

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

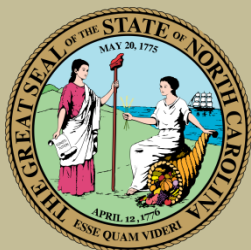
BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

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

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



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

## AUDITOR'S TRANSMITTAL

---

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

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

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

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

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

Beth A. Wood, CPA  
State Auditor



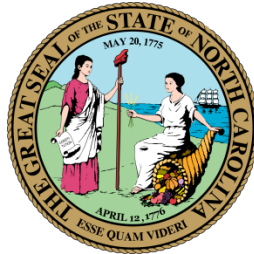
**Beth A. Wood, CPA**  
**State Auditor**

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	4
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 STATEMENT OF NET POSITION .....	18
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION .....	20
A-3 STATEMENT OF CASH FLOWS.....	21
COMPONENT UNIT EXHIBITS	
B-1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	23
B-2 CONSOLIDATED STATEMENT OF ACTIVITIES.....	24
NOTES TO THE FINANCIAL STATEMENTS .....	25
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN) .....	74
C-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN) .....	75
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	76
C-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS) .....	77
C-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS) .....	78
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS) .....	79
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	80
ORDERING INFORMATION .....	82

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



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

## **INDEPENDENT AUDITOR'S REPORT**

---

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 4.90 percent of the assets of the University; nor the financial statements of The University of North Carolina at Charlotte Facilities Development Corporation, Inc., which represent 0.78 percent and 0.13 percent, respectively, of the assets and revenues of the University. In addition, we did not audit the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of The

University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

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

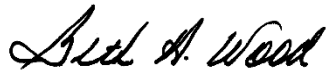
### Other Matters – Required Supplementary Information

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 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

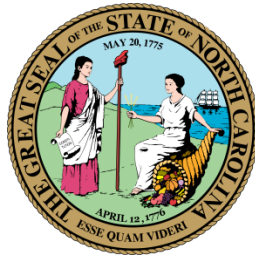
results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 18, 2020



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2020, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2019 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

## Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting 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.

UNC Charlotte 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*. Note that while The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted. For more details on the University's component units, see Note 1 to the Financial Statements.

The University's financial report includes three UNC Charlotte financial statements to evaluate financial position as of June 30<sup>th</sup> and the results of operations for the fiscal year then ended:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows (identifies sources and uses of cash during the fiscal year)

It also includes two financial statements from the University's Foundation:

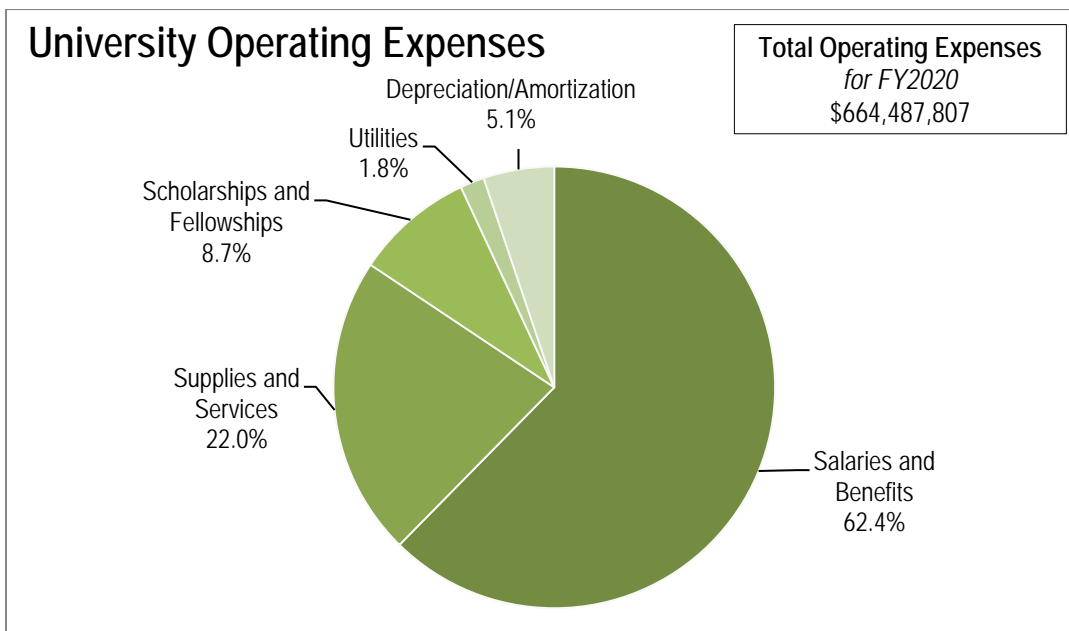
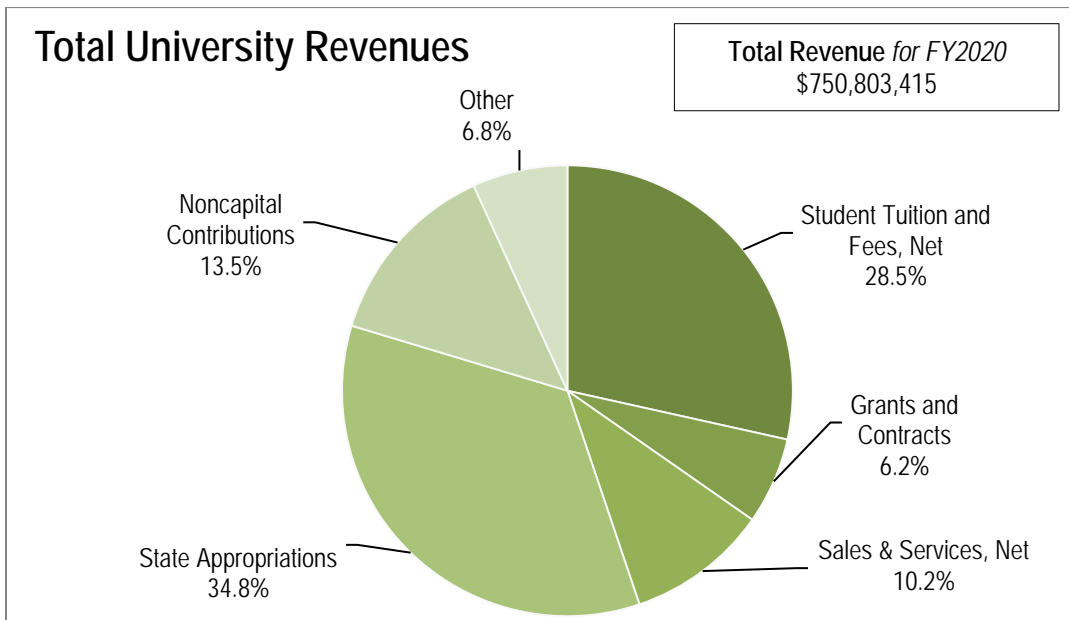
- Consolidated Statement of Financial Position
- Consolidated Statement of Activities

Management's discussion and analysis will concentrate on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

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

**Financial Highlights**

The University's total assets increased this fiscal year by 3.6%, or \$67.5 million, to \$2.0 billion at June 30, 2020. Net position increased by 9.5%, or \$58.0 million, to \$668.8 million, reflecting general financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The University recognized \$750.8 million in revenues and incurred \$664.5 million in operating expenses. Revenues and operating expenses as percentages of totals are shown below.

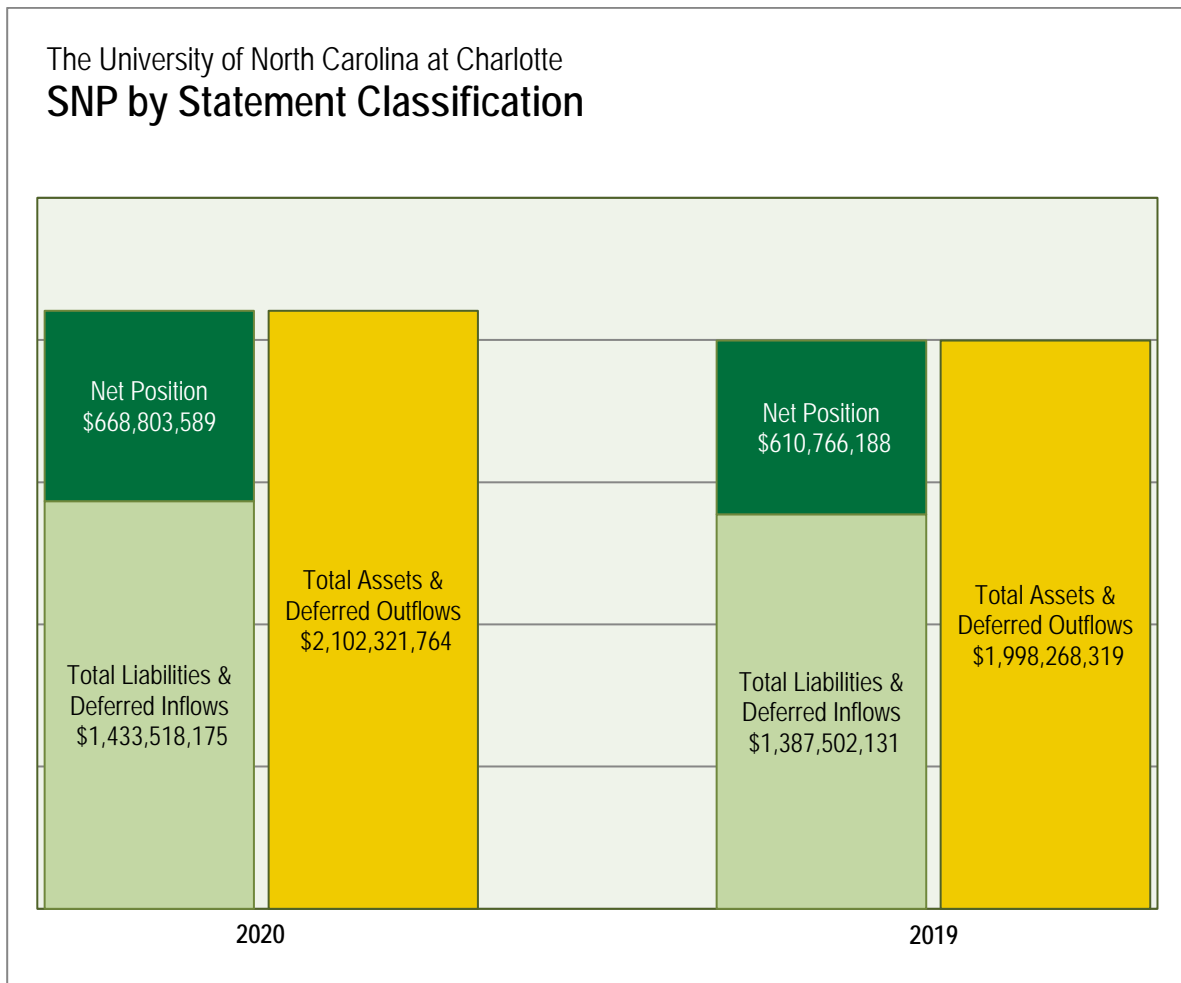


**Comparative Condensed Financial Statement Information**

**Statement of Net Position**

The Statement of Net Position (SNP) summarizes the financial position of the University by presenting its assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal year. The SNP is a point-in-time financial statement and presents a fiscal snapshot of the University.

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2020 and June 30, 2019:



The SNP presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Deferred outflows and inflows of resources represent the consumption or acquisition of net position, respectively, that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP provides a picture of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources.

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2020 and June 30, 2019.

Condensed Statement of Net Position	2020	2019	Change	
			Amount	Percent
<b>Assets:</b>				
Current Assets	\$ 369,214,108	\$ 347,777,231	\$ 21,436,877	6.2%
Noncurrent Assets:				
Endowment and Other Investments	99,730,598	98,031,880	1,698,718	1.7%
Capital Assets, Net	1,467,609,468	1,429,020,817	38,588,651	2.7%
Other Noncurrent Assets	31,120,616	25,376,463	5,744,153	22.6%
<b>Total Assets</b>	<b>1,967,674,790</b>	<b>1,900,206,391</b>	<b>67,468,399</b>	<b>3.6%</b>
<b>Deferred Outflows of Resources:</b>				
Deferred Loss on Refunding	3,252,358	3,520,526	(268,168)	-7.6%
Deferred Outflows Related to Pensions & OPEB	131,394,616	94,541,402	36,853,214	39.0%
<b>Total Deferred Outflows of Resources</b>	<b>134,646,974</b>	<b>98,061,928</b>	<b>36,585,046</b>	<b>37.3%</b>
<b>Liabilities:</b>				
Current Liabilities	56,093,438	61,255,441	(5,162,003)	-8.4%
Noncurrent Liabilities:				
Funds Held in Trust	15,220,471	14,178,476	1,041,995	7.3%
Long-Term Liabilities, Net	1,166,191,362	1,069,226,048	96,965,314	9.1%
Other Noncurrent Liabilities	2,723,734	4,006,034	(1,282,300)	-32.0%
<b>Total Liabilities</b>	<b>1,240,229,005</b>	<b>1,148,665,999</b>	<b>91,563,006</b>	<b>8.0%</b>
<b>Deferred Inflows of Resources:</b>				
Deferred Gain on Refunding	51,215	25,257	25,958	102.8%
Deferred Inflows Related To Pensions & OPEB	193,237,955	238,810,875	(45,572,920)	-19.1%
<b>Total Deferred Inflows of Resources</b>	<b>193,289,170</b>	<b>238,836,132</b>	<b>(45,546,962)</b>	<b>-19.1%</b>
<b>Net Position:</b>				
Net Investment in Capital Assets	908,738,326	870,106,760	38,631,566	4.4%
Restricted:				
Nonexpendable	47,383,919	46,907,395	476,524	1.0%
Expendable	43,863,030	37,962,343	5,900,687	15.5%
Unrestricted	(331,181,686)	(344,210,310)	13,028,624	-3.8%
<b>Total Net Position</b>	<b>\$ 668,803,589</b>	<b>\$ 610,766,188</b>	<b>\$ 58,037,401</b>	<b>9.5%</b>

Net position increased to \$668.8 million as of June 30, 2020, reflecting the general financial strength of the University. Other highlights of the information presented on the SNP:

- Total assets increased by \$67.5 million, or 3.6%, to \$2.0 billion at June 30, 2020.
  - Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$21.4 million in fiscal year 2020, or 6.2%, primarily due to a \$17.9 million increase in current cash and cash equivalents (unrestricted and restricted). Current unrestricted cash increased by \$9.3 million, primarily due to an increase in institutional trust funds for future planned projects. Current restricted cash increased by \$8.5 million, primarily related to bond proceeds received during the year. Net receivables increased by \$2.0 million, mainly due to a \$4.0 million receivable from the U.S. Department of Education for Coronavirus Aid, Relief, and Economic Security (CARES) Act Higher Education Emergency Relief Funds (HEERF), which was recently requested and outstanding as of the end of the fiscal year. Prepaid items increased by \$1.4 million, mainly due to an increase in prepaid software and journal subscriptions.

- Total noncurrent assets increased by \$46.0 million, or 3.0%, during the fiscal year, primarily due to an increase in net capital assets of \$38.6 million. Noncurrent restricted cash and cash equivalents increased by \$6.3 million mainly from bond proceeds issued for construction projects during the year. The increases in net capital assets and bond proceeds are discussed in detail in the Capital Assets and Debt Administration section. Total endowment, restricted, and other investments increased by \$1.7 million, or 1.7%, mainly due to an increase in endowed gifts to the Athletic Foundation and the establishment of a capitalized interest fund for the tax-exempt series 2020A bond issuance, offset by a decrease in investment market performance.
- Total deferred outflows of resources increased by \$36.6 million during the fiscal year. This change is due to a \$45.6 million increase in deferred outflows related to other postemployment benefits (OPEB), offset by a \$8.7 million decrease in deferred outflows related to pensions. Both of these deferred outflow measures fluctuate each year due to changes in pension and OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets. Changes of assumptions and changes in the University's proportion of the Retiree Health Benefit Fund (RHBF) liability accounted for the increase in deferred outflows related to OPEB. Changes of assumptions used to calculate the State's pension liability and differences between projected and actual earnings on pension plan investments accounted for the decrease in deferred outflows related to pensions.
- Total liabilities increased by \$91.6 million, or 8.0%, to \$1.2 billion at June 30, 2020.
  - Current liabilities, those that are payable in the next fiscal year, decreased by \$5.2 million, mainly due to a \$4.5 million decrease in accounts payable related to capital projects.
  - Noncurrent liabilities increased by \$96.7 million, or 8.9%, during the fiscal year, primarily due to pension and OPEB liability increases. The University's portion of the State's net pension liability increased by \$5.1 million to \$76.3 million at year end, and the University's portion of the State's net OPEB liability increased by \$70.8 million to \$487.3 million at year end. See sections on deferred outflows/inflows of resources related to pensions and OPEB for more details about these fluctuations, as well as Notes 13 and 14 to the Financial Statements. The noncurrent portion of long-term debt outstanding increased by \$15.9 million due to issuance of new debt this year. The noncurrent portions of the University's workers' compensation and compensated absences liabilities also increased by \$3.4 million and \$1.7 million, respectively, mainly attributable to new workers' compensation claims made during the fiscal year and employees' use of other leave made available under coronavirus relief policies.
- Total deferred inflows of resources decreased by \$45.5 million during the fiscal year, attributable to a \$45.0 million decrease in deferred inflows related to OPEB. As with the deferred outflows of resources related to pensions and OPEB, the related deferred inflow measures fluctuate each year due to changes in pension and net OPEB liability/asset assumptions and calculation inputs, such as changes in the discount rate, differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets. Changes of assumptions used to calculate the State's net RHBF liability accounted for \$33.9 million of the decrease in deferred inflows related to OPEB.

- Net Position is divided into three major categories:
  - Net investment in capital assets: Represents the University's net equity in material property, plant, and equipment owned by the University, which increased by \$38.6 million this fiscal year. Reference the Capital Assets and Debt Administration section for further details.
  - Restricted Net Position
    - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that is available for investment purposes. The University's nonexpendable net position did not materially change in fiscal year 2020.
    - Expendable: Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's increase in expendable restricted net position of \$5.9 million was mainly related to a \$6.9 million increase in resources restricted for capital projects and debt service, offset by a \$1.3 million decrease in restricted expendable real estate assets that were transferred to the Foundation.
  - Unrestricted Net Position: Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$13.0 million this fiscal year due to a \$6.0 million increase in institutional trust funds from operations and a \$7.1 million decrease in pension and OPEB obligations.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended*, along with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which were effective beginning with fiscal years 2015 and 2018, respectively, have a material effect on the University's reported unrestricted net position. To aid in understanding the continuing impact of GASB Statement Nos. 68 and 75 on available resources, see Note 10 (Net Position) to the Financial Statements, along with the summary below. The net pension obligation of \$41.3 million and the net OPEB obligation for the Retiree Health Benefit Fund (RHBF) of \$585.2 million create a combined \$626.5 million negative impact on the University's unrestricted net position. Without these reported obligations, the University's available resources are \$295.3 million, an increase of \$6.0 million, or 2.1%, from the prior year. This amount represents available, unrestricted resources held by the University and its blended component units, along with any operating state funds authorized for carryforward.

Effect of GASB Statement Nos. 68 and 75 on Unrestricted Net Position	2020	2019	Change
Available Resources	\$ 295,314,877	\$ 289,352,152	\$ 5,962,725
Pension Net Obligation (GASB Stmt. No. 68)	(41,297,544)	(28,006,850)	(13,290,694)
OPEB Net Obligation (GASB Stmt. No. 75)	(585,199,019)	(605,555,612)	20,356,593
<b>Total Unrestricted Net Position</b>	<b>\$ (331,181,686)</b>	<b>\$ (344,210,310)</b>	<b>\$ 13,028,624</b>

The net OPEB obligation reported above relates to the RHBF. Two key drivers of the decrease of \$7.1 million in the net pension and OPEB obligations were the change of assumptions used to value the net RHBF liability, as well as the change in the proportion of the RHBF liability allocated to the University. The Disability Income Plan of North Carolina (DIPNC) was in an asset position as of June 30, 2020, and its positive net effect on the University's restricted net position was \$1.7 million. More information on both of these OPEB plans is included in Note 14 (Other Postemployment Benefits) to the Financial Statements.

The University's liquidity remains strong with a current ratio of 6.6. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of more than six times its current liabilities before current assets were exhausted. Total working capital (current assets less current liabilities) increased by \$26.6 million, or 9.3%, to \$313.1 million at June 30, 2020, due to the larger increase in current assets relative to current liabilities, both discussed above.

### **Statement of Revenues, Expenses, and Changes in Net Position**

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present revenues and expenses earned and incurred, respectively, by the University during the fiscal year.

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell Grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its SRECNP.

Other revenues, expenses, gains, and losses recognized by the University, as applicable, and not classified as operating or nonoperating, are presented separately on the statement below the Income Before Other Revenues line.



The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2020 and June 30, 2019.

Condensed Statement of Revenues, Expenses, and Changes in Net Position	2020	2019	Change	
			Amount	Percent
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 213,818,751	\$ 219,027,787	\$ (5,209,036)	-2.4%
Grants and Contracts	46,682,496	46,015,111	667,385	1.5%
Sales and Services, Net	76,050,619	90,553,511	(14,502,892)	-16.0%
Other Operating Revenues	3,953,633	4,198,947	(245,314)	-5.8%
<b>Total Operating Revenues</b>	<b>340,505,499</b>	<b>359,795,356</b>	<b>(19,289,857)</b>	<b>-5.4%</b>
<b>Operating Expenses:</b>				
Salaries and Benefits	414,396,542	386,679,548	27,716,994	7.2%
Supplies and Services	146,214,468	147,865,420	(1,650,952)	-1.1%
Scholarships and Fellowships	57,759,339	42,443,305	15,316,034	36.1%
Utilities	11,726,830	12,830,815	(1,103,985)	-8.6%
Depreciation/Amortization	34,390,628	33,353,565	1,037,063	3.1%
<b>Total Operating Expenses</b>	<b>664,487,807</b>	<b>623,172,653</b>	<b>41,315,154</b>	<b>6.6%</b>
<b>Operating Loss</b>	<b>(323,982,308)</b>	<b>(263,377,297)</b>	<b>(60,605,011)</b>	<b>23.0%</b>
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	261,533,302	258,937,065	2,596,237	1.0%
State Aid - Coronavirus Relief Fund	223,550	-	223,550	
Federal Aid - COVID-19	12,404,787	-	12,404,787	
Noncapital Contributions, incl. Student Financial Aid	88,815,865	93,977,730	(5,161,865)	-5.5%
Investment Income, Net	6,118,425	9,583,122	(3,464,697)	-36.2%
Interest and Fees on Debt, Net of Subsidy	(22,528,255)	(20,060,050)	(2,468,205)	12.3%
Other Nonoperating Expenses	(4,409,292)	(1,694,764)	(2,714,528)	160.2%
<b>Net Nonoperating Revenues</b>	<b>342,158,382</b>	<b>340,743,103</b>	<b>1,415,279</b>	<b>0.4%</b>
<b>Income Before Other Revenues</b>	<b>18,176,074</b>	<b>77,365,806</b>	<b>(59,189,732)</b>	<b>-76.5%</b>
Capital Appropriations and Contributions	39,370,847	9,943,068	29,427,779	296.0%
Additions to Endowments	490,480	583,700	(93,220)	-16.0%
<b>Increase in Net Position</b>	<b>58,037,401</b>	<b>87,892,574</b>	<b>(29,855,173)</b>	<b>-34.0%</b>
Net Position, Beginning of Year	610,766,188	522,873,614		
<b>Net Position, End of Year</b>	<b>\$ 668,803,589</b>	<b>\$ 610,766,188</b>	<b>\$ 58,037,401</b>	<b>9.5%</b>

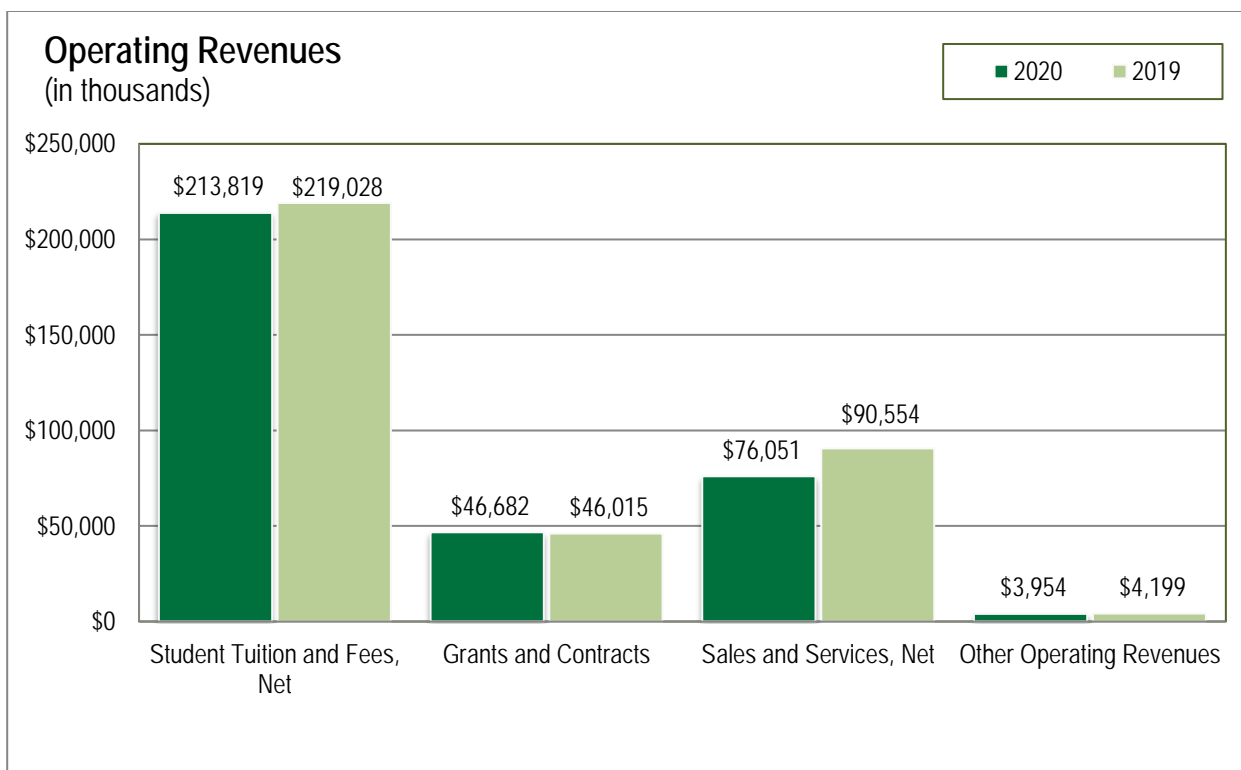
*Fiscal year 2019-20 total revenues were \$750,803,415 and total expenses were \$692,766,014*

*Fiscal year 2018-19 total revenues were \$734,622,343 and total expenses were \$646,729,769*

The overall increase in net position of \$58.0 million is composed of the following highlighted changes:

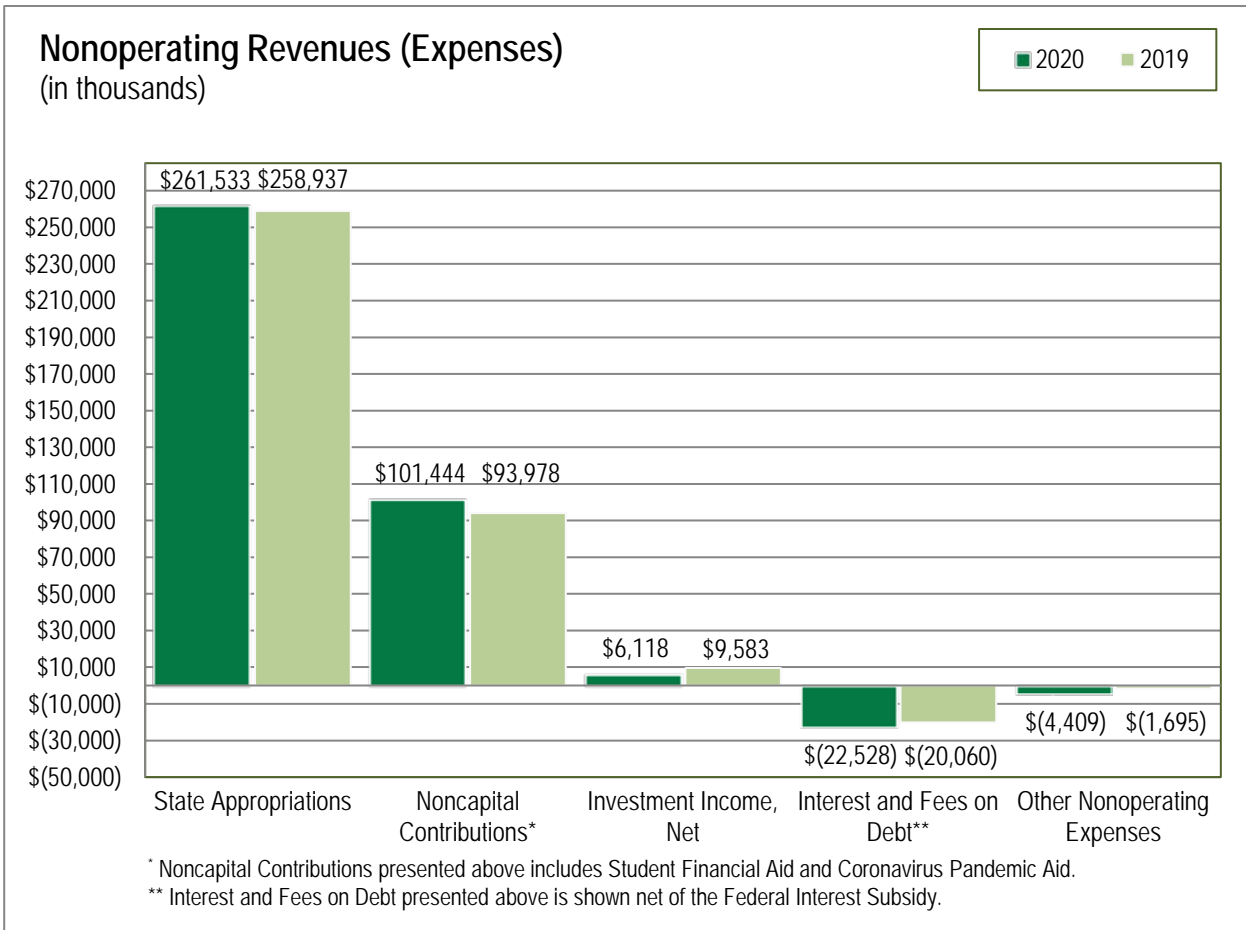
- Total operating revenues decreased by \$19.3 million, or 5.4%, as compared to the prior fiscal year, a direct result of the coronavirus's impact to the University's operations. Student tuition and fees (net) decreased by \$5.2 million, or 2.4%, as a result of coronavirus-related impacts, including decreased revenue from study abroad and continuing education programs and fewer student fees being assessed in the summer of 2020 as all courses were changed to distance education. Sales and services (net) revenue decreased by \$14.5 million, or 16.0%, driven by the cessation of auxiliary services in the spring of 2020 due to the coronavirus, resulting in \$14.2 million refunded to students and employees for housing, dining, and parking charges.





- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$41.3 million, or 6.6%, from the prior year, to \$664.5 million.
  - The increase in operating expenses is largely attributable to a \$27.7 million, or 7.2%, increase in salaries and benefits expense. Benefits expense increased by \$19.2 million, primarily due to increases in pension and OPEB expenses recognized related to GASB Statement Nos. 68 and 75. Salaries increased by \$8.5 million, or 2.7%, mainly due to promotions, salary adjustments, and newly filled positions for personnel that are exempt from the State Human Resources Act.
  - Supplies and services expenses decreased by \$1.7 million, or 1.1%, due to decreased spending as a result of coronavirus disruptions, notably related to decreases in auxiliary service expenses such as student meal plan and catering expenses and in travel-related expenses.
  - Scholarship and fellowship expenses increased by \$15.3 million, or 36.1%, mainly due to \$8.4 million awarded in federal CARES HEERF funds for student aid in fiscal year 2020, along with a \$2.7 million increase in student financial aid in the form of Pell Grants and military aid awarded to students and a \$2.6 million decrease in the tuition discount, which eliminates the double-counting of student tuition and fee revenue and scholarship expense where the revenue has already been otherwise recognized.
- 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 commensurate goods and services for those revenues. The University's net nonoperating revenues were \$342.2 million in fiscal year 2020, a \$1.4 million increase compared to the prior year. Appropriations from the State

increased by \$2.6 million, primarily due to new permanent appropriations for legislatively mandated fringe benefits. \$12.4 million was received in coronavirus-related aid from the Higher Education Emergency Relief Fund (HEERF), as authorized by the CARES Act. Noncapital contributions decreased by \$5.2 million, mainly related to \$6.8 million that was received in fiscal year 2019 from the Foundation for the new Gage Undergraduate Admissions Center with no comparable gifts being received in fiscal year 2020, offset by a \$2.8 million increase in federal noncapital contributions for student financial aid in the form of Pell Grants and military aid. Investment income decreased by \$3.5 million due to poorer market performance in fiscal year 2020. Interest and fees on debt (net of subsidies) increased by \$2.5 million mainly due to higher interest payments related to the bond issuance in 2020. Other nonoperating expenses increased by \$2.7 million. The loss on disposal of fixed assets increased by \$1.5 million due to the disposal of a recently installed sprinkler system in Moore Hall in conjunction with the demolition of that building. In addition, \$1.3 million was contributed to the Foundation upon the sale of investment real estate property, per the donor agreement.



- For explanations of the material changes in capital appropriations and contributions, see the Capital Asset and Debt Administration section below.

## Capital Assets and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the region as student and community needs evolve. A critical factor in meeting these commitments is the University's ability to strategically enhance its capital assets.

Total capital assets, by major classification and net of accumulated depreciation and amortization, are presented below for the fiscal years ended June 30, 2020, and June 30, 2019. Information regarding changes in capital assets is also disclosed in Note 6 to the Financial Statements.

Capital Assets, Net of Accumulated Depreciation/Amortization	2020	2019 (as Restated)	Change	
			Amount	Percent
Land and Land Improvements	\$ 12,884,085	\$ 12,884,085	\$ -	0.0%
Rare Book, Manuscript, Art and Artifact Collections	36,566,699	36,014,978	551,721	1.5%
Construction in Progress	75,710,820	89,978,531	(14,267,711)	-15.9%
Buildings	1,056,300,181	1,005,635,139	50,665,042	5.0%
Machinery and Equipment	64,744,518	60,733,787	4,010,731	6.6%
General Infrastructure	212,058,001	213,676,941	(1,618,940)	-0.8%
Computer Software	9,345,164	10,097,356	(752,192)	-7.4%
<b>Total Capital Assets, Net</b>	<b>\$ 1,467,609,468</b>	<b>\$ 1,429,020,817</b>	<b>\$ 38,588,651</b>	<b>2.7%</b>

Total construction in progress (CIP) at the end of the year was \$75.7 million, a \$14.3 million net decrease from the prior year. CIP increased by \$64.0 million for costs incurred during the fiscal year on various construction projects, and decreased by \$78.3 million due to the completion of some of those projects during the year.

Increases in CIP included costs incurred during the fiscal year for projects still in progress at year end, notably including the Science Building and accompanying regional utility plant (\$43.8 million) and Residence Hall Phase XVI, which will replace the Sanford and Moore residence halls (\$3.1 million). The remaining increases were related to smaller renovation and improvement projects (\$2.0 million) and projects that were ultimately completed during the year (\$15.0 million). Major completed projects include the University Recreation Center (\$63.2 million), Sycamore Hall renovations (\$4.7 million), and Elm, Maple, and Pine Hall renovations (\$2.4 million). Other capital construction projects completed were for smaller renovations and capital improvements (\$7.8 million total). The completion of these projects, offset by depreciation expense of \$21.8 million, contributed to the \$50.7 million increase in the net capitalized cost of buildings this fiscal year. The net capitalized cost of machinery and equipment increased by \$4.0 million, mainly due to the purchase of \$10.5 million in capital items, offset by depreciation expense of \$6.5 million. The net capitalized cost of general infrastructure decreased by \$1.6 million this fiscal year, mainly due to the completion of \$3.7 million in improvements to parking areas and road systems, offset by depreciation expense of \$5.3 million.

The University also had \$35.9 million in outstanding commitments on construction contracts for capital expenditures at June 30, 2020. The bulk of these commitments related to the Science Building (\$28.6 million), along with \$1.5 million related to Residence Hall Phase XVI, construction of which was purposely stalled as of the end of the fiscal year.

Capital contributions increased by \$31.2 million, reflecting increased expenditures for the University's new science building funded by the State's Connect NC bond package, which was approved in 2016. Capital appropriations decreased by \$1.8 million due to a decrease in the University's repairs and renovations allocation from the State.

The University's debt portfolio is conservatively structured, with a fixed-rate debt profile and relatively rapid principal amortization. Long-term debt is primarily issued for specific capital needs. In January 2020, the University issued \$71.4 million in tax-exempt general revenue bonds to refund \$47.8 million of outstanding revenue bonds, which resulted in an economic gain of \$7.5 million. The net proceeds of this debt are primarily reserved for the construction of Phase XVI for the University's housing plan. Concurrently, the University also issued \$23.3 million in taxable general revenue bonds to advance refund \$21.6 million of outstanding revenue bonds and which resulted in an economic gain of \$1.5 million. The University's available funds, excluding tuition and state appropriations, are pledged to pay the bonds. The University maintained credit ratings this year from Standard & Poor's, of 'A+' with a stable outlook, and from Moody's Investors Service, of 'Aa3' with a stable outlook. Both agencies affirmed their ratings based on the strong enterprise profile of the University, including solid enrollment trends, financial operations, and operating and capital support from AAA-rated State of North Carolina, along with a capable management team. While the University's debt profile has increased over the past ten years, all funding decisions support the University's long-term strategic plan and are made to be as cost effective as possible in the prevailing economic environment. For additional information on the University's debt administration, see Note 8 to the Financial Statements.

### **Economic Outlook**

Management remains prudent, conservative, and strategic in managing the institution's financial affairs to achieve the University's goals of providing educational services to the Charlotte region. The overall outlook for the four-year U.S. Higher Education sector, per Moody's Investors Service, was negative as of April 2020, reversing a stable outlook as of December 2019 due to the impact of the coronavirus pandemic. COVID-19 is expected to continue to have a significant and uncertain impact on the University's operations and financial health. UNC Charlotte will continue to heavily rely on enrollment demand and governmental support as two of the most significant drivers of the University's revenue base, along with effective institutional planning and cost containment. Absent new and significant federal relief or vastly altered trajectories of coronavirus-related health and economic trends, COVID-19 is expected to have a large negative impact on North Carolina's budget for at least the next two fiscal years, which will affect appropriations revenue for the University. However, the University benefits from its membership in the University of North Carolina (UNC) system through economies of scale, and draws from a diverse tuition base. UNC Charlotte is also mindful of controlling expenses with a lower than average spending rate per full-time-equivalent student among the 16 UNC universities, and will benefit from the ability to allocate federal relief funds to expenses needed to manage new operational needs in fiscal year 2021.

Focus on access, affordability, and student outcomes at the state and national level, coupled with UNC Charlotte's emphasis on value for its students, will constrain tuition increases to those that are necessary to meet operational needs, a trend typical among public universities. UNC Charlotte's tuition and fee rates remain low compared to public peers. There were no increases in tuition or fee rates for the 2020-21 academic year across the UNC system. North Carolina's fixed tuition program, which freezes tuition rates for new resident undergraduate students over a period of continuous enrollment and limits the overall increase in

undergraduate student fees to 3% per academic year for all UNC system institutions, was implemented in 2016 and remains in place.

Though tuition and fee rates are constrained, UNC Charlotte continues to realize strong enrollment, even amidst the pandemic. UNC Charlotte enrolled more than 30,100 students for the Fall 2020 semester, a record enrollment and a more than 20% cumulative increase over the past ten years. UNC Charlotte is the largest university in the continuously growing Charlotte region and remains the only urban research university in the UNC system. UNC Charlotte also enrolls more transfer students than any other university in North Carolina and offers more than 160 degree programs to a culturally diverse student population. Enrollment growth at UNC Charlotte is expected to continue, and the University continues to plan for a long-term target of 35,000 students.

The University also continues efforts to foster partnerships and relationships with a wide variety of constituents, positioning itself as the region's preferred provider of talent, knowledge, and innovation. Exponential, the University's largest fundraising campaign in its history, surpassed its goal of \$200.0 million and raised \$218.2 million as of September 2020 to provide funding for increased scholarships (opportunity), improved student experience (resources), recruitment of skilled faculty (talent), and support of key programs (impact).

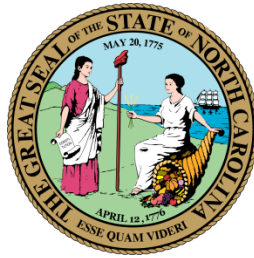
Approximately 71% of UNC Charlotte students receive some form of financial aid, and approximately 39% of undergraduates are Pell Grant recipients. This, in addition to the facts that the majority of the University's research funding is from federal grants and that the University would likely benefit from any additional federally legislated relief funds, causes the federal budget to remain a key consideration of the financial outlook. Access, affordability, and accountability remain concerns for the higher education industry. Any legislation related to funding for federal student aid programs and federal research organizations will affect our students and faculty; management is prepared to adapt to changes as they arise.

Finally, the University continues its efforts to make an impact through its research initiatives and received \$51.8 million in sponsored awards during fiscal year 2020. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biotechnology, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. Additionally, in September 2020, UNC Charlotte was allocated \$9.0 million in CARES funds from the State through House Bill 1105, for its bioinformatics research center. \$4.0 million is for research to combat the COVID-19 pandemic and future viruses, and \$5.0 million is for the development of a novel COVID-19 monitoring program based on testing of wastewater and public transportation systems. This appropriation reflects the success and importance of the University's bioinformatics program. The University plans to reach a sustainable level of extramurally funded research programs of \$55.0 million annually by 2021.

Management is fully committed to making sound fiscal decisions to withstand current and future economic uncertainties, and remains dedicated to UNC's mission to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

### **Contacting the University's Financial Management**

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage ([finance.uncc.edu](http://finance.uncc.edu)) or contacting the Controller (704-687-5759) or Associate Vice Chancellor for Finance (704-687-5813).



# FINANCIAL STATEMENTS

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

**Exhibit A-1**  
**Page 1 of 2**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 296,767,747
Restricted Cash and Cash Equivalents	41,185,167
Receivables, Net (Note 5)	16,225,252
Inventories	295,682
Notes Receivable, Net (Note 5)	459,892
Prepaid Items	14,280,368
	<hr/>
Total Current Assets	369,214,108

Noncurrent Assets:

Restricted Cash and Cash Equivalents	28,041,022
Endowment Investments	83,583,582
Restricted Investments	16,101,714
Other Investments	45,302
Notes Receivable, Net (Note 5)	2,393,720
Net Other Postemployment Benefits Asset	685,874
Capital Assets - Nondepreciable (Note 6)	125,161,604
Capital Assets - Depreciable, Net (Note 6)	1,342,447,864
	<hr/>
Total Noncurrent Assets	1,598,460,682

Total Assets	<hr/> <hr/> 1,967,674,790
--------------	---------------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	3,252,358
Deferred Outflows Related to Pensions	35,168,474
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	96,226,142
	<hr/>
Total Deferred Outflows of Resources	134,646,974

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	14,851,701
Deposits Payable	1,947,822
Funds Held for Others	1,812
Unearned Revenue	8,430,550
U.S. Government Grants Refundable	519,649
Interest Payable	6,200,770
Long-Term Liabilities - Current Portion (Note 8)	24,141,134
	<hr/>
Total Current Liabilities	56,093,438

Noncurrent Liabilities:

Funds Held for Others	142,559
Unearned Revenue	437,438
U.S. Government Grants Refundable	2,143,737
Funds Held in Trust for Pool Participants	15,220,471
Long-Term Liabilities, Net (Note 8)	1,166,191,362
	<hr/>
Total Noncurrent Liabilities	1,184,135,567

Total Liabilities	<hr/> <hr/> 1,240,229,005
-------------------	---------------------------



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

**Exhibit A-1**  
**Page 2 of 2**

**DEFERRED INFLOWS OF RESOURCES**

Deferred Gain on Refunding	51,215
Deferred Inflows Related to Pensions	152,774
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>193,085,181</u>
Total Deferred Inflows of Resources	<u>193,289,170</u>

**NET POSITION**

Net Investment in Capital Assets	908,738,326
Restricted:	
Nonexpendable	47,383,919
Expendable	43,863,030
Unrestricted	<u>(331,181,686)</u>
Total Net Position	<u>\$ 668,803,589</u>

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

**The University of North Carolina at Charlotte**  
**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)	\$ 213,818,751
Federal Grants and Contracts	36,744,555
State and Local Grants and Contracts	3,146,675
Nongovernmental Grants and Contracts	6,791,266
Sales and Services, Net (Note 11)	76,050,619
Interest Earnings on Loans	171,351
Other Operating Revenues	3,782,282
	<hr/>
Total Operating Revenues	340,505,499

**OPERATING EXPENSES**

Salaries and Benefits	414,396,542
Supplies and Services	146,214,468
Scholarships and Fellowships	57,759,339
Utilities	11,726,830
Depreciation/Amortization	34,390,628
	<hr/>
Total Operating Expenses	664,487,807
	<hr/>
Operating Loss	(323,982,308)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	261,533,302
State Aid - Coronavirus Relief Fund	223,550
Student Financial Aid	81,569,183
Federal Aid - COVID-19	12,404,787
Noncapital Contributions	7,246,682
Investment Income (Net of Investment Expense of \$423,621)	6,118,425
Interest and Fees on Debt	(23,868,915)
Federal Interest Subsidy on Debt	1,340,660
Other Nonoperating Expenses	(4,409,292)
	<hr/>
Net Nonoperating Revenues	342,158,382
	<hr/>
Income Before Other Revenues	18,176,074
	<hr/>
Capital Contributions	39,370,847
Additions to Endowments	490,480
	<hr/>
Total Other Revenues	39,861,327
	<hr/>
Increase in Net Position	58,037,401

**NET POSITION**

Net Position - July 1, 2019	610,766,188
	<hr/>
Net Position - June 30, 2020	\$ 668,803,589

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

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

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 338,292,875
Payments to Employees and Fringe Benefits	(416,521,906)
Payments to Vendors and Suppliers	(158,417,349)
Payments for Scholarships and Fellowships	(57,759,339)
Loans Issued	(91,455)
Collection of Loans	741,767
Interest Earned on Loans	154,011
Student Deposits Received	1,079,850
Student Deposits Returned	(924,050)
Other Receipts	3,712,618
	<hr/>
Net Cash Used by Operating Activities	(289,732,978)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	261,533,302
State Aid - Coronavirus Relief Fund	223,550
Student Financial Aid	80,843,082
Federal Aid - COVID-19	8,404,787
Noncapital Contributions	6,963,222
Additions to Endowments	490,480
William D. Ford Direct Lending Receipts	128,491,605
William D. Ford Direct Lending Disbursements	(128,491,605)
Related Activity Agency Receipts	32,666,245
Related Activity Agency Disbursements	(35,764,899)
External Participation in Investment Fund Receipts	1,407,777
External Participation in Investment Fund Disbursements	(407,478)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	356,360,068

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

Proceeds from Capital Debt	38,881,441
Capital Contributions	38,351,003
Proceeds from Insurance of Capital Assets	180,380
Acquisition and Construction of Capital Assets	(80,177,986)
Principal Paid on Capital Debt	(19,898,176)
Interest and Fees Paid on Capital Debt	(26,890,239)
Federal Interest Subsidy on Debt Received	1,566,343
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(47,987,234)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	4,271,041
Investment Income	6,156,330
Purchase of Investments and Related Fees	(4,950,863)
	<hr/>
Net Cash Provided by Investing Activities	5,476,508
Net Increase in Cash and Cash Equivalents	24,116,364
Cash and Cash Equivalents - July 1, 2019	341,877,572
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 365,993,936

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

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (323,982,308)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	34,390,628
Allowances, Write-Offs, and Amortizations	1,948,333
Other Nonoperating Income	342,479
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	531,331
Inventories	(65,466)
Notes Receivable, Net	671,287
Prepaid Items	(1,400,495)
Net Other Postemployment Benefits Asset	(224,049)
Deferred Outflows Related to Pensions	8,706,006
Deferred Outflows Related to Other Postemployment Benefits	(45,559,220)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	261,929
Unearned Revenue	(737,538)
Net Pension Liability	5,146,124
Net Other Postemployment Benefits Liability	70,784,951
Compensated Absences	1,563,733
Deposits Payable	220,279
Workers' Compensation Liability	3,241,938
Deferred Inflows Related to Pensions	(561,436)
Deferred Inflows Related to Other Postemployment Benefits	(45,011,484)
Net Cash Used by Operating Activities	<u>\$ (289,732,978)</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$ 1,019,844
Change in Fair Value of Investments	266,385
Loss on Disposal of Capital Assets	(2,769,825)
Amortization of Bond Premiums/Discounts	(2,506,480)
Increase in Receivables Related to Nonoperating Income	3,729,233
Funds Escrowed to Defeasement Debt	69,435,000

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

**The Foundation of the University of North Carolina at Charlotte, Inc.**  
**Consolidated Statement of Financial Position**  
**June 30, 2020**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$ 18,446,067
Prepaid Expenses and Other Assets	932,442
Contributions Receivable, Net	8,787,150
Beneficial Interests in Lead Trusts	576,992
Beneficial Interests in Assets Held by Others	1,031,300
Investments	134,753,426
Cash Surrender Value of Life Insurance	776,445
Construction in Progress	43,661,125
Property Held for Investment	2,389,225
	<hr/>
Total Assets	<u>\$ 211,354,172</u>

**LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 4,685,192
Advance on Sale of Hotel Interest	4,000,000
Liability Under Split-Interest Agreements	3,121,383
Funds Held for Others	261,429
Debt	25,380,441
	<hr/>
Total Liabilities	<u>37,448,445</u>

**NET ASSETS**

Without Donor Restrictions	20,959,137
With Donor Restrictions	152,946,590
	<hr/>
Total Net Assets	<u>173,905,727</u>
	<hr/>
Total Liabilities and Net Assets	<u>\$ 211,354,172</u>

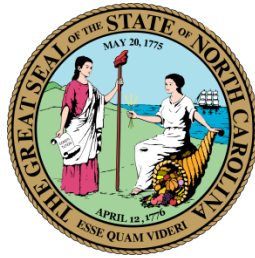
The accompanying notes to the financial statements are an integral part of this statement.

**The Foundation of the University of North Carolina at Charlotte, Inc.**  
**Consolidated Statement of Activities**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit B-2**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>			
Public Contributions	\$ 548,669	\$ 18,114,116	\$ 18,662,785
Support from Affiliate	4,136,340	421,594	4,557,934
Investment Income	283,825	179,227	463,052
Other Revenue and Support	50,454	132,579	183,033
	5,019,288	18,847,516	23,866,804
Net Assets Released from Restrictions	10,589,739	(10,589,739)	-
Total Revenue, Gains, and Other Support	15,609,027	8,257,777	23,866,804
<b>EXPENSES</b>			
Program Services:			
Contributions to UNC Charlotte	11,101,158	-	11,101,158
Research and Other Programs	1,011,031	-	1,011,031
Total Program Services	12,112,189	-	12,112,189
Support Services:			
General and Administrative	1,191,745	-	1,191,745
Fundraising Support	3,299,444	-	3,299,444
Total Support Services	4,491,189	-	4,491,189
Total Expenses	16,603,378	-	16,603,378
Change in Net Assets Before Write-Offs, Amortization, and Transfers	(994,351)	8,257,777	7,263,426
Write-Off of Contributions Receivable	(12,501)	(234,484)	(246,985)
Amortization of Finance Costs	(675,249)	-	(675,249)
Transfers Between Net Asset Classes	(5,893,104)	5,893,104	-
Change in Net Assets	(7,575,205)	13,916,397	6,341,192
<b>NET ASSETS</b>			
Beginning	28,534,342	139,030,193	167,564,535
Ending	\$ 20,959,137	\$ 152,946,590	\$ 173,905,727

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

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

**Blended Component Units** - Although legally separate, The University of North Carolina at Charlotte Facilities Development Corporation, Inc. (FDC) and The University of North Carolina at Charlotte Investment Fund, Inc. (UNCCIF), component units of the University, are reported as if they were part of the University.

The FDC is governed by a seven-member board consisting of one ex officio director and six elected directors. The FDC's purpose is to assist the University in financing, constructing, and equipping a student housing project on campus. The University operates and manages the project under the terms of agreement between the University and the FDC. Because the elected directors of the FDC are appointed by the members of The University of North Carolina at Charlotte Board of Trustees and because the FDC's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The UNCCIF is governed by a board consisting of three ex officio directors and four elected directors. The UNCCIF's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, the Foundation, and the Athletic Foundation (see Note 18). The UNCCIF is a governmental external investment pool. Because two of the seven directors of the UNCCIF are administrators of



the University and the elected directors are appointed by the member investors' Board of Trustees, and because the UNCCIF's primary purpose is to benefit the University, its financial statements have been blended with those of the University, with the exception of the portion belonging to The Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented (as described below).

Separate financial statements for the FDC and the UNCCIF may be obtained from the University Treasury Services Office, at [treasuryservices@uncc.edu](mailto:treasuryservices@uncc.edu) or by calling (704) 687-5432.

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 33 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2020, the Foundation distributed \$11,101,158 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$4,557,934 for the year ended June 30, 2020. Complete financial statements for the Foundation can be obtained from the University Treasury Services Office, at [treasuryservices@uncc.edu](mailto:treasuryservices@uncc.edu) or by calling (704) 687-5432.

- 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.

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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other 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 except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery and Equipment	5-22 years
General Infrastructure	10-75 years
Computer Software	10-20 years

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.
- K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term

debt includes: revenue bonds payable, special indebtedness, and notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and special indebtedness are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method that approximates the effective interest method. 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. Interest and issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because sick leave is contingent upon a future event that is beyond the control of both the employer and employee, and therefore the liability is not probable, and the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt

proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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



significant, allocating any residual balances to those departments receiving the goods and services during the year.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$362,654,818, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2020 was \$33,150. The carrying amount of the University's deposits not with the State Treasurer was \$3,305,968, and the bank balance was \$3,376,441. 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 University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	\$ <u>2,600,133</u>
-----------------------------------------------------------------------------------------------	---------------------

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the deposit. At June 30, 2020, \$26,308 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

## B. Investments

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

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

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

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

Investments of the University's component units, FDC and UNCCIF, 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.

**External Investment Pool** - The External Investment Pool sponsored by the University was established in November 2004. The Pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. University endowment funds and the Foundation, which is a discretely presented component unit in the University's reporting entity, represent the Pool's internal participants. The Athletic Foundation of the University of North Carolina at Charlotte, Inc., an affiliated organization not included in the University's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund's investment balance is determined based on its pro rate share of the fair market value of the investment pool at the beginning of each quarterly period. The external portion of the Pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the UNCCIF Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The UNCCIF is the custodian for the Pool and provides the University with monthly statements defining income and valuation, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments

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

***External Investment Pool***

Investment Type	<u>Amount</u>
Other Securities	
UNC Investment Fund	\$ 48,401,064
Global Endowment Fund II, LP	<u>43,559,258</u>
Total External Investment Pool	<u>\$ 91,960,322</u>

The UNCCIF invests with two external investment firms, a limited partnership interest, Global Endowment Fund II, LP, and the UNC Investment Fund, LLC (UNC Investment Fund), an external investment pool. Global Endowment Management, LP is registered with the SEC, but neither firm has a credit rating, nor are they subject to any regulatory oversight. Investment risks associated with Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP, which may be obtained from Global Endowment Management, LP, 550 South Tryon Street, Suite 3500, Charlotte, NC 28202. 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.

Separate financial statements for the UNCCIF may be obtained from the University Treasury Services Office at [treasuryservices@uncc.edu](mailto:treasuryservices@uncc.edu), or by calling (704) 687-5432.

**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
<b>Investment Type</b>		
Debt Securities		
Money Market Mutual Funds	\$ 1,575,338	\$ 1,575,338
Other Securities		
Investments in Real Estate	6,149,636	
Cash Surrender Value of Life Insurance	45,302	
<b>Total Non-Pooled Investment Pool</b>	<b>\$ 7,770,276</b>	

At June 30, 2020, the money market mutual funds with an amortized cost of \$1,575,338 were rated AAAM and Aaa-mf by Standard and Poor's and Moody's, respectively.

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

	Amount
<b>Investment Type</b>	
Debt Securities	
Money Market Mutual Funds	\$ 1,575,338
Other Securities	
UNC Investment Fund	48,401,064
Global Endowment Fund II, LP	43,559,258
Investments in Real Estate	6,149,636
Cash Surrender Value of Life Insurance	45,302
<b>Total Investments</b>	<b>\$ 99,730,598</b>

**Component Unit** - Investments of the University's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E Uniform Prudent Management of Institutional Funds Act (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Carrying Value
Short-Term Investments	\$ 798,370
Bonds	1,798,582
Fixed Income Mutual Funds	2,488,165
Equity Securities and Other Investments	142,670
UNCCIF External Investment Pool	129,525,639
Total Investments	\$ 134,753,426

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

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

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

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

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Investments in Real Estate	\$ 6,149,636	\$ -	\$ 6,149,636	\$ -
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	43,559,258			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	362,654,818			
UNC Investment Fund	48,401,064			
Total Investments as a Position in an External Investment Pool	411,055,882			
Total Investments Measured at Fair Value	\$ 460,764,776			

**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** - The fair value of the University's balance in the UNC Investment Fund is \$48,401,064. An additional \$65,063,789 is held by the discretely presented Foundation for a total of \$113,464,853 invested by the UNCCIF. 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.

**Investments in Real Estate** - The fair value of the University's investments in real estate is \$6,149,636. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

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
Global Endowment Fund II, LP	\$ 43,559,258	N/A	Semi-Annually	Written notice given by March 1 & September 1 preceding June 30 & December 31, the respective redemption dates.

**Global Endowment Fund II, LP** - The net asset value (NAV) of the University's balance in the private equity limited partnership, Global Endowment Fund II, LP, is \$43,559,258. An additional \$58,555,126 is held by the discretely presented Foundation for a total of \$102,114,384 invested by the UNCCCIF. The private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals and other sophisticated investors. The Partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company's Valuation Committee is responsible for valuing the Fund's assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounting standards. The funds are valued based on the investments' NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends FASB ASC 820 *Fair Value Measurement*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short-term.

**Component Unit** - The Foundation's investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Short-term investments: Short-term investments are traded in active markets and are classified within Level 1 of the hierarchy.

Bonds, mutual funds, equity securities and other investments (including assets held under split-interest agreements): Bonds, mutual funds, equity securities and other investments are traded in active markets and are classified within Level 1 of the hierarchy.

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2020:

	Assets At Fair Value As of June 30,2020	
	Level 1	Total
Short-Term Investments	\$ 798,370	\$ 798,370
Bonds	1,798,582	1,798,582
Fixed Income Mutual Funds	2,488,165	2,488,165
Equity Securities and Other	142,670	142,670
	<u>\$ 5,227,787</u>	5,227,787
Pooled Investments (a)		129,525,639
		<u>\$ 134,753,426</u>

(a) In accordance with FASB ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following table presents the valuation of the Foundation’s investments, which are reported at Net Asset Value (NAV) or its equivalent, and unfunded commitments at June 30, 2020:

Investment	Net Asset Value 2020	Redemption Frequency	Redemption Notice	Unfunded Commitments
UNCCIF External Investment Pool	<u>\$ 129,525,639</u>	Semi Annually	120 Days	None

The UNCCIF seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to Fund participants.

The UNCCIF investment in the limited partnership is subject to the terms and conditions of the limited partnership agreement. The agreement allows semi-annual redemptions on June 30 and December 31, with notice given by March 1 and September 1, respectively, preceding the redemption date. All redemptions are subject to the general partner’s approval and can be limited or suspended. The sale of the limited partnership interest to a third party is not permitted.

The UNCCIF investment in another external investment pool is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets is divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership. Redemptions of up to \$10 million may be made monthly with at least 30 days' notice, and redemption requests greater than \$10 million may be made quarterly with at least 90 days' notice.

### **NOTE 4 - ENDOWMENT INVESTMENTS**

Investments of the University's endowment funds are real property held for investment of \$6,149,636 and pooled funds (cash and investments) invested with UNCCIF of \$96,354,344 (includes \$15,220,471 of Athletic Foundation restricted funds). Non-real property 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 80% of the prior year's spending adjusted for inflation, plus 20% of 4.5% of the average of the prior three years' market values as of December 31 each year. 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, accumulated income and net appreciation of \$34,928,605 was available to be spent, of which \$23,117,377 was classified as restricted expendable net position, as it is restricted for specific purposes. The remaining \$11,811,228 was classified as unrestricted net position.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2020, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 7,621,498	\$ 1,931,145	\$ 5,690,353
Accounts	1,861,677	-	1,861,677
Intergovernmental	8,328,088	-	8,328,088
Investment Earnings	9	-	9
Interest on Loans	75,761	-	75,761
Federal Interest Subsidy on Debt	229,813	-	229,813
Other	39,551	-	39,551
<b>Total Current Receivables</b>	<b>\$ 18,156,397</b>	<b>\$ 1,931,145</b>	<b>\$ 16,225,252</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 501,220	\$ 79,872	\$ 421,348
Institutional Student Loan Programs	70,808	32,264	38,544
<b>Total Notes Receivable - Current</b>	<b>\$ 572,028</b>	<b>\$ 112,136</b>	<b>\$ 459,892</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 2,415,202	\$ 384,877	\$ 2,030,325
Institutional Student Loan Programs	708,358	344,963	363,395
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 3,123,560</b>	<b>\$ 729,840</b>	<b>\$ 2,393,720</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 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 (as Restated)	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 12,884,085	\$ -	\$ -	\$ 12,884,085
Art, Literature, and Artifacts	36,014,978	551,721	-	36,566,699
Construction in Progress	89,978,531	63,985,177	78,252,888	75,710,820
<b>Total Capital Assets, Nondepreciable</b>	<b>138,877,594</b>	<b>64,536,898</b>	<b>78,252,888</b>	<b>125,161,604</b>
Capital Assets, Depreciable:				
Buildings	1,228,079,578	74,748,233	4,125,064	1,298,702,747
Machinery and Equipment	124,423,623	11,008,657	2,371,187	133,061,093
General Infrastructure	266,923,169	3,708,204	-	270,631,373
Computer Software	13,643,949	-	-	13,643,949
<b>Total Capital Assets, Depreciable</b>	<b>1,633,070,319</b>	<b>89,465,094</b>	<b>6,496,251</b>	<b>1,716,039,162</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	222,444,439	21,782,642	1,824,515	242,402,566
Machinery and Equipment	63,689,836	6,528,650	1,901,911	68,316,575
General Infrastructure	53,246,228	5,327,144	-	58,573,372
Computer Software	3,546,593	752,192	-	4,298,785
<b>Total Accumulated Depreciation/Amortization</b>	<b>342,927,096</b>	<b>34,390,628</b>	<b>3,726,426</b>	<b>373,591,298</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>1,290,143,223</b>	<b>55,074,466</b>	<b>2,769,825</b>	<b>1,342,447,864</b>
<b>Capital Assets, Net</b>	<b>\$ 1,429,020,817</b>	<b>\$ 119,611,364</b>	<b>\$ 81,022,713</b>	<b>\$ 1,467,609,468</b>

The July 1, 2019 balance of depreciable capital assets and corresponding accumulated depreciation were restated to reflect reclassifications among categories made after the end of the prior fiscal year. These reclassifications have no impact on total net capital assets.

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,880,964
Accounts Payable - Capital Assets	8,462,040
Accrued Payroll	632,028
Contract Retainage	2,771,295
Other	105,374
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 14,851,701</b>

**NOTE 8 - LONG-TERM LIABILITIES**

**University**

**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	\$ 528,600,000	\$ 94,700,000	\$ 87,845,000	\$ 535,455,000	\$ 18,600,000
Special Indebtedness	11,580,000	-	550,000	11,030,000	565,000
Plus: Unamortized Premium	36,565,904	13,616,441	2,630,940	47,551,405	-
Less: Unamortized Discount	382,671	-	99,292	283,379	-
Total Revenue Bonds Payable and Special Indebtedness, Net	576,363,233	108,316,441	90,926,648	593,753,026	19,165,000
Notes from Direct Borrowings	7,407,573	-	938,176	6,469,397	964,174
Total Long-Term Debt	583,770,806	108,316,441	91,864,824	600,222,423	20,129,174
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	20,528,282	17,315,852	15,752,119	22,092,015	3,377,869
Net Pension Liability	71,167,120	5,146,124	-	76,313,244	-
Net Other Postemployment Benefits Liability	416,554,876	70,784,951	-	487,339,827	-
Workers' Compensation	1,123,050	4,048,150	806,213	4,364,987	634,091
Total Other Long-Term Liabilities	509,373,328	97,295,077	16,558,332	590,110,073	4,011,960
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 1,093,144,134</b>	<b>\$ 205,611,518</b>	<b>\$ 108,423,156</b>	<b>\$ 1,190,332,496</b>	<b>\$ 24,141,134</b>

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

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

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

**B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (Limited Obligation Bonds) 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
<b>Revenue Bonds Payable</b>					
<b>General Revenue Bonds Payable</b>					
Football Stadium BABs	2010	5.03% -6.52% *	04/01/2040	\$ 40,895,000	\$ 32,015,000
Portal Building	2012-A	4.00%	04/01/2022	2,615,000	140,000
South Village Dining	2012-A	4.00%	04/01/2022	3,470,000	185,000
Regional Utility Plant - Taxable	2012-A	4.00%	04/01/2022	4,140,000	90,000
Refi-Sprinkler Loan	2012-A	4.00%	04/01/2022	3,645,000	855,000
Parking Deck J - South Village Deck	2012-A	4.00%	04/01/2022	14,685,000	400,000
Residence Hall Phase 10	2012-A	4.00% -5.00%	04/01/2022	30,290,000	1,620,000
Residence Hall Phase 11	2012-A	4.00% -5.00%	04/01/2022	28,890,000	1,545,000
2012 Sprinkler Project	2012-A	4.00% -5.00%	04/01/2022	3,260,000	170,000
Portal Building-Taxable	2012-B	2.75% -2.90%	04/01/2022	25,575,000	1,370,000
South Village Dining-Taxable	2012-B	2.75% -2.90%	04/01/2022	8,655,000	465,000
Regional Utility Plant-Taxable	2012-B	2.75% -2.90%	04/01/2022	2,710,000	265,000
Residence Hall Phase 12	2013-A	3.00% -5.00%	04/01/2043	39,560,000	34,490,000
Refinancing 2003-A Pooled Bonds	2013-A	4.70% -5.25%	04/01/2028	8,640,000	2,130,000
Campus Infrastructure	2013-B	2.14% -4.12%	04/01/2043	35,240,000	29,400,000
Refinancing 2004-A Parking Bonds	2013-B	4.00%	04/01/2021	2,545,000	335,000
Residence Hall Phase 13	2014	3.00% -5.00%	04/01/2044	34,220,000	31,005,000
Oak Hall Renovations	2014	3.00% -5.00%	04/01/2044	8,765,000	7,940,000
Holshouser Hall Renovations	2014	3.00% -5.00%	04/01/2044	15,760,000	14,275,000
Residence Hall Phase 14	2015	3.00% -5.00%	04/01/2045	39,045,000	36,760,000
Campus Infrastructure Phase 2	2015	3.00% -5.00%	04/01/2045	32,075,000	29,175,000
Refi-2006 Parking Bonds	2015	3.00% -5.00%	04/01/2036	7,970,000	7,100,000
Refi-2007-B Student Union Bonds	2015	3.00% -5.00%	04/01/2037	37,060,000	36,770,000
2017 Refi Multiple Projects (Tax-Exempt)	2017-A	4.00% -5.00%	10/01/2040	77,865,000	77,210,000
2017 Refi Multiple Projects (Taxable)	2017-B	2.40% -3.63%	10/01/2040	26,140,000	21,105,000
Health & Wellness Center	2017	4.00% -5.00%	10/01/2047	43,990,000	42,625,000
Scott Hall Renovation	2017	4.00% -5.00%	10/01/2047	15,585,000	15,335,000
Elm, Maple, Pine Renovation	2017	4.00% -5.00%	10/01/2047	16,805,000	16,280,000
Phase 16 & 2020 Refi Multiple Projects (Tax-Exempt)	2020-A	3.00% -5.00%	10/01/2049	71,425,000	71,425,000
2020 Refi Multiple Projects (Taxable)	2020-B	1.80% -3.40%	04/01/2041	23,275,000	22,975,000
<b>Total General Revenue Bonds</b>				<b>704,795,000</b>	<b>535,455,000</b>
<b>Special Indebtedness</b>					
Refi-Greek Villa COPs via LOBs	2015	2.80% -4.37%	03/01/2035	13,730,000	11,030,000
<b>Total Revenue Bonds Payable and Special Indebtedness (principal only)</b>				<b>\$ 718,525,000</b>	<b>546,485,000</b>
Plus: Unamortized Premium					47,551,405
Less: Unamortized Discount					283,379
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>					<b>\$ 593,753,026</b>

\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

**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
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	02/14/2023	\$ 2,685,726	\$ 1,144,052
UNC Charlotte Energy Savings Project	PNC Equipment Finance, LLC	4.41%	01/23/2029	8,443,099	5,325,345
<b>Total Notes from Direct Borrowings</b>				<b>\$ 11,128,825</b>	<b>\$ 6,469,397</b>

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 18,600,000	\$ 23,325,034	\$ 565,000	\$ 441,930	\$ 964,174	\$ 243,895
2022	17,490,000	22,601,752	580,000	426,099	998,817	211,328
2023	18,105,000	21,820,942	600,000	408,397	916,403	177,662
2024	18,940,000	21,078,100	615,000	388,628	601,916	148,389
2025	18,840,000	20,231,227	640,000	367,441	611,281	121,691
2026-2030	97,370,000	88,796,733	3,595,000	1,434,729	2,376,806	211,459
2031-2035	118,290,000	65,255,329	4,435,000	598,664	-	-
2036-2040	128,935,000	38,023,104	-	-	-	-
2041-2045	77,270,000	13,765,560	-	-	-	-
2046-2050	21,615,000	1,874,025	-	-	-	-
<b>Total Requirements</b>	<b>\$ 535,455,000</b>	<b>\$ 316,771,806</b>	<b>\$ 11,030,000</b>	<b>\$ 4,065,888</b>	<b>\$ 6,469,397</b>	<b>\$ 1,114,424</b>

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

**Revenue Bonds Payable** - The indenture agreements for the University's outstanding revenue bonds of \$535,455,000 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, (2) fails to pay the purchase price of any bonds when due and payable, or (3) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the Board of Governors by the trustee of the bonds.

Upon the occurrence of any event of default, the trustee may, or if required by a majority of the owners of the bonds, must either declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately, or enforce all rights of the owners, and require the Board of

Governors to carry out agreements with or for the benefit of the owners and to perform its duties under the general indenture. The trustee may also take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the Board of Governors.

**Special Indebtedness** - The University has pledged the Greek Village student housing complex, which contains 350 beds, 14 buildings, and related parking facilities, as collateral for its outstanding special indebtedness from limited obligation bonds of \$11,030,000. The indenture of trust, the lease, the use agreement, and the deed of trust for the University's limited obligation bonds contain provisions related to events of default and remedies. Significant to the indenture's provisions, an event of default occurs when: (1) the University fails to pay the principal, interest, or premium on any bond when due and payable, (2) the University or the UNC Charlotte Facilities Development Corporation, Inc. (FDC), a blended component unit of the University, fails to observe and perform any covenant, condition, agreement, or provision within thirty days of receiving written notice by the trustee, or (3) a default, as defined in the lease, the use agreement, or the deed of trust, occurs and continues.

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

Per the use agreement, if net project revenues from Greek Village and the University's other housing and dining revenues are not sufficient to cover base rental payments, an event of default will occur under the indenture. Additionally, a rate covenant exists under the terms of the use agreement, wherein the University must periodically revise fees, rents and charges so that Greek Village revenues and housing and dining revenues are sufficient in each fiscal year to equal an amount necessary to maintain a debt service coverage ratio of at least 1.0. Failure by the University to maintain the ratio for two consecutive years will be considered an event of default.

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

In addition to the above, per the deed of trust, in the event of a default, the trustee may also: (1) manage and operate the mortgaged property and carry on business and receive all earnings from the mortgaged property

after deducting expenses, (2) foreclose the deed of trust, or (3) take such steps to protect and enforce its rights whether by action, suit, or proceedings in equity or at law for the specific performance of any covenant, condition, or agreement in the indenture or the deed of trust.

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

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

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the Energy Services Agreement dated May 23, 2013. 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 perform or meet any of its duties or obligations and cure such failure within thirty business days after written notice is delivered by the energy savings company (ESCO) or financing assignee, (2) the University fails to pay when due any amount to be paid under the agreement, or (3) any statement, representation, or warranty is made by the University in writing and in connection with this agreement that is knowingly false, misleading, or erroneous in any material respect as of the time when made.

Upon the occurrence of any event of default, the ESCO may, without waiver of other remedies that exist at law or in equity, 1) exercise all remedies available at law or in equity, or other appropriate proceedings, including bringing an action or actions from time to time for recovery of amounts due and unpaid by the University, and/or for damages which shall include all costs and expenses reasonably incurred, including reasonable attorney fees, and/or 2) terminate the agreement.

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

On January 28, 2020, the University issued \$71,425,000 in The University of North Carolina at Charlotte Tax-Exempt General Revenue Bonds, Series 2020A with an average interest rate of 4.32%. A portion of the bonds were issued for a current refunding of \$47,800,000 of outstanding revenue bonds (The University of North Carolina at Charlotte Series 2005A Pool Revenue Bonds, \$1,815,000; Series 2009B Pool Revenue Bonds, \$900,000; Series 2009B General Revenue Build America Bonds, \$45,085,000), with an average interest rate of 6.19%. The refunding portion of the 2020A bonds were issued for construction of Phase XVI of the University's housing plan. The refunding was undertaken to reduce total debt service payments by \$9,047,581 over the next 19 years and resulted in an economic gain of \$7,469,727.

On January 28, 2020, the University also issued \$23,275,000 in The University of North Carolina at Charlotte Taxable General Revenue Refunding Bonds, Series 2020B with an average interest rate of 2.96%. The bonds were issued to advance refund \$21,635,000 of Taxable General Revenue Bonds, Series 2012B with an average interest rate of 4.30%. The net proceeds of the advance refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. This advance refunding was undertaken to reduce total debt service payments by \$2,009,275 over the next 21 years and resulted in an economic gain of \$1,506,499. At June 30, 2020, the outstanding balance was \$21,635,000 for the defeased University of North Carolina at Charlotte Taxable General Revenue Bonds, Series 2012B.

**Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2020, the outstanding balance of prior year defeased bonds was \$78,880,000.

For certain prior year defeasances, the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. At June 30, 2020, the outstanding balance of prior year defeased bonds for which substitution is not prohibited was \$78,880,000.

### **Component Unit**

The Foundation has entered into a line of credit agreement allowing it to borrow up to \$5,000,000. The line of credit carries a variable rate of interest equal to

the one-month London Interbank Offered Rate (LIBOR) plus 1.10% (1.26% as of June 30, 2020). There were no borrowings outstanding on the line of credit as of June 30, 2020. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$400,000 with the lender. The line of credit expires September 5, 2021.

In May 2019, the Foundation entered into a loan agreement for a \$55,000,000 draw-down facility to provide interim financing for the construction of a 226-room hotel and conference center project on the University campus. The loan facility carries a variable rate of interest equal to the one-month LIBOR plus 1.25% (1.41% as of June 30, 2020). The maturity date of the loan facility is December 1, 2021. Borrowings on the loan were \$25,380,441 as of June 30, 2020.

Interest incurred on the construction loan, all of which is capitalized to the cost of construction, totaled \$249,980 for the year ended June 30, 2020.

**NOTE 9 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for classroom and warehouse space, parking spaces, athletic and heavy equipment, copiers, fiber optic cable, and vehicles. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 783,817
2022	677,595
2023	524,644
2024	514,519
2025	332,797
2026-2030	<u>12,308</u>
Total Minimum Lease Payments	<u>\$ 2,845,680</u>

Rental expense for all operating leases during the year was \$1,429,021.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 10 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (41,297,544)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(585,199,019)</u>
Effect on Unrestricted Net Position	(626,496,563)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>295,314,877</u>
Total Unrestricted Net Position	<u>\$ (331,181,686)</u>

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

### NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts and Allowances</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 273,203,449	\$ 57,717,755	\$ 1,666,943	\$ 213,818,751
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 41,640,965	\$ 9,416,347	\$ 168,686	\$ 32,055,932
Dining	22,594,764	4,400,624	101,962	18,092,178
Student Union Services	2,761,128	-	-	2,761,128
Health Services	2,058,229	-	-	2,058,229
Parking	9,052,717	-	6,182	9,046,535
Athletics	7,415,230	-	-	7,415,230
Facilities	828,648	-	-	828,648
Other	2,837,550	-	-	2,837,550
Sales and Services of Education and Related Activities	<u>955,189</u>	<u>-</u>	<u>-</u>	<u>955,189</u>
Total Sales and Services, Net	<u>\$ 90,144,420</u>	<u>\$ 13,816,971</u>	<u>\$ 276,830</u>	<u>\$ 76,050,619</u>

**NOTE 12 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 218,656,943	\$ 27,079,389	\$ -	\$ 949	\$ -	\$ 245,737,281
Research	16,943,434	7,057,551	-	-	-	24,000,985
Public Service	1,759,241	509,302	-	-	-	2,268,543
Academic Support	37,504,677	16,032,921	-	97,967	-	53,635,565
Student Services	22,452,872	5,356,357	-	-	-	27,809,229
Institutional Support	41,149,896	12,850,946	-	12,771	-	54,013,613
Operations and Maintenance of Plant	31,417,810	16,843,838	-	7,977,889	-	56,239,537
Student Financial Aid	-	-	57,759,339	-	-	57,759,339
Auxiliary Enterprises	44,511,669	60,484,164	-	3,637,254	-	108,633,087
Depreciation/Amortization	-	-	-	-	34,390,628	34,390,628
<b>Total Operating Expenses</b>	<b>\$ 414,396,542</b>	<b>\$ 146,214,468</b>	<b>\$ 57,759,339</b>	<b>\$ 11,726,830</b>	<b>\$ 34,390,628</b>	<b>\$ 664,487,807</b>

Included in the scholarship and fellowship function are emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$8,404,787 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 \$7,386,167, and the University's contributions were \$15,966,431 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 \$76,313,244 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 0.73612%, which was an increase of 0.02131 from its proportion measured as of June 30, 2018, which was 0.71481%.

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

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

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

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

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

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

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

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

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

position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 145,245,332	\$ 76,313,244	\$ 18,488,007

*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 \$29,228,989. 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	\$ 6,383,515	\$ 152,774
Changes of Assumptions	8,131,476	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,462,818	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,224,234	-
Contributions Subsequent to the Measurement Date	15,966,431	-
<b>Total</b>	<b>\$ 35,168,474</b>	<b>\$ 152,774</b>

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2021	\$ 12,950,687
2022	3,676,094
2023	1,910,759
2024	511,729
Total	<u>\$ 19,049,269</u>

**B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

Participants in ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in ORP. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2020, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$323,668,815, of which \$150,775,319 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$9,046,519 and \$10,313,032, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Of the total salaries and benefits expense recognized during the fiscal year, \$877,002 was covered with forfeitures.



**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 \$17,719,913 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 \$273,878 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 \$487,339,827 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University’s proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University’s proportion was 1.54029%, which was an increase of 0.07809 from its proportion measured as of June 30, 2018, which was 1.46220%.

*Net OPEB Asset:* At June 30, 2020, the University reported an asset of \$685,874 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The University’s proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the University’s proportion was 1.58951%, which was an increase of 0.06915 from its proportion measured as of June 30, 2018, which was 1.52036%.

*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	\$ 579,136,179	\$ 487,339,827	\$ 413,838,432
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (580,918)	\$ (685,874)	\$ (787,857)

*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	\$ 401,287,672	\$ 487,339,827	\$ 600,485,461
	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	\$ (687,082)	\$ (685,874)	\$ (684,745)

*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 \$2,462,657 for RHBF and expense of \$624,527 for DIPNC, resulting in a total OPEB contra-expense of \$1,838,130. 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:

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ -	\$ 700,672	\$ 700,672
Changes of Assumptions	23,423,847	75,979	23,499,826
Net Difference Between Projected and Actual Earnings on Plan Investments	324,530	130,642	455,172
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	53,576,681	-	53,576,681
Contributions Subsequent to the Measurement Date	17,719,913	273,878	17,993,791
<b>Total</b>	<b>\$ 95,044,971</b>	<b>\$ 1,181,171</b>	<b>\$ 96,226,142</b>

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 24,568,066	\$ -	\$ 24,568,066
Changes of Assumptions	146,515,711	70,368	146,586,079
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	21,820,386	110,650	21,931,036
<b>Total</b>	<b>\$ 192,904,163</b>	<b>\$ 181,018</b>	<b>\$ 193,085,181</b>

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 RHBFB 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:	RHBFB	DIPNC
2021	\$ (41,949,373)	\$ 251,977
2022	(41,949,373)	185,448
2023	(41,902,452)	132,279
2024	381,462	78,204
2025	9,840,631	112,646
Thereafter	-	(34,279)
<b>Total</b>	<b>\$ (115,579,105)</b>	<b>\$ 726,275</b>



**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 has purchased extended, broad, or all risk coverage for designated buildings and contents within buildings. Coverage can include the perils of windstorm, hail, explosion, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, theft, and any loss not specifically excluded.

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 mitigated additional risks with the following insurance programs as of June 30, 2020:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

The University is protected for losses from the risk of a cyber breach for first party cyber claims and Payment Card Industry (PCI) fines with a \$3,000,000 annual policy aggregate limit and a \$250,000 deductible per claim. Sublimits apply as described in the current policy. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

**University**

- 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 \$35,903,030 and on a contract for maintenance of technology assets was \$1,294,842 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.

**Component Unit**

The Foundation has committed to constructing a 226-room hotel and conference center (hotel project) located on the campus of the University. The hotel project is estimated to be completed in the spring of 2021 for a total cost of \$84,000,000 of which \$43,661,125 has been incurred through June 30, 2020. The Foundation is financing the construction of the hotel project through bank financing, excess net assets without donor restrictions, contributions from the City of Charlotte and other private contributions and planned giving agreements. The City of Charlotte has advanced \$4,000,000 to the Foundation for the purchase of an interest in the hotel conference center, which is reported under liabilities in the consolidated statement of financial position.

**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 Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments and the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

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

**Nonoperating Revenue:**

**State Aid - Coronavirus Relief Fund** - This caption includes funds received from the CARES Act - CRF that were appropriated by the State of North Carolina in House Bill 1043 to the UNC Board of Governors (UNC-BOG) and allocated to the universities to cover COVID-19 expenses. These funds are reported separately from Federal Aid - COVID-19 revenues due to the reporting requirements of the State of North Carolina. The CRF funds must be expended by December 30, 2020.

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

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

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

Program	Total Authorized Award	Earned Revenue
<b>State Aid - Coronavirus Relief Fund:</b>		
CRF - UNC-BOG Allocations	\$ 4,630,000	<u>\$ 223,550</u>
<b>Federal Aid - COVID-19:</b>		
HEERF - Student Allocation	\$ 12,155,279	\$ 8,404,787
HEERF - Institutional Allocation (1)	12,155,278	4,000,000
HEERF - Additional Award	1,189,820	<u>-</u>
<b>Total Federal Aid - COVID-19</b>	N/A	<u>\$ 12,404,787</u>

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

**NOTE 18 - RELATED PARTY**

The Athletic Foundation of the University of North Carolina at Charlotte, Inc. (Athletic Foundation) is a separately incorporated nonprofit foundation associated with the University.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support University programs by providing scholarships, salary supplements, and unrestricted funds. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the Athletic Foundation, except for assets invested in the External Investment Pool held in a fiduciary capacity and support from the organization to the University. This support approximated \$1,334,959 for the year ended June 30, 2020.

The University contributed services valued at \$843,659 for Athletic Foundation financial and administrative support for the year ended June 30, 2020.

**NOTE 19 - BLENDED COMPONENT UNITS**

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

*Condensed Statement of Net Position  
June 30, 2020*

	University	FDC	UNCCIF*	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 368,881,991	\$ 323,155	\$ 10,433,755	\$ (10,424,793)	\$ 369,214,108
Capital Assets, Net	1,452,555,604	15,053,864	-	-	1,467,609,468
Other Noncurrent Assets	115,630,742	-	215,579,237	(200,358,765)	130,851,214
Total Assets	<u>1,937,068,337</u>	<u>15,377,019</u>	<u>226,012,992</u>	<u>(210,783,558)</u>	<u>1,967,674,790</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>134,646,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,646,974</u>
<b>LIABILITIES</b>					
Current Liabilities	55,370,725	713,750	133,010	(124,047)	56,093,438
Funds Held in Trust	-	-	225,879,982	(210,659,511)	15,220,471
Long-Term Liabilities, Net	1,155,726,362	10,465,000	-	-	1,166,191,362
Other Noncurrent Liabilities	2,723,734	-	-	-	2,723,734
Total Liabilities	<u>1,213,820,821</u>	<u>11,178,750</u>	<u>226,012,992</u>	<u>(210,783,558)</u>	<u>1,240,229,005</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>193,265,517</u>	<u>23,653</u>	<u>-</u>	<u>-</u>	<u>193,289,170</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	904,738,115	4,000,211	-	-	908,738,326
Restricted - Nonexpendable	47,383,919	-	-	-	47,383,919
Restricted - Expendable	43,863,030	-	-	-	43,863,030
Unrestricted	(331,356,091)	174,405	-	-	(331,181,686)
Total Net Position	<u>\$ 664,628,973</u>	<u>\$ 4,174,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,803,589</u>

\*UNCCIF amounts include the portion that is attributable to The Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-1 of the financial statements. This discretely presented portion is also removed from the financial statements via eliminations.

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

	University	FDC	UNCCIF*	Eliminations	Total
<b>OPERATING REVENUES</b>					
Student Tuition and Fees, Net	\$ 213,818,751	\$ -	\$ -	\$ -	\$ 213,818,751
Grants & Contracts	46,682,496	-	-	-	46,682,496
Sales and Services, Net	75,045,716	1,004,903	-	-	76,050,619
Other Operating Revenues	3,953,633	-	-	-	3,953,633
Total Operating Revenues	<u>339,500,596</u>	<u>1,004,903</u>	<u>-</u>	<u>-</u>	<u>340,505,499</u>
<b>OPERATING EXPENSES</b>					
Operating Expenses	629,985,972	111,207	-	-	630,097,179
Depreciation/Amortization	34,149,766	240,862	-	-	34,390,628
Total Operating Expenses	<u>664,135,738</u>	<u>352,069</u>	<u>-</u>	<u>-</u>	<u>664,487,807</u>
Operating Income (Loss)	<u>(324,635,142)</u>	<u>652,834</u>	<u>-</u>	<u>-</u>	<u>(323,982,308)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	261,533,302	-	-	-	261,533,302
Contributions and Aid	101,444,202	-	-	-	101,444,202
Investment Income (Net of Investment Expenses)	6,112,212	6,213	3,268,001	(3,268,001)	6,118,425
Interest and Fees on Debt	(23,419,334)	(449,581)	-	-	(23,868,915)
Allocation to Owners	-	-	(3,268,001)	3,268,001	-
Other	(3,068,632)	-	-	-	(3,068,632)
Net Nonoperating Revenues (Expenses)	<u>342,601,750</u>	<u>(443,368)</u>	<u>-</u>	<u>-</u>	<u>342,158,382</u>
Capital Contributions	39,370,847	-	-	-	39,370,847
Additions to Endowments	490,480	-	-	-	490,480
Total Other Revenues	<u>39,861,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,861,327</u>
Increase in Net Position	57,827,935	209,466	-	-	58,037,401
<b>NET POSITION</b>					
Net Position, July 1, 2019	<u>606,801,038</u>	<u>3,965,150</u>	<u>-</u>	<u>-</u>	<u>610,766,188</u>
Net Position, June 30, 2020	<u>\$ 664,628,973</u>	<u>\$ 4,174,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,803,589</u>

\*UNCCIF amounts include the portion that is attributable to The Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit B-2 of the financial statements. This discretely presented portion is also removed from the financial statements totals via eliminations.

*Condensed Statement of Cash Flows  
June 30, 2020*

	University	FDC	Total
Net Cash Provided (Used) by Operating Activities	\$ (290,620,880)	\$ 887,902	\$ (289,732,978)
Net Cash Provided by Noncapital Financing Activities	356,360,068	-	356,360,068
Net Cash Used by Capital and Related Financing Activities	(46,981,422)	(1,005,812)	(47,987,234)
Net Cash Provided by Investing Activities	5,469,851	6,657	5,476,508
Net Increase (Decrease) in Cash and Cash Equivalents	24,227,617	(111,253)	24,116,364
Cash and Cash Equivalents, July 1, 2019	<u>341,535,573</u>	<u>341,999</u>	<u>341,877,572</u>
Cash and Cash Equivalents, June 30, 2020	<u>\$ 365,763,190</u>	<u>\$ 230,746</u>	<u>\$ 365,993,936</u>

**NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

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

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

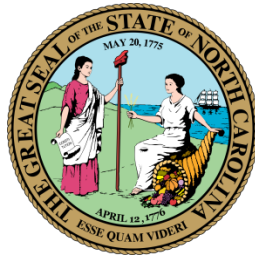
GASB Statement No. 89 establishes accounting requirements for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared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

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

**NOTE 21 - SUBSEQUENT EVENT**

On September 4, 2020, North Carolina House Bill 1105 was signed into law and appropriated \$9.0 million to UNC Charlotte's Bioinformatics Research Center for pandemic research and the development of a novel COVID-19 testing program. Upon receipt, this appropriation will be reflected as nonoperating revenues in the fiscal year 2021 financial statements.





# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit C-1**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net Pension Liability	0.73612%	0.71481%	0.70204%	0.66102%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 76,313,244	\$ 71,167,120	\$ 55,702,950	\$ 60,754,566
Covered Payroll	\$ 120,175,366	\$ 114,333,290	\$ 109,431,980	\$ 101,985,427
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	63.50%	62.25%	50.90%	59.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Proportionate Share Percentage of Collective Net Pension Liability	0.67044%	0.67809%	0.66110%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 24,707,041	\$ 7,950,070	\$ 40,135,507	
Covered Payroll	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.21%	8.22%	42.14%	
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 Charlotte  
Required Supplementary Information  
Schedule of University Contributions  
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan  
Last Ten Fiscal Years**

**Exhibit C-2**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 15,966,431	\$ 14,769,553	\$ 12,325,129	\$ 10,921,312	\$ 9,331,667
Contributions in Relation to the Contractually Determined Contribution	15,966,431	14,769,553	12,325,129	10,921,312	9,331,667
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 123,102,780	\$ 120,175,366	\$ 114,333,290	\$ 109,431,980	\$ 101,985,427
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 8,967,204	\$ 8,403,626	\$ 7,933,535	\$ 6,735,742	\$ 4,461,891
Contributions in Relation to the Contractually Determined Contribution	8,967,204	8,403,626	7,933,535	6,735,742	4,461,891
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521	\$ 90,534,160	\$ 90,504,892
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 Charlotte  
Notes to Required Supplementary Information  
Schedule of University Contributions  
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan  
For the Fiscal Year Ended June 30, 2020**

---

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
Teachers' and State Employees' Retirement System	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	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 Charlotte  
Required Supplementary Information  
Schedule of the Proportionate Share of the Net OPEB Liability or Asset  
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans  
Last Four Fiscal Years\***

**Exhibit C-3**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net OPEB Liability	1.54029%	1.46220%	1.37590%	1.47880%
Proportionate Share of Collective Net OPEB Liability	\$ 487,339,827	\$ 416,554,876	\$ 451,110,687	\$ 643,328,264
Covered Payroll	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	182.29%	163.13%	185.03%	284.55%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>				
Proportionate Share Percentage of Collective Net OPEB Asset	1.58951%	1.52036%	1.50392%	1.35886%
Proportionate Share of Collective Net OPEB Asset	\$ 685,874	\$ 461,825	\$ 919,196	\$ 843,852
Covered Payroll	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.26%	0.18%	0.38%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	116.23%	116.06%

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

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

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

**Exhibit C-4**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 17,719,913	\$ 16,762,117	\$ 15,449,061	\$ 14,168,417	\$ 12,660,636
Contributions in Relation to the Contractually Determined Contribution	17,719,913	16,762,117	15,449,061	14,168,417	12,660,636
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 273,878,099	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 11,738,557	\$ 10,996,246	\$ 10,338,012	\$ 9,213,710	\$ 8,854,753
Contributions in Relation to the Contractually Determined Contribution	11,738,557	10,996,246	10,338,012	9,213,710	8,854,753
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 213,817,074	\$ 203,634,194	\$ 195,056,825	\$ 184,274,209	\$ 180,709,249
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Disability Income Plan of North Carolina</b>					
Contractually Required Contribution	\$ 273,878	\$ 374,274	\$ 357,499	\$ 926,434	\$ 926,939
Contributions in Relation to the Contractually Determined Contribution	273,878	374,274	357,499	926,434	926,939
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 273,878,099	\$ 267,338,387	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 876,650	\$ 895,990	\$ 858,250	\$ 958,226	\$ 939,688
Contributions in Relation to the Contractually Determined Contribution	876,650	895,990	858,250	958,226	939,688
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 213,817,074	\$ 203,634,194	\$ 195,056,825	\$ 184,274,209	\$ 180,709,249
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 Charlotte  
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.

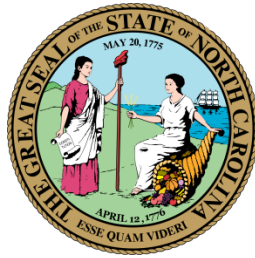
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

*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**



**Beth A. Wood, CPA**  
State Auditor

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

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

---

Board of Trustees  
The University of North Carolina at Charlotte  
Charlotte, 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 Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 18, 2020. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., The University of North Carolina at Charlotte Facilities Development Corporation, Inc., and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with those entities.

Internal Control Over Financial Reporting

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

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


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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 18, 2020

# ORDERING INFORMATION

---

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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

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

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



[https://play.google.com/store/apps/details?id=net.ncstateauditor.ncauditor&hl=en\\_US](https://play.google.com/store/apps/details?id=net.ncstateauditor.ncauditor&hl=en_US)



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

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



---

This audit required 706 hours at an approximate cost of \$73,424.