

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2021

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



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



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

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## AUDITOR'S TRANSMITTAL

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

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

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

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

Handwritten signature of Beth A. Wood in cursive script.

Beth A. Wood, CPA  
State Auditor



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

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



# **INDEPENDENT AUDITOR'S REPORT**

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



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

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## **INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
The University of North Carolina at Chapel Hill  
Chapel Hill, North Carolina

### **Report on the Audit of the Financial Statements**

#### *Opinions*

We have audited the financial statements of the business-type activities and fiduciary activities of The University of North Carolina at Chapel Hill (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 units, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

We did not audit the financial statements of the following:

- The University of North Carolina at Chapel Hill Foundation, Inc., which represent 9 percent and 4 percent, respectively, of the assets and revenues of the business-type activities.
- The Kenan-Flagler Business School Foundation, which represent 3 percent and 2 percent, respectively, of the assets and revenues of the business-type activities.
- The UNC Investment Fund, LLC, which represent 30 percent and 15 percent, respectively, of the assets and revenues of the business-type activities, and 70 percent and 64 percent, respectively, of the assets and revenues of the fiduciary activities.
- The UNC Intermediate Pool, LLC, which represent 13 percent and 21 percent, respectively, of the assets and revenues of the fiduciary activities.

- The financial statements of the UNC Health Foundation, Inc., The Educational Foundation Scholarship Endowment Trust, or The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., the University's discretely presented component units.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The University of North Carolina at Chapel Hill and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Emphasis of Matter*

As discussed in Note 24 to the financial statements, during the year ended June 30, 2021, The University of North Carolina at Chapel Hill adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinions are not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the

override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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**

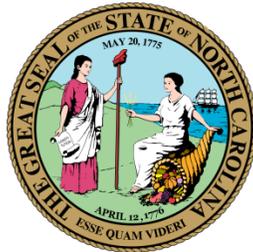
In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 29, 2021



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Introduction

Management's Discussion and Analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the University) for the fiscal year ended June 30, 2021, with comparative information for the fiscal year ended June 30, 2020. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

The University is a constituent institution of the 17-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina, and an integral part of the State's *Annual Comprehensive Financial Report (ACFR)*. The University is a global higher education leader known for innovative teaching, research, and public service. Now in its third century, the University, at the time of this publication, offers 78 bachelor's, 112 master's, 68 doctorate, and seven professional degree programs through 14 schools and the College of Arts and Sciences. A total of 30,092 undergraduate, graduate, and professional students learn from a faculty of 4,085.

The financial reporting entity for the financial statements is comprised of the University and its component units. Certain component units are reported as if they were part of the University, and others are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A in the notes to the financial statements provides detailed information on the financial reporting entity.

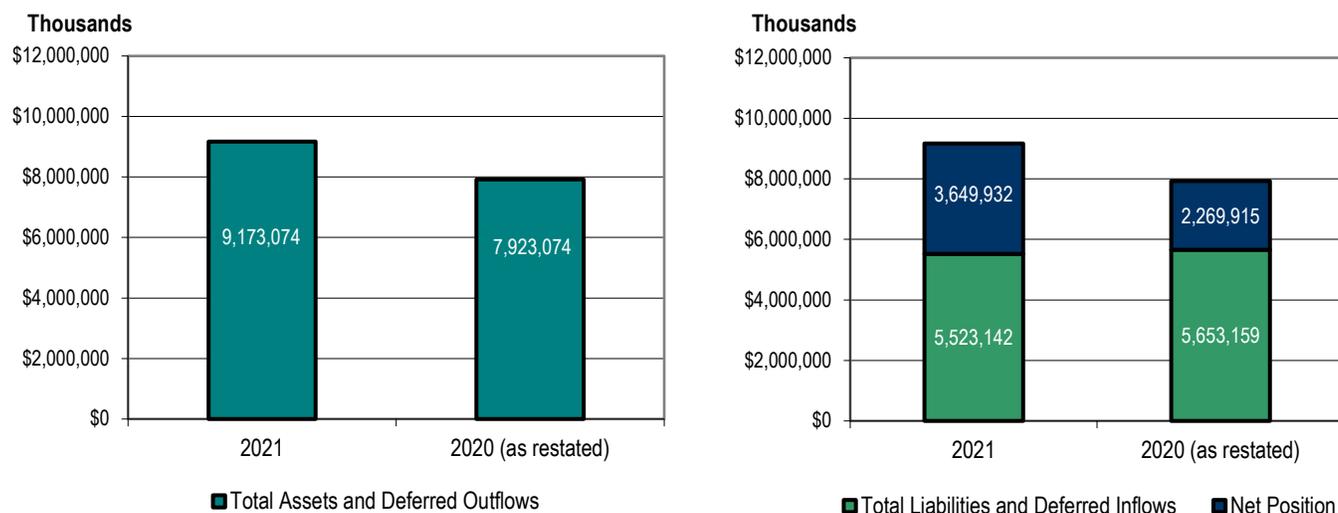
## Financial Overview

The University maintained its stable financial position at June 30, 2021. The current ratio at June 30, 2021 was 4.2 times, compared to 3.6 times at June 30, 2020. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources, was \$3.6 billion at June 30, 2021, up from \$2.3 billion at June 30, 2020. The University's total assets and deferred outflows of resources were \$9.2 billion, and the total liabilities and deferred inflows were \$5.5 billion at June 30, 2021.

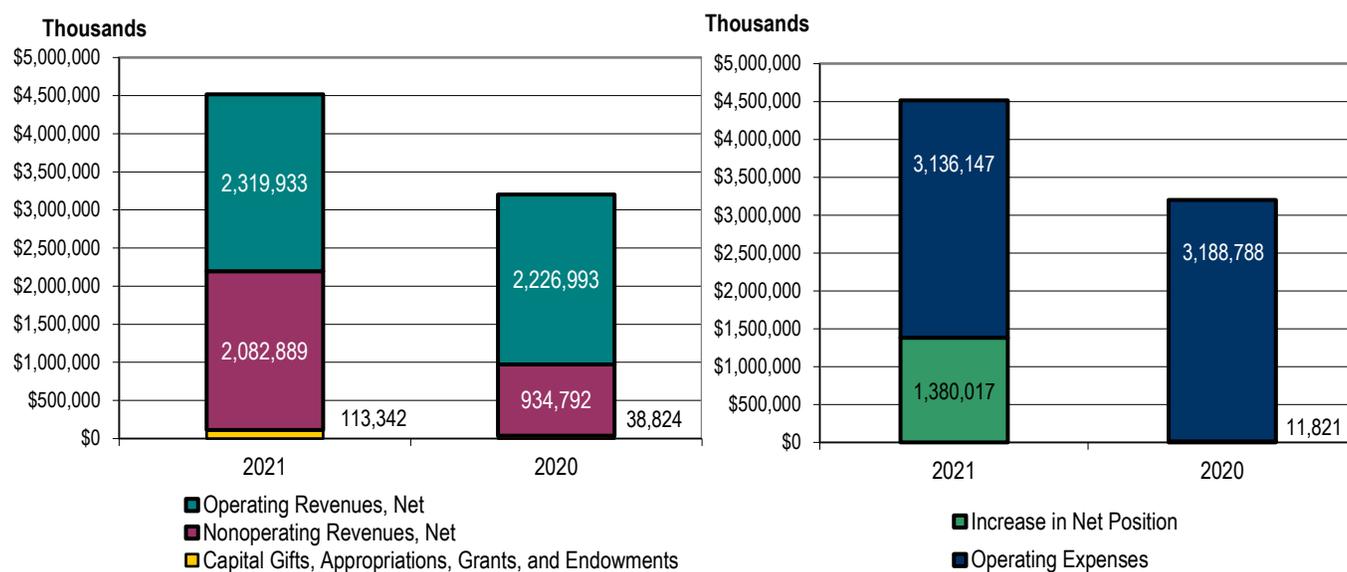
## MANAGEMENT'S DISCUSSION AND ANALYSIS

A comparison of the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2021, and June 30, 2020, respectively, along with the major components of the changes in net position for the two fiscal years is presented below:

### STATEMENT OF NET POSITION



### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION



Net position increased \$1.4 billion at June 30, 2021, from the prior year's balance.

## Using the Financial Statements

The University's financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The University presents two sets of fund financial statements 1) proprietary fund financial statements, which account for the University's primary activities and 2) fiduciary fund financial statements, which account for the University's custodial funds. The MD&A will only discuss proprietary fund financial statements.

The University's financial statements include the following financial statements with related note disclosures:

- *Statement of Net Position*
- *Statement of Revenues, Expenses, and Changes in Net Position*
- *Statement of Cash Flows*
- *Statement of Fiduciary Net Position*
- *Statement of Changes in Fiduciary Net Position*
- *Statement of Financial Position for Component Units of the University*
- *Statement of Activities for Component Units of the University*

The Statement of Fiduciary Net Position includes assets, liabilities, and net position for external pool participants in the University's External Investment Fund and Other Funds that are held in a custodial capacity. The Statement of Changes in Fiduciary Net Position reports the additions and deductions to these custodial funds during the period. See Note 1J for additional information regarding the University's fiduciary activities.

Management's Discussion and Analysis concentrates on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position as condensed comparative financial information is not required for fiduciary activities.

Also included are the notes to the financial statements and required supplementary information which are essential to a comprehensive understanding of the financial position of the University. GASB standards require that assets and liabilities be separated into current and noncurrent categories and that financial statements be presented on a consolidated basis to focus on the University's business-type activities as a whole.

**Condensed Statement of Net Position**

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, and includes all assets and deferred outflows of resources, liabilities and deferred inflows of resources, segregating the assets and liabilities into current and noncurrent components. The following table summarizes the University's Statement of Net Position on June 30, 2021 and June 30, 2020:

**CONDENSED STATEMENT OF NET POSITION**

(Dollars in Thousands)

	<u>2021</u>	<u>2020</u> <u>(as restated)</u>	<u>Percent</u> <u>Change</u>
<b>Assets:</b>			
Current Assets	\$ 2,054,702	\$ 1,698,710	21.0
<b>Noncurrent Assets:</b>			
Endowment and Other Investments	3,232,425	2,369,076	36.4
Capital Assets, Net	3,059,695	3,050,092	0.3
Other Noncurrent Assets	220,906	136,582	61.7
<b>Total Assets</b>	<u>8,567,728</u>	<u>7,254,460</u>	18.1
<b>Total Deferred Outflows of Resources</b>	<u>605,346</u>	<u>668,614</u>	(9.5)
<b>Liabilities:</b>			
Current Portion of Long-Term Liabilities	119,867	96,795	23.8
Other Current Liabilities	372,967	372,635	0.1
<b>Noncurrent Liabilities:</b>			
Long-Term Liabilities, Net	3,866,563	4,009,613	(3.6)
Other Noncurrent Liabilities	153,301	194,338	(21.1)
<b>Total Liabilities</b>	<u>4,512,698</u>	<u>4,673,381</u>	(3.4)
<b>Total Deferred Inflows of Resources</b>	<u>1,010,444</u>	<u>979,778</u>	3.1
<b>Net Position:</b>			
Net Investment in Capital Assets	1,656,473	1,682,287	(1.5)
Restricted	3,331,398	2,423,067	37.5
Unrestricted	(1,337,939)	(1,835,439)	(27.1)
<b>Total Net Position</b>	<u>\$ 3,649,932</u>	<u>\$ 2,269,915</u>	60.8

Current Assets and Liabilities

As derived from the Statement of Net Position, working capital was \$1.6 billion at June 30, 2021, compared to \$1.2 billion at June 30, 2020. Working capital is defined as current assets less current liabilities. Current assets were \$2.1 billion at June 30, 2021, up from \$1.7 billion at June 30, 2020 primarily attributable to an increase in cash, investments, and receivables. These accounts increased mainly due to an increase in investment earnings, patient service revenues, amounts received from the healthcare system, and the prudent management of expenses.

Endowment and Other Investments

Investment assets - Total endowment and other investments were \$3.2 billion at June 30, 2021 which represents an increase of 36.4% from June 30, 2020. This increase is the net result of

funds added to investments, realized and unrealized investment earnings, scheduled payouts, and fund withdrawals.

**Endowment management** - The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund or CHIF), further detailed in Note 1A. It is expected that all or substantially all of the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund or UNCIF), an investment pool organized by the Chapel Hill Investment Fund to allow the University, along with other constituent institutions of the UNC System and affiliated organizations, to pool investment resources.

**Endowment distribution** - The CHIF investment objective is to earn a long-term real (i.e. inflation-adjusted) rate of return of approximately 5.5% per year. This objective is intended to support the Chapel Hill Investment Fund's distribution policy providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors, and the distribution rate generally has ranged between 4.0% and 6.0% based on the beginning fair value of the Chapel Hill Investment Fund. For the fiscal year ended June 30, 2021, the distribution rate was 4.8%.

Recognizing that severe market declines periodically occur, a University Statutory Endowment policy (established pursuant to *North Carolina General Statute* 116-36) addresses the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and if appropriate, pursue alternative funding for essential activities and consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value.

**Endowment performance** - For fiscal year 2021, the UNC Investment Fund recorded a 42.3% investment return, compared to the prior year's return of 2.3%. The 42.3% return exceeded both the Strategic Investment Policy Portfolio (SIPP) return of 32.6% and the Fund's primary long-term objective of earning a real rate of return of at least 5.5% plus inflation which amounted to 10.8% in fiscal year 2021. For the fiscal year, all seven of the Fund's primary asset classes generated positive returns and four exceeded their respective SIPP benchmarks.

Over a longer-term time horizon, UNCIF's five year annualized performance of 14.5% surpassed its SIPP return of 11.9% and the primary objective of earning an average annual rate of return of at least 5.5% plus inflation, net of all fees, over a rolling five-year period (which amounted to 7.9% for the period). The Fund's 10-year annualized return of 10.8% also surpassed its SIPP return of 9.1% and met the primary return objective of earning an average annual rate of return of at least 5.5% plus inflation, net of all fees, over a rolling ten-year period (which was 7.4% for the period). Over the last one, three, five and ten year periods, the Fund's performance ranked in the top quartile of the BNY Mellon Endowment & Foundation universe.

### Capital Assets and Debt Management

Capital assets increased 0.3% driven by an increase in construction in progress offset by the demolition of Berryhill Hall to make space for the new Medical Education Building.

In fiscal year 2021, the University completed several capital projects including the construction of the Media & Communication Studios, the renovation of the Morehead Planetarium, construction of the Bill Koman Football Practice Complex and Dorrance Field, the new soccer and lacrosse stadium.

Major projects under construction include the Medical Education Building, the renovation of the Chase Dining Hall, and Eshelman School of Pharmacy's Beard Hall.

Current projects in design are an addition to the McColl Building, a new building for the Kenan Flagler Business School, the School of Nursing's Carrington Hall renovations and Campus Safety Upgrades including Energy Management Controls Systems upgrades along with and the Campus Central Alarm Communication Network Replacement.

A summary of changes in capital assets is disclosed in Note 6. Capital assets, net of accumulated depreciation and amortization, at June 30, 2021, and June 30, 2020, were as follows:

**Capital Assets**

(Dollars in Thousands)

	<u>2021</u>	<u>2020</u> <u>(as restated)</u>	<u>Percent</u> <u>Change</u>
<b>Capital Assets:</b>			
Construction in Progress	\$ 145,374	\$ 114,741	26.7
Land and Other Nondepreciable Assets	238,073	236,879	0.5
Buildings, Net	2,003,064	1,984,676	0.9
General Infrastructure, Net	458,147	480,212	(4.6)
Machinery, Equipment, and Computer Software, Net	215,037	233,584	(7.9)
<b>Total</b>	<u>\$ 3,059,695</u>	<u>\$ 3,050,092</u>	0.3

Capital financing - During fiscal year 2021, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all, or a portion of the funding, through the issuance of long-term bonds.

The University began fiscal year 2021 with a balance of \$35 million in commercial paper, which was refunded in full with proceeds from the issuance of the General Revenue Bonds, Series 2021C. As of June 30, 2021, the University did not maintain an outstanding Commercial Paper balance.

Debt management - The University maintains a combination of variable and fixed-rate debt, consistent with its debt management policy. Additional detail on rates and maturity can be found in Note 10 – Long-Term Liabilities.

The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The debt service to operations ratio provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. The expendable resources to debt ratio measures unrestricted and restricted expendable net position to funded debt and serves as a relative indicator of financial health, or cushion. The unrestricted net position included in this calculation excludes the impact of the net pension and net OPEB liabilities since these do not have an impact on the University's ability to pay debt. Please see Note 13 for additional information. Each ratio is compared to the University's debt policy standard. At June 30, 2021, the expendable resources to debt ratio was 3.4 times, and

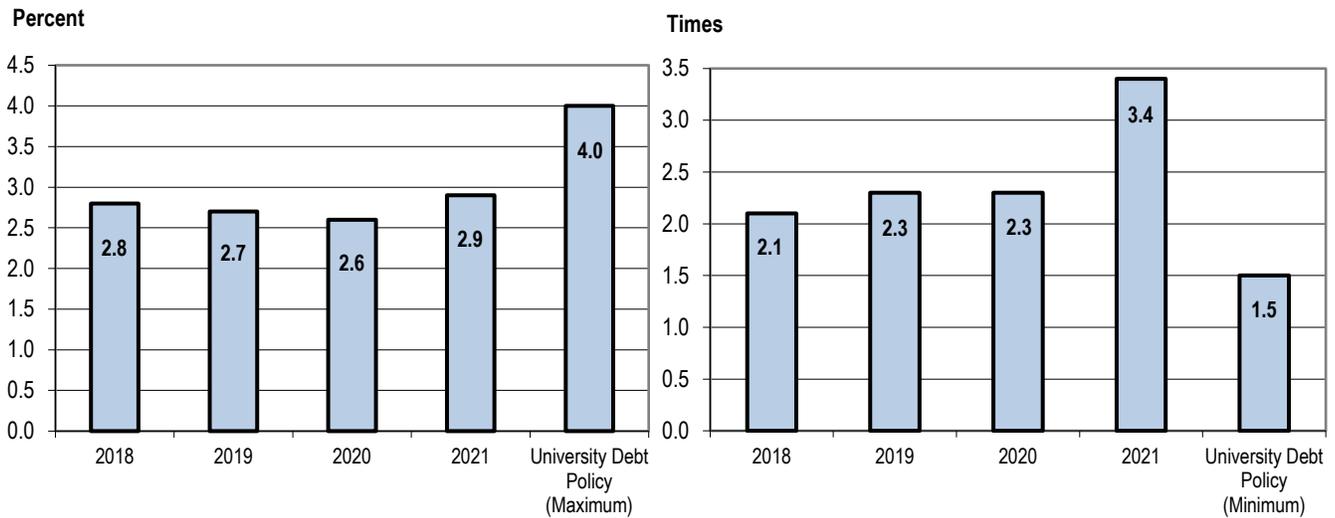
the debt service to operations ratio was 2.9%. Results of both ratios comply with the University's debt policy and indicate healthy coverage of debt requirements.

As a function of its debt management strategy, the University retained a balance of \$331.8 million in unrestricted cash and investments for the purposes of payment of debt related obligations to include certain bullet maturities. No formal board designation, external requirement, or mandatory sinking fund exists to otherwise restrict the use of these funds as of June 30, 2021.

The University continues to maintain its long-term bond ratings of Aaa/AAA/AAA from Moody's Investor Services, Standard & Poor's Global Ratings, and Fitch Ratings, respectively.

**DEBT SERVICE TO OPERATIONS**

**EXPENDABLE RESOURCES TO DEBT**



Other Noncurrent Assets and Liabilities

Other noncurrent assets were \$220.9 million at June 30, 2021, and \$136.6 million at June 30, 2020, as restated, reflecting a 61.7% increase, primarily in cash and investment accounts, driven by continued utilization of the State Treasurer Short-Term Investment Fund and Public Fund Interest Fund accounts for accessibility and competitive rates. Other noncurrent assets include restricted cash and cash equivalents, receivables, notes receivable, investments in joint ventures, beneficial interest in assets held by others, and the net other postemployment benefits asset.

Total noncurrent liabilities were \$4.0 billion at June 30, 2021, and \$4.2 billion, restated, at June 30, 2020. These include net OPEB liability of \$1.9 billion at June 30, 2021 and \$2.2 billion at June 30, 2020. This is the primary reason for the decrease. For more information on the change, refer to Notes 10 and 17.

Deferred Outflows and Inflows of Resources

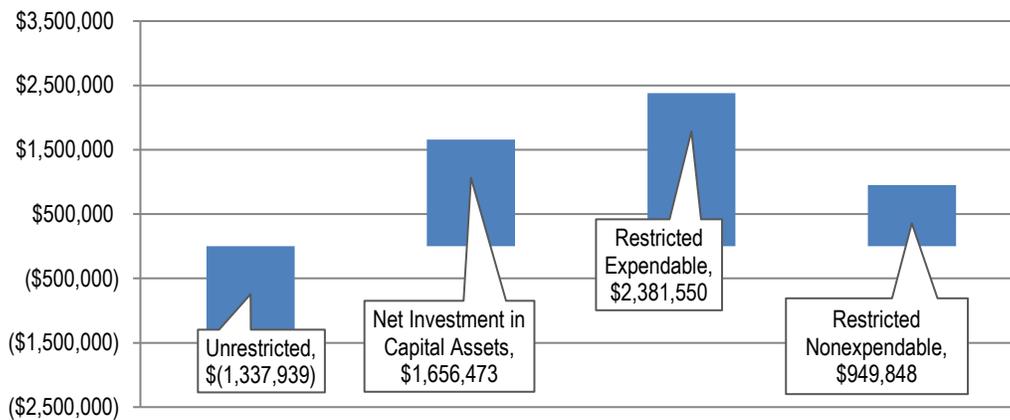
Deferred outflows of resources were \$605.3 million at June 30, 2021, and \$668.6 million at June 30, 2020. The 9.5% decrease driven primarily by decreases in deferred outflows related to OPEB. This is a result of a change in the University's proportionate share of contributions.

Deferred inflows of resources were \$1.0 billion at June 30, 2021, and \$980 million at June 30, 2020, reflecting a 3.1% increase. This increase was driven primarily by changes in actuarial assumptions for deferred inflows related to OPEB.

Net Position

Net position represents the value of the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The University's net position increased 60.8% from \$2.3 billion as of June 30, 2020 to \$3.6 billion as of June 30, 2021 driven primarily by investment returns.

**2021 NET POSITION: \$3,649,932  
(IN THOUSANDS)**



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

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations. The statements for the fiscal year ended June 30, 2021 and the prior year are summarized as follows:

### CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Dollars in Thousands)

	2021	2020	Percent Change
<b>Operating Revenues:</b>			
Student Tuition and Fees, Net	\$ 412,072	\$ 400,349	2.9
Grants and Contracts	959,215	887,343	8.1
Sales and Services, Net	942,579	926,106	1.8
Other Operating Revenues	6,067	13,195	(54.0)
<b>Total Operating Revenues</b>	<b>2,319,933</b>	<b>2,226,993</b>	<b>4.2</b>
<b>Operating Expenses</b>	<b>3,136,147</b>	<b>3,188,788</b>	<b>(1.7)</b>
<b>Operating Loss</b>	<b>(816,214)</b>	<b>(961,795)</b>	<b>(15.1)</b>
<b>Nonoperating Revenues (Expenses):</b>			
State Appropriations	537,409	534,766	0.5
Student Financial Aid	44,207	44,316	(0.2)
COVID Relief Funding	76,792	5,835	1216.1
Noncapital Contributions, Net	399,820	314,963	26.9
Investment Income, Net	1,099,206	95,460	1051.5
Interest and Fees on Debt	(51,189)	(51,302)	(0.2)
Other Nonoperating Expenses	(23,356)	(9,246)	(152.6)
<b>Net Nonoperating Revenues</b>	<b>2,082,889</b>	<b>934,792</b>	<b>122.8</b>
Income (Loss) Before Other Revenues	1,266,675	(27,003)	(4790.9)
Capital Contributions	78,871	22,081	257.2
Additions to Permanent Endowments	34,471	16,743	105.9
<b>Increase in Net Position</b>	<b>1,380,017</b>	<b>11,821</b>	<b>11574.3</b>
<b>Net Position – July 1</b>	<b>2,269,915</b>	<b>2,258,094</b>	<b>0.5</b>
<b>Net Position – June 30</b>	<b>\$ 3,649,932</b>	<b>\$ 2,269,915</b>	<b>60.8</b>

Fiscal year 2020-2021 revenues and other changes total \$4,590,709 and expenses total \$3,210,692.

Fiscal year 2019-2020 revenues and other changes total \$3,261,157 and expenses total \$3,249,336.

### Operating Revenues

Operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions through various sources, highlighted below.

Student tuition and fees (net) for fiscal year 2021 increased 2.9% over the prior year. This was driven by graduate programs offset by a decrease in the Executive Education program due to the pandemic.

Grants and contracts revenues from sponsored projects increased approximately 8.1% from FY 2020 to FY 2021. In terms of research funding, faculty secured \$1.073 billion in sponsored program funding in fiscal year 2021 to be used over several years. That represents a 2.6%

increase from fiscal year 2020 where the University secured \$1.05 billion. Consequently, there is still an upward trajectory for overall research activity at UNC Chapel Hill. Sponsored project funding comes in the form of grants and contracts awarded by federal and state agencies, foundations, nonprofit organizations, corporations, and associations, with the federal government providing the majority of the awards. Securing sponsored program funding has become an increasingly competitive endeavor, particularly as federal funding becomes more and more competitive, so the continued growth is especially remarkable. The key factors the University employs in dealing with competitive pressures includes diversifying funding sources and bringing in more awards from foundations and private industries.

The National Institutes of Health (NIH) remained the University's single largest funding source, with direct awards totaling \$538 million, increasing from the fiscal year 2020 total of \$523 million. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (Dentistry, Medicine, Nursing, Pharmacy, and Public Health), UNC Health Care and its teaching hospitals, as well as its basic and social science units in the College of Arts and Sciences. As one of the top universities in COVID research, UNC was also well positioned to respond quickly to COVID related funding opportunities. In fiscal year 2021 UNC received over \$106 million in COVID related research funding awards from numerous funding sources, including NIH, and continued future funding is anticipated.

The University's other top funders were the U.S. Dept. of Education at \$56.9 million; the National Science Foundation (NSF) at \$43.6 million; the U.S. Department of Defense at \$22 million, and the U.S. Agency for International Development (USAID) at \$20.5 million. The University's multidisciplinary research centers and institutes within the Vice Chancellor for Research's Division continue to play a strong role in bringing research funding to the University and the state of North Carolina, accounting for approximately \$152.7 million, which is down slightly from the fiscal year 2020 total of \$169.7 million, but represents approximately 14% of the total awards in fiscal year 2021.

Sales and services (net) includes the revenues generated by campus auxiliary operations such as student housing, campus health services, the utilities system, and parking and transportation, as well as from patient services provided by professional healthcare clinics. Sales and services (net) increased 1.8% in fiscal year 2021 as a direct result of the patient services' recovery from the pandemic. The revenue related to patient services was lower in fiscal year 2020 due to closures of healthcare clinics in response to the COVID-19 pandemic that occurred beginning March 2020. The patient services increase was offset by decreases in the other named auxiliary operations due to the pandemic.

Operating Expenses

The University's operating expenses were \$3.1 billion for the fiscal year ended June 30, 2021, a decrease of 1.7% from the prior year.

**Operating Expenses by Natural Classification  
(Dollars in Thousands)**

	2021	2020	Percent Change
Salaries and Benefits	\$ 1,812,296	\$ 1,802,250	0.6
Supplies and Services	963,510	1,018,615	(5.4)
Scholarships and Fellowships	121,920	106,483	14.5
Utilities	79,240	81,722	(3.0)
Depreciation/Amortization	159,181	179,718	(11.4)
<b>Total Operating Expenses</b>	<b>\$ 3,136,147</b>	<b>\$ 3,188,788</b>	<b>(1.7)</b>

Supplies and services decreased 5.4% as a result of a reduction in travel and meetings because of the pandemic. Scholarships and fellowships increased 14.5% due to the Higher Education Emergency Relief Fund distributions. Depreciation and amortization decreased 11.4%. In FY 2020, the University changed the useful life of the ERP system causing a depreciation acceleration in that year.

#### Nonoperating Revenues and Expenses

State appropriations, noncapital contributions, and investment income (net) are considered nonoperating because they are not generated by the University's principal, ongoing operations. State appropriations are provided to help fund operating expenses.

State appropriations revenue totaled \$537.4 million for fiscal year 2021, an increase of 0.5% from the \$534.8 million received during the prior year.

The University received \$48.0 million from the State of North Carolina COVID-19 Recovery Act. Of this amount, \$4.5 million in financial support to cover increased costs for online coursework, implementation of digital learning accelerator, providing sanitation and other expenses for ongoing campus operations, and covering necessary eligible expenses for students and employees. In addition, the University was awarded \$29.0 million to allocate to the NC Policy Collaboratory for the development of countermeasures for COVID-19, a vaccine for COVID-19, community testing initiatives, and other research to address the health and economic impacts of COVID-19.

The University received \$27.7 million from the U.S. Department of Education Higher Education Emergency Relief Fund (HEERF). The student portion, \$12.9 million, provided emergency financial aid grants to students for expenses related to the disruption of campus operations. The other portion, \$14.8 million, was used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Of this amount, \$2.3 million was allocated by the University to emergency aid grants to students. Please see Note 20 for additional information on COVID-19 Relief funding.

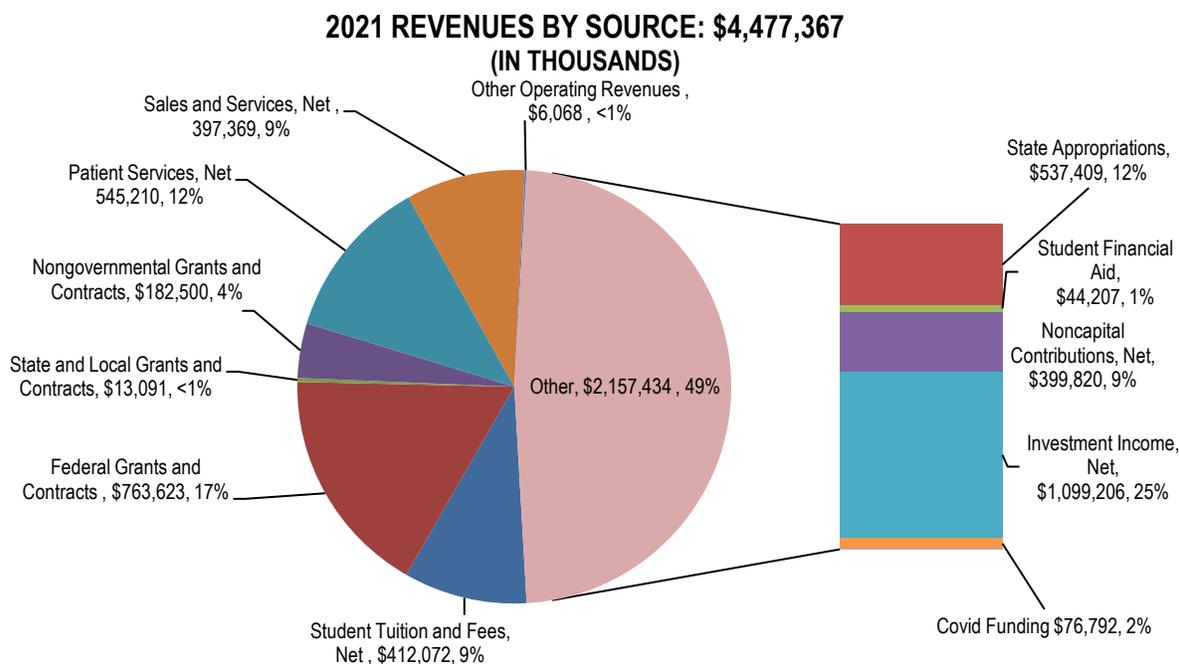
Noncapital contributions (net) increased 26.9% driven by increased giving to the University and its Foundations along with a one-time transfer from the State Health Plan as a result of cost savings over a span of six years.

Investment returns increased substantially, reflecting the market recovery in fiscal year 2021 from the pandemic related market impacts in 2020. Refer to the Endowment Performance subsection in the Endowment and Other Investments section for additional discussion and analysis. Investment income includes investment yield and realized and unrealized gains and losses, net of investment management fees.

Other nonoperating expenses increased \$14.1 million due to the demolition of Barryhill Hall to make space for the new Medical Education Building.

#### Total Operating and Nonoperating Revenues

Operating and nonoperating revenues such as state appropriations, noncapital grants, noncapital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and nonoperating revenues, which total \$4.5 billion for fiscal year 2021. As seen in the chart, the University has a diversified revenue base.



**Other Changes in Net Position**

Capital contributions increased from \$22.1 million to \$78.9 million in fiscal year 2021. This increase is driven by gifts from the Educational Foundation to Athletics including the football indoor complex and the soccer/lacrosse field.

**Economic Outlook**

The University of North Carolina at Chapel Hill remains financially sound, despite the impact of the COVID-19 pandemic. The University has diverse revenue streams, healthy endowments, strong traditions of private donations, experienced management, highly selective acceptance rates, and a continued commitment to excellence.

Throughout the fiscal year ending June 30, 2021, the University operated predominately with a remote instruction and work environment, with limited campus presence of students, faculty, and staff. Despite pandemic related financial impacts, the University maintained liquidity as operations continued. The greatest impacts on revenues occurred in auxiliary functions such as housing, dining and athletics which were buffered by sufficient reserves to carry them through the fiscal year. The University made efforts to balance its budget and eliminate a structural imbalance which created additional fiscal stability to weather pandemic impacts. The economic downturn was less severe in North Carolina than initially forecast and the addition of federal stimulus funds provided stability at the state level. As a result, state revenues continued to be a reliable source of support for the University.

Tuition rates for the fiscal year 2021 remained consistent with 2020 rates for undergraduate residents and nonresident students along with graduate students. The University continues to return a portion of tuition revenue to students in the form of need-based aid and combined with other sources, continues to provide financial aid to meet 100% of documented need for undergraduate students.

State appropriations for fiscal year 2022 are budgeted at \$534.9 million. Initiatives funded by the UNC System such as faculty recruitment and retention, campus scholarship awards, department-based research, and other programs may increase the state appropriations budget during the 2022 fiscal year.

Sponsored awards are a proven and reliable source in support of the University's research mission. The University's research enterprise has doubled in the last decade, reaching over \$1 billion in extramural support for the second consecutive year in fiscal 2021. It directly supports more than 10,000 positions statewide. In a 2019 report titled *The Top American Research Universities*, the University was ranked one of the top six public universities. The report, produced by the Center for Measuring University Performance, assessed areas such as research, private support, faculty strength, and advanced training. Based on the 2019 NSF Higher Education Research and Development Survey, the University ranked 12th nationally and 7th among US public institutions of higher education for research funding. Strong financial support from North Carolina's elected officials has helped build the infrastructure that enabled this growth, as have strong collaborative ties to Duke University and NC State University in the Research Triangle Park region.

Philanthropic efforts showed great strength and momentum in fiscal year 2021, with new cash and commitments totaling \$601.7 million, the University's third best year ever and a 6.6% increase over the prior fiscal year. Cash gifts set a record, recording \$455 million. More than 62,700 alumni and friends contributed to the Campaign for Carolina, supporting student opportunities and faculty research as well as initiatives benefiting North Carolina citizens and people around the world.

Five areas had their best-ever fundraising year: Carolina Performing Arts, The Graduate School, Kenan-Flagler Business School, School of Social Work and UNC Health. Highlights for the year included a \$3 million gift from Roy and Wanda Williams to support scholarships for undergraduate students; a \$6.8 million gift from the Helene Fuld Health Trust for a new simulation center and scholarships at the UNC School of Nursing; an \$8 million commitment from Nancy and Doug Abbey for an endowed speaker series at the UNC Program for Public Discourse in the College of Arts & Sciences; a \$3 million gift from an anonymous donor to endow the first non-faculty directorship in the arts at Carolina, named for James and Susan Moeser, at Carolina Performing Arts; and a \$12.5 million gift from the Gary Sinise Foundation Avalon Network to create the Transforming Health and Resilience in Veterans (THRIVE) Program to provide care for military veterans at the Matthew Gfeller Center in the UNC College of Arts & Sciences.

Investment income provides an important source of earnings to support the University's mission. Approximately \$3.3 billion is invested with the UNC Investment Fund. The achievement of long-term investment objectives cannot be realized unless a substantial portion of assets are invested in securities which are subject to market volatility. The UNC Investment Fund does not seek to eliminate risk, but to balance volatility and expected return. This strategy requires investments in different asset classes with proper diversification in order to minimize the probability of loss while generating investment returns sufficient to meet program objectives. As it relates to the Fund, diversification is primarily achieved through strategic asset allocation at the aggregate level and then augmented by differentiated strategies implemented by individual investment managers.

Since asset allocation is the fundamental driver of risk and return, the framework of the UNC Investment Fund has been designed to optimize risk-adjusted returns in support of achieving

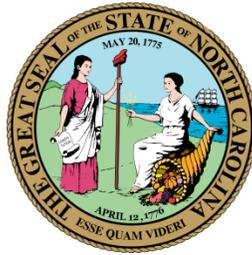
long-term objectives. The UNC Investment Fund has established ranges or bands for each respective asset class in order to provide a controlled framework for managing risk. Asset allocations are adjusted periodically, in accordance with policy objectives, to reflect market conditions and align assets with performance expectations.

Given the general risks and uncertainties in financial markets, the UNC Investment Fund's strategy tends to focus on balancing return objectives with capital preservation and downside protection as an overall approach. Based on the current market environment, the UNC Investment Fund seeks investment opportunities that balance risk and reward within a broad strategy perspective. Ongoing financial market conditions require flexibility and prudent investing to preserve and protect capital while incrementally generating return in a risk-efficient manner. Actual investment returns and expectations will vary depending upon the current economic environment, time horizon, and other factors.

According to Moody's Investor Service Outlook - Higher Education – US, March 2021, the outlook for higher education has changed from negative to stable. This improvement is driven by the widespread return to on-campus learning in the fall of 2021. Also, federal relief funds are helping to offset the increased expenses and revenue losses of the last year. The University's ability to grow the base and mix of its revenue is an important part of its financial and operational strategy. The University's mixture of funding sources includes student tuition, state appropriations, federal, state, and other research awards, philanthropy, sales from clinical and business operations, and investment returns. This diversity of resources provides flexibility for the University to withstand funding fluctuations.

Rating agencies completed a comprehensive review of the University's credit profile in conjunction with a financing in Spring 2021. Moody's, Standard and Poor's and Fitch confirmed the University's triple-A rating and indicated significant strengths including: exceptional strategic position aided by superior student demand and large sponsored research platform, uncommonly strong support from the State of North Carolina, substantial asset base, strong donor support, and management strength.

The University faces significant pressure on its ability to curb expenses while maintaining the competitive salaries and benefits needed to attract top faculty. Continued effective leadership, managing budgets and commitment to financial health will fortify the University as it continues to thrive and remain dedicated to its mission.



# FINANCIAL STATEMENTS

**The University of North Carolina at Chapel Hill**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2021**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 655,414,144
Restricted Cash and Cash Equivalents	354,140,375
Short-Term Investments	412,695,265
Restricted Short-Term Investments	152,658,924
Receivables, Net (Note 5)	273,502,969
Due from Primary Government	2,636,894
Due from State of North Carolina Component Units	156,987,722
Inventories	21,516,298
Notes Receivable, Net (Note 5)	4,143,935
Other Assets	21,004,536
	<hr/>
Total Current Assets	2,054,701,062

Noncurrent Assets:

Restricted Cash and Cash Equivalents	122,400,846
Receivables, Net (Note 5)	64,744,882
Endowment Investments	3,173,504,846
Other Investments	41,403,894
Notes Receivable, Net (Note 5)	28,988,342
Investment in Joint Ventures (Note 22)	17,516,218
Beneficial Interest in Assets Held by Others	1,283,580
Net Other Postemployment Benefits Asset	3,489,129
Capital Assets - Nondepreciable (Note 6)	383,446,640
Capital Assets - Depreciable, Net (Note 6)	2,676,248,434
	<hr/>
Total Noncurrent Assets	6,513,026,811

Total Assets	<hr/> <hr/> 8,567,727,873
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**DEFERRED OUTFLOWS OF RESOURCES**

Accumulated Decrease in Fair Value of Hedging Derivatives	118,979,851
Deferred Loss on Refunding	9,224,789
Deferred Outflows Related to Pensions (Note 16)	152,817,734
Deferred Outflows Related to Other Postemployment Benefits (Note 17)	324,323,757
	<hr/>
Total Deferred Outflows of Resources	605,346,131

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	200,786,994
Due to State of North Carolina Component Units	15,842,023
Due to University Component Units	12,433,614
Deposits Payable	16,544,501
Funds Held for Others	1,236,692
Unearned Revenue	122,820,517
Interest Payable	3,301,922
Long-Term Liabilities - Current Portion (Note 10)	119,867,065
	<hr/>
Total Current Liabilities	492,833,328

**The University of North Carolina at Chapel Hill**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2021**

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

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	16,293,709
U.S. Government Grants Refundable	18,027,134
Hedging Derivative Liability	118,979,851
Long-Term Liabilities, Net (Note 10)	<u>3,866,563,459</u>
Total Noncurrent Liabilities	<u>4,019,864,153</u>
Total Liabilities	<u>4,512,697,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows for Irrevocable Split-Interest Agreements	22,179,078
Deferred Inflows Related to Pensions (Note 16)	730,409
Deferred Inflows Related to Other Postemployment Benefits (Note 17)	<u>987,534,734</u>
Total Deferred Inflows of Resources	<u>1,010,444,221</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,656,472,890
Restricted:	
Nonexpendable:	
Scholarships and Fellowships	258,535,386
Research	19,469,288
Endowed Professorships	416,249,298
Departmental Uses	163,414,453
Loans	23,619,869
Other	<u>68,560,020</u>
Total Restricted-Nonexpendable Net Position	<u>949,848,314</u>
Expendable:	
Scholarships and Fellowships	476,545,531
Research	48,890,972
Endowed Professorships	874,866,140
Departmental Uses	780,155,410
Capital Projects	55,617,528
Debt Service	300,265
Other	<u>145,174,269</u>
Total Restricted-Expendable Net Position	<u>2,381,550,115</u>
Unrestricted	<u>(1,337,939,017)</u>
Total Net Position	<u>\$ 3,649,932,302</u>

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

**The University of North Carolina at Chapel Hill**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2021**

**Exhibit A-2**

**OPERATING REVENUES**

Student Tuition and Fees, Net (Note 14)	\$ 412,071,788
Patient Services, Net (Note 14)	545,209,574
Federal Grants and Contracts	763,623,335
State and Local Grants and Contracts	13,091,495
Nongovernmental Grants and Contracts	182,500,013
Sales and Services, Net (Note 14)	397,368,949
Interest Earnings on Loans	951,584
Other Operating Revenues	5,116,544
	<hr/>
Total Operating Revenues	2,319,933,282

**OPERATING EXPENSES**

Salaries and Benefits	1,812,296,102
Supplies and Services	963,510,332
Scholarships and Fellowships	121,919,611
Utilities	79,240,505
Depreciation/Amortization	159,181,030
	<hr/>
Total Operating Expenses	3,136,147,580
	<hr/>
Operating Loss	(816,214,298)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	537,409,229
State Aid - COVID-19 (Note 20)	47,967,574
Student Financial Aid	44,206,926
Federal Aid - COVID-19 (Note 20)	28,824,394
Noncapital Contributions, Net (Note 14)	399,819,639
Investment Income (Net of Investment Expense of \$28,573,229)	1,099,206,099
Interest and Fees on Debt	(51,189,311)
Federal Interest Subsidy on Debt	2,143,405
Other Nonoperating Expenses	(25,498,844)
	<hr/>
Net Nonoperating Revenues	2,082,889,111
	<hr/>
Income Before Other Revenues	1,266,674,813
	<hr/>
Capital Contributions	78,871,011
Additions to Endowments	34,471,810
	<hr/>
Total Other Revenues	113,342,821
	<hr/>
Increase in Net Position	1,380,017,634

**NET POSITION**

Net Position - July 1, 2020	<hr/> 2,269,914,668
Net Position - June 30, 2021	<hr/> <u>\$ 3,649,932,302</u>

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

**The University of North Carolina at Chapel Hill**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2021**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,228,621,802
Payments to Employees and Fringe Benefits	(1,891,775,794)
Payments to Vendors and Suppliers	(1,035,216,412)
Payments for Scholarships and Fellowships	(121,919,611)
Loans Issued	(1,123,042)
Collection of Loans	6,196,582
Interest Earned on Loans	994,478
William D. Ford Direct Lending Receipts	173,308,393
William D. Ford Direct Lending Disbursements	(173,308,393)
Related Activity Agency Receipts	1,236,692
Related Activity Agency Disbursements	(1,023,012)
Other Payments	(6,660,336)
	<hr/>
Net Cash Used by Operating Activities	(820,668,653)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	537,409,229
State Aid - COVID-19	47,967,574
Student Financial Aid	40,913,249
Federal Aid - COVID-19	28,824,394
Noncapital Contributions	298,940,916
Additions to Endowments	34,471,810
Payments for Annuities and Life Income Payable Under Split-Interest Agreements	(4,542,874)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	983,984,298

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

Proceeds from Capital Debt	224,076,248
Capital Contributions	32,868,657
Acquisition and Construction of Capital Assets	(140,522,510)
Principal Paid on Capital Debt and Leases	(179,728,088)
Payment to Bond Escrow Agent for Defeased Debt	(8,410,000)
Interest and Fees Paid on Capital Debt and Leases	(49,844,620)
Federal Interest Subsidy on Debt Received	2,143,405
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(119,416,908)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	573,229,006
Investment Income	921,509
Purchase of Investments and Related Fees	(406,110,819)
	<hr/>
Net Cash Provided by Investing Activities	168,039,696
	<hr/>
Net Increase in Cash and Cash Equivalents	211,938,433
	<hr/>
Cash and Cash Equivalents - July 1, 2020, as Restated (Note 25)	920,016,932
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 1,131,955,365

**The University of North Carolina at Chapel Hill**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2021**

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

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

Operating Loss	\$ (816,214,298)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	159,181,030
Allowances and Write-Offs	23,101,682
Other Nonoperating Expenses	(11,776,882)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(95,113,684)
Due from Primary Government	(2,636,894)
Due from State of North Carolina Component Units	(8,135,326)
Inventories	(159,943)
Notes Receivable, Net	5,293,259
Net Other Postemployment Benefits Asset	(501,798)
Other Assets	1,345,271
Deferred Outflows Related to Pensions	(13,070,526)
Deferred Outflows Related to Other Postemployment Benefits	37,529,754
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	39,458,522
Funds Held for Others	213,680
Unearned Revenue	(5,582,376)
Net Pension Liability	50,338,524
Net Other Postemployment Benefits Liability	(222,334,449)
Compensated Absences	7,599,065
Deposits Payable	3,350,372
Workers' Compensation Liability	(1,196,931)
Deferred Inflows Related to Pensions	71,324
Deferred Inflows Related to Other Postemployment Benefits	28,571,971
Net Cash Used by Operating Activities	<u>\$ (820,668,653)</u>

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

Assets Acquired through a Gift	\$ 46,002,354
Change in Fair Value of Investments	1,099,266,572
Loss on Disposal of Capital Assets	(13,721,976)
Amortization of Bond Premiums/Discounts	476,674
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(33,071,756)

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

**The University of North Carolina at Chapel Hill**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds - Custodial Funds**  
**June 30, 2021**

**Exhibit B-1**

	<b>External Investment Pool Funds</b>	<b>Other Funds</b>	<b>Total Custodial Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 0	\$ 39,830,106	\$ 39,830,106
Accounts Receivable		184,983	184,983
Other Assets		901,305	901,305
Investments (Note 2):			
Pooled Investment Funds	6,721,046,296		6,721,046,296
Other Investments		6,252,581	6,252,581
Total Assets	<u>6,721,046,296</u>	<u>47,168,975</u>	<u>6,768,215,271</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities (Note 7)	<u>4,133,272</u>	<u>540,037</u>	<u>4,673,309</u>
Total Liabilities	<u>4,133,272</u>	<u>540,037</u>	<u>4,673,309</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Total Deferred Inflows of Resources			
<b>NET POSITION</b>			
Restricted for:			
Pool Participants	6,716,913,024		6,716,913,024
Individuals/Other Organizations		46,628,938	46,628,938
Total Net Position	<u>\$ 6,716,913,024</u>	<u>\$ 46,628,938</u>	<u>\$ 6,763,541,962</u>

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

**The University of North Carolina at Chapel Hill**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds - Custodial Funds**  
**June 30, 2021**

**Exhibit B-2**

	<b>External Investment Pool Funds</b>	<b>Other Funds</b>	<b>Total Custodial Funds</b>
<b>ADDITIONS</b>			
Contributions:			
Pool Participants	\$ 1,099,227,418	\$ 0	\$ 1,099,227,418
Individuals/Other Organizations		47,055,571	47,055,571
Total Contributions	<u>1,099,227,418</u>	<u>47,055,571</u>	<u>1,146,282,989</u>
Investment Activity:			
Investment Income	1,755,957,904	897,181	1,756,855,085
Investment Expenses	(17,310,217)		(17,310,217)
Net Investment Income	<u>1,738,647,687</u>	<u>897,181</u>	<u>1,739,544,868</u>
Total Additions	<u>2,837,875,105</u>	<u>47,952,752</u>	<u>2,885,827,857</u>
<b>DEDUCTIONS</b>			
Withdrawals and Distributions	<u>130,334,145</u>	<u>38,459,965</u>	<u>168,794,110</u>
Increase in Fiduciary Net Position	2,707,540,960	9,492,787	2,717,033,747
<b>NET POSITION</b>			
Net Position - July 1, 2020, as Restated (Note 25)	<u>4,009,372,064</u>	<u>37,136,151</u>	<u>4,046,508,215</u>
Net Position - June 30, 2021	<u>\$ 6,716,913,024</u>	<u>\$ 46,628,938</u>	<u>\$ 6,763,541,962</u>

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

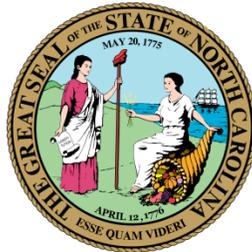
**The University of North Carolina at Chapel Hill Foundations**  
**Statement of Financial Position**  
**June 30, 2021**

**Exhibit C-1**

	<b>The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc.</b>	<b>The Educational Foundation Scholarship Endowment Trust</b>	<b>UNC Health Foundation, Inc.</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 30,418,018	\$ 15,662,778	\$ 30,193,105
Accounts Receivable	4,965,080	1,009,518	
Pledges Receivable, Net and Other Assets		10,228,281	
Promises to Give, Net	34,475,496		
Unconditional Promises to Give, Current Portion, Net			24,210,153
Contribution Receivable from Split-Interest Agreements		6,632,785	
Receivable from UNC Chapel Hill Foundation			3,042,534
Other Receivables	461		
Other Current Assets			360,931
Total Current Assets	69,859,055	33,533,362	57,806,723
Property and Equipment:			
Capital Assets, Net	6,013,195		402,346
Other Assets:			
Investments	408,549,261	355,586,747	471,639,941
Unconditional Promises to Give, Less Current Portion, Net			5,875,899
Split-Interest Agreements	3,588,654		
Cash Surrender Value of Life Insurance		783,086	
Other Assets			4,018,818
Total Other Assets	412,137,915	356,369,833	481,534,658
Total Assets	\$ 488,010,165	\$ 389,903,195	\$ 539,743,727
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 0	\$ 18,215	\$ 1,552,737
Current Portion of Loan Payable	172,983		
Total Current Liabilities	172,983	18,215	1,552,737
Long-Term Liabilities:			
Loan Payable	2,037,254		
Liabilities Under Charitable Remainder Trusts			64,256
Total Long-Term Liabilities	2,037,254		64,256
Total Liabilities	2,210,237	18,215	1,616,993
<b>NET ASSETS</b>			
Without Donor Restrictions:			
Undesignated	3,340,216		11,450,117
Designated by the Board for Endowment	81,582,087		13,339,792
Invested in Property and Equipment			402,346
Total	84,922,303		25,192,255
With Donor Restrictions	400,877,625	389,884,980	512,934,479
Total Net Assets	485,799,928	389,884,980	538,126,734
Total Liabilities and Net Assets	\$ 488,010,165	\$ 389,903,195	\$ 539,743,727

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

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

**Blended Component Units** - Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment Fund), UNC Intermediate Pool, LLC (UNC Intermediate Pool), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), WUNC Public Radio, LLC (WUNC), Carolina Research Ventures, LLC (Research Ventures), and HVPV Holdings, LLC (HVPV), component units of the University, are reported as if they were part of the University.

The Chapel Hill Investment Fund was established in January 1997 and is classified as a governmental external investment pool. The fund is governed by a board consisting of eight to 11 ex-officio directors and two to four elected directors. Ex-officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University, which includes the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Operations, and the Vice Chancellor for University Development. The UNC-Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Chapel Hill Investment Fund Board. The ex-officio directors of the Chapel Hill Investment Fund may elect one or two directors by unanimous written consent. The Chapel Hill Investment Fund supports the University by operating an investment fund for certain eligible charitable, nonprofit

foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because members of the Board of Directors of the Chapel Hill Investment Fund are officials or appointed by officials of the University and the Chapel Hill Investment Fund's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC Investment Fund was organized by the Chapel Hill Investment Fund to allow the University, the UNC System, other constituent institutions of the UNC System, and certain eligible affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured, and managed by the Management Company. The membership interests are offered only to eligible government entities or tax-exempt organizations that are controlled by or support the University, the UNC System, or other constituent institutions of the UNC System. The Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2021, the Chapel Hill Investment Fund membership interest was approximately 51% of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment Fund have been blended with those of the University.

The UNC Intermediate Pool was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants. The University is the controlling member. The UNC Intermediate Pool is classified as a governmental external investment pool. Eligible participants in the fund include not only the University but also the UNC System, its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the fund. Because the University is the organizer and controlling member of the UNC Intermediate Pool, the financial statements of the UNC Intermediate Pool have been blended with those of the University.

The Management Company is organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management and administrative services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one to three additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors.

The ex-officio directors consist of the Chancellor, the Vice Chancellor for Finance and Operations, the Chair of the University Board of Trustees, the Chair of the Board of Directors of the Chapel Hill Investment Fund, and the President of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC-Chapel Hill Foundation is governed by a 19-member board consisting of nine ex-officio directors and ten elected directors. Ex-officio directors include the Chair of the University Board of Trustees, the Chancellor, the Vice Chancellor for Finance and Operations, and the Vice Chancellor for University Development (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The ten remaining directors are elected as members of the UNC-Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC-Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC-Chapel Hill Foundation are officials or appointed by officials of the University and the UNC-Chapel Hill Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Business School Foundation is governed by a board consisting of four ex-officio directors and four or more elected directors. Ex-officio directors include the Dean of the Kenan-Flagler Business School (Business School), as well as the Business School's Chief Financial Officer, Associate Dean of Academic Affairs, and Associate Dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

WUNC is governed by a board consisting of nine members. Seven members of the board, at least two of which are current or previous members of the Board of Trustees of the University, are appointed by the Board of Trustees of the University. The remaining two board members are the University's Vice Chancellor of Communications and the General Manager of the noncommercial educational radio station WUNC-FM. The purposes of WUNC are to support the University by holding FCC licenses of noncommercial radio stations and operating and conducting programming of those radio stations and NC Public Radio, WUNC-FM, furthering the University's efforts to extend knowledge-based and

educational services to the citizens of North Carolina and to enhance the quality of life for the people of the State. Because members of the Board of Directors of WUNC are officials or appointed by officials of the University and the primary purpose of WUNC is to benefit the University, its financial statements have been blended with those of the University.

Research Ventures is governed by a board consisting of six designated members and six at-large members. Designated members include the Chief Financial Officer of the University, the Chief Executive Officer of the UNC Management Company, Inc., two members of the Board of Trustees of the University, and two individuals appointed by the Chief Executive Officer of the UNC Health Care System. Five at-large members are elected by the designated members, and one is appointed by UNC Health Care. Research Ventures supports the educational mission of the University by performing functions to carry out the purposes of the University including creating, acquiring, holding, and disposing of investments on behalf of the University in businesses that commercialize technology and inventions created at the University or through use of University resources. Carolina Research Venture Investment Fund, LLC is a component unit of Research Ventures and is included in its financial statements. Because a majority number of the Board of Directors are officials or appointed by officials of the University, and Research Ventures' primary purpose is to benefit the University, the financial statements of Research Ventures have been blended with those of the University.

HVPV is governed by the University as a sole member of HVPV. All decisions with respect to the management of the business and affairs of HVPV are made by the University. The University directs, manages, and controls the business of HVPV. HVPV was formed for the sole benefit of the University and its purposes include holding an investment in limited partnership interests of a venture capital partner and promoting the business thereof. Because the University has complete authority to make decisions, and HVPV's primary purpose is to benefit the University, the financial statements of HVPV have been blended with those of the University.

Separate financial statements for the University's blended component units may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Condensed combining information regarding blended component units is provided in Note 23.

**Discretely Presented Component Units** - UNC Health Foundation, Inc. (UNC Health Foundation), previously known as The Medical Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation), and The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust) are legally separate nonprofit, tax-exempt corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The UNC Health Foundation is governed by a board of up to 33 elected directors. The board also includes five ex-officio directors. The Dean of the UNC School of Medicine and CEO of UNC Health Care, the Vice Chancellor for University Development and the Associate Dean for Medical Alumni Affairs (UNC School of Medicine) all have voting rights. The President of UNC Health Foundation and the President of UNC Hospitals do not. Historically, the University's School of Medicine has been the major recipient of financial support from the UNC Health Foundation rather than UNC Hospitals. Although the University does not control the timing or amount of receipts from the UNC Health Foundation, the majority of resources or income that the UNC Health Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the UNC Health Foundation can only be used by, or for the benefit of the University, the UNC Health Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of five ex-officio directors, 33 elected directors and such number of emeritus directors determined from time to time by the Board of Directors. Staggered terms are set for the elected directors by the Board of Directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts and Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which provides that The Educational Foundation, Inc. appoints and designates the voting members of the Investment Committee as Trustees of the Trust. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to The Educational Foundation, Inc. is then forwarded by The Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of the contributions that the Educational Foundation Trust receives and invests is restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are private, nonprofit organizations that report their financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial statements for these differences.

During the year ended June 30, 2021, the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust distributed \$55,700,496 to the University for both restricted and unrestricted purposes. Complete financial statements for the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 84, *Fiduciary Activities*, require the presentation of both proprietary and fiduciary fund financial statements. See below for a description of each fund.

**Proprietary Fund** - This fund accounts for the University's primary activities and is presented in a single column on the accompanying proprietary fund financial statements.

**Fiduciary Funds** - This fund accounts for all of the University's fiduciary activities, which are considered custodial funds.

- 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. Investments for which a readily determinable fair value does not exist include investments in hedge funds and limited partnerships. These investments are carried at net asset value (NAV) per share as provided by the respective fund managers of these investments or third-party administrators. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the NAV of such investments. 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.

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. Please see Note 4 – Endowment Investments for additional information.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services, as well as charges to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. 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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. **Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost or average cost.
- 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	3-30 years
General Infrastructure	10-75 years
Computer Software	3-20 years

The University's historic property, artwork, and literary collections are capitalized at cost, acquisition value, or fair value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

All trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.

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

Revenue bonds payable are reported net of unamortized premiums 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. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 16 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 17 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

- M. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents 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. The University has the following items that qualify for reporting in this category: the accumulated decrease in fair value of hedging derivatives, deferred loss on refunding, deferred outflows related to pensions, and deferred outflows related to other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents 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. The University has the following items that qualify for reporting in this category: deferred inflows for irrevocable split-interest agreements, deferred inflows related to pensions, and deferred inflows related to other postemployment benefits.

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

**Proprietary Fund**

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

#### **Fiduciary Funds**

**Restricted Net Position** - Fiduciary net position includes resources held in a custodial capacity for external pool participants in the University's External Investment Fund, and for other individual, organizations, and governments that are not available for alternative use by the University.

- 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 utility services, telecommunications, central stores, printing and copy centers, postal services, and repairs and maintenance services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

At June 30, 2021, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,019,451,121, which represents the University's equity position in the State Treasurer's Short-Term Investment

Fund (STIF). The STIF (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2021. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s STIF) are included in the North Carolina Department of State Treasurer Investment Programs’ separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer’s website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2021 was \$279,529. The carrying amount of the University’s deposits not with the State Treasurer was \$112,224,715 for the proprietary fund and \$39,830,106 for the fiduciary funds. The bank balance was \$397,642,758. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2021, \$151,700,725 of the University’s bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

**Deposit Reconciliation:**

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash on Hand	\$ 279,529	\$ 0	\$ 279,529
Amount of Deposits with Private Financial Institutions	112,224,715	39,830,106	152,054,821
Deposits in the Short-Term Investment Fund	<u>1,019,451,121</u>		<u>1,019,451,121</u>
<b>Total Deposits</b>	<b><u>\$ 1,131,955,365</u></b>	<b><u>\$ 39,830,106</u></b>	<b><u>\$ 1,171,785,471</u></b>
Deposits			
Current:			
Cash and Cash Equivalents	\$ 655,414,144	\$ 39,830,106	\$ 695,244,250
Restricted Cash and Cash Equivalents	354,140,375		354,140,375
Noncurrent:			
Restricted Cash and Cash Equivalents	<u>122,400,846</u>		<u>122,400,846</u>
<b>Total Deposits</b>	<b><u>\$ 1,131,955,365</u></b>	<b><u>\$ 39,830,106</u></b>	<b><u>\$ 1,171,785,471</u></b>

**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, UNC-Chapel Hill Foundation, UNC Management Company, Chapel Hill Investment Fund, UNC Intermediate Pool, UNC Investment Fund, and Business School Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

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

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

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

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of an investment. The University does not have a formal policy for foreign currency risk.

The information provided below includes investments for the proprietary fund, fiduciary funds and the discretely presented component units. See the reconciliation below of total investments for the University as of June 30, 2021.

**Temporary Investment Pool (Temporary Pool)** - The Temporary Pool is a fixed income portfolio managed by the Management Company and Novant Asset Management, LLC. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals, and endowment revenue funds (internal portion) and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying Fiduciary Fund financial statements. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, participant activity is recorded on a cost basis in the UNC-Chapel Hill Money Market System. This is the official means of recording activity in the Temporary Pool. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Bank of New York Mellon is the custodian for the Temporary Pool and provides the University with monthly statements defining income and fair value information. Investments of the Temporary Pool are generally highly liquid and include (but are not limited to) U.S. government securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the Chapel Hill Investment Fund.

Participants' cash balances are automatically invested in the Temporary Pool. Income distribution is calculated based on the Average Daily Balance (ADB) and distributed monthly. The rate earned by an account is dependent upon its account classification. The rates are set by policy and approved by the Vice Chancellor for Finance and Operations.

The following table presents the Temporary Pool investments by type and investments subject to interest rate risk at June 30, 2021:

**Temporary Pool Investments**

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 20,139,000	\$ 20,139,000	\$ 0	\$ 0	\$ 0
U.S. Agencies	69,447,217	14,950,259	14,479,216	15,057,099	24,960,643
Collateralized Mortgage Obligations	762,156				762,156
Asset-Backed Securities	975,936			450,618	525,318
Money Market Mutual Funds	15,420,554	15,420,554			
<b>Total Debt Securities</b>	<b>106,744,863</b>	<b>\$ 50,509,813</b>	<b>\$ 14,479,216</b>	<b>\$ 15,507,717</b>	<b>\$ 26,248,117</b>
<b>Other Securities</b>					
Domestic Stocks	30,000				
<b>Total Temporary Pool Investments</b>	<b>\$ 106,774,863</b>				

The University has elected to invest \$106,108,561 of Temporary Pool assets in the Chapel Hill Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of the Temporary Investment Pool are included in those for the Chapel Hill Investment Fund.

At June 30, 2021, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 69,447,217	\$ 0	\$ 69,447,217	\$ 0	\$ 0	\$ 0	\$ 0
Collateralized Mortgage Obligations	762,156		8,593	31,768	150,466	167,943	403,386
Asset-backed Securities	975,936					525,318	450,618
Money Market Mutual Funds	15,420,554	15,420,554					
<b>Totals</b>	<b>\$ 86,605,863</b>	<b>\$ 15,420,554</b>	<b>\$ 69,455,810</b>	<b>\$ 31,768</b>	<b>\$ 150,466</b>	<b>\$ 693,261</b>	<b>\$ 854,004</b>

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

Since a separate annual financial report of the Temporary Investment Pool is not issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2021, are as follows:

**Statement of Net Position  
June 30, 2021**

	Amount
Assets:	
State Treasurer Investment Fund	\$ 80,000,047
Accrued Investment Income	197,363
Chapel Hill Investment Fund	160,108,561
Investments	106,774,863
<b>Total Assets</b>	<b>347,080,834</b>
<b>Total Liabilities</b>	<b>0</b>
Net Position Restricted for Members:	
Internal Portion	254,809,455
External Portion	92,271,380
<b>Total Net Position</b>	<b>\$ 347,080,835</b>

**Statement of Operations and Changes in Net Position  
June 30, 2021**

	<u>Amount</u>
Increase in Net Position from Operations:	
Revenues:	
Investment Income	\$ 45,786,103
Expenses:	
Investment Management	<u>(21,827)</u>
<b>Net Increase in Net Position Resulting from Operations</b>	45,764,276
Distributions to Participants:	
Distributions Paid and Payable	(45,764,276)
Share Transactions:	
Net Share Purchases	<u>5,408,963</u>
<b>Total Increase in Net Position</b>	5,408,963
Net Position:	
Beginning of Year	<u>341,671,872</u>
<b>End of Year</b>	<u>\$ 347,080,835</u>

**UNC Intermediate Pool, LLC** - The UNC Intermediate Pool, LLC (UNC Intermediate Pool) was organized in May 2013 by the University to make available an intermediate-term investment fund for eligible participants with the University being the controlling member. The UNC Intermediate Pool is classified as a governmental external investment pool. Eligible participants in the pool include not only the University but also the University of North Carolina System (UNC System), its constituent institutions, and/or affiliates and supporting organizations of the UNC System or such constituent institutions. The University has retained the Management Company to serve as the investment manager of the pool.

Ownership of the UNC Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a fair value basis. The UNC Intermediate Pool is not registered with the SEC and is not subject to any formal oversight beyond that provided by UNC Management Company as well as an Oversight Committee of University employees appointed by the Chancellor of the University. The University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the UNC Intermediate Pool. The audited financial statements for the UNC Intermediate Pool, LLC may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Bank of New York Mellon is the custodian for the UNC Intermediate Pool and provides the University with monthly statements providing income and fair value information. UNC Intermediate Pool investments are comprised of (but not limited to) shares in mutual funds, money market accounts, and the UNC Investment Fund.

As of June 30, 2021, the University's membership interest was approximately 30% of the UNC Intermediate Pool's total membership interests. An affiliated organization, not included in the University's reporting entity, held the remaining 70% membership interest. This external portion of the UNC Intermediate Pool is presented in the accompanying Fiduciary Fund financial statements.

The following table presents the UNC Intermediate Pool investments by type and investments subject to interest rate risk at June 30, 2021:

**UNC Intermediate Pool**

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 20,959,092	\$ 177,174	\$ 0	\$ 5,428,259	\$ 15,353,659
U.S. Agencies	26,950,802			1,384,274	25,566,528
Mortgage Pass Throughs	9,442,883				9,442,883
Collateralized Mortgage Obligations	27,276,842			203,594	27,073,248
Asset-Backed Securities	164,904,641			45,208,075	119,696,566
Debt Mutual Funds	483,280,894	25,263,071	221,415,448	143,162,455	93,439,920
Money Market Mutual Funds	16,126,087	16,126,087			
Domestic Corporate Bonds	10,529,100			10,185,911	343,189
Foreign Corporate Bonds	16,042,979			12,289,451	3,753,528
Foreign Government Bonds	6,857,258			2,288,627	4,568,631
<b>Total Debt Securities</b>	<b>782,370,578</b>	<b>\$ 41,566,332</b>	<b>\$ 221,415,448</b>	<b>\$ 220,150,646</b>	<b>\$ 299,238,152</b>
<b>Other Securities</b>					
Foreign Stocks	444,803				
Credit Based Commingled Funds	113,131,880				
<b>Total UNC Intermediate Pool Investments</b>	<b>\$ 895,947,261</b>				

The University has elected to invest \$282,527,695 of assets of the UNC Intermediate Pool in the UNC Investment Fund. The disclosures for these investments are not included in the preceding table. Rather, the disclosures for this portion of UNC Intermediate Pool investments are included in those for the UNC Investment Fund.

At June 30, 2021, investments in the UNC Intermediate Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	\$ 26,950,802	\$ 0	\$ 25,183,357	\$ 0	\$ 0	\$ 1,002,470	\$ 764,975
Mortgage Pass Throughs	9,442,883		978,727	5,708,800	1,705,679	1,049,677	
Collateralized Mortgage Obligations	27,276,842					13,487,688	13,789,154
Asset-backed Securities	164,904,641	2,996,164	6,548,919	4,612,426	40,902,559	83,754,205	26,090,368
Debt Mutual Funds	483,280,894		7,528,768		460,195,778	15,556,348	
Money Market Mutual Funds	16,126,087	16,126,087					
Domestic Corporate Bonds	10,529,100					10,529,100	
Foreign Corporate Bonds	16,042,979	235,628	906,630	1,841,419	4,309,288	8,750,014	
Foreign Government Bonds	6,857,258		1,266,219	1,689,930	3,105,721	795,388	
<b>Totals</b>	<b>\$ 761,411,486</b>	<b>\$ 19,357,879</b>	<b>\$ 42,412,620</b>	<b>\$ 13,852,575</b>	<b>\$ 510,219,025</b>	<b>\$ 134,924,890</b>	<b>\$ 40,644,497</b>

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

**UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund)** - Chapel Hill Investment Fund is a North Carolina nonprofit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a fair value basis. The external portion of the Chapel Hill Investment Fund is presented in the accompanying Fiduciary Fund financial statements.

The Chapel Hill Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund Board of Directors (See Note 1A).

The Chapel Hill Investment Fund is the primary participant of UNC Investment Fund, LLC (UNC Investment Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and fair value, applicable realized gains and losses and expenses. The Chapel Hill Investment Fund uses a unit basis to determine each participant's fair value and to distribute the Fund's earnings according to the Fund's spending policy. There are no involuntary participants in the Chapel Hill Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for

the Chapel Hill Investment Fund. The audited financial statements for the Chapel Hill Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Chapel Hill Investment Fund consists of an approximate 51% membership in the UNC Investment Fund categorized below.

**UNC Investment Fund, LLC (UNC Investment Fund)** - The UNC Investment Fund is a nonprofit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. As previously noted, the Chapel Hill Investment Fund, with an approximate 51% membership interest as of June 30, 2021, is the predominant member of the UNC Investment Fund.

The University's reporting entity portion of the Chapel Hill Investment Fund and the Management Company's portion of the UNC Investment Fund are characterized as the internal portion. Other affiliated organizations in the Chapel Hill Investment Fund, in addition to other members of the UNC Investment Fund not included in the University's reporting entity, are characterized as the external portion. The external portion of the UNC Investment Fund is presented in the accompanying Fiduciary Fund financial statements. Membership interests of the UNC Investment Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a fair value basis.

The UNC Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund as the controlling member (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the UNC Investment Fund and provides investment management and administrative services.

The Bank of New York Mellon is the custodian for the UNC Investment Fund and provides the University with monthly statements defining income and fair value information. The UNC Investment Fund uses a unit basis to determine each member's fair value and to distribute the fund's earnings. The University has not provided or obtained any legally binding guarantees during the period to support the value for the UNC Investment Fund investments. The audited financial statements for the UNC Investment Fund may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The following table presents the UNC Investment Fund investments by type and investments subject to interest rate risk at June 30, 2021:

**UNC Investment Fund**

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 58,088,278	\$ 28,544,073	\$ 9,534,355	\$ 6,817,544	\$ 13,192,306
U.S. Agencies	39,219,352		1,537,239	4,061,638	33,620,475
Collateralized Mortgage Obligations	57,972,050		3,150,131	1,105,674	53,716,245
Asset-Backed Securities	70,700,988		8,457,535	20,427,215	41,816,238
Money Market Mutual Funds	748,665,830	748,665,830			
Domestic Corporate Bonds	2,377,340	505,955		1,165,510	705,875
<b>Total Debt Securities</b>	<b>977,023,838</b>	<b>\$ 777,715,858</b>	<b>\$ 22,679,260</b>	<b>\$ 33,577,581</b>	<b>\$ 143,051,139</b>
<b>Other Securities</b>					
Domestic Stocks	508,733,457				
Foreign Stocks	18,909,110				
Real Estate Investment Trust	73,450,858				
Long/Short Hedge Funds	1,498,125,352				
Diversifying Hedge Funds	480,498,504				
Hedge Funds in Liquidation	17,707,094				
Long Only Hedge Funds	2,157,649,004				
Credit Based Commingled Funds	182,322,792				
Private Equity Limited Partnerships	3,887,096,870				
Real Assets Limited Partnerships	495,208,806				
<b>Total UNC Investment Fund Investments</b>	<b>\$ 10,296,725,685</b>				

At June 30, 2021, investments in the UNC Investment Fund had the following credit quality distribution for securities with credit exposure:

Amount	AAA	AA	A	BBB	BB/Ba	Unrated	
	Aaa	Aa		Baa	and below		
U.S. Agencies	\$ 39,219,352	\$ 0	\$ 26,018,240	\$ 0	\$ 276,642	\$ 1,256,560	\$ 11,667,910
Collateralized Mortgage Obligations	57,972,050	3,284,940	275,825	442,774	4,480,943	24,387,411	25,100,157
Asset-Backed Securities	70,700,988				681,422	59,192,087	10,827,479
Money Market Mutual Funds	748,665,830	748,665,830					
Domestic Corporate Bonds	2,377,340			1,211,830	544,765	620,745	
<b>Totals</b>	<b>\$ 918,935,560</b>	<b>\$ 751,950,770</b>	<b>\$ 26,294,065</b>	<b>\$ 1,654,604</b>	<b>\$ 5,983,772</b>	<b>\$ 85,456,803</b>	<b>\$ 47,595,546</b>

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

*Foreign Currency Risk:* The UNC Investment Fund holds foreign currency investments which are presented in U.S. dollars. At June 30, 2021, the UNC Investment Fund's exposure to foreign currency risk is as follows:

Investment	Currency	Amount (U.S. Dollars)
Private Equity Limited Partnerships	Euro	\$ 162,339,430
Real Assets Limited Partnerships	Euro	1,186,886
Hedge Funds	Euro	24,521,317
Total Euro		188,047,632
Private Equity Limited Partnerships	British Pound Sterling	54,893,627
Real Assets Limited Partnerships	British Pound Sterling	278,044
Total British Pound Sterling		55,171,671
Private Equity Limited Partnerships	Canadian Dollar	7,454,181
Private Equity Limited Partnerships	Australian Dollar	9,366
<b>Total</b>		<b>\$ 250,682,851</b>

*Investment Derivatives:* At June 30, 2021, the UNC Investment Fund is invested in foreign currency forward contracts with a fair value of \$412,173. Disclosures are provided for these investments in Note 11 Derivative Instruments.

The University's reporting entity, including the three discretely presented component units, comprises approximately 44% of the UNC Investment Fund.

**Non-Pooled Investments** - The following table presents investments by type and investments subject to interest rate risk at June 30, 2021, for the University's non-pooled investments.

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Treasuries	\$ 136,410	\$ 0	\$ 81,734	\$ 54,676	\$ 0
U.S. Agencies	79			79	
Mortgage Pass Throughs	42			42	
Collateralized Mortgage Obligations	42,516				42,516
Debt Mutual Funds	8,234,213		601,662	7,632,551	
Money Market Mutual Funds	503,388	503,388			
Foreign Government Bonds	28,513		28,513		
<b>Total Debt Securities</b>	<b>8,945,161</b>	<b>\$ 503,388</b>	<b>\$ 711,909</b>	<b>\$ 7,687,348</b>	<b>\$ 42,516</b>
<b>Other Securities</b>					
Equity Mutual Funds	14,656,914				
Domestic Stocks	18,865,744				
Foreign Stocks	40,371				
International Mutual Funds	10,207,579				
Investments in Real Estate	4,072,774				
Gifted Life Insurance	2,787,791				
Real Estate Investment Trust	43,488				
Private Equity Limited Partnerships	25,384,641				
<b>Total Non-Pooled Investments</b>	<b>\$ 85,004,463</b>				

At June 30, 2021, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA	AA	BB/Ba	Unrated
		Aaa	Aa	and below	
U.S. Agencies	\$ 79	\$ 0	\$ 0	\$ 0	\$ 79
Mortgage Pass Throughs	42				42
Collateralized Mortgage Obligations	42,516			35,627	6,889
Debt Mutual Funds	8,234,213	3,189,096	424,130	1,549,291	3,071,696
Money Market Mutual Funds	503,388	503,388			
Foreign Government Bonds	28,513			28,513	
<b>Totals</b>	<b>\$ 8,808,751</b>	<b>\$ 3,692,484</b>	<b>\$ 424,130</b>	<b>\$ 1,613,431</b>	<b>\$ 3,078,706</b>

Rating Agency: Moody's/Standard & Poor's/Fitch (lowest rating reported above)

*Foreign Currency Risk:* At June 30, 2021, the University had nominal direct exposure to foreign currency risk in non-pooled investments.

**Total Investments** - The following table presents the total investments at June 30, 2021:

	<u>Amount</u>
<b>Investment Type</b>	
Debt Securities	
U.S. Treasuries	\$ 99,322,780
U.S. Agencies	135,617,450
Mortgage Pass Throughs	9,442,925
Collateralized Mortgage Obligations	86,053,564
Asset-Backed Securities	236,581,565
Debt Mutual Funds	491,515,107
Money Market Mutual Funds	780,715,859
Domestic Corporate Bonds	12,906,440
Foreign Corporate Bonds	16,042,979
Foreign Government Bonds	6,885,771
	<u>1,875,084,440</u>
Other Securities	
Equity Index/Mutual Funds	14,656,914
International Mutual Funds	10,207,579
Investments in Real Estate	4,072,774
Real Estate Investment Trusts	73,494,346
Long/Short Hedge Funds	1,498,125,352
Diversifying Hedge Funds	480,498,504
Hedge Funds In Liquidation	17,707,094
Long Only Hedge Funds	2,157,649,004
Credit Based Commingled Funds	295,454,672
Private Equity Limited Partnerships	3,912,481,511
Real Assets Limited Partnerships	495,208,806
Gifted Life Insurance	2,787,791
Domestic Stocks	527,629,201
Foreign Stocks	19,394,284
	<u>9,509,367,832</u>
<b>Total Investments</b>	<u>\$ 11,384,452,272</u>

**Total Investments Reconciliation:**

	<u>Amount</u>
<b>University Statement of Net Position</b>	
Short-Term Investments	\$ 412,695,265
Restricted Short-Term Investments	152,658,924
Endowment Investments	3,173,504,846
Other Investments	<u>41,403,894</u>
Subtotal	<u>3,780,262,929</u>
<b>Discretely Presented Component Units</b>	
Investments of UNC Investment Fund Held for Component Units that are Discretely Presented in Accompanying Financial Statements	<u>995,447,677</u>
<b>Fiduciary Investments</b>	
Investments Presented in Accompanying Fiduciary Financial Statements	<u>6,727,298,877</u>
<b>Assets and Liabilities within Investment Pools*</b>	
Cash and Cash Equivalents	(98,657,295)
Accrued Investment Income Receivable	(3,038,983)
Accounts Receivable - Pending Trade	(52,296,205)
Other Assets	(412,173)
Accounts Payable / Accrued Expenses	12,906,445
Reverse Repurchase Liability	<u>22,941,000</u>
Subtotal	<u>(118,557,211)</u>
<b>Total Investments</b>	<u><u>\$ 11,384,452,272</u></u>

\*Investments held by the University, its Discretely Presented Component Units, or its beneficiaries, within the Investment Pools discussed in Note 2, are owned and recorded at the participant level. The participant level investment is proportionately equivalent to the Net Assets of the Investment Pools in which each participant invests. Therefore, to reconcile the ownership view to the security level Total Investments table (Note 2) we must eliminate the impact of other assets and other liabilities held within the Investment Pools.

**Component Unit** - Investments of the University’s discretely presented component unit, the UNC Health 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 UNC Health 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
Money Market Funds	\$ 3,563,965
Common Stock and ETF	5,550,647
Hatteras Venture Partners V, LP and other Alternatives	29,280,340
Mutual Funds - Equity Oriented	112,110,275
Mutual Funds - Credit Oriented	45,353,091
Annuity Contracts	13,061,035
Government Securities and Corporate Fixed Income	32,044,717
<b>Total Investments</b>	<b>\$ 240,964,070</b>

**NOTE 3 - FAIR VALUE MEASUREMENTS**

**University** - To the extent available, the University’s investments and derivatives are recorded at fair value as of June 30, 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities 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 or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

The following table summarizes the University’s proprietary and fiduciary fund investments, including deposits in the Short-Term Investment Fund and the discretely presented component units’ portion of the UNC Investment Fund, within the fair value hierarchy at June 30, 2021:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Investments by Fair Value Level</b>				
<b>Debt Securities</b>				
U.S. Treasuries	\$ 99,322,780	\$ 99,322,780	\$ 0	\$ 0
U.S. Agencies	135,617,450		135,617,450	
Mortgage Pass Throughs	9,442,925		9,442,925	
Collateralized Mortgage Obligations	86,053,564		86,053,564	
Asset-backed Securities	236,581,565		236,581,565	
Debt Mutual Funds	491,515,107	491,515,107		
Money Market Mutual Funds	780,715,859	780,715,859		
Domestic Corporate Bonds	12,906,440		12,906,440	
Foreign Corporate Bonds	16,042,979		16,042,979	
Foreign Government Bonds	6,885,771		6,885,771	
<b>Total Debt Securities</b>	<b>1,875,084,440</b>	<b>1,371,553,746</b>	<b>503,530,694</b>	
<b>Other Securities</b>				
International Mutual Funds	10,207,579	10,207,579		
Equity Mutual Funds	14,656,914	14,656,914		
Investments in Real Estate	4,072,774			4,072,774
Domestic Stocks	527,629,201	514,664,707		12,964,494
Foreign Stocks	19,394,284	18,636,776	757,508	
Gifted Life Insurance	2,787,791			2,787,791
Real Estate Investment Trust	73,494,346	73,494,346		
<b>Total Other Securities</b>	<b>652,242,889</b>	<b>631,660,322</b>	<b>757,508</b>	<b>19,825,059</b>
<b>Total Investments by Fair Value Level</b>	<b>2,527,327,329</b>	<b>\$ 2,003,214,068</b>	<b>\$ 504,288,202</b>	<b>\$ 19,825,059</b>
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Long/Short Hedge Funds	1,498,125,352			
Diversifying Hedge Funds	480,498,504			
Hedge Funds in Liquidation	17,707,094			
Long Only Hedge Funds	2,157,649,004			
Credit Based Commingled Hedge Funds	295,454,672			
Private Equity Limited Partnerships	3,912,481,511			
Real Assets Limited Partnerships	495,208,806			
<b>Total Investments Measured at the NAV</b>	<b>8,857,124,943</b>			
<b>Investments as a Position in an External Investment Pool</b>				
Short-Term Investment Fund	1,019,451,121			
<b>Total Investments Measured at Fair Value</b>	<b>\$ 12,403,903,393</b>			
<b>Derivative Instruments</b>				
<b>Hedging Derivative Instruments</b>				
Pay-Fixed Interest Rate Swaps	\$ (118,979,851)	\$ 0	\$ (118,979,851)	\$ 0
<b>Investment Derivative Instruments</b>				
Pay-Fixed Interest Rate Swap	(1,196,217)		(1,196,217)	
U.S. Dollar Equity Futures	412,173	417,173		
<b>Total Derivative Instruments</b>	<b>\$ (119,763,895)</b>	<b>\$ 417,173</b>	<b>\$ (120,176,068)</b>	<b>\$ 0</b>

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

**Debt and Equity Securities** - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing. Domestic stocks classified in Level 3 of the fair value hierarchy primarily represent equity interest in start-up technology companies and are valued based on 409A valuations or recent valuations from the companies themselves.

**Investments in Real Estate** - Investments in real estate classified in Level 3 of the fair value hierarchy are valued using a combination of recent appraisals, historical appraisals, or tax assessed value.

**Gifted Life Insurance** - Gifted Life Insurance policies classified in Level 3 of the fair value hierarchy are valued at the cash surrender value of the policies.

**Derivative Instruments** - Investment derivatives classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Interest rate swaps in the hedging and investment derivatives categories classified in Level 2 of the fair value hierarchy are valued based on present value using discounted cash flows.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2021.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/Short Hedge Funds <sup>A(b)</sup>	\$ 1,498,125,352	\$ 37,601,672	From Weekly to 3+ Years	1 to 365 Days
Diversifying Hedge Funds <sup>A(c)</sup>	480,498,504		From Weekly to 3+ Years	1 to 365 Days
Hedge Funds in Liquidation <sup>A(e)</sup>	17,707,094		From Weekly to 3+ Years	1 to 365 Days
Long Only Equity Hedge Funds <sup>A(a)</sup>	2,157,649,004		From Weekly to 3+ Years	1 to 365 Days
Credit-Based Commingled Hedge Funds <sup>A(d)</sup>	295,454,672		From Weekly to 3+ Years	1 to 365 Days
Private Equity Limited Partnerships <sup>B</sup>	3,912,481,511	1,056,221,270	Not Eligible	10-15 Years
Real Assets Limited Partnerships <sup>C</sup>	495,208,806	479,415,882	Not Eligible	10-15 Years
<b>Total Investments Measured at the NAV</b>	<b>\$ 8,857,124,943</b>			

**A. Hedge Funds** - For hedge funds, a combination of the following asset strategies is used:

(a) *Long Biased Equity* - Long biased equity managers are characterized by managers who adopt an investment strategy to primarily hold long positions in publicly listed equity securities to gain equity market exposure globally. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(b) *Long/Short Equity* - Long/short equity managers are characterized by a manager's ability to buy and/or sell short individual securities that they believe the market has mispriced relative to their fundamental intrinsic value. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities. The managers can from time to time use equity index futures, options on equity index futures, and specific risk options.

(c) *Diversifying Strategies* - Diversifying strategy managers use strategies that tend to be uncorrelated with major equity market indices. Diversifying strategies managers may use derivatives such as fixed income and equity futures both as a hedging tool and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets.

(d) *Fixed Income/Credit-Based Commingled Strategies* - Fixed income fund managers include credit-based commingled hedge funds and generally use strategies that are focused on income generation and provide diversification to the portfolio. They may use futures and options on global fixed income and currency markets and can enter into various swap agreements. These vehicles are used purely to hedge exposure to a given market or to gain exposure to an illiquid market.

(e) *Hedge Funds in Liquidation* - Hedge funds in liquidation represent funds that are either in the process of being terminated or have received notice of termination.

**B. Private Equity Limited Partnerships** - Private equity managers typically invest in equity investments and transactions in private companies (i.e., companies that are not publicly listed on any stock exchange). Private equity investments are illiquid and expected to provide higher returns than public equity investments over the long term, as well as controlling volatility.

The energy subsection of the private equity strategy is primarily used to hedge against unanticipated inflation. This can include direct energy investments, energy security investments, and limited partnerships. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

**C. Real Assets Limited Partnerships** - Real estate managers primarily serve as a hedge against unanticipated general price inflation but are also

a source of current income. Investments in this area include private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public Real Estate Investment Trusts (REIT's) that provide a more liquid means of gaining exposure to the asset class.

**Component Units** - Discretely presented component units' financial data are reported in separate financial statements because of their use of different reporting models. Complete financial statements including applicable disclosures for the UNC Health Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

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

Substantially all of the investments of the University's endowment funds are pooled in the Chapel Hill Investment Fund. 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. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI) unless the Board determines otherwise. Each year's distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund's average fair value for the previous year.

To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2021, accumulated income and appreciation of \$1,637,057,447 was available in the University's pooled endowment funds of which \$1,363,540,673 was restricted to specific purposes including scholarships and fellowships, research, library acquisitions, professorships, departmental, and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 7,716,075	\$ 4,123,202	\$ 3,592,873
Patients	220,211,504	123,835,178	96,376,326
Accounts	45,449,056	7,675	45,441,381
Intergovernmental	88,720,193	5,671,184	83,049,009
Pledges	44,196,951	1,659,667	42,537,284
Investment Earnings	196,036		196,036
Interest on Loans	1,024,553		1,024,553
Other	1,285,507		1,285,507
<b>Total Current Receivables</b>	<u>\$ 408,799,875</u>	<u>\$ 135,296,906</u>	<u>\$ 273,502,969</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 66,405,007</u>	<u>\$ 1,660,125</u>	<u>\$ 64,744,882</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 2,328,562	\$ 67,426	\$ 2,261,136
Institutional Student Loan Programs	1,981,888	99,089	1,882,799
<b>Total Notes Receivable - Current</b>	<u>\$ 4,310,450</u>	<u>\$ 166,515</u>	<u>\$ 4,143,935</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 13,038,042	\$ 352,516	\$ 12,685,526
Self-Help Ventures Fund	3,000,000		3,000,000
Institutional Student Loan Programs	13,998,504	695,688	13,302,816
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 30,036,546</u>	<u>\$ 1,048,204</u>	<u>\$ 28,988,342</u>

Pledges are receivable over varying time periods ranging from one to 10 years and have been discounted based on a projected interest rate of 0.38% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

Fiscal Year	Amount
2022	\$ 44,196,951
2023	21,271,965
2024	17,600,559
2025	14,975,313
2026	7,481,857
2027-2031	<u>5,685,881</u>
Total Pledge Receipts Expected	111,212,526
Less Discount Rate Amount Representing Interest (0.38% Rate of Interest)	<u>610,568</u>
Present Value of Pledge Receipts Expected	110,601,958
Less Allowance for Doubtful Accounts	<u>3,319,792</u>
Pledges Receivable, Net	<u>\$ 107,282,166</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2020 (as Restated)	Increases	Decreases	Balance June 30, 2021
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 70,302,204	\$ 0	\$ 0	\$ 70,302,204
Art, Literature, and Artifacts	164,413,960	1,144,384	350	165,557,994
Construction in Progress	114,740,569	87,725,684	57,092,588	145,373,665
Other Intangible Assets	2,162,777	50,000		2,212,777
<b>Total Capital Assets, Nondepreciable</b>	<b>351,619,510</b>	<b>88,920,068</b>	<b>57,092,938</b>	<b>383,446,640</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	3,361,736,729	124,827,227	25,142,284	3,461,421,672
Machinery and Equipment	479,590,051	19,382,122	2,935,758	496,036,415
General Infrastructure	991,883,025	6,468,882	2,729	998,349,178
Computer Software	121,695,628			121,695,628
<b>Total Capital Assets, Depreciable</b>	<b>4,954,905,433</b>	<b>150,678,231</b>	<b>28,080,771</b>	<b>5,077,502,893</b>
<b>Less Accumulated Depreciation/Amortization for:</b>				
Buildings	1,377,060,749	93,035,780	11,739,199	1,458,357,330
Machinery and Equipment	288,627,335	26,881,079	2,618,751	312,889,663
General Infrastructure	511,671,257	28,531,930	1,196	540,201,991
Computer Software	79,073,234	10,732,241		89,805,475
<b>Total Accumulated Depreciation/Amortization</b>	<b>2,256,432,575</b>	<b>159,181,030</b>	<b>14,359,146</b>	<b>2,401,254,459</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,698,472,858</b>	<b>(8,502,799)</b>	<b>13,721,625</b>	<b>2,676,248,434</b>
<b>Capital Assets, Net</b>	<b>\$ 3,050,092,368</b>	<b>\$ 80,417,269</b>	<b>\$ 70,814,563</b>	<b>\$ 3,059,695,074</b>

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Proprietary Fund	Fiduciary Fund
<b>Current Accounts Payable and Accrued Liabilities</b>		
Accounts Payable	\$ 79,896,049	\$ 4,673,309
Accounts Payable - Capital Assets	4,781,332	
Accrued Payroll	100,454,331	
Contract Retainage	883,211	
Intergovernmental Payables	13,575,854	
Investment Derivatives Liability	1,196,217	
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 200,786,994</b>	<b>\$ 4,673,309</b>
<b>Noncurrent Accounts Payable and Accrued Liabilities</b>		
Contract Retainage	\$ 1,962,774	\$ 0
Other	14,330,935	
<b>Total Noncurrent Accounts Payable and Accrued Liabilities</b>	<b>\$ 16,293,709</b>	<b>\$ 0</b>

**NOTE 8 - REVERSE REPURCHASE AGREEMENTS**

Under the University’s authority to purchase and sell securities, it has entered into fixed coupon reverse repurchase (reverse repurchase) agreements; that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$57,894.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University’s practice is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. The University’s investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

**NOTE 9 - SHORT-TERM DEBT**

Short-term debt activity for the year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Draws	Repayments	Balance June 30, 2021
Commercial Paper Program	\$ 35,000,000	\$ 0	\$ 35,000,000	\$ 0

The University manages a commercial paper (“CP”) program under the issuer name of the Board of Governors of the University of North Carolina that provides up to \$500,000,000 in short-term financing for the University’s and North Carolina State University’s (“NCSU”) capital improvement programs. Under this CP program, the University is authorized to issue up to \$400,000,000 and NCSU is authorized to issue up to \$100,000,000.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of outstanding commercial paper for the University under this program to \$250,000,000. This resolution does not impact NCSU. Contingent liquidity needs for the entire CP program are provided by the University and supported by a pledge of the University’s available funds.

During the fiscal year, the University continued to use its commercial paper program to provide low-cost bridge financing for capital projects with the intent to refinance all or a portion of the funding, through the issuance of long-term

bonds. The University began fiscal year 2021 with a balance of \$35 million in Commercial Paper, which was refunded in full with proceeds from the issuance of the General Revenue Bonds, Series 2021C. As of June 30, 2021, the University did not maintain an outstanding Commercial Paper balance.

**Terms of Debt Agreements** - Commercial paper balances held by the University are held under the University's General Revenue Pledge (General Revenue 2002A). The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the commercial paper, must declare the commercial paper immediately due and payable, whereupon it will, without further action, become due and payable.

**NOTE 10 - LONG-TERM LIABILITIES**

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 1,250,090,000	\$ 138,750,000	\$ 151,970,000	\$ 1,236,870,000	\$ 44,885,000
Revenue Bonds from Direct Placements	30,000,000	30,000,000		60,000,000	60,000,000
Plus: Unamortized Premium	267,496	38,726,248	40,597	38,953,147	
Less: Accretion of Discount on Capital Appreciation Bonds	(517,271)		(517,271)		
<b>Total Revenue Bonds Payable and Bonds from Direct Placements, Net</b>	<b>1,279,840,225</b>	<b>207,476,248</b>	<b>151,493,326</b>	<b>1,335,823,147</b>	<b>104,885,000</b>
Notes from Direct Borrowings	54,214,779	16,600,000	747,507	70,067,272	1,552,810
Capital Leases Payable	877,031		420,581	456,450	296,444
<b>Total Long-Term Debt</b>	<b>1,334,932,035</b>	<b>224,076,248</b>	<b>152,661,414</b>	<b>1,406,346,869</b>	<b>106,734,254</b>
Other Long-Term Liabilities					
Annuities and Life Income Payable	44,579,544	11,816,186	4,542,874	51,852,856	879,901
Employee Benefits					
Compensated Absences	196,728,986	120,609,718	113,010,653	204,328,051	9,475,832
Net Pension Liability	329,223,453	50,338,524		379,561,977	
Net Other Postemployment Benefits Liability	2,186,043,474		255,406,205	1,930,637,269	
Workers' Compensation	14,900,433	847,661	2,044,592	13,703,502	2,777,078
<b>Total Other Long-Term Liabilities</b>	<b>2,771,475,890</b>	<b>183,612,089</b>	<b>375,004,324</b>	<b>2,580,083,655</b>	<b>13,132,811</b>
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 4,106,407,925</b>	<b>\$ 407,688,337</b>	<b>\$ 527,665,738</b>	<b>\$ 3,986,430,524</b>	<b>\$ 119,867,065</b>

Additional information regarding capital leases payable is included in Note 12.  
 Additional information regarding the net pension liability is included in Note 16.  
 Additional information regarding the net other postemployment benefits liability is included in Note 17.  
 Additional information regarding worker's compensation is included in Note 18.

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2021	Principal Outstanding June 30, 2021
General Revenue Bonds Payable	2001B	5.230%*	12/01/2025	\$ 54,970,000	\$ 44,035,000	\$ 10,935,000
	2001C	0.010%*	12/01/2025	54,970,000	44,035,000	10,935,000
	2012B	4.775%*	12/01/2041	100,000,000		100,000,000
	2012C	2.435%-3.596%	12/01/2033	127,095,000	35,405,000	91,690,000
	2014	3.713%-3.847%	12/01/2034	265,600,000	15,600,000	250,000,000
	2016C	1.778%-3.327%	12/01/2036	400,950,000	21,085,000	379,865,000
	2017	2.851%-3.326%	12/01/2038	110,225,000	6,455,000	103,770,000
	2019A	3.970%*	12/01/2041	100,000,000		100,000,000
	2019B	3.439%*	12/01/2034	50,925,000		50,925,000
	2021B	5.000%	12/01/2040	103,525,000		103,525,000
	2021C	0.203%-1.830%	12/01/2031	35,225,000		35,225,000
Total General Revenue Bonds				1,403,485,000	166,615,000	1,236,870,000
General Revenue Bonds from Direct Placements	2012D	1.400%	06/01/2042	30,000,000		30,000,000
	2021A	1.400%	03/01/2051	30,000,000		30,000,000
Total General Revenue Bonds from Direct Placements				60,000,000		60,000,000
<b>Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)</b>				<b>\$ 1,463,485,000</b>	<b>\$ 166,615,000</b>	<b>\$ 1,296,870,000</b>
Plus: Unamortized Premium						38,953,147
<b>Total Revenue Bonds Payable and Bonds from Direct Placements, Net</b>						<b>\$ 1,335,823,147</b>

\* For variable rate debt, interest rates in effect at June 30, 2021 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

**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 Paid Through June 30, 2021	Principal Outstanding June 30, 2021
Real Property Purchase	Bank of America	3.55%	02/14/2025	\$ 9,250,000	\$ 7,424,200	\$ 1,825,800
Real Property Purchase	Nationwide	4.26%	02/01/2037	55,300,000	4,923,113	50,376,887
Real Property Improvements	Nationwide	4.26%	02/01/2037	8,800,000		8,800,000
Real Property Improvements	The State Life Insurance Company	3.40%	01/01/2036	1,400,000	8,742	1,391,258
Real Property Improvements	The State Life Insurance Company	3.40%	01/01/2036	6,400,000	39,965	6,360,035
Line of Credit	Bank of America	0.90%	04/30/2024	1,313,292		1,313,292
<b>Total Notes from Direct Borrowings</b>				<b>\$ 82,463,292</b>	<b>\$ 12,396,020</b>	<b>\$ 70,067,272</b>

On July 1, 2009, the UNC-Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the “Borrowers”; individually, the “Foundation”, former, or “Real Estate Holdings”, the latter), entered into a loan agreement with Bank of America, N.A. for \$45.8 million to fund the acquisition of student housing and rental real property.

In December 2011, Real Estate Holdings formed a new North Carolina limited liability company called Granville Towers, LLC (the Company). Real Estate Holdings is the sole manager and member of the Company and

transferred the Granville Towers condominium unit to the single purpose Company (that purpose being to own and operate Granville Towers). On December 15, 2011, the Company obtained a \$36.5 million loan from Aviva Life and Annuity Company. The proceeds were used to pay down the original Bank of America \$45.8 million loan, decreasing the outstanding balance to \$9.3 million.

On February 14, 2014, the Borrowers executed a modification agreement with Bank of America, N.A. with respect to the original loan amount of \$45.8 million which had an outstanding balance of \$9.3 million. The loan was paid down by \$4.3 million, and the remaining \$5.0 million was refinanced at a fixed rate of 3.55% for the term with no change to the provision whereby the University Foundation and the Corporation are joint obligors to the Bank. On December 8, 2020, the agreement was further modified to reduce debt service payments to interest only payments for a period of twelve consecutive months ending and not including December 14, 2021. The modification of the loan agreement extended the maturity of the loan to February 14, 2025.

The Granville Towers-University Square financing contains a cross-default provision and two related covenant requirements. The first covenant requires that the Foundation and Holdings shall maintain on a consolidated basis, unrestricted, unencumbered liquid assets of not less than \$5,000,000. The second covenant involves the annual calculation of a Cash Flow Coverage Ratio wherein the ratio of Cash Flow is evaluated against the sum of the current portion of long-term debt and the current portion of capitalized lease obligations, plus interest expense on all obligations. The Cash Flow Coverage Ratio maintained must be at least 1.2 as defined above. The Bank waived the cash flow coverage ratio requirement for June 30, 2021. Additionally, the Foundation shall not have outstanding or incur any direct or contingent liabilities or lease obligations (other than (1) liabilities owed to the Bank, including any borrowings under the Foundation's current line of credit with the Bank (the "Line of Credit"), (2) liabilities with respect to split interest agreements placed with the Borrower, (3) rent and expenses associated with a Permitted Lease, (4) liabilities with respect to accrued operating expenses, and (5) liabilities with respect to the principal amount outstanding under the Refinancing), in excess of \$5,000,000 in the aggregate, or become liable for the liabilities of others, without the Bank's written consent.

The balance on the Granville Towers-University Square note was \$2.0 million as of June 30, 2020. In fiscal year 2021, the Foundation paid down \$0.2 million on the note. A balance of \$1.8 million remains on the note as of June 30, 2021.

On January 30, 2017, Granville Towers, LLC obtained a loan from Nationwide Life Insurance Company (the "Lender") in the amount of \$55.3 million. The proceeds were used to pay the outstanding principal of \$33.5 million Aviva Life and Annuity Company note and related financing expenses. The remaining balance of the proceeds are being used to acquire or improve or protect an interest in real property which interest in

real property is the only security for the loan or the fair market value of such interest in real property is at least equal to 80% of the principal amount of the loan.

The principal and interest payments for the note to the Lender are made in two hundred forty (240) consecutive monthly installments, calculated with an amortization period of twenty-five (25) years, the sum of \$299,891 paid on the 1st day of March 2017, and on the first day of each month thereafter until the first day of February 2037, on which date the entire balance of principal and interest then unpaid is due and payable. On October 29, 2020 the terms of the loan were amended to reduce debt service payments to interest only payments for a period of eleven consecutive months ending and not including November 1, 2021. The interest rate is calculated at the rate of 4.26% per annum. The loan carries a default rate up to 5.0 percentage points higher than the rate of interest otherwise due. The loan contains a cross-default provision and is secured by a first deed of trust on the Granville Towers Property in addition to certain assignments to include leases, rents, and profits derived from the property and with certain exceptions, carries limited recourse to the University Foundation and Real Estate Holdings.

The balance on Granville Towers note was \$50.9 million as of June 30, 2020. In fiscal year 2021, the Foundation paid down \$0.5 million on the note. A balance of \$50.4 million remains on the note as of June 30, 2021.

The UNC-Chapel Hill Foundation, Inc. (the "Foundation"), part of the University's reporting entity, has a line of credit agreement issued by Bank of America, N.A. to finance the costs of projects approved by the Board of Directors of the Foundation. On November 10, 2016, the Foundation increased the commitment amount of the line of credit from \$4.0 million to \$7.0 million. On April 30, 2021, the \$7.0 million line of credit was amended and renewed, increasing the commitment amount to \$10.0 million and extending the structured maturity date. Advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 80 basis points. An unused commitment fee is due each quarter calculated as 24 basis points of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due.

Under the terms of the line of credit, the Foundation shall not incur any additional indebtedness without the prior written consent of the Bank. Once the note for Granville Towers-University Square has been paid in full, the Foundation may incur additional indebtedness of up to \$10,000,000, in the aggregate, without the consent of the Bank.

The direct borrowing line of credit contains a cross-default provision and a covenant requirement that the Foundation's Total Unrestricted Net Assets as of the end of each fiscal year shall be at least \$15,000,000. Under the line of credit, the principal and accrued but unpaid interest may be declared

immediately due and payable upon the terms and conditions as provided in the Line of Credit Agreement in the event of default.

Outstanding draws against the line of credit totaled \$1.3 million at June 30, 2020. In fiscal year 2021, the Foundation maintained the balance on the line of credit leaving an available balance of \$8.7 million at June 30, 2021. The line of credit commitment has a maturity date of April 30, 2024. The June 30, 2021 outstanding balance of \$1.3 million is not included in current liabilities.

On December 15, 2020, Granville Towers LLC obtained a supplemental loan from Nationwide Life Insurance Company (the "Lender") in the amount of \$8.8 million ("Note B") for certain improvements related to HVAC replacement to supplement Note A (described above) on the condition that the Note A loan and Note B loan be cross-defaulted and cross-collateralized. Under condition of the loan, Granville Towers, LLC has agreed to a Cash Collateral Agreement ("Deposit") by which proceeds from the Note B loan and additional funds are to be deposited, held and disbursed for the benefit of the Property and to pay debt service due under Note A and Note B. Note B carries a subjective clause whereby on November 1, 2021 Granville Towers, LLC is to submit to Nationwide a certified rent roll, operating statements for the Property, and such other Financial Statements as the Lender may request. Based on review of such documentation, the Lender shall confirm whether the in-place net operating income generated by the Property, as determined by the Lender, is sufficient to cover the debt service due on Note A and Note B (based on amortizing payments of \$299,890.90 per month with respect to Note A and amortizing payments of \$54,396.07 per month with respect to Note B), at a combined debt service coverage of 1.20x or greater (the "Achievement Threshold"). If either (i) the Achievement Threshold is satisfied, or (ii) the Achievement Threshold is not satisfied, but a deposit of a sum equal to six months of debt service payments due under Note A and Note B as calculated by the Lender ("Replenishment Reserve") with First Citizens Bank or another institution approved in advance by the Lender ("Agent"), then the Note B interest rate shall be reduced to 4.00% effective on December 1, 2021 and the principal and interest due under Note B shall be reduced to \$53,181.75 per month beginning with the Note B Principal and Interest Payment Date occurring on January 1, 2022 and continuing through February 1, 2037 whereby all unpaid principal and interest outstanding on the note would become due. In the event of default Granville Towers, LLC appoints Lender as its true and lawful attorney-in-fact with full power of substitution to complete or undertake the Work in the name of the Borrower secured by the HVAC Deposit. As of June 30, 2021 the remaining cash balance of the Deposit following distributions was \$7,320,680. Upon the occurrence of a default under any of the Loan Documents, Borrower hereby authorizes Lender, and Lender shall have full right and authority, (i) to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for the Deposit, (ii) to execute any and all withdrawal receipts or other orders for the payment of money drawn on the Deposit, (iii) to endorse the name of Borrower on all commercial paper or other instruments given in payment or in part payment

thereof, and (iv) in the discretion of Lender, to file any claim or take any other action or proceeding, either in Borrower's name or in its own name, which Lender may reasonably deem necessary or appropriate to protect and preserve the rights of Lender. Agent shall be entitled to rely on Lender's statement in writing that a default has occurred and shall, upon Lender's request after the receipt of such a statement, turn the Deposit so requested over to Lender without any right to investigate the actual occurrence or non-occurrence of a default under any of the Loan Documents and the expiration of any applicable cure period. As of June 30, 2021 the balance of Note B was \$8.8 million.

On December 14, 2020 the Chapel Hill Foundation Real Estate Holdings Inc. as Borrower, in conjunction with the UNC-Chapel Hill Foundation, Inc. as Guarantor obtained two loans totaling \$7.8 million from The State Life Insurance Company (Note A for \$6.4 million and Note B for \$1.4 million, respectively) to finance real estate and certain improvements related to properties held by the Borrower. Both notes carry an interest rate of 3.40% per annum and a combined debt service payment of \$31,786 beginning February 1, 2021 and extending to January 1, 2036 at which point any unpaid principal and interest remaining on either loan becomes due and payable. Note A and Note B are secured in part by certain rents generated from a first priority mortgage and second priority mortgage deed of trust on the Carolina Square Project in addition to any and all leases and sums due and payable to the Borrower thereunder including without limitation all rentals, termination fees, sales proceeds, and all other income and profits arising out of the ownership and operation of the property in the event of default. As of June 30, 2021, the balance on Note A was \$6.4 million and the balance of Note B was \$1.4 million.

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

Fiscal Year	Annual Requirements						
	Revenue Bonds Payable			Revenue Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest	Principal	Interest
2022	\$ 26,985,000	\$ 32,007,579	\$ 10,140,853	\$ 0	\$ 840,000	\$ 1,552,810	\$ 2,844,182
2023	35,235,000	31,725,731	10,049,418		840,000	2,487,897	2,753,069
2024	36,050,000	31,070,496	9,953,119		840,000	3,904,336	2,647,952
2025	36,930,000	30,352,354	9,851,524		840,000	2,499,053	2,531,281
2026	39,780,000	29,536,004	9,744,459		840,000	2,197,296	2,435,584
2027-2031	211,950,000	130,739,495	48,540,813		4,200,000	12,483,660	10,680,741
2032-2036	491,645,000	72,305,252	44,698,114		4,200,000	20,850,414	7,684,713
2037-2041	158,295,000	10,183,167	32,307,488		4,200,000	24,091,806	657,302
2042-2046	200,000,000		2,692,291	30,000,000	2,485,000		
2047-2051				30,000,000	1,960,000		
<b>Total Requirements</b>	<b>\$ 1,236,870,000</b>	<b>\$ 367,920,078</b>	<b>\$ 177,978,079</b>	<b>\$ 60,000,000</b>	<b>\$ 21,245,000</b>	<b>\$ 70,067,272</b>	<b>\$ 32,234,824</b>

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.02% at June 30, 2021.

Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.01% at June 30, 2021.

Interest on the variable rate General Revenue Bonds 2012B is calculated at 0.47% at June 30, 2021.

Interest on the variable rate Bond from Direct Placement held under the General Revenue Bond 2012D is calculated at 1.40% at June 30, 2021.

Interest on the variable rate General Revenue Bonds 2019A is calculated at 0.19% at June 30, 2021.

Interest on the variable rate General Revenue Bonds 2019B is calculated at 0.19% at June 30, 2021.

Interest on the variable rate Bond from Direct Placement held under the General Revenue Bond 2021A is calculated at 1.40% at June 30, 2021.

Interest rates on General Revenue Bonds 2001 Series B and Series C are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions.

Interest rate on General Revenue Bonds 2012 Series B is based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 40 basis points.

Interest rates on General Revenue Bonds 2019 Series A and B are based on 67% of the 1-month LIBOR index rate plus an interest rate spread of 12.5 basis points.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 11 - Derivative Instruments.

\*Computed using (5.240%-0.030%) x (\$9,435,000 notional amount-annual swap reduction); (4.375%-0.067%) x (\$150,000,000 notional amount); and (3.314%-0.067%) x (\$100,000,000 notional amount).

The fiscal year 2022 principal requirements exclude demand bonds classified as current liabilities (see Note 10E).

For the 2012B, 2019A, and 2019B bonds disclosed below, the University entered into standby liquidity agreements in the amount of \$100 million with TD Bank, N.A. on September 18, 2019, \$100 million with Bank of America, N.A. on September 1, 2018 (effective September 19, 2018), \$100 million with Branch Banking and Trust Company on September 19, 2018, and \$100 million with TD Bank, N.A. on September 19, 2017. Under each standby liquidity agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or commercial paper bonds) delivered for purchase. Under each standby liquidity agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days' prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each standby liquidity agreement in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by S&P Global Ratings (S&P), Fitch Ratings (Fitch) or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the rating in the

below table shall apply. In the event of a split rating (i.e., one or more of the rating agency's ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

Facility Fee						
S&P	Fitch	Moody's	Bank of America, N.A.	Branch Banking and Trust Company	TD Bank, N.A. dated September 19, 2017	TD Bank, N.A. dated September 18, 2019
AA+ or higher	AA+ or higher	Aa1 or higher	0.30%	0.30%	0.26%	0.23%
AA	AA	Aa2	0.30%	0.40%	0.31%	0.23%
AA-	AA-	Aa3	0.30%	0.50%	0.36%	0.28%
A+	A+	A1	0.40%	0.60%	0.46%	0.33%
A	A	A2	0.55%	0.70%	0.56%	0.38%
A-	A-	A3	0.75%	0.85%	1.56%	0.48%
BBB+	BBB+	Baa1	Default Pricing***	0.85%	1.56%	0.58%
BBB	BBB	Baa2	Default Pricing***	0.85%	1.56%	0.68%
BBB-	BBB-	Baa3	Default Pricing***	0.85%	1.56%	Base Rate*
Below Investment Grade	Below Investment Grade		Default Pricing***	0.85%	1.56%	Default Rate**

\* Per annum rate of interest equal to the greater of (a) the Federal Funds Rate plus 2.00% and (b) the Prime Rate

\*\* Per annum rate of interest equal to the greater of (a) the Base Rate plus 3.00% and (b) 7.00% or otherwise permitted under applicable law

\*\*\* An increase of an additional 1.50% over the Facility Fee Rate otherwise in effect immediately prior (Max. 2.25%)

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each standby liquidity agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding.

The standby liquidity agreement with TD Bank, N.A. (dated September 18, 2019), Branch Banking and Trust Company, TD Bank, N.A. (dated September 19, 2017), and Bank of America, N.A., expire on September 18, 2024, September 19, 2023, September 19, 2022, and September 17, 2021 respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2021, no purchase drawings had been made under the standby liquidity agreements. See Note 25 for information on date extensions.

*General Revenue, Series 2012B*

The 2012B Bond has a maturity date of December 1, 2041 and carries an index tender date for the new Index Mode of November 9, 2022. The 2012B bond bears interest at the index rate, which is the rate per-annum determined monthly equal to 67.0% of One Month LIBOR plus an applicable spread of 0.40% (40 basis points).

The Series 2012B Bond is in Index Mode and is subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date, to and including such index tender date, at a redemption price equal to 100% of the principal amount called for redemption, plus accrued interest, if any, to the date of redemption. In addition, and also at the discretion of the University during the period beginning six months prior to the index tender date for such 2012B Bonds, the interest rate can be reset which would trigger a redemption requirement and a remarketing.

If the funds available to purchase the 2012B Bonds tendered on an index tender date are not sufficient to pay the purchase price, a Delayed Remarketing Period will commence on such index tender date and the failure to purchase tendered bonds will not constitute an event of default under the Indentures. The Delayed Remarketing Period will continue to (but not include) the earlier of (a) the date on which all such 2012B Bonds are successfully remarketed or (b) the date on which all of such 2012B Bonds have been deemed to have been paid and are no longer outstanding.

During a Delayed Remarketing Period for a Series of 2012B Bonds, unless the 2012B Bonds of such Series have been remarketed, the 2012B Bonds of such Series shall be subject to special mandatory redemption. Beginning with the first such June 1 or December 1 that occurs not less than six months following the date of commencement of the applicable Delayed Remarketing Period and ending on the sixth June 1 or December 1, the 2012B Bonds shall be repaid in six equal (or as equal as possible) semiannual installments on the special mandatory redemption date established herein. The final installment will be due and payable no later than the sixth special mandatory redemption date after the commencement of the applicable Delayed Remarketing Period.

The Annual Requirements schedule presents the 2012B Bonds as amortizing to full maturity. In the event of a failed remarket, the 2012B bonds would become due in six semiannual payments as set forth in the Delayed Remarketing Period, to be fully paid off in a period of three years after the respective index tender date established herein. Under the failed remarket scenario total principal payments would increase by \$16,666,667, \$33,333,333, \$33,333,333, and \$16,666,667 in fiscal years 2023, 2024, 2025, and 2026, respectively.

*General Revenue, Series 2019AB*

On behalf of the University, the Board of Governors for the University of North Carolina System issued General Revenue Bonds Series 2019AB on February 21, 2019. The 2019A Bonds have a maturity date of December 1, 2041 and the 2019B Bonds carry a mandatory sinking fund redemption in the principal amount of \$10,025,000 on December 1, 2033 and have a maturity date of December 1, 2034. On June 17, 2021 the 2019AB bonds were successfully remarketed and received a new index tender date of November 9, 2022 corresponding to an Index Mode. While in this mode, the bonds will bear interest at the index rate, which will be the rate per-annum determined monthly equal to 67.0% of One Month LIBOR plus an applicable spread of 0.125% (12.5 basis points).

In the event of a failed remarket of the 2019AB bonds beyond November 9, 2022, the bond payments would equal \$25,154,167, \$50,308,333, \$50,308,333, and \$25,154,167 in fiscal years 2023, 2024, 2025, and 2026, respectively.

- E. Demand Bonds** - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

*General Revenue, Series 2001B and 2001C*

In 2001, the University issued two series of variable rate demand bonds in the amount of \$54.97 million (2001B) and \$54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; Housing System, Series 2000; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with a seven-day notice and delivery to the University’s Remarketing Agents; J.P. Morgan Securities, Inc. (2001B) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into standby liquidity agreements in the amount of \$100 million with TD Bank, N.A. on September 18, 2019, \$100 million with Bank of America, N.A. on September 1, 2018 (effective September 19, 2018), \$100 million with Branch Banking and Trust

Company on September 19, 2018, and \$100 million with TD Bank, N.A. on September 19, 2017. Under each standby liquidity agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or commercial paper bonds) delivered for purchase. Under each standby liquidity agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days' prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each standby liquidity agreement in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by S&P Global (S&P), Fitch Ratings (Fitch) or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency's ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

		Facility Fee					
S&P	Fitch	Moody's	Bank of America, N.A.	Branch Banking and Trust Company	TD Bank, N.A. dated September 19, 2017	TD Bank, N.A. dated September 18, 2019	
AA+ or higher	AA+ or higher	Aa1 or higher	0.30%	0.30%	0.26%	0.23%	
AA	AA	Aa2	0.30%	0.40%	0.31%	0.23%	
AA-	AA-	Aa3	0.30%	0.50%	0.36%	0.28%	
A+	A+	A1	0.40%	0.60%	0.46%	0.33%	
A	A	A2	0.55%	0.70%	0.56%	0.38%	
A-	A-	A3	0.75%	0.85%	1.56%	0.48%	
BBB+	BBB+	Baa1	Default Pricing***	0.85%	1.56%	0.58%	
BBB	BBB	Baa2	Default Pricing***	0.85%	1.56%	0.68%	
BBB-	BBB-	Baa3	Default Pricing***	0.85%	1.56%	Base Rate*	
Below Investment Grade	Below Investment Grade		Default Pricing***	0.85%	1.56%	Default Rate**	

\* Per annum rate of interest equal to the greater of (a) the Federal Funds Rate plus 2.00% and (b) the Prime Rate

\*\* Per annum rate of interest equal to the greater of (a) the Base Rate plus 3.00% and (b) 7.00% or otherwise permitted under applicable law

\*\*\* An increase of an additional 1.50% over the Facility Fee Rate otherwise in effect immediately prior (Max. 2.25%)

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each standby liquidity agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding.

The standby liquidity agreement with TD Bank, N.A. (dated September 18, 2019), Branch Banking and Trust Company, TD Bank, N.A. (dated September 19, 2017), and Bank of America, N.A., expire on September 18, 2024, September 19, 2023, September 19, 2022, and September 17, 2021 respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2021, no purchase drawings had been made under the standby liquidity agreements. See Note 25 for information on date extensions.

*General Revenue, Series 2012D*

On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II - Carolina Student Athlete Center for Excellence". On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30.0 million and extending the maturity to June 1, 2042. All other terms listed below remained the same.

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days' prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days' prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of commercial paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum. As of June 30, 2021, no accrued interest payable remained for the 2012D direct placement bond. With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

#### *General Revenue Bonds, Series 2021A*

On March 24, 2021, the University issued a direct placement bond in the amount of \$30 million with maturity date of March 1, 2051, to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Indoor Practice Facility and Fetzer Field), Series 2021A" (the "2021A Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to the Indoor Practice Facility and Fetzer Field on the University's campus.

Interest will be payable on the 2021A Bond on each July 1st, commencing July 1, 2021, and on the prepayment date of the 2021A Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2021A Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2021A Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2021A Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal of and interest on the 2021A Bond made directly by the University to the Owner of the 2021A Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with

respect to the 2021A Bond to the Debt Service Fund under the General Indenture.

The 2021A Bond may be tendered by the Owner of the 2021A Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2021A Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2021A Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum. As of June 30, 2021, no accrued interest payable remained for the 2021A direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

- F. 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** - Bonds held by the University to include General Revenue 2001BC, General Revenue 2012BC, General Revenue 2014, General Revenue 2016C, General Revenue 2017, General Revenue 2019AB, and General Revenue 2021BC are all held under the University's General Revenue Pledge. The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal, premium or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds immediately due and payable, whereupon they will, without further action, become due and payable.

**Revenue Bonds from Direct Placements** - On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain

improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase II — Carolina Student Athlete Center for Excellence".

On March 24, 2021, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Indoor Practice Facility and Fetzer Field), Series 2021A" (the "2021A Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to the Indoor Practice Facility and Fetzer Field on the University's campus.

The 2012D and 2021A Bonds may be tendered by the Owner of the Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D and 2021A Bonds are held under the University's General Revenue Pledge. The General Trust Indenture does not contain any non-standard events of default and is limited to provisions related to failure to pay principal, premium or interest on such obligations. On the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds immediately due and payable, whereupon they will, without further action, become due and payable.

**Notes from Direct Borrowings** - The Granville Towers-University Square financing contains a cross-default provision and two related covenant requirements. The first covenant requires that the Foundation and Holdings shall maintain on a consolidated basis, unrestricted, unencumbered liquid assets of not less than \$5,000,000. The second covenant involves the annual calculation of a Cash Flow Coverage Ratio wherein the ratio of Cash Flow is evaluated against the sum of the current portion of long-term debt and the current portion of capitalized lease obligations, plus interest expense on all obligations. The Cash Flow Coverage Ratio maintained must be at least 1.2 as defined above. The Bank waived the cash flow coverage ratio requirement for June 30, 2021. Additionally, The Foundation shall not have outstanding or incur any direct or contingent liabilities or lease obligations (other than (1) liabilities owed to the Bank, including any borrowings under the Foundation's current line of credit with the Bank (the "Line of Credit"), (2) liabilities with respect to split interest agreements placed with the Borrower, (3) rent and expenses associated with a Permitted Lease, (4) liabilities with respect to accrued operating expenses, and (5) liabilities with respect to the principal amount outstanding under the Refinancing), in excess of \$5,000,000 in the aggregate, or become liable for the liabilities of others, without the Bank's written consent. In the event of default and upon declaration by the bank the balance of the loan as well as any accrued but unpaid interest would become immediately due and payable. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due.

The Granville Towers loan contains a cross-default provision and is secured by a first deed of trust on the Granville Towers Property in addition

to certain assignments to include leases, rents, and profits derived from the property and with certain exceptions, carries limited recourse to the University Foundation and Real Estate Holding. The carrying value of the Granville Towers Property at June 30, 2021 was \$40,125,759. In the event of default and upon declaration by the bank the balance of the loan as well as any accrued but unpaid interest would become immediately due and payable. The interest rate is calculated at the rate of 4.26 percent per annum. The loan carries a default rate up to 5.0 percentage points higher than the rate of interest otherwise due.

The UNC-Chapel Hill Foundation, Inc. (the "Foundation"), part of the University's reporting entity, has an unused line of credit in the amount of \$8.7 million. Under the terms of the line of credit, the Foundation shall not incur any additional indebtedness without the prior written consent of the Bank. Once the note payable for Granville Towers-University Square has been paid in full, the Foundation may incur additional indebtedness beyond the line of credit of up to \$10,000,000, in the aggregate, without the consent of the Bank.

The direct borrowing line of credit contains a cross-default provision and a covenant requirement that the Foundation's Total Unrestricted Net Assets as of the end of each fiscal year shall be at least \$15,000,000. Under the line of credit, the principal and accrued but unpaid interest may be declared immediately due and payable upon the terms and conditions as provided in the Line of Credit Agreement in the event of default. The loan carries a default rate up to 4.0 percentage points higher than the rate of interest otherwise due.

On December 15, 2020, Granville Towers LLC obtained a loan in the amount of \$8.8 million ("Note B") for certain improvements related to HVAC replacement to supplement Note A on the condition that the Note A loan and Note B loan be cross-defaulted and cross-collateralized. Under condition of the loan, Granville Towers, LLC has agreed to a Cash Collateral Agreement by which proceeds from the Note B loan and additional funds are to be deposited, held and disbursed for the benefit of the Property and to pay debt service due under Note A and Note B. As of June 30, 2021, the remaining cash balance of the Deposit under the Cash Collateral Agreements following distributions was \$7,320,680. Upon the occurrence of a default under any of the Loan Documents, Borrower hereby authorizes Lender, and Lender shall have full right and authority, (i) to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for the Deposit, (ii) to execute any and all withdrawal receipts or other orders for the payment of money drawn on the Deposit, (iii) to endorse the name of Borrower on all commercial paper or other instruments given in payment or in part payment thereof, and (iv) in the discretion of Lender, to file any claim or take any other action or proceeding, either in Borrower's name or in its own name, which Lender may reasonably deem necessary or appropriate to protect and preserve the rights of Lender. Agent shall be entitled to rely on Lender's statement in writing that a default has occurred and shall, upon Lender's request after the receipt of such a statement, turn the Deposit so requested over to

Lender without any right to investigate the actual occurrence or non-occurrence of a default under any of the Loan Documents and the expiration of any applicable cure period.

On December 14, 2020 the Chapel Hill Foundation Real Estate Holdings Inc. as Borrower, in conjunction with the UNC-Chapel Hill Foundation, Inc. as Guarantor obtained two loans totaling \$7.8 million. Note A and Note B are secured in part by certain rents generated from a first priority mortgage and second priority mortgage deed of trust on the Carolina Square Project in addition to any and all leases and sums due and payable to the Borrower thereunder including without limitation all rentals, termination fees, sales proceeds, and all other income and profits arising out of the ownership and operation of the property in the event of default.

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

On June 17, 2021 the University issued \$103,525,000 in General Revenue Bonds, Series 2021B with an associated premium of \$38,726,248 and an average interest rate of 5.000%. A portion of the bonds were issued for a current refunding of \$112,805,000 of outstanding General Revenue 2009B bonds with an average interest rate of 5.757%. The refunding was undertaken to reduce total debt service payments related to General Revenue 2009B by \$30,598,481 over the next 19 years and resulted in an economic gain of \$26,567,419.

The University has extinguished long-term debt obligations through the use of existing resources as follows:

On February 23, 2021 the University defeased \$8,410,000 of outstanding Utilities System 1997 bonds using only existing resources which derived from reserve requirements associated with the bonds. The debt was defeased to alleviate the need for additional reserve requirements associated with the bonds and to return those excess reserves back to the University in the current year. Cash assets of \$8,410,000 derived from the debt service reserve associated with the bonds were placed with the escrow agent. The substitution of any other asset class other than cash is prohibited by formal instruction of defeasance and the amount of cash flows required to service the defeased debt is \$8,410,000. The cash assets were deposited in an irrevocable trust to provide for all future debt service on the defeased bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

**H. Annuities Payable** - The University participates in irrevocable split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the

beneficiaries are calculated using the 2012 IAR mortality table, thus taking into consideration beneficiary's age and the amount of the gift.

**NOTE 11 - DERIVATIVE INSTRUMENTS**

Derivative instruments held at June 30, 2021 are as follows:

Type	Notional Amount	Change in Value		Value at June 30, 2021	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed Interest Rate Swap	\$ 100,000,000	Deferred Outflow of Resources	\$ 11,768,305	Hedging Derivative Liability	\$ (32,204,707)
Pay-Fixed Interest Rate Swap	150,000,000	Deferred Outflow of Resources	26,381,456	Hedging Derivative Liability	(86,775,144)
Total			\$ 38,149,761		\$ (118,979,851)
<i>Investment Derivative Instruments</i>					
Pay-Fixed Interest Rate Swap 2001B Bonds	\$ 9,435,000	Investment Income	\$ 646,344	Accounts Payable	(1,196,217)
U.S. Dollar Equity	267,823,070	Investment Income	103,764,403	Other Assets	412,173
Total			\$ 104,410,747		\$ (784,044)

Hedging derivative instruments held at June 30, 2021 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable-Rate Debt	\$ 100,000,000	12/1/2007	12/1/2036	Pay 3.314%, Receive 67% 1 Mo. LIBOR
Pay-Fixed Interest Rate Swap	Hedge Changes in Cash Flows on Variable-Rate Debt	\$ 150,000,000	12/1/2011	12/1/2041	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University were provided by a financial advisor. The method used by the financial advisor calculates the future net settlement payments required by the swap and assumes that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve on hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Hedging Derivative Risks**

*Interest Rate Risk:* The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair

value as of June 30, 2021. The fair values are calculated as of June 30, 2021 and are based on the 1-month LIBOR implied forward rate, which trended up in fiscal year 2021 relative to fiscal year 2020. As a result, the fair values have increased on a year over year basis, which decreases the liability.

*Basis Risk:* The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

*Termination Risk:* The swap agreements use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

**Investment Derivative Risks**

*Interest Rate Risk:* The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of \$1,196,217 as of June 30, 2021. The negative fair value may be countered by a reduction in total interest paid under the variable-rate bonds, creating lower synthetic interest rates. As forward rates rise, the fair value of the swap will increase and as rates fall, the fair value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2021, SIFMA was 0.03%. The interest rate swap has a notional amount of \$9,435,000 and matures November 1, 2025.

**NOTE 12 - LEASE OBLIGATIONS**

**A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 302,632
2023	161,210
Total Minimum Lease Payments	463,842
Amount Representing Interest (1.8% - 2.1% Rates of Interest)	<u>7,392</u>
<b>Present Value of Future Lease Payments</b>	<b><u>\$ 456,450</u></b>

Machinery and equipment acquired under capital lease amounted to \$1,201,143 at June 30, 2021.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$477,386 at June 30, 2021.

**B. Operating Lease Obligations** - The University entered into operating leases for equipment, buildings, and land. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 26,663,191
2023	24,863,547
2024	21,919,939
2025	19,442,695
2026	13,258,427
2027-2031	23,429,561
2032-2033	148,570
<b>Total Minimum Lease Payments</b>	<b>\$ 129,725,930</b>

Rental expense for all operating leases during the year was \$30,822,690.

**NOTE 13 - 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	\$ (227,474,652)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(2,596,654,343)</u>
Effect on Unrestricted Net Position	(2,824,128,995)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>1,486,189,978</u>
<b>Total Unrestricted Net Position</b>	<b><u>\$ (1,337,939,017)</u></b>

See Notes 16 and 17 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

**NOTE 14 - REVENUES**

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	\$ 557,388,244	\$ 145,266,384	\$ 50,072	\$ 0	\$ 412,071,788
Patient Services, Net	\$ 1,260,322,294	\$ 0	\$ 22,079,553	\$ 693,033,167	\$ 545,209,574
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises	\$ 307,989,691	\$ 3,519,673	\$ 0	\$ 0	\$ 304,470,018
Other Sales and Services	92,898,931				92,898,931
<b>Total Sales and Services, Net</b>	<b>\$ 400,888,622</b>	<b>\$ 3,519,673</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 397,368,949</b>
<b>Nonoperating Revenues:</b>					
Noncapital Contributions, Net	\$ 400,113,953	\$ 0	\$ 294,314	\$ 0	\$ 399,819,639

**NOTE 15 - 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	\$ 598,305,453	\$ 146,770,366	\$ 0	\$ 159,977	\$ 0	\$ 745,235,796
Research	355,742,335	276,733,948		147,226		632,623,509
Public Service	69,502,799	66,525,264		117,456		136,145,519
Academic Support	90,589,688	46,075,816		63,526		136,729,030
Student Services	22,923,301	6,435,922		18,766		29,377,989
Institutional Support	116,182,350	74,116,784		118,625		190,417,759
Operations and Maintenance of Plant	45,525,492	13,996,670		70,628,440		130,150,602
Student Financial Aid			121,919,611			121,919,611
Auxiliary Enterprises	513,524,684	332,855,562		7,986,489		854,366,735
Depreciation/ Amortization					159,181,030	159,181,030
<b>Total Operating Expenses</b>	<b>\$ 1,812,296,102</b>	<b>\$ 963,510,332</b>	<b>\$ 121,919,611</b>	<b>\$ 79,240,505</b>	<b>\$ 159,181,030</b>	<b>\$ 3,136,147,580</b>

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$15,177,717 provided by the 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 14.

## NOTE 16 - PENSION PLANS

**A. Defined Benefit Plan**

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

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

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were \$30,335,386 and the University's contributions were \$74,775,435 for the year ended June 30, 2021.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2020 *Comprehensive Annual Financial Report*. An

electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2020 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2021, the University reported a liability of \$379,561,977 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 3.14155%, which was a decrease of 0.03415 from its proportion measured as of June 30, 2019, which was 3.17570%.

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

Valuation Date	12/31/2019
Inflation	3%
Salary Increases*	3.5% - 8.1%
Investment Rate of Return**	7%

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

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

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

The actuarial assumptions used in the December 31, 2019 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (the valuation date) are summarized in the following table

<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, 2020 is 1.2%.

*Discount Rate:* The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2019 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan at June 30, 2020 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

<b>Net Pension Liability</b>		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 683,122,414	\$ 379,561,977	\$ 124,937,590

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2021, the University recognized pension expense of \$112,369,587. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 20,915,906	\$ 0
Changes of Assumptions	12,862,291	
Net Difference Between Projected and Actual Earnings on Plan Investments	41,975,663	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,288,439	730,409
Contributions Subsequent to the Measurement Date	74,775,435	
<b>Total</b>	<b>\$ 152,817,734</b>	<b>\$ 730,409</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 ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2022	\$ 27,701,692
2023	20,629,807
2024	16,475,483
2025	12,504,908
<b>Total</b>	<b>\$ 77,311,890</b>

- B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join ORP instead of TSERS.

The Board of Governors of the University of North Carolina is responsible for the administration of ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under ORP and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Member and employer contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2021, these rates were set at 6% of covered payroll for members and 6.84% of covered payroll for employers. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$1,482,645,397, of which \$740,236,992 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$44,414,220 and \$50,632,210, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$2,066,626.

**NOTE 17 - OTHER POSTEMPLOYMENT BENEFITS**

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

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

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

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

## **B. Plan Descriptions**

### **1. Health Benefits**

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

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

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

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits

for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 18. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

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

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

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go

basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2021 was 6.68% of covered payroll. The University's contributions to the RHBF were \$83,243,495 for the year ended June 30, 2021.

## 2. Disability Income

*Plan Administration:* As discussed in Note 18, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the

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

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

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were \$1,121,544 for the year ended June 30, 2021.

**C. Net OPEB Liability (Asset)**

*Net OPEB Liability:* At June 30, 2021, the University reported a liability of \$1,930,637,269 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The University's proportion of the net OPEB liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University's proportion was 6.95955%, which was an increase of 0.05033 from its proportion measured as of June 30, 2019, which was 6.90922%.

*Net OPEB Asset:* At June 30, 2021, the University reported an asset of \$3,489,129 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. The University’s proportion of the net OPEB asset was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2020, the University’s proportion was 7.09259%, which was an increase of 0.16946 from its proportion measured as of June 30, 2019, which was 6.92313%.

*Actuarial Assumptions:* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2020 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

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

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed

income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2020.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2020 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

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

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits

funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

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

The actuarial assumptions used in the December 31, 2019 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 2.21%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan’s fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

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

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

Net OPEB Liability (Asset)				
	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)	
RHBF	\$ 2,289,614,977	\$ 1,930,637,269	\$ 1,641,422,951	
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)	
DIPNC	\$ (3,013,358)	\$ (3,489,129)	\$ (3,951,069)	

*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:

<b>Net OPEB Liability (Asset)</b>			
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	\$ 1,556,443,645	\$ 1,930,637,269	\$ 2,430,800,097
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	\$ (3,494,874)	\$ (3,489,129)	\$ (3,484,093)

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

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ (74,922,705)
DIPNC	2,576,712
<b>Total OPEB Expense</b>	<b>\$ (72,345,993)</b>

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 1,749,017	\$ 2,527,586	\$ 4,276,603
Changes of Assumptions	84,669,463	271,292	84,940,755
Net Difference Between Projected and Actual Earnings on Plan Investments	4,067,094		4,067,094
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	146,674,266		146,674,266
Contributions Subsequent to the Measurement Date	<u>83,243,495</u>	<u>1,121,544</u>	<u>84,365,039</u>
<b>Total</b>	<u>\$ 320,403,335</u>	<u>\$ 3,920,422</u>	<u>\$ 324,323,757</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 75,528,905	\$ 0	\$ 75,528,905
Changes of Assumptions	783,483,086	274,767	783,757,853
Net Difference Between Projected and Actual Earnings on Plan Investments		591,096	591,096
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>127,408,418</u>	<u>248,462</u>	<u>127,656,880</u>
<b>Total</b>	<u>\$ 986,420,409</u>	<u>\$ 1,114,325</u>	<u>\$ 987,534,734</u>

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

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

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2022	\$ (293,948,920)	\$ 668,952
2023	(293,736,916)	431,633
2024	(71,843,692)	190,344
2025	(29,704,380)	343,969
2026	(60,026,661)	10,183
Thereafter		39,472
<b>Total</b>	<b>\$ (749,260,569)</b>	<b>\$ 1,684,553</b>

**NOTE 18 - 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.

**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 employee, \$2,000,000 per occurrence, and \$5,000,000 annual aggregate through a contract with a private insurance company. The State provides a secondary excess public officers' and employees' liability insurance with a \$5,000,000 annual aggregate. The University pays the premium, based on a composite rate, directly to the private insurer.

**UNC Investment Fund, LLC (Blended Component Unit) Liability Insurance** - The UNC Investment Fund is exposed to various risks of loss related to, without limitation, torts, theft of assets, and errors and omissions. The Management Company is a separate legal entity from the University of North Carolina System and the University. However, the Management Company's employees conduct UNC Investment Fund's affairs. Therefore, certain exposures to loss are handled by the purchase of commercial insurance by the

Management Company. This insurance is independent of the risk management programs of the University of North Carolina System and the University.

**Fire and Other Property Loss** - 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, such as housing units or athletic facilities, are charged for the coverage. The University has opted to purchase additional coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

**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.

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the State's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, and study abroad health insurance.

**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.

**Liability Insurance Trust Fund** - The University participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and the University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and The University of North Carolina at Chapel Hill Faculty Physicians (UNC Faculty Physicians), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, UNC Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with UNC Hospitals. Only UNC Faculty Physicians and UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer (each serving at the pleasure of the appointer); and nine members appointed by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of \$100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2020 through June 30, 2021, the Trust Fund provided coverage on an occurrence basis of \$3,000,000 per individual and \$7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing commercial reinsurance, participants contributed approximately \$10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2021, the Trust Fund purchased a direct insurance policy to cover the first \$1,000,000 per occurrence and \$3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to \$30,000,000, in the event that the Trust Fund may have

insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2021, University assets in the Trust Fund totaled \$16,602,869, while University liabilities totaled \$14,330,935 resulting in net position of \$2,271,934.

Additional disclosures about the funding status and obligations of the Trust Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from the University of North Carolina Health Care System, 5221 Paramount Parkway, Suite 230, Morrisville, NC 27650.

**State Health Plan** - University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 17, Other Postemployment Benefits, for additional information regarding retiree health benefits.

**Death Benefit Plan of North Carolina** - Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

**Disability Income Plan** - Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 17, 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.

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

**NOTE 19 - COMMITMENTS AND CONTINGENCIES**

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$86,292,587 at June 30, 2021.

The UNC Investment Fund has entered into agreements with hedge funds, private equity limited partnerships, and real assets limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2021, the UNC Investment Fund had approximately \$1,555,347,727 in unfunded committed capital. There was also unfunded committed capital related to other private equity investments outside of the UNC Investment Fund noted above in the amount of \$17,891,097 as of June 30, 2021.

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

**C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at June 30, 2021 are as follows:

Purpose	Amount
Pledges to Permanent Endowments	\$ 43,284,645

**NOTE 20 - THE CORONAVIRUS PANDEMIC EMERGENCY**

In response to the coronavirus pandemic emergency, the federal government provided grants to the State and the University through various coronavirus program funds appropriated by (1) The Coronavirus Aid, Relief, and Economic Security Act (CARES), (2) The Coronavirus Response and Relief Supplemental

Appropriations within the Federal Consolidated Appropriations Act of 2021 (CRRSA), and (3) The American Rescue Plan Act of 2021 (ARP).

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

**State Aid – COVID-19** - This caption includes grant funds received directly by the State from the U.S. Department of Treasury, Coronavirus Relief Fund (CRF), and appropriated by the State to the University.

**Federal Aid - COVID-19** - This caption includes grant funds received directly by the University from the U.S. Department of Education, Higher Education Emergency Relief Funds (HEERF), along with grant funds from the US Department of Health and Human Services.

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

Program	Total Authorized Award	2020 Earned Revenue	2021 Earned Revenue
<b>State Aid - COVID-19:</b>	N/A	\$ 0	\$ 47,967,574
<b>Federal Aid - COVID-19:</b>			
HEERF Funds	88,277,565	1,127,185	27,732,833
Provider Relief Fund		4,707,239	1,091,561
<b>Total Federal Aid - COVID-19</b>	N/A	\$ 5,834,424	\$ 28,824,394

**NOTE 21 - RELATED PARTIES**

There are 12 separately incorporated nonprofit foundations associated with the University. These foundations are The Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The School of Government Foundation, Inc., The Morehead-Cain Scholarship Fund, UNC Eshelman School of Pharmacy Foundation, The School of Media and Journalism Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Incorporated, UNC Law Foundation, Inc., and Carolina for Kibera, Inc.

Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of

these organizations, except amounts reported within the fiduciary statements and support from each organization to the University. This support totaled \$77,660,395 for the year ended June 30, 2021. The University had receivables from and payables to the related parties of \$12,298,744 and \$18,772 respectively, as of June 30, 2021.

**NOTE 22 - INVESTMENT IN JOINT VENTURES**

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method and valued at \$10,168,980. The University is partners with Michigan State University, U.S. National Optical Astronomy Observatory, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.1-meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University 16.7% of observing time until 2023. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Vascular Access Center, a joint venture accounted for under the equity method and valued at \$627,131. The University is partners with Capital Nephrology and Durham Nephrology and has a 40.0% share. This joint venture provides dialysis services to patients in Orange, Durham and Wake counties. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of the Carolina Behavioral Health Alliance, a joint venture accounted for under the equity method and valued at \$416,020. The University is partners with Wake Forest Baptist Medical Center and East Carolina University and has a 33.3% share. The joint venture specializes in managed mental health benefit plans serving the Winston-Salem and Charlotte areas. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270 or by calling (919) 962-1370.

The University is a member of Qura Therapeutics, a joint venture accounted for under the equity method and valued at \$3,007,938. The University entered into this joint-venture, an equal partnership agreement, in May 2015 with GSK. In mid-October 2018 GSK transferred their shares to ViiV Healthcare. The terms and conditions of the May 2015 agreement remains the same. The University and ViiV, through Qura Therapeutics, provides financial and material support to the partnership. The audited financial statements for the joint venture may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The University is a member of TRO Ventures, LLC, a joint venture accounted for under the equity method and valued at \$1,834,749. The University is partners with UNC Hospitals and Rex Healthcare, Inc. The University has a

31.85% share of TRO Ventures, LLC. The joint venture provides radiation therapy services to patients in Raleigh and Wake County, North Carolina and the surrounding areas. The audited financial statements may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 7599-1270, or by calling (919) 962-1370.

The University is a member of WR Imaging, LLC, a joint venture accounted for under the equity method and valued at \$1,461,400. The University is partners with Rex Hospital, Inc. The University has a 2.0% share of WR Imaging, LLC. The joint venture provides outpatient imaging services to patients in Wake County and the surrounding areas, including through the engagement of professional clinical services provided by the University's School of Medicine Department of Radiology. The audited financial statements may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

**NOTE 23 - BLENDED COMPONENT UNITS**

Condensed combining information for the University's blended component units for the year ended June 30, 2021, is presented as follows:

**Condensed Statement of Net Position  
Proprietary Fund  
June 30, 2021**

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	The Kenan-Flagler Business School Foundation	Other Blended Component Units*	Eliminations	Total
<b>ASSETS</b>						
Current Assets	\$ 1,894,919,931	\$ 58,059,151	\$ 58,917,000	\$ 42,804,980	\$ 0	\$ 2,054,701,062
Capital Assets, Net	2,942,297,626	114,836,240		2,561,208		3,059,695,074
Other Noncurrent Assets	2,623,156,674	599,274,961	179,851,817	44,898,332	6,149,953	3,453,331,737
Total Assets	7,460,374,231	772,170,352	238,768,817	90,264,520	6,149,953	8,567,727,873
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	605,346,131					605,346,131
<b>LIABILITIES</b>						
Current Liabilities	460,120,190	13,070,710	30,842	13,461,633	6,149,953	492,833,328
Long-Term Liabilities, Net	3,720,523,323	138,901,157		7,138,979		3,866,563,459
Other Noncurrent Liabilities	148,282,090			5,018,604		153,300,694
Total Liabilities	4,328,925,603	151,971,867	30,842	25,619,216	6,149,953	4,512,697,481
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	991,982,207	18,462,014				1,010,444,221
<b>NET POSITION</b>						
Net Investment in Capital Assets	1,607,829,423	46,082,259		2,561,208		1,656,472,890
Restricted - Nonexpendable	574,791,766	222,204,408	152,852,140			949,848,314
Restricted - Expendable	2,011,059,641	279,147,034	84,388,221	6,955,219		2,381,550,115
Unrestricted	(1,448,868,278)	54,302,770	1,497,614	55,128,877		(1,337,939,017)
Total Net Position	\$ 2,744,812,552	\$ 601,736,471	\$ 238,737,975	\$ 64,645,304	\$ 0	\$ 3,649,932,302

\*Other Blended Component Units include UNC Management Company, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

Investments of the blended component units specified in the above table include investments held by those units within the Chapel Hill Investment Fund, UNC Investment Fund, and the UNC Intermediate Pool blended component

## NOTES TO THE FINANCIAL STATEMENTS

units. Investments held by the University, its blended component units, discretely presented component units, or its beneficiaries, within these investment pool blended component units, are owned and recorded at the participant level in the unit which holds the investment. The participant level investment is proportionately equivalent to the net assets of the investment pools in which each participant invests. Therefore, the total net assets of the Chapel Hill Investment Fund, UNC Investment Fund, and the UNC Intermediate Pool are not shown explicitly in separate columns above but are reflected in the blended units that hold the investments, in discretely presented component units' financial statements, or in the fiduciary financial statements.

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

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	The Kenan-Flagler Business School Foundation	Other Blended Component Units*	Eliminations	Total
<b>OPERATING REVENUES</b>						
Student Tuition and Fees, Net	\$ 407,771,788	\$ 0	\$ 4,300,000	\$ 0	\$ 0	\$ 412,071,788
Grants and Contracts	959,214,843					959,214,843
Sales and Services, Net	909,549,702	8,562,737		24,466,084		942,578,523
Other Operating Revenues	4,937,488			1,038,896	91,744	6,068,128
Total Operating Revenues	2,281,473,821	8,562,737	4,300,000	25,504,980	91,744	2,319,933,282
<b>OPERATING EXPENSES</b>						
Operating Expenses	2,927,785,660	10,258,140	5,577,087	33,345,663		2,976,966,550
Depreciation/Amortization	156,926,930	2,119,943		134,157		159,181,030
Total Operating Expenses	3,084,712,590	12,378,083	5,577,087	33,479,820		3,136,147,580
Operating Loss	(803,238,769)	(3,815,346)	(1,277,087)	(7,974,840)	91,744	(816,214,298)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment Income, Net	889,534,492	152,968,220	45,644,620	11,058,767		1,099,206,099
Other, Net	957,192,235	(5,736,604)	23,906,445	8,401,981	(81,045)	983,683,012
Net Nonoperating Revenues	1,846,726,727	147,231,616	69,551,065	19,460,748	(81,045)	2,082,889,111
Income Before Other Revenues	1,043,487,958	143,416,270	68,273,978	11,485,908	10,699	1,266,674,813
Capital Contributions	78,871,011					78,871,011
Additions to Endowments	19,329,029	14,391,602	761,878		(10,699)	34,471,810
Total Other Revenues	98,200,040	14,391,602	761,878		(10,699)	113,342,821
Increase in Net Position	1,141,687,998	157,807,872	69,035,856	11,485,908		1,380,017,634
<b>NET POSITION</b>						
Net Position, July 1, 2020	1,603,124,554	443,928,599	169,702,119	53,159,396		2,269,914,668
Net Position, June 30, 2021	\$ 2,744,812,552	\$ 601,736,471	\$ 238,737,975	\$ 64,645,304	\$ 0	\$ 3,649,932,302

\*Other Blended Component Units include UNC Management Company, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

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

	The University of North Carolina at Chapel Hill	The University of North Carolina at Chapel Hill Foundation, Inc.	The Kenan-Flagler Business School Foundation	Other Blended Component Units*	Total
Net Cash Provided (Used) by Operating Activities	\$ (826,913,593)	\$ 4,779,380	\$ (1,274,117)	\$ 2,739,677	\$ (820,668,653)
Net Cash Provided by Noncapital Financing Activities	947,952,118	18,697,771	14,414,082	2,920,327	983,984,298
Net Cash Used by Capital and Related Financing Activities	(113,073,927)	(6,000,339)		(342,642)	(119,416,908)
Net Cash Provided (Used) by Investing Activities	188,264,006	(14,484,662)	(2,953,007)	(2,786,641)	168,039,696
Net Increase in Cash and Cash Equivalents	196,228,604	2,992,150	10,186,958	2,530,721	211,938,433
Cash and Cash Equivalents, July 1, 2020, as Restated	809,831,924	54,724,900	27,045,311	28,414,797	920,016,932
Cash and Cash Equivalents, June 30, 2021	\$ 1,006,060,528	\$ 57,717,050	\$ 37,232,269	\$ 30,945,518	\$ 1,131,955,365

\*Other Blended Component Units include UNC Management Company, Inc., WUNC Public Radio, LLC, HVPV Holdings, LLC, and Carolina Research Ventures, LLC.

**NOTE 24 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

*GASB Statement No. 84, Fiduciary Activities*

*GASB Statement No. 93, Replacement of Interbank Offered Rates*

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

*GASB Statement No. 98, The Annual Comprehensive Financial Report*

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

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

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in

circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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

**NOTE 25 - NET POSITION RESTATEMENT**

As of July 1, 2020, net position as previously reported was restated as follows:

	Fiduciary Activities – Custodial Funds		
	External Investment Pool	Other Funds	Total
July 1, 2020 Net Position as Previously Reported	\$ 0	\$ 0	\$ 0
Restatement			
GASB Statement No. 84 Implementation	4,009,372,064	37,136,151	4,046,508,215
<b>July 1, 2020 Net Position as Restated</b>	<b>\$ 4,009,372,064</b>	<b>\$ 37,136,151</b>	<b>\$ 4,046,508,215</b>

The University’s fiduciary activities were previously reported within the proprietary fund in single-column financial statements. Because fiduciary assets were accompanied by offsetting liabilities, these activities previously did not report a net position balance. Following the implementation of GASB Statement No. 84, the University’s fiduciary activities are now reported on separate financial statements. As a result, fiduciary net position was restated to \$4,046,508,215 as of July 1, 2020. This restatement had no effect on the July 1, 2020 net position of the University’s proprietary fund. However, on the Statement of Cash Flows, beginning cash and cash equivalents were restated and in Note 6 – Capital Assets, beginning capital assets were restated for balances that are now reported on the Statement of Fiduciary Net Position.

**NOTE 26 - SUBSEQUENT EVENT**

The University extended the \$100 million standby liquidity facility with Bank of America, N.A. that was scheduled to expire on September 17, 2021 so as to provide continuous liquidity coverage. The extended liquidity facility carries a four-year term with a new expiration date of September 17, 2025. See Note 10D and Note 10E for additional details regarding this agreement.



# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit D-1**

<b>Teachers' and State Employees' Retirement System</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proportionate Share Percentage of Collective Net Pension Liability	3.14155%	3.17570%	3.17515%	3.11981%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 379,561,977	\$ 329,223,453	\$ 316,120,760	\$ 247,539,484
Covered Payroll	\$ 506,075,117	\$ 507,759,996	\$ 498,130,872	\$ 480,647,184
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	75.00%	64.84%	63.46%	51.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Proportionate Share Percentage of Collective Net Pension Liability	3.09361%	3.12227%	3.22422%	3.20010%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 284,334,716	\$ 115,061,832	\$ 37,801,432	\$ 194,278,679
Covered Payroll	\$ 460,471,749	\$ 451,281,663	\$ 457,366,996	\$ 460,281,538
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	61.75%	25.50%	8.27%	42.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

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

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

**Exhibit D-2**

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 74,775,435	\$ 65,637,943	\$ 62,403,703	\$ 53,698,508	\$ 47,968,589
Contributions in Relation to the Contractually Determined Contribution	<u>74,775,435</u>	<u>65,637,943</u>	<u>62,403,703</u>	<u>53,698,508</u>	<u>47,968,589</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$ 505,923,105	\$ 506,075,117	\$ 507,759,996	\$ 498,130,872	\$ 480,647,184
Contributions as a Percentage of Covered Payroll	14.78%	12.97%	12.29%	10.78%	9.98%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 42,133,165	\$ 41,292,272	\$ 39,745,192	\$ 38,341,452	\$ 33,975,672
Contributions in Relation to the Contractually Determined Contribution	<u>42,133,165</u>	<u>41,292,272</u>	<u>39,745,192</u>	<u>38,341,452</u>	<u>33,975,672</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll	\$ 460,471,749	\$ 451,281,663	\$ 457,366,996	\$ 460,281,538	\$ 456,662,258
Contributions as a Percentage of Covered Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

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

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

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*Changes of Benefit Terms:*

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

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

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

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

N/A - Not Applicable

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

**Exhibit D-3**

	2021	2020	2019	2018	2017
<b>Retiree Health Benefit Fund</b>					
Proportionate Share Percentage of Collective Net OPEB Liability	6.95955%	6.90922%	6.76376%	6.36069%	7.24839%
Proportionate Share of Collective Net OPEB Liability	\$ 1,930,637,269	\$ 2,186,043,474	\$ 1,926,872,329	\$ 2,085,455,588	\$ 3,153,296,023
Covered Payroll	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	156.13%	181.38%	168.16%	190.99%	297.95%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>					
Proportionate Share Percentage of Collective Net OPEB Asset	7.09259%	6.92313%	6.91392%	6.80968%	6.66043%
Proportionate Share of Collective Net OPEB Asset	\$ 3,489,129	\$ 2,987,331	\$ 2,100,172	\$ 4,162,076	\$ 4,163,127
Covered Payroll	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969	\$ 1,058,316,661
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.28%	0.25%	0.18%	0.38%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	113.00%	108.47%	116.23%	116.06%

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

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

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

**Exhibit D-4**

<b>Retiree Health Benefit Fund</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Contractually Required Contribution	\$ 83,243,495	\$ 80,006,887	\$ 75,566,063	\$ 69,324,559	\$ 63,440,899
Contributions in Relation to the Contractually Determined Contribution	83,243,495	80,006,887	75,566,063	69,324,559	63,440,899
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,246,160,097	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969
Contributions as a Percentage of Covered Payroll	6.68%	6.47%	6.27%	6.05%	5.81%
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Contractually Required Contribution	\$ 59,265,733	\$ 55,554,649	\$ 53,247,759	\$ 51,582,373	\$ 47,027,478
Contributions in Relation to the Contractually Determined Contribution	59,265,733	55,554,649	53,247,759	51,582,373	47,027,478
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,058,316,661	\$ 1,011,924,390	\$ 986,069,611	\$ 973,252,321	\$ 940,549,560
Contributions as a Percentage of Covered Payroll	5.60%	5.49%	5.40%	5.30%	5.00%
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Disability Income Plan of North Carolina</b>					
Contractually Required Contribution	\$ 1,121,544	\$ 1,236,582	\$ 1,687,281	\$ 1,604,205	\$ 4,149,319
Contributions in Relation to the Contractually Determined Contribution	1,121,544	1,236,582	1,687,281	1,604,205	4,149,319
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,246,160,097	\$ 1,236,582,485	\$ 1,205,200,371	\$ 1,145,860,475	\$ 1,091,925,969
Contributions as a Percentage of Covered Payroll	0.09%	0.10%	0.14%	0.14%	0.38%
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Contractually Required Contribution	\$ 4,339,098	\$ 4,148,890	\$ 4,338,706	\$ 4,282,310	\$ 4,890,858
Contributions in Relation to the Contractually Determined Contribution	4,339,098	4,148,890	4,338,706	4,282,310	4,890,858
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,058,316,661	\$ 1,011,924,390	\$ 986,069,611	\$ 973,252,321	\$ 940,549,560
Contributions as a Percentage of Covered Payroll	0.41%	0.41%	0.44%	0.44%	0.52%

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

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

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

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

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

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

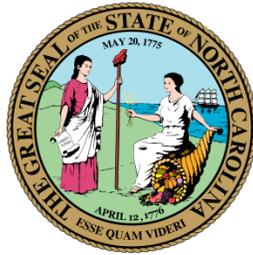
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

*Method and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 17 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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



# **INDEPENDENT AUDITOR'S REPORT**

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



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

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

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Board of Trustees  
The University of North Carolina at Chapel Hill  
Chapel Hill, 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 business-type activities and fiduciary activities of The University of North Carolina at Chapel Hill (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 units, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 29, 2021. Our report includes a reference to other auditors who audited the financial statements of the UNC Investment Fund, LLC, UNC Intermediate Pool, LLC, The University of North Carolina at Chapel Hill Foundation, Inc., The Kenan-Flagler Business School Foundation, and the University's discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University's blended and discretely presented component units 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 29, 2021

# ORDERING INFORMATION

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**919-807-7666**



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This audit required 1,570 hours at an approximate cost of \$166,420.