STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2020

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

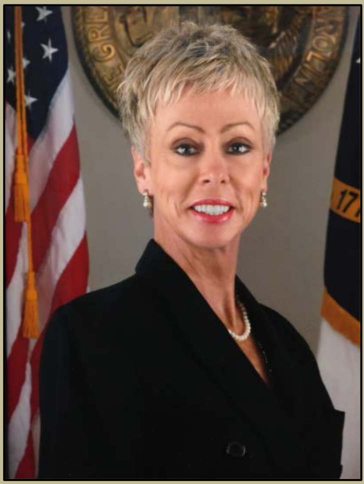
The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Pembroke

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Pembroke (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 Pembroke Foundation, Inc., which represent 14 percent and 1 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation, Inc., is based solely on the report 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.

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 report 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 Pembroke, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 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.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of North Carolina at Pembroke (the "University") for the year ended June 30, 2020, with comparative information for the year ended June 30, 2019. We encourage you to read this MD&A section in conjunction with the audited financial statements and the Notes to the Financial Statements appearing in this report.

About The University of North Carolina at Pembroke

The University is a constituent institution of the University of North Carolina and is North Carolina's Historically American Indian University, with over 8,200 students and 800 faculty and staff. Founded in 1887 and originally known as the Croatan Normal School, the University is one of the most diverse universities in the United States and has grown into a comprehensive public institution of higher learning, with 41 undergraduate majors and 19 graduate degree programs.

About the Financial Statements

The following financial statements reflect all assets, liabilities, deferred inflows/outflows, and net position (equity) of the University, which is considered the "primary government" for financial reporting purposes. In addition, the financial statements also include the consolidated results for the University's component unit, The University of North Carolina at Pembroke Foundation, Inc. (the "Foundation"), which is a legally separate entity that meets the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus.* Condensed financial information for the blended component unit is provided in the Notes to the Financial Statements.

The University presents its financial reports in a "business-type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities - an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows, Notes to the Financial Statements, and required supplementary information.

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, deferred inflows & outflows of financial resources, and net position (equity) of the University as of June 30, 2020. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value. Capital assets, which include the University's land, buildings, infrastructure, and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

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

The Statement of Revenues, Expenses, and Changes in Net Position is the University's income statement. It details how net position has increased during the year ended June 30, 2020 with comparative information for fiscal year 2019. Student tuition and fees revenue is shown net of scholarship discounts and bad debt expenses, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and income (loss) before capital contributions and additions to permanent endowments. It should be noted that the required subtotal for operating income or loss will reflect a "loss" for state-supported colleges and universities. This is due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt and other nonoperating expenses. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, gifts, and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2020 with comparative information for fiscal year 2019. It breaks out the sources and uses of University cash into the following categories:

- Operating Activities
- Noncapital Financing Activities
- Capital Financing Activities and Related Financing Activities
- Investing Activities

Cash flows associated with the University's expendable net position appear in the operating and noncapital financing categories. Capital financing activities include payments for capital assets and long-term debt repayments. Purchases and sales of investments are reflected as investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the amounts in the financial statements.

Financial Highlights

The University's net position continued its upward trend, increasing by $8.9 million to $51.0 million as of June 30, 2020. Since the implementation of NC Promise, the University has seen a tremendous growth in its headcount. The University also has an accelerated MBA program that has grown in popularity. The popularity of these programs has contributed to student tuition and fees revenues increasing $2.7 million from prior year. The University also received a $3.9 million capital contribution during the current year for the new School of Business complex.

Under the CARES Act, the University was awarded just under $6.3 million from the Higher Education Emergency Relief Fund (HEERF) to be split between emergency financial aid grants to students and an institutional portion to cover costs associated with COVID-19. The CARES Act has a "Use of Funds" requirement that no less than 50% of the total funds received through HEERF must be used for emergency financial aid grants to students. See Note 17 - The

Coronavirus Pandemic Emergency in the Notes to the Financial Statements for more information.

Analysis of Financial Position - Statement of Net Position

Assets and Deferred Outflows of Resources	FY 2020	FY 2019 (as Restated)	Change	% Change
Cash and Short-Term Investments	$ 24,671,354	$ 27,256,319	$ (2,584,965)	-9%
Receivables and Inventories	4,926,126	2,128,690	2,797,436	131%
Current Assets	29,597,480	29,385,009	212,471	1%
Endowment Investments	24,508,720	24,886,205	(377,485)	-2%
Cash and Investments	20,124,042	28,542,118	(8,418,076)	-29%
Other Noncurrent Assets	975,196	1,262,625	(287,429)	-23%
Capital Assets, Net of Accumulated Depreciation	184,658,120	175,580,760	9,077,360	5%
Noncurrent Assets	230,266,078	230,271,708	(5,630)	0%
Total Assets	$ 259,863,558	$ 259,656,717	$ 206,841	0%
Deferred Loss on Refunding	$ 1,129,314	$ 1,232,763	$ (103,449)	-8%
Deferred Outflows Related to Pensions	8,989,320	11,195,588	(2,206,268)	-20%
Deferred Outflows Related to OPEB	15,055,482	9,285,841	5,769,641	62%
Deferred Outflows of Resources	$ 25,174,116	$ 21,714,192	$ 3,459,924	16%

Current cash and short-term investments decreased by $2.6 million to $24.7 million. This decrease in cash is primarily due to the University using the unspent bond proceeds at the end of the prior year to pay the related liabilities associated with the Courtyard Apartment Student Housing Complex expansion project (Courtyard Expansion Project). Receivables and inventories increased $2.8 million due to a $3.0 million receivable for federal aid reimbursement related to COVID-19 expenses incurred during fiscal year 2020.

The endowment fund decreased $377 thousand due to volatility of the market during 2020. Endowment funds are invested in a diversified portfolio of equity, fixed income, real estate, hedge funds, private equity, and other investment vehicles.

Noncurrent cash and investments primarily reflect assets that are deposited with the University's bond trustees or are held with the University to be used in current capital construction or improvements. Overall, these balances decreased $8.4 million due to current year construction projects noted below, offset by a $3.9 million stock contribution from a private donor for the School of Business complex.

Capital assets, net of accumulated depreciation, increased $9.1 million as a result of increase in capital construction outpacing depreciation expenses. Increases in construction in progress during the current year include the following projects: $2.7 million spent on the completion of the Courtyard Expansion Project; $4.6 million for the new School of Business complex; $3.9 million on the renovation of West Hall; and $477 thousand on the Gateway Project.

Deferred outflows related to pensions decreased $2.2 million due to actual performance of investment earnings relative to projections, as well as changes in actuarial assumptions performed every five years. Deferred outflows related to other postemployment benefit (OPEB) plans increased $5.8 million due primarily to the change in assumptions. See Notes 13 and 14 for further details regarding deferred outflows of resources relating to pensions and OPEB, respectively.

Liabilities and Deferred Inflows of Resources

	FY 2020	FY 2019	Change	% Change
Accounts Payable and Accrued Liabilities	$ 3,357,364	$ 4,690,247	$ (1,332,883)	-28%
Unearned Revenue	1,905,626	1,559,693	345,933	22%
Current Portion of Long-Term Liabilities	6,454,209	6,685,261	(231,052)	-3%
Other Current Liabilities	518,116	694,916	(176,800)	-25%
Current Liabilities	12,235,315	13,630,117	(1,394,802)	-10%
Other Noncurrent Liabilities	1,978,215	1,639,024	339,191	21%
Noncurrent Portion of Long-Term Liabilities	175,682,545	167,467,830	8,214,715	5%
Noncurrent Liabilities	177,660,760	169,106,854	8,553,906	5%
Total Liabilities	$ 189,896,075	$ 182,736,971	$ 7,159,104	4%
Deferred Inflows Related to Pensions	$ 39,696	$ 186,813	$ (147,117)	-79%
Deferred Inflows Related to OPEB	44,065,757	56,360,002	(12,294,245)	-22%
Deferred Inflows of Resources	$ 44,105,453	$ 56,546,815	$ (12,441,362)	-22%

Accounts payable and accrued liabilities decreased $1.3 million due to the payment of liabilities pertaining to the Courtyard Expansion Project.

The noncurrent portion of long-term liabilities increased $8.2 million primarily due to the $11.2 million increase in the net OPEB liability offset by $3.3 million decrease in limited obligation bonds, which is discussed further below in the Capital Assets and Debt Administration section.

Deferred inflows related to OPEB decreased $12.3 million due to differences between actual and expected experience, changes in proportion and differences between the University's contributions and proportionate share of contributions, and changes in actuarial assumptions performed every five years. See Note 14 for further details regarding deferred inflows relating to OPEB.

Net Position

	FY 2020	FY 2019 (as Restated)	Change	% Change
Net Investment in Capital Assets	$125,880,918	$117,561,202	$ 8,319,716	7%
Restricted				
Nonexpendable	18,490,408	18,100,982	389,426	2%
Expendable	35,439,514	34,784,454	655,060	2%
Unrestricted	(128,774,694)	(128,359,515)	(415,179)	0%
Total Net Position	$ 51,036,146	$ 42,087,123	$ 8,949,023	21%

Net investment in capital assets consists of University capital assets reduced for accumulated depreciation and related long-term debt. This increased by $8.3 million during fiscal year 2020 due to the acquisition and construction of capital assets as well as principal payments on capital debt outpacing depreciation expense and new capital debt issuances.

Restricted nonexpendable net position consists of endowment gifts with specific restrictions and gifts whose principal is maintained in perpetuity. This category remained relatively consistent with prior year.

Restricted expendable net position consists of income from endowment funds, gifts, pledges with specific restrictions, grants from third party agencies with expenditure restrictions, and funds on deposit with bond trustees for the future debt service payments. This category remained relatively consistent with prior year.

Unrestricted net position includes resources not exposed to externally imposed restrictions, and are derived from operating activities, unrestricted gifts, and interest income. Unrestricted net position remained relatively consistent with prior year.

Results of Operations Analysis - Statement of Revenues, Expenses, and Changes in Net Position

Operating Revenues	FY 2020	FY 2019 (as Restated)	Change	% Change
Student Tuition and Fees, Net	$ 22,347,401	$ 19,626,184	$ 2,721,217	14%
Grants and Contracts	1,486,838	544,627	942,211	173%
Sales and Services, Net	14,908,078	17,215,849	(2,307,771)	-13%
Other Operating Revenues	1,040,801	658,137	382,664	58%
Total Operating Revenues	$ 39,783,118	$ 38,044,797	$ 1,738,321	5%

Student tuition and fees, net revenue increased 14% or $2.7 million to $22.3 million. Beginning with the fall semester of 2018, the University was one of three University of North Carolina constituent institutions that participated in the NC Promise Tuition Plan. This program offered discounted annual resident and non-residence tuition of $1,000 and $5,000, respectively. Since the implementation of NC Promise, the University has seen a tremendous growth in its headcount the past few years. In addition, the University has an accelerated MBA program that has grown in popularity. The number of undergraduate students for the 2019 fall semester increased 4.7%, from 6,067 to 6,353 and graduate students increased 2.6%, from 1,068 to 1,345.

Grants and contracts increased $942 thousand due to the University receiving a $950 thousand grant from the Mellon Foundation during the current year. The decrease of $2.3 million in sales and services, net is due to the University refunding eligible students for room, board, and parking related to the disruption of campus operations in Spring 2020 due to COVID-19.

Operating Expenses	FY 2020	FY 2019 (as Restated)	Change	% Change
Salaries and Benefits	$ 79,315,126	$ 73,451,272	$ 5,863,854	8%
Supplies and Services	35,562,856	32,555,579	3,007,277	9%
Scholarships and Fellowships	14,864,611	11,877,106	2,987,505	25%
Utilities	3,323,074	3,489,650	(166,576)	-5%
Depreciation	6,858,076	6,609,686	248,390	4%
Total Operating Expenses	139,923,743	127,983,293	11,940,450	9%
Operating Loss	$ (100,140,625)	$ (89,938,496)	$ (10,202,129)	11%

Total operating expenses increased by $11.9 million from the previous year. The significant changes were as follows:

- Salaries and benefits increased $5.9 million primarily due to the change in pension expense recognized during the year.
- Supplies and services increased $3.0 million primarily as a result of the following items: $1.5 million in supplies and services related to COVID-19 expenses and $654 thousand increase over prior year in contracted services for the University's MBA online program.
- Scholarships and fellowships increased $3.0 million primarily due to the University awarding $2.4 million in emergency financial aid payments to eligible students related to the disruption of campus operations due to COVID-19.

As with the majority of all public universities, the University shows a large operating loss which is due to the treatment of significant revenue streams, such as state appropriations, noncapital grants, and investment income, as nonoperating revenue.

Operating Expenses (by Function)

	FY 2020	FY 2019	Change	% Change
Instruction	$ 40,248,428	$ 38,062,439	$ 2,185,989	6%
Research	313,627	532,663	(219,036)	-41%
Public Services	2,905,303	2,210,917	694,386	31%
Academic Support	14,672,621	13,616,642	1,055,979	8%
Student Services	7,054,244	6,338,529	715,715	11%
Institutional Support	17,143,176	14,550,152	2,593,024	18%
Operations & Maintenance of Plant	14,123,197	12,546,460	1,576,737	13%
Student Financial Aid	15,003,269	12,169,194	2,834,075	23%
Auxiliary Enterprises	21,601,802	21,346,611	255,191	1%
Depreciation	6,858,076	6,609,686	248,390	4%
Total Operating Expenses	$ 139,923,743	$ 127,983,293	$ 11,940,450	9%

From a functional expense perspective, student financial aid had the largest expense increase of $2.8 million. This increase in student financial aid is due to the emergency financial aid payments to eligible students related to the disruption of campus operations due to COVID-19. Other significant changes were as follows:

- The increase of $2.6 million in institutional support is the result of a $1.0 million increase in salaries and benefits related to the change in pension expense and $1.5 million in expenses that the University incurred during the current year related to COVID-19.
- The $2.2 million increase in instruction is related to increases in salaries and benefits due to the change in pension expense year over year.
- Operations & maintenance of plant increased by $1.6 million largely due to a $900 thousand increase in project expenses over the prior year and an approximately $800 thousand increase in salaries and benefits related to change in pension expense. Increases in project expenses during the current year include the following projects: completion of the Courtyard Expansion Project, construction of the new School of Business complex, renovations for West Hall, and the Gateway Project.

- Academic support increased $1.1 million primarily due to a $282 thousand increase in salaries and benefits related to the change in pension expense, $170 thousand increase in library resources, $160 thousand increase in computer equipment, and $80 thousand increase in the maintenance agreement for the server.
- The $694 thousand increase in public services is related to increase in supplies and services expenses related to several grants.
- Research decreased $219 thousand resulting from the expiration of some of the University's research grants.

Nonoperating Revenues (Expenses)	FY 2020	FY 2019 (as Restated)	Change	% Change
State Appropriations	$ 78,324,778	$ 77,815,784	$ 508,994	1%
Federal Aid - Covid-19	5,468,704	-	5,468,704	100%
Student Financial Aid and Noncapital Contributions, Net	24,136,603	25,921,352	(1,784,749)	-7%
Investment Income, Net	287,436	2,171,566	(1,884,130)	-87%
Interest and Fees on Debt	(3,933,508)	(3,007,898)	(925,610)	31%
Federal Interest Subsidy on Debt	60,265	366,084	(305,819)	-84%
Other Nonoperating Revenues	39,341	1,103,682	(1,064,341)	-96%
Net Nonoperating Revenues	$ 104,383,619	$ 104,370,570	$ 13,049	0%
Other Revenues				
Capital Appropriations	$ 274,559	$ 8,316,257	$ (8,041,698)	-97%
Capital Contributions	4,044,739	394,310	3,650,429	926%
Additions to Permanent Endowments	386,730	297,114	89,616	30%
Total Other Revenues	$ 4,706,028	$ 9,007,681	$ (4,301,653)	-48%
Reconciliation of Net Position				
Beginning Net Position	$ 42,087,123	$ 18,647,368	$ 23,439,755	126%
Total Revenues	152,806,274	154,430,946	(1,624,672)	-1%
Total Expenses	(143,857,251)	(130,991,191)	(12,866,060)	10%
Increase in Net Position	8,949,023	23,439,755	(14,490,732)	-62%
Ending Net Position	$ 51,036,146	$ 42,087,123	$ 8,949,023	21%

Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving goods and services for those revenues. The University's net nonoperating revenues were $104.4 million in fiscal year 2020, an increase of $13 thousand.

Student financial aid and noncapital contributions, net decreased $1.8 million and reflects the federal aid that the University received during the current fiscal year. The University also received $5.5 million in federal aid for COVID-19 relief. Investment income, net decreased $1.9 million due to the volatility of the stock market and the University liquidating some of its investments held by trustees during the current year as a result of refunding the 2010B bonds. Increases of $926 thousand in interest and fees on debt and the $306 thousand decrease in federal interest subsidy on debt are related to the current year refunding of the 2010B bonds as well. Other nonoperating revenues decreased by $1.1 million primarily due to the University receiving $952 thousand in insurance proceeds in the prior year for damages incurred during Hurricane Florence.

The University was given capital appropriations of $275 thousand, down $8.0 million from fiscal year 2019, for use in repairs and renovations across campus. During fiscal year 2019, the University received capital appropriations of $8.0 million for the new School of Business complex. Capital contributions increased $3.7 million as the result of the University receiving a large donation of $3.9 million from an individual donor for the School of Business complex that is currently in construction.

Statement of Cash Flows

Cash Inflows (Outflows) from:	FY 2020	FY 2019 (as Restated)	Change	% Change
Operating Activities	$ (97,854,706)	$ (86,960,971)	$(10,893,735)	13%
Noncapital Financing Activities	106,578,824	104,042,292	2,536,532	2%
Capital Financing and Related Financing Activities	(24,340,396)	(840,519)	(23,499,877)	2796%
Investing Activities	2,147,629	4,053,611	(1,905,982)	
Cash, Beginning of Year	53,261,098	32,966,685	20,294,413	62%
Increase (Decrease) in Cash	(13,468,649)	20,294,413	(33,763,062)	-166%
Cash, End of Year	$ 39,792,449	$ 53,261,098	$(13,468,649)	-25%

The change in cash used from operating activities of $10.9 million is mainly attributable to the University's increase in the scholarships and fellowships expense as well as an increase in cash payments to suppliers and vendors.

Acquisition and construction payments of capital assets totaling $16.6 million and principal and interest payments on debt of $8.3 million are the primary contributors to the $23.5 million increase in cash used for capital financing and related financing activities.

Cash used for investing activities reflects the overall decrease in investment income during the year due to market conditions and the University liquidating investments held by trustee.

Overall, the University's cash balance decreased by $13.5 million from the prior year.

Capital Assets and Debt Administration

An additional $17.8 million of capital assets were capitalized, consisting of buildings, general infrastructure, and various pieces of machinery and equipment. Construction in progress was $11.7 million at June 30, 2020. The majority of this balance pertains to the construction of the School of Business complex, renovations of West Hall, and the Gateway Project.

During 2020, the University issued $14.9 million in Series 2019 refunding limited obligation bonds with a true interest cost of 3.18%. The bonds were issued for a current refunding of the outstanding 2010B limited obligation bonds with a true interest rate of 6.54%.

At June 30, 2020, outstanding commitments on construction contracts were $36.9 million.

At June 30, 2020, the University had outstanding bond indebtedness in the amount of $48.4 million of which $1.9 million is due within the next year, and direct borrowings in the amount of $6.9 million of which $820 thousand is due within the next year.

Standard and Poor's revised the University's issuer credit rating at an "A-" with a stable outlook, to a negative outlook during the current year. This change was made due to the heightened risks associated with the financial toll caused by the COVID-19 pandemic and related recession. For more detailed information about outstanding debt, see Note 8 - Long-Term Liabilities in the Notes to the Financial Statements.

Economic Factors Affecting Future Operations

The nation's response to the COVID-19 pandemic will impact the University's operations and funding in the coming years. As a result of the need for the University to offer more courses on-line or in a hybrid model fall semester, the University has made significant investments in technology. These investments are affording us the opportunity to think about increasing our on-line programs. As our past shows, professionals are more eager to pursue graduate programs to be more competitive in the job market during a recession. We will capitalize on these enhanced opportunities and sustain or increase our enrollment.

The University is highly dependent on state funding. Unlike many states in the country, the state of North Carolina had a significant reserve as it entered the pandemic. We are confident that although there will be some impact to state funding, we will recover much quicker than many other state supported institutions.

Like many universities, we converted all of our courses to a virtual platform as a response to COVID-19 in the spring and closed several residential living facilities as a result. The University reopened in the fall on-campus with approximately 40% of our courses on-line or in a hybrid format to de-densify campus. In addition, we held 70 spaces in our residential facilities to use for quarantine and isolation. As a result, our occupancy rate is 80%. Although there is a slight decrease in the occupancy rates for the dormitories, the University's enrollment has continued to grow. The Fall 2021 headcount was 8,262 students, up 7.3% from the Fall 2020 headcount of 7,698.

Based on currently known facts about the University's financial performance early in the Fall 2021 semester, management is confident that its sound financial position will be maintained during the current COVID-19 pandemic and recession. University administration will continue to effectively manage the financial resources of the University to serve the state of North Carolina and to provide the highest quality educational experience to our students.

FINANCIAL STATEMENTS

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2020

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 14,914,294.39
Restricted Cash and Cash Equivalents	8,592,713.75
Restricted Short-Term Investments	1,164,345.58
Receivables, Net (Note 5)	4,863,447.84
Inventories	47,740.05
Notes Receivable, Net (Note 5)	14,938.60
Total Current Assets	29,597,480.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	16,285,440.69
Receivables, Net (Note 5)	585,404.77
Endowment Investments	24,508,720.28
Restricted Investments	3,838,601.13
Cash Surrender of Life Insurance Policies	43,674.63
Notes Receivable, Net (Note 5)	211,790.86
Net Other Postemployment Benefits Asset	134,326.00
Capital Assets - Nondepreciable (Note 6)	16,643,703.83
Capital Assets - Depreciable, Net (Note 6)	168,014,415.51
Total Noncurrent Assets	230,266,077.70
Total Assets	259,863,557.91
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	1,129,314.06
Deferred Outflows Related to Pensions	8,989,319.22
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	15,055,482.31
Total Deferred Outflows of Resources	25,174,115.59
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	3,357,363.45
Deposits Payable	21,067.60
Unearned Revenue	1,905,626.48
Interest Payable	497,047.84
Long-Term Liabilities - Current Portion (Note 8)	6,454,209.20
Total Current Liabilities	12,235,314.57
Noncurrent Liabilities:	
Deposits Payable	348,217.23
Funds Held for Others	1,019,415.45
U.S. Government Grants Refundable	610,582.93
Long-Term Liabilities (Note 8)	175,682,544.78
Total Noncurrent Liabilities	177,660,760.39
Total Liabilities	189,896,074.96

DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	39,696.01
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	44,065,757.00
Total Deferred Inflows of Resources	44,105,453.01
NET POSITION	
Net Investment in Capital Assets	125,880,917.70
Restricted:	
Nonexpendable	18,490,407.69
Expendable	35,439,513.66
Unrestricted	(128,774,693.52)
Total Net Position	$ 51,036,145.53

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

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

Exhibit A-2

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 11)	$ 22,347,400.60
Federal Grants and Contracts	166,550.65
State and Local Grants and Contracts	167,481.14
Nongovernmental Grants and Contracts	1,152,806.38
Sales and Services, Net (Note 11)	14,908,077.76
Interest Earnings on Loans	13,395.79
Other Operating Revenues	1,027,405.87
Total Operating Revenues	39,783,118.19
OPERATING EXPENSES	
Salaries and Benefits	79,315,125.51
Supplies and Services	35,562,856.13
Scholarships and Fellowships	14,864,610.54
Utilities	3,323,074.42
Depreciation	6,858,076.11
Total Operating Expenses	139,923,742.71
Operating Loss	(100,140,624.52)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	78,324,778.36
Student Financial Aid	19,513,225.80
Federal Aid - COVID-19	5,468,704.29
Noncapital Contributions, Net (Note 11)	4,623,376.81
Investment Income (Net of Investment Expense of $185,827.86)	287,436.35
Interest and Fees on Debt	(3,933,507.71)
Federal Interest Subsidy on Debt	60,264.90
Other Nonoperating Revenues	39,339.97
Net Nonoperating Revenues	104,383,618.77
Income Before Other Revenues	4,242,994.25
Capital Appropriations	274,559.12
Capital Contributions	4,044,739.02
Additions to Endowments	386,730.12
Total Other Revenues	4,706,028.26
Increase in Net Position	8,949,022.51
NET POSITION	
Net Position - July 1, 2019, as Restated (Note 20)	42,087,123.02
Net Position - June 30, 2020	$ 51,036,145.53

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 38,512,687.54
Payments to Employees and Fringe Benefits	(83,150,339.60)
Payments to Vendors and Suppliers	(39,436,779.22)
Payments for Scholarships and Fellowships	(14,864,610.54)
Collection of Loans	48,533.47
Loans Issued	(48,479.30)
Interest Earned on Loans	13,395.79
Other Receipts	1,070,885.98
Net Cash Used by Operating Activities	(97,854,705.88)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	78,324,778.36
Student Financial Aid	19,555,583.76
Federal Aid - COVID-19	2,441,600.00
Noncapital Contributions	5,600,026.87
Additions to Endowments	386,730.12
William D. Ford Direct Lending Receipts	39,921,040.00
William D. Ford Direct Lending Disbursements	(39,921,040.00)
Related Activity Agency Receipts	270,105.01
Net Cash Provided by Noncapital Financing Activities	106,578,824.12
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	274,559.12
Capital Contributions	119,125.00
Proceeds from Sale of Capital Assets	3,846.94
Acquisition and Construction of Capital Assets	(16,583,975.75)
Principal Paid on Capital Debt and Leases	(4,803,083.23)
Interest and Fees Paid on Capital Debt and Leases	(3,531,662.87)
Federal Interest Subsidy on Debt Received	180,794.90
Net Cash Used by Capital Financing and Related Financing Activities	(24,340,395.89)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,575,215.34
Investment Income	592,657.68
Purchase of Investments and Related Fees	(2,020,244.24)
Net Cash Provided by Investing Activities	2,147,628.78
Net Decrease in Cash and Cash Equivalents	(13,468,648.87)
Cash and Cash Equivalents - July 1, 2019, as Restated	53,261,097.70
Cash and Cash Equivalents - June 30, 2020	$ 39,792,448.83

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (100,140,624.52)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,858,076.11
Allowances and Write-Offs	166,411.35
Other Nonoperating Income	35,493.03
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(347,561.06)
Inventories	(136.89)
Notes Receivable, Net	54.17
Net Other Postemployment Benefits Asset	(40,868.00)
Deferred Outflows Related to Pensions	2,206,268.78
Deferred Outflows Related to Other Postemployment Benefits	(5,769,641.31)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(684,343.57)
Net Pension Liability	1,213,979.00
Net Other Postemployment Benefits Liability	11,191,531.75
Compensated Absences	154,747.05
Deposits Payable	7,987.10
Workers' Compensation Liability	(264,716.88)
Deferred Inflows Related to Pensions	(12,294,245.00)
Deferred Inflows Related to Other Postemployment Benefits	(147,116.99)
Net Cash Used by Operating Activities	$ (97,854,705.88)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of Capital Lease	$ 615,752.16
Assets Acquired through a Gift	3,925,614.02
Change in Fair Value of Investments	(108,995.66)
Loss on Disposal of Capital Assets	(112,898.32)
Amortization of Bond Premiums	(124,546.28)
Amoritization on Deferred Loss on Refunding	(103,449.00)
Funds Escrowed to Defease Debt	16,088,330.50

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Blended Component Unit - Although legally separate, The University of North Carolina at Pembroke Foundation, Inc. (Foundation), a component unit of the University, is reported as if it was part of the University.

The Foundation is a not-for-profit organization established to foster public understanding of and support for the University and to solicit and promote donations of any kind for the exclusive benefit of the University. Because the Foundation's operations are so intertwined with the University, its financial statements have been included with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, PO Box 1510, Pembroke, NC 28372, or by calling 910-521-6191.

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

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. 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.

Structured products are reported at cost. Real assets limited partnerships, private equity limited partnerships, and hedge funds are reported at Net Asset Value (NAV).

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair value as determined by appraisal as of June 30, 2020.

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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies 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:

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-30 years
General Infrastructure	10-60 years

Displays in the Museum of the Southeast American Indian and portrait collections are capitalized at cost, acquisition value, or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

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

Revenue bonds payable, limited obligation bonds, and bonds from direct placements are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred 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.

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

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

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

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

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

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. 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.

N. **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.

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

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

P. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as dining, residential life, motor pool, and the print shop. 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 $38,468,969.00, 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 $8,750.25. The carrying amount of the University's deposits not with the State Treasurer was $1,314,729.58, and the bank balance was $1,314,729.58. 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, the amount of the University's bank balance that was exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $858,381.93.

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

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

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

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

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

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

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

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on its pro-rata share of the principal value, undisputed value, and undistributed earnings. The investment strategy, including the selection of investment managers, is based on the directives of the Joint Investment Committee.

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

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 196,836.10	$ -	$ 172,780.75	$ 24,055.35	$ -
U.S. Agencies	78,474.16	-	-	-	78,474.16
Debt Mutual Funds	495,964.59	116,827.72	200,279.18	116,178.61	62,679.08
Money Market Mutual Funds	267,988.69	267,988.69	-	-	-
Domestic Corporate Bonds	259,042.61	10,170.00	124,055.43	120,394.88	4,422.30
Fixed Income ETFs	214,446.36	-	214,446.36	-	-
Preferred Stocks	226,087.37	-	1,469.57	994.78	223,623.02
Unit Investment Trusts	82,634.35	-	82,634.35	-	-
Total Debt Securities	1,821,474.23	$ 394,986.41	$ 795,665.64	$ 261,623.62	$ 369,198.56
Other Securities					
UNC Investment Fund	12,757,615.31				
Equity Mutual Funds	1,589,714.70				
Investments in Real Estate	1,087,058.18				
Real Estate Investment Trust	87,167.24				
Hedge Funds	105,292.19				
Private Equity Limited Partnerships	1,513,976.36				
Real Assets Limited Partnerships	318,902.33				
Domestic Stocks	2,985,798.40				
Foreign Stocks	1,202,417.79				
Emerging Market Equities	710,497.76				
International Mutual Funds	317,126.37				
Master Limited Partnerships MLPs	11,679.42				
Total Long-Term Investment Pool	$ 24,508,720.28				

At June 30, 2020, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	$ 78,474.16	$ 9,870.66	$ -	$ -	$ -	$ 68,603.50
Debt Mutual Funds	495,964.59	-	231.41	4,367.83	24,066.46	467,298.89
Money Market Mutual Funds	267,988.69	254,564.62	13,424.07	-	-	-
Domestic Corporate Bonds	259,042.61	36,109.06	-	98,285.77	124,647.78	-
Fixed Income ETFs	214,446.36	214,446.36	-	-	-	
Preferred Stocks	226,087.37	226,087.37	-	-	-	-
Unit Investment Trusts	82,634.35	-	-	-	-	82,634.35
Totals	$ 1,624,638.13	$ 741,078.07	$ 13,655.48	$ 102,653.60	$ 148,714.24	$ 618,536.74

UNC Investment Fund, LLC - At June 30, 2020, the University's investments include $12,757,615.31, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

	Amount	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 1,164,350.21	$ 1,164,350.21
Other Securities		
Equity Mutual Funds	3,838,596.50	
Total Non-Pooled Investment Pool	$ 5,002,946.71	

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

	Unrated
Money Market Mutual Funds	$ 1,164,350.21

Rating Agency: Standard & Poor's

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

	Amount
Investment Type	
Debt Securities	
U.S. Treasuries	$ 196,836.10
U.S. Agencies	78,474.16
Debt Mutual Funds	495,964.59
Money Market Mutual Funds	1,432,338.90
Domestic Corporate Bonds	259,042.61
Fixed Income ETFs	214,446.36
Preferred Stocks	226,087.37
Unit Investment Trusts	82,634.35
Other Securities	
UNC Investment Fund	12,757,615.31
Private Equity Limited Partnerships	1,513,976.36
Investments in Real Estate	1,087,058.18
Real Estate Investment Trust	87,167.24
Hedge Funds	105,292.19
Equity Mutual Funds	5,428,311.20
Real Assets Limited Partnerships	318,902.33
Domestic Stocks	2,985,798.40
Foreign Stocks	1,202,417.79
Emerging Market Equities	710,497.76
International Mutual Funds	317,126.37
Master Limited Partnerships MLPs	11,679.42
Total Investments	$ 29,511,666.99

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 Measurements Using		
Investments by Fair Value Level	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt Securities				
U.S. Treasuries	$ 196,836.10	$ -	$ 196,836.10	$ -
U.S. Agencies	78,474.16	-	78,474.16	-
Debt Mutual Funds	495,964.59	495,964.59	-	-
Money Market Mutual Funds	1,432,338.90	1,432,338.90	-	-
Domestic Corporate Bonds	259,042.61	-	259,042.61	-
Fixed Income ETFs	214,446.36	214,446.36	-	-
Preferred Stocks	226,087.37	226,087.37	-	-
Unit Investment Trusts	82,634.35	-	82,634.35	-
Total Debt Securities	2,985,824.44	2,368,837.22	616,987.22	-
Other Securities				
Equity Mutual Funds	5,428,311.20	5,428,311.20	-	
Investment in Real Estate	1,087,058.18	-	1,087,058.18	-
Domestic Stocks	2,985,798.40	2,985,798.40	-	-
Real Estate Investment Trusts	87,167.24	-	87,167.24	-
Foreign Stocks	1,202,417.79	1,202,417.79	-	-
Emerging Market Equities	710,497.76	710,497.76	-	-
International Mutual Funds	317,126.37	317,126.37	-	-
Master Limited Partnerships MLPs	11,679.42	11,679.42	-	-
Total Investments by Fair Value Level	14,815,880.80	$ 13,024,668.16	$ 1,791,212.64	$ -
Investments Measured at the Net Asset Value (NAV)				
Credit Long Short Hedge Funds	104,241.17			
Multi-Strategy Hedge Funds	1,051.02			
Private Equity Limited Partnerships	1,513,976.36			
Real Assets Limited Partnerships	318,902.33			
Total Investments Measured at the NAV	1,938,170.88			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	38,468,969.00			
UNC Investment Fund	12,757,615.31			
Total Investments as a Position in an External Investment Pool	51,226,584.31			
Total Investments Measured at Fair Value	$ 67,980,635.99			

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

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

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multi-Strategy Hedge Funds[A]	$ 1,051.02	$ -	Quarterly	61-125 days
Credit Long/Short Hedge Funds[B]	104,241.17	-	Quarterly	95 days
Private Equity Limited Partnerships[C]	1,513,976.36	243,840.26	Quarterly	30 days
Real Assets Limited Partnerships[D]	318,902.33	14,420.28	Not Allowed	
Total Investments Measured at the NAV	$ 1,938,170.88			

A. **Multi-Strategy Hedge Funds** - This type invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair value of the investments in this type have been determined using the NAV per share of its investments.

B. **Credit Long/Short Hedge Funds** - This type invests in hedge funds that seek to generate capital appreciation through the successful selection of credit securities while reducing the effects of market-wide or sector-wide price movements. The fair value of the investments in this type have been determined using the NAV per share of its investments.

C. **Private Equity Limited Partnerships** - This type includes private equity funds that invest in a variety of strategies, but they primarily invest in event driven and opportunistic strategies. Event driven strategies seek to earn excess return through the purchase and sale of securities based upon anticipated outcomes of company-specific or transaction-specific situations. Similarly, opportunistic strategies seek to earn an excess return through exploiting perceived inefficiencies across varying markets. Some of these investments cannot be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the funds would be liquidated over one to ten years. The fair value of the investment in this type has been determined using the NAV per share of its investments.

D. **Real Assets Limited Partnerships -** This type includes investments that seek long-term capital appreciation through acquiring secondary interests in private equity real estate funds and direct real-estate assets. These investments cannot be redeemed with the fund. Instead, the nature of the investment in this type is that distributions are received through liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the funds would be liquidated over ten to eleven years.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5.5% of the "average market value" of the endowment funds. The "average market value" is defined as an average of the market values on November 30 and December 31 of the previous five years. The actual spending may be less than the 6% maximum rate due to the economic environment. 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 $6,037,256.24 was available to be spent, of which the entire amount was classified in net position as restricted expendable.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 872,807.47	$ 379,914.49	$ 492,892.98
Accounts	890,159.12	513,986.61	376,172.51
Intergovernmental	3,584,580.97	-	3,584,580.97
Pledges	462,586.87	75,878.69	386,708.18
Interest on Loans	23,093.20	-	23,093.20
Total Current Receivables	$ 5,833,227.63	$ 969,779.79	$ 4,863,447.84
Noncurrent Receivables:			
Pledges	$ 650,449.75	$ 65,044.98	$ 585,404.77
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 48,767.09	$ 33,828.49	$ 14,938.60
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 617,404.44	$ 405,613.58	$ 211,790.86

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 and Permanent Easements	$ 4,637,086.45	$ 83,382.84	$ -	$ 4,720,469.29
Art, Literature, and Artifacts	178,729.87	-	-	178,729.87
Construction in Progress	13,609,609.70	13,434,695.52	15,299,800.54	11,744,504.68
Total Capital Assets, Nondepreciable	18,425,426.02	13,518,078.36	15,299,800.54	16,643,703.84
Capital Assets, Depreciable:				
Buildings	194,995,271.30	14,166,370.52	163,603.50	208,998,038.32
Machinery and Equipment	28,135,832.99	2,828,476.17	74,744.86	30,889,564.30
General Infrastructure	24,789,144.00	839,056.10	-	25,628,200.10
Total Capital Assets, Depreciable	247,920,248.29	17,833,902.79	238,348.36	265,515,802.72
Less Accumulated Depreciation for:				
Buildings	65,357,356.86	4,331,437.43	64,643.40	69,624,150.89
Machinery and Equipment	16,204,495.51	2,028,336.96	56,959.70	18,175,872.77
General Infrastructure	9,203,061.83	498,301.72	-	9,701,363.55
Total Accumulated Depreciation	90,764,914.20	6,858,076.11	121,603.10	97,501,387.21
Total Capital Assets, Depreciable, Net	157,155,334.09	10,975,826.68	116,745.26	168,014,415.51
Capital Assets, Net	$ 175,580,760.11	$ 24,493,905.04	$ 15,416,545.80	$ 184,658,119.35

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 523,134.85
Accounts Payable - Capital Assets	2,066,371.03
Accrued Payroll	423,823.50
Contract Retainage	269,267.11
Other	74,766.96
Total Accounts Payable and Accrued Liabilities	$ 3,357,363.45

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	$ 1,785,000.00	$ -	$ 360,000.00	$ 1,425,000.00	$ 75,000.00
Limited Obligation Bonds	31,600,000.00	14,920,000.00	18,210,000.00	28,310,000.00	1,175,000.00
Bonds from Direct Placements	19,249,448.87	-	548,281.20	18,701,167.67	689,332.79
Plus: Unamortized Premium	71,440.35	1,168,330.50	124,546.28	1,115,224.57	-
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements	52,705,889.22	16,088,330.50	19,242,827.48	49,551,392.24	1,939,332.79
Notes from Direct Borrowings	7,719,393.28	-	783,843.36	6,935,549.92	819,789.62
Capital Leases Payable	1,457,487.15	615,752.16	989,289.33	1,083,949.98	387,936.91
Total Long-Term Debt	61,882,769.65	16,704,082.66	21,015,960.17	57,570,892.14	3,147,059.32
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	4,281,834.80	3,498,035.12	3,343,288.07	4,436,581.85	677,545.99
Net Pension Liability	18,614,900.00	1,213,979.00	-	19,828,879.00	-
Net Other Postemployment Benefits Liability	85,496,262.00	11,191,531.75	-	96,687,793.75	-
Workers' Compensation	3,877,324.12	146,795.42	411,512.30	3,612,607.24	2,629,603.89
Total Other Long-Term Liabilities	112,270,320.92	16,050,341.29	3,754,800.37	124,565,861.84	3,307,149.88
Total Long-Term Liabilities	$ 174,153,090.57	$ 32,754,423.95	$ 24,770,760.54	$ 182,136,753.98	$ 6,454,209.20

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020	See Table Below
Revenue Bonds Payable						
Auxiliaries						
Multipurpose Facility Athletic Field House	2008A	4.00-5.00%	10/01/2033	$ 2,055,000.00	$ 1,425,000.00	
Limited Obligation Bonds						
University Village Apartments and Oak Hall Project	2017	3.62%	03/01/2036	15,475,000.00	13,390,000.00	(1)
Cypress Hall Project	2019	3.18%	03/01/2041	14,920,000.00	14,920,000.00	(1)
Total Limited Obligation Bonds				30,395,000.00	28,310,000.00	
Bonds from Direct Placements						
Student Housing - Courtyard Apartments	2019A	3.42%	06/01/2031	6,636,086.30	6,312,167.31	(2)
Student Housing - Courtyard Apartments II	2019B	3.42%	06/01/2035	12,613,362.57	12,389,000.36	(2)
Total Bonds from Direct Placements				19,249,448.87	18,701,167.67	
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements (principal only)				$ 51,699,448.87	48,436,167.67	
Plus: Unamortized Premium					1,115,224.57	
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements					$ 49,551,392.24	

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

Ref	Revenue Source	Total Future Revenues Pledged	For theYear Ended June 30, 2020 Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	Oak, Village, and Cypress Hall Lease Revenues	$ 39,134,662.50	$ 1,628,021.22	$705,000.00	$1,699,330.66	32.32%
(2)	Housing Revenues	24,669,520.99	1,825,941.36	548,281.20	658,331.16	53.70%

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2020
Energy Savings Improvement	U.S. Bank National Assoc.	1.84%	02/14/2023	$ 1,377,960.56	$ 586,976.51
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	4,500,000.00	3,283,573.41
Construction of Student Health Bldg.	PNC	2.87%	04/01/2025	4,610,000.00	3,065,000.00
Total Notes from Direct Borrowings				$ 10,487,960.56	$ 6,935,549.92

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 20, are as follows:

	Annual Requirements							
	Revenue Bonds Payable		Limited Obligation Bonds		Bonds from Direct Placements		Notes from Direct Borrowings	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 75,000.00	$ 66,665.63	$ 1,175,000.00	$ 1,083,768.00	$ 689,332.79	$ 639,579.92	$ 819,789.62	$ 221,877.02
2022	75,000.00	63,525.01	1,220,000.00	1,035,092.00	750,035.61	616,004.76	856,837.85	197,347.90
2023	80,000.00	59,931.26	1,275,000.00	984,511.00	816,668.04	590,353.52	842,991.59	171,631.66
2024	85,000.00	55,806.26	1,320,000.00	931,594.00	886,808.71	562,423.52	702,441.62	147,183.13
2025	90,000.00	51,656.26	1,375,000.00	876,772.00	960,614.56	532,094.64	1,968,994.69	123,304.81
2026-2030	510,000.00	190,403.13	7,775,000.00	3,477,253.00	6,050,257.42	2,112,488.20	1,744,494.55	159,433.39
2031-2035	510,000.00	52,250.00	8,415,000.00	1,786,241.00	8,547,450.54	915,408.76	-	-
2036-2040	-	-	4,765,000.00	617,256.50	-	-	-	-
2041	-	-	990,000.00	32,175.00	-	-	-	-
Total Requirements	$ 1,425,000.00	$ 540,237.55	$ 28,310,000.00	$ 10,824,662.50	$ 18,701,167.67	$ 5,968,353.32	$ 6,935,549.92	$ 1,020,777.91

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 - As of June 30, 2020, the University has one general revenue bonds payable in the University of North Carolina System Pool, with a total outstanding balance of $1,425,000.00 (Revenue Bond). The Revenue Bond was issued to fund the construction and equipping of certain student facilities on the University's campus in Pembroke, North Carolina. The series has been issued under and secured by indentures between the Board of Governors of the University of North Carolina (UNC Board) and The Bank of New York Mellon Trust Company, N.A. (BNY Mellon).

Revenue Bond Series 2008A is issued under and secured by a General Trust Indenture and Series Indenture, Number One, dated April 1, 2008. The bond is payable from any legally available funds of the University excluding appropriations from the State, tuition payments, and certain other restricted funds.

For this issuance, an event of default occurs when: (1) there is a failure to pay the principal, interest or premium on any bond due and payable at the stated maturity, (2) failure by the UNC Board to perform any covenant, condition, agreement or provision contained in the Revenue Bonds or with the failure continuing for a period of thirty days after written notice requesting that it be remedied.

On the occurrence and continuance of an event of default, BNY Mellon may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable, whereupon they will, without further action, become due and payable. BNY Mellon may also (1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the bondholders, and require the University to carry out any agreements with or for the benefit of the bondholders and to perform its duties under the bond indenture and (2) take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the University. BNY Mellon will apply any proceeds in default and may require certain indemnities under and in accordance with the terms of the bond indenture.

Limited Obligation Bonds - The University has two limited obligation bonds (LOBs) payable, with a total outstanding balance of $28,310,000.00 as of June 30, 2020. The bonds were issued to fund the construction and equipping of student housing facilities on the University's campus in Pembroke, North Carolina.

Each LOB has been executed and delivered pursuant to an Indenture of Trust (Trust Indenture) dated January 1, 2004 between The UNCP Student Housing Foundation, LLC (Company) and First-Citizens Bank & Trust Company (Trustee), as amended and supplemented. The Company is organized as an LLC with the Foundation as its sole member.

Major terms are the same for each Trust indenture, which includes a land lease between the Company and the State of North Carolina (Ground Lease, as amended), and an operation agreement between the Company and the University (Use Agreement). The Trust Indentures also evidence proportionate undivided interests in rights to receive certain revenues, including Base Rentals (as defined in the Use Agreement), pursuant to a corresponding lease agreement Lease, as amended) between the State of North Carolina and the Company. Base Rentals are defined as payments by the University, which constitute the rental payments payable to the University for and in consideration of the right to use, and the option to purchase, the funded project.

The proceeds of the LOBs will be used to provide financing for the cost of the construction, acquisition, and equipping of student housing facilities and pay certain expenses incurred in connection with the execution and delivery of the bonds. The Use Agreement also establishes that the University will at all times fix, charge and collect fees, rents and charges for the use of and services furnished by the funded project. The University will revise such fees, rents, and charges such that the project revenues will be sufficient to equal an amount necessary to produce a Debt Service Coverage Ratio equal to at least 1.10 plus any required deposits to be held in reserve.

In order to secure the indebtedness represented by the LOBs, the Company entered into an amended and restated Deed of Trust, granting a lien of record on the mortgaged property, subject to certain permitted encumbrances. The Company assigns to the Trustee (1) certain rights, title, and interest of the Company in the Ground Lease, the Lease and the Use Agreement, including its right to receive Base Rentals, (2) all rights, title, and interest of the Company in the Deed of Trust and (3) the amounts held by the Trustee under the Trust indenture in certain funds or accounts.

Each series is subject to optional and mandatory prepayment provisions defined in the Trust Indenture, and its supplements. In the occurrence and continuance of a default event the Trustee may declare the obligations be immediately due a payable. Default events include: (1) there is a failure to pay the principal, interest or premium on any Bond due and payable at the stated maturity, (2) failure by the Company or University to perform any covenant, condition, agreement or provision contained in the Trust Indenture or with the failure continuing for a period of 30 days after written notice requesting that it be remedied. There are additional default events included in the Use Agreement and include: (1) failure by the University to pay any base or additional rentals and (2) the dissolution of liquidation of the University.

Under the Use Agreement, the University is granted the option to terminate the Lease and to purchase the Company’s interest in the project by paying the Purchase Option Price. Purchase Option Price is defined in the Use Agreement as the amount which shall equal $1.00 plus the amount then necessary to pay or defease the principal of all LOBs outstanding, including any premium thereon or interest accrued or to accrue to the applicable prepayment or maturity date, plus all unpaid fees or expenses payable to the Trustee and the Company.

Bonds from Direct Placements - As of June 30, 2020, the University reported two bonds from direct placements payable to the Public Finance Authority (Authority), with a total outstanding balance of $18,701,167.67 (collectively, the 2019 Issuances). The Authority issued these bonds to PNC Bank, National Association (Bank). The 2019 Issuances are obligations of the Foundation and are secured by all personal property of the Foundation including accounts, securities, inventories, and other assets. The 2019 Issuances were issued primarily to (1) redeem in advance of their maturity the outstanding Revenue Bond Series 2001A and (2) to finance and refinance all or a portion of the costs of the acquisition, construction, and equipping of a new student housing facility. The source of repayment for the 2019 Issuances shall be rent payments made under a lease between the Foundation and the University and gross revenues from the constructed housing project as well as other available funds.

For the 2019 Issuances, an event of default occurs when: (1) there is a failure to pay the principal or interest due and payable, (2) failure by the Foundation to perform any covenant, condition, agreement or provision contained in the Continuing Covenant Agreement (Agreement). The agreement further stipulates that the University must establish rents, rates, and charges to be sufficient to meet the debt service coverage ratio (not less than 1.1 to 1.0) and the gross revenue ratio (at least 1.5 to 1.0).

Upon the occurrence of an event of default, the 2019 Issuances shall bear interest at the default rate. The Bank may also declare the outstanding amounts to be immediately due and payable. The Bank may also take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable or to enforce performance or observance of any obligation, agreement or covenant.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement (Energy Savings Improvement) dated September 1, 2014. This agreement contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days.

The University has pledged machinery and equipment with a carrying value of $3,437,585.19 as security for Siemens Public Service Agreement Note (Energy Service Agreement) dated July 15, 2011. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to make an installment payment when due, (2) the University fails to perform or observe any term, condition, or covenant of the Siemens Agreement and failure continues for a period of 30 days after written notice is given, or (3) an attachment, levy, or execution of a security interest or lien is levied on or against the equipment financed.

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

The University has another note with a total outstanding balance of $3,065,000.00 as of June 30, 2020. This note was issued to finance the costs of refunding a portion of debt outstanding and to undertake a project consisting of the acquisition, construction, and equipping of a student health center and related facilities. The loan has been issued under a loan agreement dated October 15, 2015 between the University and PNC Bank, National Association (Lender). This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay in full any payments of principal or interest due to the Lender; (2) the University fails to pay any payment of principal or interest due on any other debt obligations payable, (3) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonable corrected within 30 days.

Upon the occurrence of any event of default, the Lender may, upon written notice to the University, declare all amounts due and payable. The Lender may also take whatever action at law or in equity is necessary or desirable to collect the payments then due or to enforce the performance, observance, or compliance by the University with any covenant or condition.

Capital Leases Payable - The University has three capital lease property schedules outstanding with Key Government Finance, Inc., for the financing of IT networking equipment. Each of these property schedules have an Additional Purchase Option that states that the University may choose to prepay, in whole but not in part, the principal outstanding balance with all accrued and unpaid interest thereon, plus a prepayment premium equal to 3% of the outstanding principal.

All of these property schedules are pursuant to the Master Tax-Exempt/Purchase Agreement (Master Agreement), dated as of February 11, 2011, between Key Government Finance, Inc. (Lessor) and the University of North Carolina, General Administration. The Master Agreement describes an event of default as (1) failure to pay any rental payment or (2) failure to observe and perform any covenant, condition, or agreement within 30 days of receiving written notice specifying a failure. Upon the occurrence of any event of default, the Lessor may declare all rental payments during that fiscal year to become due and amounts will bear interest at a rate of 12% per annum or the maximum rate permitted by law. Additionally, upon an event of default, the Lessor may enter the premises where the property is located and retake possession of the leased property at the University's expense.

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

On December 5, 2019, the Foundation issued $14,920,000.00 in Series 2019 refunding bonds with an average interest rate of 3.18%. The bonds were issued for a current refunding of $17,505,000.00 of outstanding 2010B limited obligation bonds with an average interest rate of 6.54%. The refunding was undertaken to reduce total debt service payments by $2,792,683.66 over the next 21 years and resulted in an economic gain of $2,095,919.19.

NOTE 9 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2021	$ 429,003.36
2022	429,003.36
2023	303,670.16
Total Minimum Lease Payments	1,161,676.88
Amount Representing Interest (3.95% Rate of Interest)	77,726.90
Present Value of Future Lease Payments	$ 1,083,949.98

Machinery and equipment acquired under capital lease amounted to $2,061,579.87 at June 30, 2020.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $647,105.42 at June 30, 2020.

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

Fiscal Year	Amount
2021	$ 373,356.48
2022	154,975.79
Total Minimum Lease Payments	$ 528,332.27

Rental expense for all operating leases during the year was $379,305.48.

NOTE 10 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (10,879,255.79)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(125,915,733.44)
Effect on Unrestricted Net Position	(136,794,989.23)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	8,020,295.71
Total Unrestricted Net Position	$ (128,774,693.52)

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	$ 29,569,890.27	$ 7,043,016.42	$ 179,473.25	$ 22,347,400.60
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 10,527,983.03	$ 2,869,990.10	$ 163,300.86	$ 7,494,692.07
Dining	5,051,262.73	1,518,319.86	56,691.57	3,476,251.30
Student Union Services	69,761.89	-	30,716.14	39,045.75
Health, Physical Education, and Recreation Services	2,391,616.61	572,133.92	31,304.63	1,788,178.06
Parking	541,868.31	-	98,318.05	443,550.26
Athletic	720,812.84	-	-	720,812.84
Motor Pool	517.75	-	-	517.75
Laundry	8,000.00	-	-	8,000.00
Lyceum	122,725.89	-	-	122,725.89
Printing	183,760.70	-	-	183,760.70
Vending	73,996.50	-	-	73,996.50
Sales and Services of Education and Related Activities	556,546.64	-	-	556,546.64
Total Sales and Services, Net	$ 20,248,852.89	$ 4,960,443.88	$ 380,331.25	$ 14,908,077.76
Nonoperating Revenues:				
Noncapital Contributions, Net	$ 4,727,999.12	$ -	$ 104,622.31	$ 4,623,376.81

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	$ 37,179,280.65	$ 3,067,002.72	$ 2,145.00	$ -	$ -	$ 40,248,428.37
Research	243,768.06	69,859.11	-	-	-	313,627.17
Public Service	1,617,447.79	1,233,002.76	54,852.85	-	-	2,905,303.40
Academic Support	9,623,625.68	5,022,245.30	26,750.00	-	-	14,672,620.98
Student Services	5,398,517.50	1,655,726.03	-	-	-	7,054,243.53
Institutional Support	12,135,277.45	5,007,898.66	-	-	-	17,143,176.11
Operations and Maintenance of Plant	6,870,141.55	5,419,848.48	-	1,833,206.59	-	14,123,196.62
Student Financial Aid	88,150.01	168,701.93	14,746,416.69	-	-	15,003,268.63
Auxiliary Enterprises	6,158,916.82	13,918,571.14	34,446.00	1,489,867.83	-	21,601,801.79
Depreciation	-	-	-	-	6,858,076.11	6,858,076.11
Total Operating Expenses	$ 79,315,125.51	$ 35,562,856.13	$ 14,864,610.54	$ 3,323,074.42	$ 6,858,076.11	$ 139,923,742.71

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 $2,441,600.00 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 $1,976,115.96, and the University's contributions were $4,271,704.00 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 $19,828,879.00 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 0.19127%, which was an increase of 0.0043 from its proportion measured as of June 30, 2018, which was 0.18697%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

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

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$ 37,739,872.00	$ 19,828,879.00	$ 4,803,838.00

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 $7,541,786.00. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 1,658,664.22	$ 39,696.01
Changes of Assumptions	2,112,845.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	380,092.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	566,014.00	-
Contributions Subsequent to the Measurement Date	4,271,704.00	-
Total	$ 8,989,319.22	$ 39,696.01

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:

Year Ended June 30:	Amount
2021	$ 3,242,486.00
2022	847,230.00
2023	455,236.00
2024	132,967.21
Total	$ 4,677,919.21

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 $63,150,257.00, of which $24,140,042.00 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $1,448,403.00 and $1,651,179.00, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less total forfeiture of $211,611.81.

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 $3,692,772.00 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 $57,075.00 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 $96,687,793.75 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 0.30559%, which was an increase of 0.00548 from its proportion measured as of June 30, 2018, which was 0.30011%.

Net OPEB Asset: At June 30, 2020, the University reported an asset of $134,326.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University's proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University's proportion was 0.31130%, which was an increase of 0.00363 from its proportion measured as of June 30, 2018, which was 0.30767%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

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

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2019 is 1.4%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.50%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	$ 114,899,288.00	$ 96,687,973.75	$ 82,104,595.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (113,771.00)	$ (134,326.00)	$ (154,299.00)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	Net OPEB Liability (Asset)		
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	$ 79,614,553.00	$ 96,687,973.75	$ 119,134,937.00
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	$ (134,563.00)	$ (134,326.00)	$ (134,105.00)

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 $3,291,875.00 for RHBF and expense of $128,503.00 for DIPNC, resulting in a total OPEB contra-expense of $3,163,372.00. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ -	$ 137,224.00	$ 137,224.00
Changes of Assumptions	4,647,271.00	14,880.00	4,662,151.00
Net Difference Between Projected and Actual Earnings on Plan Investments	64,386.00	25,586.00	89,972.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	6,416,221.31	67.00	6,416,288.31
Contributions Subsequent to the Measurement Date	3,692,772.00	57,075.00	3,749,847.00
Total	$ 14,820,650.31	$ 234,832.00	$ 15,055,482.31

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 4,874,283.00	$ -	$ 4,874,283.00
Changes of Assumptions	29,068,588.00	13,781.00	29,082,369.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	10,105,719.00	3,386.00	10,109,105.00
Total	$ 44,048,590.00	$ 17,167.00	$ 44,065,757.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year 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	$ (11,126,003.00)	$ 55,541.00
2022	(11,126,003.00)	38,220.00
2023	(11,116,694.00)	27,807.00
2024	(802,078.00)	17,217.00
2025	1,250,066.31	23,960.00
Thereafter	-	(2,155.00)
Total	$ (32,920,711.69)	$ 160,590.00

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. The University also purchased through the Fund all risk coverage for auxiliary buildings and contents.

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. Examples of such coverage are workers' compensation for non-appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, commercial inland marine for music and related equipment, biodiesel, and fine arts.

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 $36,927,615.61 and on other purchases were $1,535,217.44 at June 30, 2020.

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

NOTE 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 the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges, and additional funding for the Disaster Relief Fund (DRF) administered by the Federal Emergency Management Agency (FEMA).

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 caption of the financial statements:

Nonoperating Revenue:

Federal Aid - COVID-19 - This caption includes funds received from the CARES Act and the FEMA DRF funds, 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.

The FEMA DRF funds are provided for emergency protective measures and related management costs related to the COVID-19 emergency and are on-going throughout the emergency event.

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

Program	Total Authorized Award	Earned Revenue
Federal Aid - COVID-19:		
HEERF - Student Allocation	$ 3,137,355.00	$ 2,441,600.00
HEERF - Institutional Allocation (1)	3,137,355.00	2,441,600.00
HEERF - Additional Award	685,130.00	96,287.04
FEMA - DRF (2)	-	489,217.25
Total Federal Aid - COVID-19	N/A	$ 5,468,704.29

(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.

(2) The FEMA grant is ongoing throughout the disaster period and recovery amounts are subject to funds available to and reimbursement requests approved by FEMA. As a result, there are no authorized awards associated with FEMA, and revenue is recorded based on reimbursements being submitted with FEMA. Management utillized a thid party expert to review claims prior to submission to FEMA and Management believes that the claims are collectible.

NOTE 18 - BLENDED COMPONENT UNIT

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

Condensed Statement of Net Position
June 30, 2020

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	$ 23,403,049.76	$ 6,194,430.45	$ -	$ 29,597,480.21
Capital Assets, Net	161,365,668.73	23,292,450.61	-	184,658,119.34
Other Noncurrent Assets	38,594,995.92	7,012,962.44	-	45,607,958.36
Component Unit Receivable from Primary Government	-	28,666,347.63	(28,666,347.63)	-
Primary Government Receivable from Component Unit	296,200.00	-	(296,200.00)	-
Total Assets	223,659,914.41	65,166,191.13	(28,962,547.63)	259,863,557.91
TOTAL DEFERRED OUTFLOWS OF RESOURCES	24,044,801.53	1,129,314.06	-	25,174,115.59
LIABILITIES				
Current Liabilities	9,636,468.36	2,598,846.21	-	12,235,314.57
Long-Term Liabilities	129,716,685.33	45,965,859.45	-	175,682,544.78
Other Noncurrent Liabilities	1,978,215.61	-	-	1,978,215.61
Primary Government Payable to Component Unit	28,666,347.63	-	(28,666,347.63)	-
Component Unit Payable to Primary Government	-	296,200.00	(296,200.00)	-
Total Liabilities	169,997,716.93	48,860,905.66	(28,962,547.63)	189,896,074.96
TOTAL DEFERRED INFLOWS OF RESOURCES	44,105,453.01	-	-	44,105,453.01
NET POSITION				
Net Investment in Capital Assets	120,160,306.12	5,720,611.58	-	125,880,917.70
Restricted - Nonexpendable	12,710,860.75	5,779,546.94	-	18,490,407.69
Restricted - Expendable	30,142,877.84	5,296,635.82	-	35,439,513.66
Unrestricted	(129,412,498.71)	637,805.19	-	(128,774,693.52)
Total Net Position	$ 33,601,546.00	$ 17,434,599.53	$ -	$ 51,036,145.53

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

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 22,347,400.60	$ -	$ -	$ 22,347,400.60
Grants and Contracts	334,031.79	1,152,806.38	-	1,486,838.17
Sales and Services, Net	14,567,215.76	5,195,454.05	(4,854,592.05)	14,908,077.76
Other Operating Revenues	2,035,758.91	-	(994,957.25)	1,040,801.66
Total Operating Revenues	39,284,407.06	6,348,260.43	(5,849,549.30)	39,783,118.19
OPERATING EXPENSES				
Salaries and Benefits	79,315,125.51	-	-	79,315,125.51
Supplies and Services	38,404,515.74	1,355,173.65	(4,196,833.26)	35,562,856.13
Scholarships and Fellowships	14,835,399.67	204,341.80	(175,130.93)	14,864,610.54
Utilities	2,939,520.23	383,554.19	-	3,323,074.42
Depreciation	6,299,594.13	558,481.98	-	6,858,076.11
Total Operating Expenses	141,794,155.28	2,501,551.62	(4,371,964.19)	139,923,742.71
Operating Income (Loss)	(102,509,748.22)	3,846,708.81	(1,477,585.11)	(100,140,624.52)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	78,324,778.36	-	-	78,324,778.36
Student Financial Aid	19,513,225.80	-	-	19,513,225.80
Federal Aid - COVID-19 Funds	5,468,704.29	-	-	5,468,704.29
Noncapital Contributions, Net	4,589,918.78	208,588.96	(175,130.93)	4,623,376.81
Investment Income, Net	223,907.51	63,528.84	-	287,436.35
Interest and Fees on Debt	(2,106,124.43)	(2,501,142.08)	673,758.80	(3,933,507.71)
Federal Interest Subsidy on Debt		60,264.90	-	60,264.90
Other Nonoperating Revenues (Expenses)	384,264.71	(1,323,881.98)	978,957.24	39,339.97
Net Nonoperating Revenues (Expenses)	106,398,675.02	(3,492,641.36)	1,477,585.11	104,383,618.77
Capital Appropriations	274,559.12	-	-	274,559.12
Capital Contributions	4,042,239.02	2,500.00	-	4,044,739.02
Additions to Endowments	49,983.11	336,747.01	-	386,730.12
Increase in Net Position	8,255,708.05	693,314.46	-	8,949,022.51
NET POSITION				
Net Position, July 1, 2019, as restated	25,345,837.95	16,741,285.07	-	42,087,123.02
Net Position, June 30, 2020	$ 33,601,546.00	$ 17,434,599.53	$ -	$ 51,036,145.53

Condensed Statement of Cash Flows
June 30, 2020

	UNCP	UNCP Foundation, Inc.	Total
Net Cash Privided (Used) by Operating Activities	$ (105,060,353.17)	$ 7,205,647.29	$ (97,854,705.88)
Net Cash Provided (Used) by Noncapital Financing Activities	108,973,428.45	(2,394,604.33)	106,578,824.12
Net Cash Used by Capital and Related Financing Activities	(13,813,767.48)	(10,526,628.41)	(24,340,395.89)
Net Cash Provided by Investing Activities	886,663.40	1,260,965.38	2,147,628.78
Net Decrease in Cash and Cash Equivalents	(9,014,028.80)	(4,454,620.07)	(13,468,648.87)
Cash and Cash Equivalents, July 1, 2019, as restated	43,790,362.31	9,470,735.39	53,261,097.70
Cash and Cash Equivalents, June 30, 2020	$ 34,776,333.51	$ 5,016,115.32	$ 39,792,448.83

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

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

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

NOTE 20 - NET POSITION RESTATEMENT

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

	Amount
July 1, 2019 Net Position as Previously Reported	$ 39,674,756.02
Restatement:	
Correction of Error in Recording the University's State Cash Carry-Forward	2,412,367.00
July 1, 2019 Net Position as Restated	$ 42,087,123.02

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
*Last Seven Fiscal Years** *Exhibit B-1*

Teachers' and State Employees' Retirement System	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net Pension Liability	0.19127%	0.18697%	0.18521%	0.17662%
Proportionate Share of TSERS Collective Net Pension Liability	$ 19,828,879.00	$ 18,614,900.00	$ 14,695,378.00	$ 16,233,202.00
Covered Payroll	$ 30,491,200.00	$ 28,225,105.00	$ 27,321,437.00	$ 25,493,403.69
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	65.03%	65.95%	53.79%	63.68%
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	0.16559%	0.16521%	0.17040%
Proportionate Share of TSERS Collective Net Pension Liability	$ 6,102,319.00	$ 1,936,957.00	$ 10,345,016.00
Covered Payroll	$ 24,264,258.14	$ 23,228,361.00	$ 23,946,234.50
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.15%	8.34%	43.20%
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.

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

Exhibit B-2

Teachers' and State Employees' Retirement System	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 4,271,704.00	$ 3,747,368.00	$ 3,042,666.00	$ 2,726,679.00	$ 2,332,649.00
Contributions in Relation to the Contractually Determined Contribution	4,271,704.00	3,747,368.00	3,042,666.00	2,726,679.00	2,332,649.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 32,935,266.00	$ 30,491,200.00	$ 28,225,105.00	$ 27,321,437.00	$ 25,493,403.69
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	$ 2,220,179.62	$ 2,018,544.57	$ 1,994,721.25	$ 1,777,703.29	$ 1,177,679.00
Contributions in Relation to the Contractually Determined Contribution	2,220,179.62	2,018,544.57	1,994,721.25	1,777,703.29	1,177,679.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 24,264,258.14	$ 23,228,361.00	$ 23,946,234.50	$ 23,893,861.40	$ 23,888,021.00
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.

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

Changes of Benefit Terms:

Cost of Living Increase

Teachers' and State Employees'	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
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

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Four Fiscal Years** *Exhibit B-3*

Retiree Health Benefit Fund	**2020**	**2019**	**2018**	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability	0.30559%	0.30011%	0.28521%	0.33211%
Proportionate Share of Collective Net OPEB Liability	$ 96,687,793.75	$ 85,496,262.00	$ 93,510,444.00	$ 144,479,138.00
Covered Payroll	$ 54,685,439.00	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	176.81%	167.15%	187.30%	301.29%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina				
Proportionate Share Percentage of Collective Net OPEB Asset	0.31130%	0.30767%	0.30814%	0.30805%
Proportionate Share of Collective Net OPEB Asset	$ 134,326.00	$ 93,458.00	$ 188,335.00	$ 191,299.00
Covered Payroll	$ 54,685,439.00	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.25%	0.18%	0.38%	0.40%
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.

The University of North Carolina at Pembroke
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit B-4*

Retiree Health Benefit Fund	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 3,692,772.00	$ 3,428,777.00	$ 3,094,533.00	$ 2,900,558.00	$ 2,685,430.00
Contributions in Relation to the Contractually Determined Contribution	3,692,772.00	3,428,777.00	3,094,533.00	2,900,558.00	2,685,430.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 57,075,308.00	$ 54,685,439.00	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00
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	$ 2,545,903.00	$ 2,406,033.00	$ 2,350,406.00	$ 2,194,918.00	$ 2,177,439.00
Contributions in Relation to the Contractually Determined Contribution	2,545,903.00	2,406,033.00	2,350,406.00	2,194,918.00	2,177,439.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 46,373,457.00	$ 44,556,163.00	$ 44,347,268.00	$ 43,898,352.00	$ 44,437,540.00
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%

Disability Income Plan of North Carolina	**2020**	**2019**	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 57,075.00	$ 76,560.00	$ 71,609.00	$ 204,687.00	$ 196,612.00
Contributions in Relation to the Contractually Determined Contribution	57,075.00	76,560.00	71,609.00	204,687.00	196,612.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 57,075,308.00	$ 54,685,439.00	$ 51,149,303.00	$ 49,924,549.00	$ 47,954,109.00
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.41%	0.41%

	2015	**2014**	**2013**	**2012**	**2011**
Contractually Required Contribution	$ 190,131.00	$ 196,047.00	$ 195,128.00	$ 228,271.00	$ 231,075.00
Contributions in Relation to the Contractually Determined Contribution	190,131.00	196,047.00	195,128.00	228,271.00	231,075.00
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 46,373,457.00	$ 44,556,163.00	$ 44,347,268.00	$ 43,898,352.00	$ 44,437,540.00
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.

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

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

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

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 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*.

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke (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, and have issued our report thereon dated November 23, 2020. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 23, 2020

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North Carolina Office of the State Auditor at 919-807-7666

NC OSA
The Taxpayers' Watchdog

This audit required 748 hours at an approximate cost of $77,792.00.