resources		<u>97,383,809</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)		15,833,458
Due to Primary Government		4,539
Deposits Payable		554,010
Funds Held for Others		14,257
Unearned Revenue		3,823,248
Interest Payable		3,262,219
Long-Term Liabilities - Current Portion (Note 8)		16,082,419
Total Current Liabilities		<u>39,574,150</u>

Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)		4,080,359
Funds Held for Others		1,247,497
U.S. Government Grants Refundable		3,664,521
Funds Held in Trust for Pool Participants		620,871
Long-Term Liabilities, Net (Note 8)		703,449,520
Total Noncurrent Liabilities		<u>713,062,768</u>
Total Liabilities		<u>752,636,918</u>

**STATEMENT OF
NET POSITION**

JUNE 30, 2020

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows for Irrevocable Split-Interest Agreements	85,370
Deferred Inflows Related to Pensions	132,847
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>137,015,347</u>
Total Deferred Inflows of Resources	<u>137,233,564</u>

NET POSITION

Net Investment in Capital Assets	507,243,178
Restricted:	
Nonexpendable	
True Endowments	157,547,559
Student Loans and Other	9,424,019
Expendable	
Scholarships, Research, Instruction, and Other	152,573,614
Student Loans	444,002
Capital Projects	8,810,602
Debt Service	57
Unrestricted	<u>(308,191,436)</u>
Total Net Position	<u>\$ 527,851,595</u>

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION****YEAR ENDED
JUNE 30, 2020****OPERATING REVENUES**

Student Tuition and Fees, Net (Note 11)	\$ 114,749,020
Federal Grants and Contracts	21,995,620
State and Local Grants and Contracts	9,610,065
Nongovernmental Grants and Contracts	3,669,778
Sales and Services, Net (Note 11)	48,293,586
Interest Earnings on Loans	143,417
Other Operating Revenues	<u>1,280,994</u>
Total Operating Revenues	<u>199,742,480</u>

OPERATING EXPENSES

Salaries and Benefits	288,338,362
Supplies and Services	91,419,118
Scholarships and Fellowships	44,584,598
Utilities	7,942,339
Depreciation	<u>23,231,036</u>
Total Operating Expenses	<u>455,515,453</u>
Operating Loss	<u>(255,772,973)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	181,445,203
State Aid - Coronavirus Relief Fund	116,120
Student Financial Aid	63,497,280
Federal Aid - COVID-19	12,227,440
Noncapital Contributions	5,871,778
Investment Income (Net of Investment Expense of \$1,795,050)	12,810,700
Interest and Fees on Debt	(11,474,450)
Other Nonoperating Expenses	<u>(374,926)</u>
Net Nonoperating Revenues	<u>264,119,145</u>
Income Before Other Revenues	<u>8,346,172</u>
Capital Contributions	40,297,537
Additions to Endowments	<u>7,612,530</u>
Total Other Revenues	<u>47,910,067</u>
Increase in Net Position	56,256,239

NET POSITION

Net Position - July 1, 2019	<u>471,595,356</u>
Net Position - June 30, 2020	<u>\$ 527,851,595</u>

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

**STATEMENT OF
CASH FLOWS****YEAR ENDED
JUNE 30, 2020****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 194,435,610
Payments to Employees and Fringe Benefits	(295,973,404)
Payments to Vendors and Suppliers	(97,447,917)
Payments for Scholarships and Fellowships	(44,584,598)
Loans Issued	(403,968)
Collection of Loans	1,382,613
Interest Earned on Loans	141,061
Other Receipts	1,641,209
	<hr/>
Net Cash Used by Operating Activities	(240,809,394)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	181,445,203
State Aid - Coronavirus Relief Fund	116,120
Student Financial Aid	63,497,280
Federal Aid - COVID-19	7,792,536
Noncapital Contributions	9,455,175
Additions to Endowments	7,612,530
William D. Ford Direct Lending Receipts	93,284,478
William D. Ford Direct Lending Disbursements	(93,284,478)
Related Activity Agency Receipts	72,982
	<hr/>
Net Cash Provided by Noncapital Financing Activities	269,991,826

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED
FINANCING ACTIVITIES**

Capital Contributions	39,792,936
Proceeds from Sale of Capital Assets	101,468
Proceeds from Insurance on Capital Assets	62,029
Acquisition and Construction of Capital Assets	(59,414,559)
Principal Paid on Capital Debt	(13,487,286)
Interest and Fees Paid on Capital Debt	(13,980,161)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(46,925,573)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	83,550,823
Investment Income	4,836,336
Purchase of Investments and Related Fees	(77,087,642)
	<hr/>
Net Cash Provided by Investing Activities	11,299,517
	<hr/>
Net Decrease in Cash and Cash Equivalents	(6,443,624)
	<hr/>
Cash and Cash Equivalents - July 1, 2019	147,245,914
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 140,802,290

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

Operating Loss	\$ (255,772,973)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	23,231,036
Allowances and Write-Offs	282,777
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(1,936,495)
Inventories	(112,893)
Notes Receivable, Net	754,454
Net Other Postemployment Benefits Asset	(144,128)
Deferred Outflows Related to Pensions	5,322,066
Deferred Outflows Related to Other Postemployment Benefits	(32,164,141)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	982,277
Due to Primary Government	7
Unearned Revenue	(59,197)
Net Pension Liability	4,520,556
Net Other Postemployment Benefits Liability	47,545,394
Compensated Absences	786,395
Deposits Payable	(227,100)
Workers' Compensation Liability	(760,201)
Deferred Inflows for Irrevocable Split-Interest Agreements	(68,996)
Deferred Inflows Related to Pensions	(611,521)
Deferred Inflows Related to Other Postemployment Benefits	(32,376,711)
Net Cash Used by Operating Activities	<u>\$ (240,809,394)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 4,119,630
Assets Acquired through a Gift	504,601
Change in Fair Value of Investments	6,675,002
Loss on Disposal of Capital Assets	(346,012)
Bond Issuance Cost Withheld	73,000
Amortization of Bond Premiums	(3,149,939)
Funds Escrowed to Defease Debt	9,475,000
Increase in Receivables Related to Nonoperating Income	4,434,904

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



<i>Note</i>	<i>Page</i>	<i>Description</i>
Note 1	28	Significant Accounting Policies A. Financial Reporting Entity B. Basis of Presentation C. Basis of Accounting D. Cash and Cash Equivalents E. Investments F. Receivables G. Inventories H. Capital Assets I. Restricted Assets J. Funds Held in Trust for Pool Participants K. Noncurrent Long-Term Liabilities L. Compensated Absences M. Deferred Outflows/Inflows of Resources N. Net Position O. Scholarship Discounts P. Revenue and Expense Recognition Q. Internal Sales Activities
Note 2	34	Deposits and Investments A. Deposits B. Investments
Note 3	38	Fair Value Measurements
Note 4	41	Endowment Investments
Note 5	42	Receivables
Note 6	42	Capital Assets
Note 7	43	Accounts Payable and Accrued Liabilities
Note 8	43	Long-Term Liabilities A. Changes in Long-Term Liabilities B. Revenue Bonds Payable and Bonds from Direct Placements C. Notes from Direct Borrowings D. Annual Requirements E. Terms of Debt Agreements F. Bond Defeasance G. Annuities Payable
Note 9	46	Operating Lease Obligations
Note 10	46	Net Position
Note 11	47	Revenues
Note 12	47	Operating Expenses by Function

Note 13	48	Pension Plans A. Defined Benefit Plan B. Defined Contribution Plan
Note 14	52	Other Postemployment Benefits A. Summary of Significant Accounting Policies and Plan Asset Matters B. Plan Descriptions C. Net OPEB Liability (Asset)
Note 15	59	Risk Management A. Employee Benefit Plans B. Other Risk Management and Insurance Activities
Note 16	62	Commitments and Contingencies A. Commitments B. Pending Litigation and Claims C. Other Contingent Receivables
Note 17	62	The Coronavirus Pandemic Emergency
Note 18	63	Related Parties
Note 19	64	Blended Component Units
Note 20	65	Changes in Financial Accounting and Reporting

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Greensboro (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 blended in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Units - Although legally separate, the following component units of the University are reported as if they were part of the University: The UNCG Excellence Foundation, Inc.; The University of North Carolina at Greensboro Weatherspoon Arts Foundation; the Capital Facilities Foundation, Inc.; and The University of North Carolina at Greensboro Investment Fund, Inc.

The UNCG Excellence Foundation, Inc. is governed by a 49-member board consisting of three ex officio directors and 46 appointed directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Weatherspoon Arts Foundation is governed by a 29-member board consisting of three ex officio directors and 26 appointed directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Capital Facilities Foundation, Inc. is governed by a nine-member board consisting of four ex officio directors and five appointed directors. The Foundation's purpose is to enhance the University's educational mission through assisting with the acquisition, development, financing, construction,

management, and operation of capital assets for the University. Because the directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. (the Fund) was formed to consolidate the endowment pool investments of The Endowment Fund of The University of North Carolina at Greensboro, the blended component units of the University, and certain affiliated entities and is classified as a governmental external investment pool. The Fund is the fiscal agent for the pool, and all units of the pool are owned by internal and external participants. The internal participants of the pool are The Endowment Fund of The University of North Carolina at Greensboro and The UNCG Excellence Foundation, Inc. The external participant of the pool is The Associated Campus Ministries of The University of North Carolina at Greensboro. The Fund is governed by a 10-member board consisting of three ex officio directors and seven appointed directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because the directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

An electronic version of the separate financial statements for the Foundations and the Investment Fund is available by accessing the UNCG Finance and Administration home page (<https://faa.uncg.edu/>) and clicking on "Foundation Finance", then "Audit Reports", or by calling (336) 334-5200.

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

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Investments in partnerships are stated at net asset value based on the fair value of the partnership's assets. Fair value of the partnership investments is based upon the General Partner's best judgement in estimating the fair value of these investments. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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

G. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost 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	25-50 years
Machinery and Equipment	2-20 years
General Infrastructure	25-50 years

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

J. Funds Held in Trust for Pool Participants - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

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

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the proportionate-to-stated interest method. Deferred gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 13 for further information

regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

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

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

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

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

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

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

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

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

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

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

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

- O. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- P. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

Q. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as the Fuel Depot, Postal Operations, Printing Services, Telecommunications, and Telephone Services. 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 \$129,166,725, 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 \$33,274. The carrying amount of the University's deposits not with the State Treasurer was \$11,602,291, and the bank balance was \$11,730,320. 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, \$10,356,906 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds 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 UNCG Excellence Foundation, Inc. and The University of North Carolina at Greensboro Investment Fund, Inc. are subject to and restricted by G.S. 36E Uniform Prudent Management of Institutional Funds Act (UPMIFA) and any requirements placed on them by contract or donor agreements.

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's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's formal policy limits some fixed income holdings to those that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

External Investment Pool - The University of North Carolina at Greensboro Investment Fund, Inc., an External Investment Pool sponsored by the University, was established on July 1, 1992. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of The UNCG Excellence Foundation, Inc., represent the Pool's internal participants. The Associated Campus Ministries of The University of North Carolina at Greensboro is not included in the University's reporting entity and represents the Pool's external participant. Fund ownership of the Pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the Pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. As of September 1, 2013, the Board along with Cambridge Associates Resources, LLC, created a limited partnership, UNCG Endowment Partners, LP. As part of the agreement, Cambridge is the General Partner and The University of North Carolina at Greensboro Investment Fund, Inc. is the Limited Partner. The University of North Carolina at Greensboro Investment Fund, Inc. contributed its investment portfolio in exchange for its interest in UNCG Endowment Partners, LP. The Board's primary role is to adopt investment objectives and policies and monitor the policy implementation and investment performance.

Cambridge Associates Resources, LLC serves as the outsourced chief investment officer for the Pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments. The annual financial report for the External Investment Pool may be obtained from the Finance and Administration Office, 254 Mossman, Greensboro, NC 27402, or by calling (336) 334-5200.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2020, for the External Investment Pool.

External Investment Pool

Investment Type	Amount
Partnerships:	
UNCG Endowment Partners, LP	\$ 309,822,397

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	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Money Market Funds	\$ 244	\$ 244	\$ -	\$ -
Mutual Bond Funds	3,126,333	-	515,372	2,610,961
Total Debt Securities	3,126,577	\$ 244	\$ 515,372	\$ 2,610,961
Other Securities				
Mutual Funds	5,938,995			
Corporate Securities:				
Common Stocks	2,225,963			
Investments in Real Estate	739,500			
Total Non-Pooled Investment Pool	\$ 12,031,035			

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

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below
Money Market Funds	\$ 244	\$ 244	\$ -	\$ -	\$ -
Mutual Bond Funds	3,126,333	2,502,295	6,013	104,033	513,992
Totals	\$ 3,126,577	\$ 2,502,539	\$ 6,013	\$ 104,033	\$ 513,992

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

NOTES TO THE FINANCIAL STATEMENTS

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

	<u>Amount</u>
Investment Type	
Debt Securities	
Money Market Funds	\$ 244
Mutual Bond Funds	3,126,333
Other Securities	
Mutual Funds	5,938,995
Corporate Securities:	
Common Stocks	2,225,963
Investments in Real Estate	739,500
Partnerships:	
UNCG Endowment Partners, LP	<u>309,822,397</u>
Total Investments	<u><u>\$ 321,853,432</u></u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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				
Debt Securities				
Money Market Funds	\$ 244	\$ 244	\$ -	\$ -
Mutual Bond Funds	3,126,333	3,126,333	-	-
Total Debt Securities	3,126,577	3,126,577	-	-
Other Securities				
Mutual Funds	5,938,995	5,938,995	-	-
Corporate Securities:				
Common Stocks	2,225,963	2,225,963	-	-
Investments in Real Estate	739,500	-	-	739,500
Total Investments by Fair Value Level	12,031,035	\$ 11,291,535	\$ -	\$ 739,500
Investments Measured at the Net Asset Value (NAV)				
Partnerships:				
UNCG Endowment Partners, LP	309,822,397			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	129,166,725			
Total Investments Measured at Fair Value	\$ 451,020,157			

**NOTES TO THE
FINANCIAL STATEMENTS**

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.

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

Investments in Real Estate - The UNCG Excellence Foundation, Inc. currently holds four parcels of land that were gifted to the Foundation. Three parcels are life estates which were appraised at the time of gift and recorded at a value of \$739,000. These properties will be sold at the time the donor no longer lives on the property. The fourth parcel was gifted as part of an estate and is valued at the tax value of \$500.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2020.

Investments Measured at the NAV

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Partnerships:				
UNCG Endowment Partners, LP	<u>\$ 309,822,397</u>	N/A	N/A	N/A

UNCG Endowment Partners, LP - The UNCG Endowment Partners, LP (the “Partnership”) will generally seek to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security. The Partnership seeks to achieve its objective by allocating its assets among unaffiliated limited partnerships, unaffiliated limited liability companies, unaffiliated private equity and/or venture capital funds, including offshore funds, other investment entities and/or separate accounts managed pursuant to investment management agreements (collectively, the “Underlying Funds”), as well as publicly-traded stocks, exchange-traded funds, mutual funds, bonds, and derivative contracts.

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 pooled endowment funds for 2020 and 2019 are equal to 4.00 and 4.00 percent, respectively, of the average market value of the Investment Pool at December 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2020, net appreciation of \$12,459,545 was available to be spent, of which \$11,931,877 was classified in net position as restricted expendable for student loans and scholarships, research, instruction, and other as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2020, the amount of investment losses reported against the nonexpendable endowment balances was \$8,001.

**NOTES TO THE
FINANCIAL STATEMENTS**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,969,853	\$ 703,471	\$ 2,266,382
Student Sponsors	4,291,073	-	4,291,073
Intergovernmental	10,365,246	-	10,365,246
Pledges	2,911,960	6,056	2,905,904
Investment Earnings	1,730	-	1,730
Interest on Loans	111,287	-	111,287
Other	844,355	-	844,355
Total Current Receivables	<u>\$ 21,495,504</u>	<u>\$ 709,527</u>	<u>\$ 20,785,977</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 381,871	\$ 107,533	\$ 274,338
Institutional Student Loan Programs	341,893	158,142	183,751
Total Notes Receivable - Current	<u>\$ 723,764</u>	<u>\$ 265,675</u>	<u>\$ 458,089</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 2,150,634</u>	<u>\$ 220,500</u>	<u>\$ 1,930,134</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	\$ 50,637,030	\$ 264,686	\$ -	\$ 50,901,716
Art, Literature, and Artifacts	23,786,478	428,001	87,050	24,127,429
Construction in Progress	55,105,694	54,325,080	4,891,674	104,539,100
Total Capital Assets, Nondepreciable	<u>129,529,202</u>	<u>55,017,767</u>	<u>4,978,724</u>	<u>179,568,245</u>
Capital Assets, Depreciable:				
Buildings	795,260,747	2,081,255	-	797,342,002
Machinery and Equipment	65,131,414	2,899,704	1,844,926	66,186,192
General Infrastructure	82,895,092	2,810,419	-	85,705,511
Total Capital Assets, Depreciable	<u>943,287,253</u>	<u>7,791,378</u>	<u>1,844,926</u>	<u>949,233,705</u>
Less Accumulated Depreciation for:				
Buildings	192,797,571	16,905,439	-	209,703,010
Machinery and Equipment	34,316,346	3,371,253	1,422,467	36,265,132
General Infrastructure	47,830,860	2,954,344	-	50,785,204
Total Accumulated Depreciation	<u>274,944,777</u>	<u>23,231,036</u>	<u>1,422,467</u>	<u>296,753,346</u>
Total Capital Assets, Depreciable, Net	<u>668,342,476</u>	<u>(15,439,658)</u>	<u>422,459</u>	<u>652,480,359</u>
Capital Assets, Net	<u>\$ 797,871,678</u>	<u>\$ 39,578,109</u>	<u>\$ 5,401,183</u>	<u>\$ 832,048,604</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 3,921,613
Accounts Payable - Capital Assets	1,826,107
Accrued Payroll	7,411,659
Other	2,674,079
Total Current Accounts Payable and Accrued Liabilities	\$ 15,833,458
Noncurrent Accounts Payable and Accrued Liabilities	
Contract Retainage	\$ 4,080,359

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 293,190,000	\$ -	\$ 22,645,000	\$ 270,545,000	\$ 10,690,000
Bonds from Direct Placements	6,800,000	9,548,000	91,000	16,257,000	3,322,139
Plus: Unamortized Premium	28,633,607	-	3,149,939	25,483,668	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	328,623,607	9,548,000	25,885,939	312,285,668	14,012,139
Notes from Direct Borrowings	8,993,199	-	226,286	8,766,913	231,898
Total Long-Term Debt	337,616,806	9,548,000	26,112,225	321,052,581	14,244,037
Other Long-Term Liabilities					
Annuities and Life Income Payable	6,003,613	-	875,971	5,127,642	-
Employee Benefits					
Compensated Absences	15,966,722	12,424,514	11,638,119	16,753,117	809,441
Net Pension Liability	50,431,573	4,520,556	-	54,952,129	-
Net Other Postemployment Benefits Liability	270,258,283	47,545,394	-	317,803,677	-
Workers' Compensation	4,602,994	159,885	920,086	3,842,793	1,028,941
Total Other Long-Term Liabilities	347,263,185	64,650,349	13,434,176	398,479,358	1,838,382
Total Long-Term Liabilities, Net	\$ 684,879,991	\$ 74,198,349	\$ 39,546,401	\$ 719,531,939	\$ 16,082,419

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

**NOTES TO THE
FINANCIAL STATEMENTS**

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2020	Principal Outstanding June 30, 2020
Revenue Bonds Payable						
General Revenue Bonds						
Refund Series 2002A - Dining and Housing	2011	3.50%-5.00%	04/01/2036	\$ 77,505,000	\$ 72,580,000	\$ 4,925,000
Refund Series 2002A and 2004C - Housing, Athletics, Police Building, and Dining	2012A	2.00%-5.00%	04/01/2037	52,360,000	34,995,000	17,365,000
Student Recreation Center and Housing	2014	4.00%-5.00%	04/01/2039	125,685,000	18,005,000	107,680,000
Refund Series 2009A - Housing and Parking	2016	2.50%-5.00%	04/01/2034	21,575,000	1,020,000	20,555,000
Refund Series 2011 and 2012A - Dining, Housing, Police Building, and Athletics	2017	4.00%-5.00%	04/01/2036	77,175,000	-	77,175,000
Housing	2018	3.00%-5.00%	04/01/2043	45,260,000	2,415,000	42,845,000
Total General Revenue Bonds				399,560,000	129,015,000	270,545,000
Bonds from Direct Placements						
Refund Series 2005A and 2012B - Housing, Parking, and Athletics	2015	1.75%	04/01/2026	10,109,000	3,400,000	6,709,000
Refund Series 2010B-2 - Elliott University Center and Various Construction Projects	2020	1.72%	04/01/2026	9,548,000	-	9,548,000
Total Bonds from Direct Placements				19,657,000	3,400,000	16,257,000
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				<u>\$ 419,217,000</u>	<u>\$ 132,415,000</u>	286,802,000
Plus: Unamortized Premium						25,483,668
Total Revenue Bonds Payable and Bonds from Direct Placements, Net						<u>\$ 312,285,668</u>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
Improvement Advance	PNC	2.48%	04/01/2027	<u>\$ 9,460,000</u>	<u>\$ 8,766,913</u>

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		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 10,690,000	\$ 12,549,825	\$ 3,322,139	\$ 281,633	\$ 231,898	\$ 217,419
2022	11,025,000	12,046,225	3,362,906	223,954	237,649	211,668
2023	11,485,000	11,506,325	3,430,336	165,566	243,543	205,775
2024	12,070,000	10,932,075	2,012,089	106,008	249,583	199,735
2025	12,675,000	10,328,575	2,053,927	71,278	255,772	193,545
2026-2030	70,845,000	41,839,450	2,075,603	35,825	7,548,468	367,904
2031-2035	80,940,000	24,212,463	-	-	-	-
2036-2040	52,470,000	7,917,650	-	-	-	-
2041-2043	8,345,000	848,250	-	-	-	-
Total Requirements	<u>\$ 270,545,000</u>	<u>\$ 132,180,838</u>	<u>\$ 16,257,000</u>	<u>\$ 884,264</u>	<u>\$ 8,766,913</u>	<u>\$ 1,396,046</u>

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 indenture agreements for the University's outstanding revenue bonds of \$270,545,000 contain provisions related to events of default and remedies. Significant to these

provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, or (2) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the University of North Carolina Board of Governors by the Trustee of the bonds.

Upon the occurrence of any event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be due and payable immediately. The Trustee may exercise all remedies available by law or in the equity provided under the agreement, including a sum sufficient to pay all matured installments of the principal of and interest on all bonds which will have become due otherwise than by reason of such declaration and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee.

Bonds from Direct Placements - The indenture agreements for the University's outstanding bonds from direct placements of \$16,257,000 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, or (2) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the University of North Carolina Board of Governors by the Trustee of the bonds.

Upon the occurrence of any event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be due and payable immediately. The Trustee may exercise all remedies available by law or in the equity provided under the agreement, including a sum sufficient to pay all matured installments of the principal of and interest on all bonds which will have become due otherwise than by reason of such declaration and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee.

Notes from Direct Borrowings - The University's outstanding notes from direct borrowings of \$8,766,913 contain provisions that in an event of default, the Bank may by written notice to the University, declare an amount equal to all remaining Base Rentals then due and payable to be immediately due and payable. The Bank may have reasonable access to and inspect, examine and make copies of the books and records and accounts of the University during regular business hours of the University if reasonably necessary. The Bank may also take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the University made provided under the Use Agreement.

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

On April 1, 2020, the University issued \$9,548,000 in General Revenue Refunding Bonds, Series 2020 with an average interest rate of 1.72%. The bonds were issued for a current refunding of \$9,475,000 of outstanding UNC System Pool Revenue Bonds, Series 2010B-2 with an average interest rate of 4.85%. The refunding was undertaken to reduce total debt service payments by \$1,021,713 over the next six years and resulted in an economic gain of \$967,180.

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

NOTES TO THE FINANCIAL STATEMENTS

the old bonds. Accordingly, the trust account assets and the liabilities 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 \$60,945,000 for the defeased General Revenue Bonds, Series 2011 and \$20,815,000 for the defeased General Revenue Bonds, Series 2012A.

For certain prior year defeasances, the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. At June 30, 2020, the outstanding balance of prior year defeased bonds for which substitution is not prohibited was \$81,760,000.

G. Annuities Payable - The annuity and life income payable balance consists of 128 charitable annuity agreements and 13 charitable remainder unitrusts with a market value of \$9.2 million. The \$5.128 million annuity and life income payable liability is the expected present value payable to donors based upon their age, the agreed-on payment rate, and the applicable federal rate.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for real property 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	\$ 1,388,666
2022	1,301,548
2023	1,239,859
2024	1,153,736
2025	1,097,005
2026-2029	<u>1,513,394</u>
Total Minimum Lease Payments	<u>\$ 7,694,208</u>

Rental expense for all operating leases during the year was \$1,202,230.

NOTE 10 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (28,812,522)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(389,766,199)</u>
Effect on Unrestricted Net Position	(418,578,721)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>110,387,285</u>
Total Unrestricted Net Position	<u>\$ (308,191,436)</u>

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

NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 155,074,937	\$ 39,797,739	\$ 528,178	\$ 114,749,020
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 28,477,951	\$ 7,304,377	\$ 98,187	\$ 21,075,387
Dining	17,086,010	4,074,770	54,750	12,956,490
Student Union Services	102,075	-	-	102,075
Health, Physical Education, and Recreation Services	1,261,068	-	-	1,261,068
Parking	3,626,876	-	45,562	3,581,314
Athletic	704,436	-	-	704,436
Other	2,939,893	390,622	5,867	2,543,404
Sales and Services of Education and Related Activities	6,069,412	-	-	6,069,412
Total Sales and Services, Net	\$ 60,267,721	\$ 11,769,769	\$ 204,366	\$ 48,293,586

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 151,081,383	\$ 12,905,885	\$ 37,995	\$ 61,375	\$ -	\$ 164,086,638
Research	11,475,750	6,844,388	1,011,215	-	-	19,331,353
Public Service	7,335,424	1,685,535	28,465	999	-	9,050,423
Academic Support	28,404,877	15,703,228	787,572	7,033	-	44,902,710
Student Services	18,988,530	5,239,379	113,050	-	-	24,340,959
Institutional Support	27,359,166	11,493,479	-	20,564	-	38,873,209
Operations and Maintenance of Plant	22,480,201	11,982,794	-	5,061,072	-	39,524,067
Student Financial Aid	-	-	42,548,791	-	-	42,548,791
Auxiliary Enterprises	21,213,031	25,564,430	57,510	2,791,296	-	49,626,267
Depreciation	-	-	-	-	23,231,036	23,231,036
Total Operating Expenses	\$ 288,338,362	\$ 91,419,118	\$ 44,584,598	\$ 7,942,339	\$ 23,231,036	\$ 455,515,453

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 \$8,008,800 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 11.

NOTE 13 – PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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 \$5,416,450, and the University's contributions were \$11,708,559 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 \$54,952,129 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 0.53007%, which was an increase of 0.02353 from its proportion measured as of June 30, 2018, which was 0.50654%.

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

NOTES TO THE FINANCIAL STATEMENTS

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:

<u>Net Pension Liability</u>		
<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
\$ 104,589,188	\$ 54,952,129	\$ 13,312,962

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 \$20,930,247. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 4,596,682	\$ 110,011
Changes of Assumptions	5,855,365	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,053,355	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,058,493	22,836
Contributions Subsequent to the Measurement Date	11,708,559	-
Total	\$ 26,272,454	\$ 132,847

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	\$ 9,443,767
2022	3,026,100
2023	1,592,692
2024	368,489
Total	\$ 14,431,048

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 \$224,259,735, of which \$102,191,824 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$6,131,509 and \$6,989,921, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$580,877 recognized during the reporting period.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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 \$12,452,549 for the year ended June 30, 2020.

2. Disability Income

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

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The University's contributions to DIPNC were \$192,466 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 \$317,803,677 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 1.00445%, which was an increase of 0.05578 from its proportion measured as of June 30, 2018, which was 0.94867%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of \$442,296 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 1.02502%, which was an increase of 0.04343 from its proportion measured as of June 30, 2018, which was 0.98159%.

NOTES TO THE FINANCIAL STATEMENTS

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	12/31/18	12/31/18
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.

**NOTES TO THE
FINANCIAL STATEMENTS**

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)			
	<u>1% Decrease (2.50%)</u>	<u>Current Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
RHBF	\$ 377,664,813	\$ 317,803,677	\$ 269,871,267
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
DIPNC	\$ (374,614)	\$ (442,296)	\$ (508,061)

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)			
	<u>1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)</u>	<u>Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)</u>	<u>1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)</u>
RHBF	\$ 261,686,697	\$ 317,803,677	\$ 391,587,052
	<u>1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)</u>	<u>Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)</u>	<u>1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)</u>
DIPNC	\$ (443,075)	\$ (442,296)	\$ (441,568)

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 \$4,915,726 for RHBF and expense of \$420,624 for DIPNC, resulting in a total OPEB contra-expense of \$4,495,102. 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:**

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ -	\$ 451,839	\$ 451,839
Changes of Assumptions	15,275,141	48,996	15,324,137
Net Difference Between Projected and Actual Earnings on Plan Investments	211,632	84,246	295,878
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	37,032,201	799	37,033,000
Contributions Subsequent to the Measurement Date	12,452,549	192,466	12,645,015
Total	\$ 64,971,523	\$ 778,346	\$ 65,749,869

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 16,021,309	\$ -	\$ 16,021,309
Changes of Assumptions	95,545,714	45,378	95,591,092
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	25,367,022	35,924	25,402,946
Total	\$ 136,934,045	\$ 81,302	\$ 137,015,347

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:**

Year Ended June 30:	RHBF	DIPNC
2021	\$ (30,665,777)	\$ 180,379
2022	(30,665,777)	122,312
2023	(30,635,179)	88,025
2024	651,484	53,154
2025	6,900,178	75,368
Thereafter	-	(14,660)
Total	\$ (84,415,071)	\$ 504,578

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% 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 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain 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 General Property Coverage Policy is the Fund's basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Broad Form Coverage, and Special Form Coverage. However, the University is covered only for those named perils for which the University has paid a premium and for which the named peril is indicated in the Declarations. Extended coverage for buildings and contents has been purchased for the following buildings: All Housing and Residence Life buildings, the Chemical Storage Facility, the Baseball Complex, the Softball Complex, the Sullivan Science Building, and the Graphics and Printing Services Building. Broad Form Coverage has been purchased for the building and contents for the L.J. Kaplan Center for Wellness. All Risk Coverage has been purchased for the Baseball Locker Room and Training Facility, the Elliott University Center, 840 Neal Street, 821 South Josephine Boyd Street, and the Chancellor's Residence. Vandalism and Malicious Mischief insurance (VMM) has been purchased for the Elliott University Center. The University must fund the additional cost of the above stated insurance.

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 purchased coverages are: "all-risk" for computers and miscellaneous equipment covering all perils including fire (replacement cost on listed computers and miscellaneous equipment, \$5,000 deductible per event); study abroad accident and health (\$250,000 per injury or sickness medical expenses, \$10,000 accidental death and dismemberment, \$50,000 repatriation of remains, \$200,000 evacuation benefit limit, \$1,500 bedside visit); international students accident and sickness (\$150,000 maximum limit for medical expenses, \$10,000 accidental death and dismemberment, \$15,000 for repatriation of remains and \$50,000 lifetime benefit for medical evacuation); robbery and safe burglary (\$1.0 million per event, \$25,000 deductible); musical instruments (stated value cash replacement value with \$500 deductible); fine art (property coverage – museum collection and temporary loan, limits of liability: \$250.0 million limit at insured premises, \$25.0 million at any other location, \$25.0 million limit in transit on any one conveyance, exhibition, and location, \$70.0 million for TRIA (Terrorism Risk Insurance Act), and \$250.0 million aggregate limit in any one loss or disaster; deductibles: \$2,500); University intern liability (\$2.0 million per incident / \$4.0 million per year); business travel (\$100,000 maximum medical expense, \$10,000 maximum accidental death and dismemberment maximum benefit, \$100,000 medical evacuation maximum benefit); boiler and machinery (\$50.0 million equipment breakdown limit, \$5,000 deductible); leased computer equipment (stated value with \$10,000 deductible for medical equipment and \$500 deductible for all other); athletic accident (maximum medical coverage limit \$75,000, with \$0 deductible, maximum death specific loss \$50,000); physicians professional medical liability (\$1.0 million per person, \$3.0 million total); postal bond (coverage limit \$30,000); cyber liability/breach response (\$5.0 million limit); non-physicians professional medical liability (individual policies) (\$1.0 million per person, \$3.0 million total); student health; camp accident (\$250,000 accidental death and dismemberment maximum annual limit); club sports travel (\$10,000 accidental death and dismemberment); volunteer liability (\$1.0 million per incident / \$3.0 million per year); Railroad Underpass general liability coverage \$2.0 million per year and aggregate limit; Railroad Underpass excess liability \$1.0 million limit; Campus Recreation Adventure Program accident and health insurance (\$15,000 accidental death, up to \$15,000 dismemberment, \$10,000 accidental medical expenses); boat \$1.0 million liability and property damage; fiber optics bond \$50,000; Unmanned Aircraft Aviation insurance (\$1.0 million liability limit).

NOTE 16 – COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$16,001,148 and on other purchases were \$10,715,303 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.
- C. **Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
Pledges to the UNCG Excellence Foundation Endowment Fund	\$ 1,751,056
Pledges to the UNCG Endowment Fund	4,946,023

NOTE 17 – 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 (1) the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, and (2) 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 30, 2020.

In addition, this caption includes indirect awards from CRF funds appropriated for collaborative countermeasures and research efforts related to COVID-19.

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 and additional award), the University reimbursed its auxiliary units for the prorate 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.

In addition, this caption includes indirect awards from the Elementary and Secondary School Emergency Relief Fund program funds of the CARES Act for COVID-19 emergency expenses related to the NC Laboratory Schools.

**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	\$ 1,717,303	\$ 116,120
Other Indirect Allocations	106,873	-
Total State Aid - Coronavirus Relief Fund	N/A	<u>\$ 116,120</u>
Federal Aid - COVID-19:		
HEERF - Student Allocation	\$ 9,283,941	\$ 8,008,800
HEERF - Institutional Allocation (1)	9,283,940	4,217,504
HEERF - Additional Award	902,769	-
Other Indirect Awards	167,761	1,136
Total Federal Aid - COVID-19	N/A	<u>\$ 12,227,440</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.

NOTE 18 - RELATED PARTIES

The University and North Carolina Agricultural and Technical State University have formed a jointly governed nonprofit organization, Gateway Research Park, Inc., which is also a component unit of the State of North Carolina. The purpose of this organization is to provide a collaborative research environment that fosters academic enrichment, research growth, technology transfer, commercialization, and discovery while encouraging and promoting regional economic development.

During the fiscal year, the University made payments totaling \$2,075,840 to Gateway Research Park, Inc. These payments consisted of: \$1,760,976 for the construction, maintenance, acquisition, movement, installation, and upgrades of offices, classrooms, and laboratories for the Joint School of Nanoscience and Nanoengineering; \$284,700 for the operation and maintenance of University facilities at the Gateway Research Park; \$25,000 for the annual management fee for the Gateway Research Park; and \$5,164 for other facility use fees, services, and maintenance expenses.

**NOTES TO THE
FINANCIAL STATEMENTS**

NOTE 19 - BLENDED COMPONENT UNITS

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

**Condensed Statement of Net Position
June 30, 2020**

	University	UNCG Excellence Foundation	Weatherspoon Arts Foundation	Capital Facilities Foundation	UNCG Investment Fund	Eliminations	Total
ASSETS							
Current Assets	\$ 152,543,829	\$ 9,146,586	\$ -	\$ 3,808,056	\$ 475,343	\$ (471,407)	\$ 165,502,407
Capital Assets, Net	797,978,800	-	23,878,929	10,190,875	-	-	832,048,604
Other Noncurrent Assets	174,039,487	148,747,770	-	-	310,293,804	(310,293,804)	322,787,257
Total Assets	1,124,562,116	157,894,356	23,878,929	13,998,931	310,769,147	(310,765,211)	1,320,338,268
TOTAL DEFERRED OUTFLOWS OF RESOURCES	97,383,809	-	-	-	-	-	97,383,809
LIABILITIES							
Current Liabilities	38,230,625	1,053,336	-	286,253	475,343	(471,407)	39,574,150
Long-Term Liabilities, Net	694,914,505	-	-	8,535,015	-	-	703,449,520
Other Noncurrent Liabilities	4,151,355	5,127,642	-	334,251	-	-	9,613,248
Total Liabilities	737,296,485	6,180,978	-	9,155,519	475,343	(471,407)	752,636,918
TOTAL DEFERRED INFLOWS OF RESOURCES	137,042,919	190,645	-	-	-	-	137,233,564
NET POSITION							
Net Investment in Capital Assets	481,906,287	34,000	23,878,929	1,423,962	-	-	507,243,178
Restricted - Nonexpendable	76,946,407	90,025,171	-	-	310,293,804	(310,293,804)	166,971,578
Restricted - Expendable	111,032,320	50,795,955	-	-	-	-	161,828,275
Unrestricted	(322,278,493)	10,667,607	-	3,419,450	-	-	(308,191,436)
Total Net Position	\$ 347,606,521	\$ 151,522,733	\$ 23,878,929	\$ 4,843,412	\$ 310,293,804	\$ (310,293,804)	\$ 527,851,595

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

	University	UNCG Excellence Foundation	Weatherspoon Arts Foundation	Capital Facilities Foundation	UNCG Investment Fund	Eliminations	Total
OPERATING REVENUES							
Rental Income	\$ -	\$ -	\$ -	\$ 474,308	\$ -	\$ (474,308)	\$ -
Operating Revenues	199,742,480	-	-	-	-	-	199,742,480
Total Operating Revenues	199,742,480	-	-	474,308	-	(474,308)	199,742,480
OPERATING EXPENSES							
Operating Expenses	432,223,622	240,960	-	314,296	1,718,708	(2,213,169)	432,284,417
Depreciation	22,940,672	-	-	290,364	-	-	23,231,036
Total Operating Expenses	455,164,294	240,960	-	604,660	1,718,708	(2,213,169)	455,515,453
Operating Loss	(255,421,814)	(240,960)	-	(130,352)	(1,718,708)	1,738,861	(255,772,973)
NONOPERATING REVENUES (EXPENSES)							
Investment Income, Net	8,703,557	4,107,143	-	-	11,478,146	(11,478,146)	12,810,700
Noncapital Contributions	5,307,755	564,023	-	-	-	-	5,871,778
Interest and Fees on Debt	(11,474,450)	-	-	-	-	-	(11,474,450)
Other Nonoperating Revenues (Expenses)	256,908,393	-	-	406,924	(7,046,273)	6,642,073	256,911,117
Net Nonoperating Revenues	259,445,255	4,671,166	-	406,924	4,431,873	(4,836,073)	264,119,145
Transfers	-	(6,023,693)	-	-	-	6,023,693	-
Capital Contributions	40,106,586	-	190,951	-	-	-	40,297,537
Additions to Endowments	3,101,779	4,510,751	-	-	-	-	7,612,530
Total Other Revenues (Expenses)	43,208,365	(1,512,942)	190,951	-	-	6,023,693	47,910,067
Increase in Net Position	47,231,806	2,917,264	190,951	276,572	2,713,165	2,926,481	56,256,239
NET POSITION							
Net Position, July 1, 2019	300,374,715	148,605,469	23,687,978	4,566,840	307,580,639	(313,220,285)	471,595,356
Net Position, June 30, 2020	\$ 347,606,521	\$ 151,522,733	\$ 23,878,929	\$ 4,843,412	\$ 310,293,804	\$ (310,293,804)	\$ 527,851,595

Condensed Statement of Cash Flows
June 30, 2020

	University	UNCG Excellence Foundation	Capital Facilities Foundation	UNCG Investment Fund	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	\$ (238,723,433)	\$ (2,245,973)	\$ 160,012	\$ -	\$ -	\$ (240,809,394)
Net Cash Provided by Noncapital Financing Activities	269,559,687	432,139	-	-	-	269,991,826
Net Cash Used by Capital and Related Financing Activities	(46,735,604)	-	(189,969)	-	-	(46,925,573)
Net Cash Provided by Investing Activities	8,224,766	2,667,827	406,924	471,533	(471,533)	11,299,517
Net Increase (Decrease) in Cash and Cash Equivalents	(7,674,584)	853,993	376,967	471,533	(471,533)	(6,443,624)
Cash and Cash Equivalents, July 1, 2019	141,166,867	2,788,603	3,290,444	3,810	(3,810)	147,245,914
Cash and Cash Equivalents, June 30, 2020	<u>\$ 133,492,283</u>	<u>\$ 3,642,596</u>	<u>\$ 3,667,411</u>	<u>\$ 475,343</u>	<u>\$ (475,343)</u>	<u>\$ 140,802,290</u>

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.

**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**

Teachers' and State Employees' Retirement System	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	0.53007%	0.50654%	0.48830%	0.47757%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 54,952,129	\$ 50,431,573	\$ 38,743,875	\$ 43,893,616
Covered Payroll	\$ 89,253,161	\$ 82,332,739	\$ 77,751,073	\$ 74,256,427
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	61.57%	61.25%	49.83%	59.11%
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	0.49801%	0.53027%	0.55270%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 18,352,655	\$ 6,216,997	\$ 33,554,522	
Covered Payroll	\$ 73,915,822	\$ 75,983,103	\$ 78,802,024	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	24.83%	8.18%	42.58%	
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.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF UNIVERSITY CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN**

**LAST TEN
FISCAL YEARS**

Teachers' and State Employees' Retirement System	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 11,708,559	\$ 10,969,213	\$ 8,875,469	\$ 7,759,557	\$ 6,794,463
Contributions in Relation to the Contractually Determined Contribution	<u>11,708,559</u>	<u>10,969,213</u>	<u>8,875,469</u>	<u>7,759,557</u>	<u>6,794,463</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 90,274,161	\$ 89,253,161	\$ 82,332,739	\$ 77,751,073	\$ 74,256,427
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	\$ 6,763,298	\$ 6,602,932	\$ 6,564,209	\$ 5,823,207	\$ 3,997,274
Contributions in Relation to the Contractually Determined Contribution	<u>6,763,298</u>	<u>6,602,932</u>	<u>6,564,209</u>	<u>5,823,207</u>	<u>3,997,274</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 73,915,822	\$ 75,983,103	\$ 78,802,024	\$ 78,268,906	\$ 81,080,607
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.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF UNIVERSITY CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN**

**LAST TEN
FISCAL YEARS**

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 the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

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**

Retiree Health Benefit Fund	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	1.00445%	0.94867%	0.89477%	1.01384%
Proportionate Share of Collective Net OPEB Liability	\$ 317,803,677	\$ 270,258,283	\$ 293,363,921	\$ 441,054,860
Covered Payroll	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	167.98%	154.35%	178.26%	283.06%
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	1.02502%	0.98159%	0.95710%	0.90534%
Proportionate Share of Collective Net OPEB Asset	\$ 442,296	\$ 298,168	\$ 584,980	\$ 562,216
Covered Payroll	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.23%	0.17%	0.36%	0.36%
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.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF UNIVERSITY CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**

**LAST TEN
FISCAL YEARS**

Retiree Health Benefit Fund	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 12,452,549	\$ 11,862,576	\$ 10,593,021	\$ 9,561,378	\$ 8,725,869
Contributions in Relation to the Contractually Determined Contribution	<u>12,452,549</u>	<u>11,862,576</u>	<u>10,593,021</u>	<u>9,561,378</u>	<u>8,725,869</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 192,465,985	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
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	\$ 8,421,927	\$ 8,473,310	\$ 8,396,759	\$ 7,891,367	\$ 7,866,532
Contributions in Relation to the Contractually Determined Contribution	<u>8,421,927</u>	<u>8,473,310</u>	<u>8,396,759</u>	<u>7,891,367</u>	<u>7,866,532</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 153,404,858	\$ 156,913,142	\$ 158,429,407	\$ 157,827,334	\$ 160,541,468
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	\$ 192,466	\$ 264,874	\$ 245,128	\$ 625,357	\$ 638,858
Contributions in Relation to the Contractually Determined Contribution	<u>192,466</u>	<u>264,874</u>	<u>245,128</u>	<u>625,357</u>	<u>638,858</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 192,465,985	\$ 189,195,782	\$ 175,091,258	\$ 164,567,614	\$ 155,819,092
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	\$ 628,960	\$ 690,418	\$ 697,089	\$ 820,702	\$ 834,816
Contributions in Relation to the Contractually Determined Contribution	<u>628,960</u>	<u>690,418</u>	<u>697,089</u>	<u>820,702</u>	<u>834,816</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 153,404,858	\$ 156,913,142	\$ 158,429,407	\$ 157,827,334	\$ 160,541,468
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.

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-pocket maximums, and deductibles were changed for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

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

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

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

For the actuarial valuation measured as of June 30, 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 years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.

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Randall Penfield
Dean, School of Education

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Robin Remsburg
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Michael Crumpton
Interim Dean, University Libraries

Finance and Administration 2019-20

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Jeanne Madorin
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Greg Hodges
Associate Vice Chancellor for Planning & Performance Mgmt.

Lauren Cox
Assistant Vice Chancellor for Foundation Finance

Randy Bennett
University Controller

Quita Loflin
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University Communications 2019-20

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Vice Chancellor for Strategic Communications

Kimberly Osborne
Senior Director, Integrated Marketing Communications

Mark Unrue
Art Director

A SOUND PLAN

Triston Broadway has big plans. In his future, the Miami native sees collaboration – with educators and entertainment industry professionals – to write classical music that's both exciting and accessible to everyone, regardless of social or economic background. That means being open to new possibilities, as an educator and an artist. Mixing the traditional with the experimental, the UNC Greensboro College of Visual and Performing Arts student approaches each project with new sounds and new enthusiasm.



