

STATE OF NORTH CAROLINA

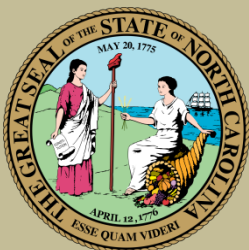
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



FAYETTEVILLE STATE UNIVERSITY

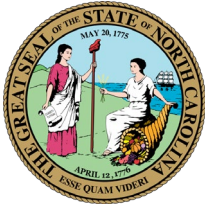
FAYETTEVILLE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2021

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Fayetteville State University 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.

Beth A. Wood, CPA
State Auditor

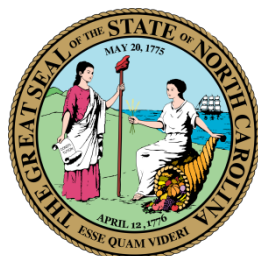


**Beth A. Wood, CPA
State Auditor**

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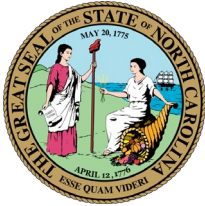
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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding.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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville State University
Fayetteville, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fayetteville State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 financial position of Fayetteville State University, as of June 30, 2021, and the changes in financial position and 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 Fayetteville State University Foundation, Inc., and Subsidiary, which represent 5.9 percent and 2.3 percent, respectively, of the assets and revenues of the University; nor the financial statements of Fayetteville State University Housing Corporation and Subsidiary, which represents less than one percent of the respective assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Basis for Opinion

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 Fayetteville State University 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 opinion.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended June 30, 2021, Fayetteville State University 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 opinion is 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 opinion. 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 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

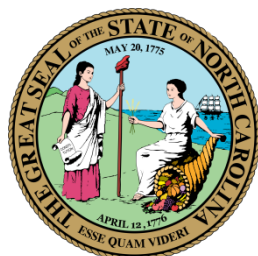
In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

October 28, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Fayetteville State University (University) provides this Management's Discussion and Analysis to assist in understanding the financial statements and the related Notes to the Financial Statements presented herewith for the year ended June 30, 2021, and includes comparative data for the year ended June 30, 2020. The discussion describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. This discussion, along with the financial statements and Notes to the Financial Statements, has been prepared by and is the responsibility of the University's management. The report, including this discussion and analysis, should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, Notes to the Financial Statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that the University's financial statements be presented on a consolidated basis. These standards were used in the preparation of this document. The statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Position.

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, accounts receivable, accounts payable, revenues, expenses, required information on pension plans, other postemployment benefits, insurance against losses, commitments and contingencies. If necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the University's financial statement period is also provided. Overall, these Notes to the Financial Statements provide information to better understand details, risk, and uncertainties associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the University using accounting methods similar to those used in the private-sector. Although legally separate, the Fayetteville State University Student Housing Corporation and Subsidiary (Corporation) and the Fayetteville State University Foundation, Inc., and Subsidiary (Foundation) are component units of the University and are reported as if they were part of the University. The Foundation includes, as a subsidiary, the Fayetteville State University Housing Foundation, LLC (Housing Foundation), which owns University Place Apartments (UPA). Operations of the Corporation and Foundation are blended with the University's financial statements and are included in this Management's Discussion and Analysis.

Financial Highlights

Net position for the University increased \$35.81 million, which is an increase of 118.81%. The increase in net position was primarily due to a reduction in the net OPEB liability of \$17.36 million and an increase in state and Federal emergency funding for the fiscal year of \$19.48 million. See the Statement of Revenues, Expenses, and Changes in Net Position for explanations of changes.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The statement is a point-in-time fiscal snapshot of the University. From the data presented, readers of the Statement of Net Position can determine the assets available to continue the operations of the University. They are also able to determine how much the University owes to vendors and others and how much is held for future use by the University or others. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the University.

Net position is divided into categories to show the availability to meet University obligations. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment. The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the University's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for use by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the University for any lawful purpose of the University. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives.

Condensed Statement of Net Position (in millions)

	2021	2020	Increase/ (Decrease)
Assets:			
Current Assets	\$ 32.72	\$ 19.16	\$ 13.56
Noncurrent Assets:			
Capital Assets, Net	182.03	175.85	6.18
Other	42.96	31.68	11.28
Total Assets	<u>257.71</u>	<u>226.69</u>	<u>31.02</u>
Deferred Outflows of Resources:			
Deferred Outflows for Pensions	9.74	9.53	0.21
Deferred Outflows for Other Postemployment Benefits	15.07	18.50	(3.43)
Total Deferred Outflows of Resources	<u>24.81</u>	<u>28.03</u>	<u>(3.22)</u>
Liabilities:			
Current Liabilities			
Long-Term Liabilities - Current Portion	4.15	3.88	0.27
Other Current Liabilities	8.08	5.79	2.29
Noncurrent Liabilities			
Long-Term Liabilities, Net	158.03	175.66	(17.63)
Other Noncurrent Liabilities	1.55	1.55	-
Total Liabilities	<u>171.81</u>	<u>186.88</u>	<u>(15.07)</u>
Deferred Inflows of Resources:			
Deferred Inflows for Pensions	0.74	0.15	0.59
Deferred Inflows for Other Postemployment Benefits	44.02	37.55	6.47
Total Deferred Inflows of Resources	<u>44.76</u>	<u>37.70</u>	<u>7.06</u>
Net Position:			
Net Investment in Capital Assets	125.15	116.93	8.22
Restricted:			
Nonexpendable	13.56	12.72	0.84
Expendable	32.97	19.85	13.12
Unrestricted	<u>(105.73)</u>	<u>(119.36)</u>	<u>(13.63)</u>
Total Net Position	<u>\$ 65.95</u>	<u>\$ 30.14</u>	<u>\$ 35.81</u>

Net Position categories are defined in Note 1N of the Notes to the Financial Statements.

At June 30, 2021, the University's total net position was \$65.95 million. The University's largest asset category was capital assets, net of \$182.03 million, representing 70.63% of total assets. Capital assets, net increased by \$6.18 million due to additions in construction in progress for the Lyons Science Building. Readers interested in more detailed information on capital assets can refer to Note 6 - Capital Assets. Current assets increased by \$13.56 million primarily due to an increase of \$7.83 million in cash and \$6.18 million in current receivables from Federal Aid - COVID 19 funds to help offset lost in-person instruction fee revenues and other related expenditures and projects. Other noncurrent assets increased by \$11.28 million primarily due to a \$7.82 million increase in endowment investments.

Deferred outflows of resources saw a \$3.22 million decrease. Of this, deferred outflows of resources for other postemployment benefits (OPEB) decreased by \$3.43 million and was primarily due to the change in proportion of the University's share of the state's net OPEB

liability and differences between the University's contributions and the University's proportionate share of contributions to the State Health Plan. Deferred outflows for pensions increased by \$0.21 million. This was driven by changes in actuarial assumptions about future economic or demographic factors as well as investment earnings being less than the 7.00% expected earnings during the reporting period.

More information regarding the University's liabilities related to both pension and other postemployment benefits plans can be located in Notes 13 and 14 to the Financial Statements.

The University's liabilities totaled \$171.81 million at June 30, 2021. Current liabilities of \$12.23 million include accounts payable and accrued liabilities, unearned revenue, interest payable, and the current portion of long-term liabilities.

Noncurrent liabilities of \$159.58 million consist mainly of \$52.62 million in bonds payable and notes from direct borrowing, \$23.80 million in net pension liability, \$75.04 million in net OPEB liability, \$3.76 million in compensated absences, and \$2.18 million in workers compensation.

Total noncurrent liabilities decreased \$17.63 million primarily due to a \$17.36 million decrease in the net OPEB liability related to the change in proportion of the University's share of the state's net OPEB liability and differences between the University's contributions and the University's proportionate share of contributions to the State Health Plan. See Notes 13 and 14 of the Notes to the Financial Statements for more details.

The University's current assets of \$32.72 million covered the current liabilities of \$12.23 million, at a ratio of 2.68 (\$2.68 in current assets for every \$1.00 in current liabilities).

Deferred inflows of resources increased by \$7.06 million and was driven by the \$6.47 million increase in deferred inflows for OPEB. This was driven by changes of actuarial assumptions about future economic or demographic factors.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid, certain grants, and gifts will result in operating deficits since the GASB requires that state appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life.

The change in total net position as presented on the Condensed Statement of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, and any gains and/or losses received or spent by the University.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which

goods and services are not provided. Capital grants are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

Condensed Statement of Revenues, Expenses, and Changes in Net Position (in millions)

	2021	2020	Increase/ (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	\$ 17.78	\$ 15.83	\$ 1.95
Grants and Contracts	0.32	0.28	0.04
Sales and Services, Net	8.16	8.34	(0.18)
Other Operating Revenues	1.68	0.33	1.35
Total Operating Revenues	<u>27.94</u>	<u>24.78</u>	<u>3.16</u>
Operating Expenses:			
Salaries and Benefits	72.38	75.12	(2.74)
Supplies and Services	28.90	25.99	2.91
Scholarships and Fellowships	16.71	10.00	6.71
Utilities	2.78	3.09	(0.31)
Depreciation	5.02	4.91	0.11
Total Operating Expenses	<u>125.79</u>	<u>119.11</u>	<u>6.68</u>
Operating Loss	<u>(97.85)</u>	<u>(94.33)</u>	<u>3.52</u>
Nonoperating Revenues (Expenses):			
State Appropriations	53.83	55.39	(1.56)
Noncapital Contributions and Aid, Net	59.06	40.81	18.25
Interest and Fees on Debt	(2.52)	(2.58)	(0.06)
Investment Income, Net	8.30	0.72	7.58
Other Nonoperating Expenses	(0.73)	(0.01)	0.72
Net Nonoperating Revenues	<u>117.94</u>	<u>94.33</u>	<u>23.61</u>
Income Before Other Revenues	<u>20.09</u>	<u>-</u>	<u>20.09</u>
Capital Appropriations	7.27	-	7.27
Capital Contributions	7.79	0.01	7.78
Permanent Endowment Additions	0.66	0.36	0.30
Increase in Net Position	<u>35.81</u>	<u>0.37</u>	<u>35.44</u>
Net Position:			
Beginning of Year	<u>30.14</u>	<u>29.77</u>	<u>0.37</u>
End of Year	<u>\$ 65.95</u>	<u>\$ 30.14</u>	<u>\$ 35.81</u>
Reconciliation of Change in Net Position			
Total Revenues	\$ 165.06	\$ 122.07	\$ 42.99
Less: Total Expenses	<u>129.25</u>	<u>121.70</u>	<u>7.55</u>
Increase in Net Position	<u>\$ 35.81</u>	<u>\$ 0.37</u>	<u>\$ 35.44</u>

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$35.81 million for the fiscal year. The total operating loss for fiscal year 2021 was \$97.85 million. Since the State of North Carolina's appropriations and significant student financial aid revenue are not included within operating revenue per GASB, the University shows a significant operating loss.

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including the national economy and any material increase in tuition and/or other mandatory charges. Changes in funding from the State of North Carolina may influence costs to students and the ability to continue normal operations. State appropriations remain a critical source of funding for the University.

State appropriations are received through an allotment and requisition system from the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. There is some connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. For the fiscal year beginning July 1, 2020, and ending June 30, 2021, the appropriations from the State to the University were \$53.83 million for operations.

Noncapital contributions and aid, net increased \$18.25 million. This was primarily due to receiving \$7.97 million in state aid - coronavirus funding to help with research, testing, staffing, and vaccine distribution, as well as an \$11.82 million increase in Higher Education Emergency Relief Funds. These funds were used for financial aid to students and to the institution to reimburse fee supported areas that lost revenue due to the shift to online learning.

Operating revenues include tuition and fees, operating grants and contracts, and sales and services (primarily from student housing, dining, bookstore, health, and other services). Operating revenue increased when compared to the previous year with a \$3.16 million increase. Student tuition and fees, net increased by \$1.95 million due to an increase in enrollment.

Operating expenses, including depreciation of \$5.02 million, totaled \$125.79 million. Of this total, \$52.74 million, or 41.93%, was used for instruction and academic support; \$14.27 million, or 11.34%, was used for institutional support; \$11.06 million, or 8.79%, was used for operations and maintenance of plant; \$15.99 million, or 12.71%, was used for auxiliary enterprises. Other operating expenses included research of \$1.94 million, or 1.54%, public service of \$3.77 million, or 3.00%, student services of \$4.29 million, or 3.41%, and student financial aid of \$16.71 million, or 13.28%.

The decrease in salaries and benefits of \$2.74 million, or 3.65%, is primarily due to a \$1.2 million decrease in the pension expense that is recognized immediately in the financial statements as well as management's hiring freeze to negate the uncertain operating environment created by the pandemic. Pension expense represents a variety of items including service cost, interest on the pension liability, projected investment income, administrative expenses, and many others. Scholarships and fellowships increased \$6.71 million or 67.10% due to an increase in Higher Education Emergency Relief Funds for students to help pay tuition, room and board, and any outstanding balances during the current COVID-19 pandemic. Supplies and services increased \$2.9 million or 11.20% due to an increase in spending related to COVID-19.

Investment income, net increased by \$7.58 million, or 1052.78%, primarily due to the market performance of our endowment investments.

Other nonoperating expenses increased \$0.72 million primarily due to the impairment loss on Bryant Hall. See Note 6 of the Notes to the Financial Statements for more details.

State appropriations decreased \$1.56 million due to the University reclassing the management flex carryforward that was earmarked for repair and renovation projects. It was reclassified to capital appropriations. Capital appropriations increased \$7.27 million for the use of structural renovations around campus.

Capital contributions increased \$7.78 million or 77800.00%, due to the University receiving \$7.79 million from the Connect NC Go Bond for the Lyons Science Building renovation.

One of the University's greatest strengths is the diverse streams of revenues that supplement student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations, and investment income. The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition, and prudently manage the financial resources realized from these efforts to fund its operating activities.

Capital Assets

Capital projects for the fiscal year 2021 primarily include expenditures related to the Lyons Science Building (\$8.64 million) and to several renovation projects around campus (\$1.17 million).

Machinery and equipment increased \$2.11 million before depreciation primarily due to new equipment being purchased for the Nursing Department, Natural Sciences Department, and English & Foreign Languages Department. This included equipment such as drones, scientific machines, nursing machines, and microscopes.

Total capital assets, net of accumulated depreciation, at June 30, 2021 were \$182.03 million. For more detailed information about capital asset holdings, see Note 6 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$1.39 million for the year ended June 30, 2021, which is an increase of \$0.64 million from the previous fiscal year. The construction commitments increase is due to an increase in active repair and renovation projects in the current year.

Long-Term Liability Activities

The University incurs long-term debt to finance construction projects. Other long-term liability obligations are incurred to fund the net pension liability, to fund the net OPEB liability, to fund workers compensation claims, to provide for accumulated unused vacation benefits for employees, and to pay for pollution remediation.

(In Millions)	2021	2020	Increase/ (Decrease)
Bonds Payable	\$ 44.50	\$ 48.90	\$ (4.40)
Add: Unamortized Premium	3.50	-	3.50
Less: Unamortized Discount	(0.64)	(0.67)	0.03
Notes from Direct Borrowings	7.64	8.28	(0.64)
Capital Leases Payable	0.90	1.30	(0.40)
Pollution Remediation Payable	0.38	0.21	0.17
Compensated Absences	4.57	4.43	0.14
Workers Compensation	2.49	2.78	(0.29)
Net Pension Liability	23.80	21.91	1.89
Net Other Postemployment Benefit Liability	75.04	92.40	(17.36)
Total Long-Term Liabilities, Net	\$ 162.18	\$ 179.54	\$ (17.36)

Long-term liabilities decreased by \$17.36 million, primarily due to a decrease in the OPEB liability.

The University extinguished long-term debt by the issuance of new long-term debt instruments. The refinance resulted in an unamortized premium of \$3.50 million. For detailed information about long-term debt, see Note 8 of the Notes to the Financial Statements.

Factors Impacting Future Periods

Management believes that the University is positioned to continue its level of excellence in service to students, the community, and governmental agencies. However, it is becoming increasingly challenging to maintain service levels due to ongoing budget reductions. The University's ongoing efforts toward revenue diversification and cost containment will enable the University to provide the necessary resources to support this level of excellence. The University's management team continues to abide by the strategic priorities for the University.

A crucial element to the University's future will continue to be its relationship with the State of North Carolina as well as working to manage tuition and fees while staying competitive and providing an outstanding college education for its students. There is a direct relationship between the growth of state support and the University's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels. The University anticipates additional increases in state appropriations in fiscal year 2022.

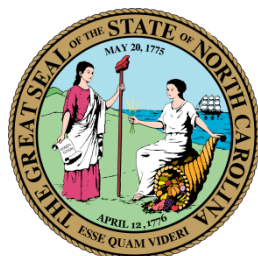
The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction and renovations to older facilities. This strategy addresses the University's planned growth and the continuing effects of technology on teaching methodologies.

Fayetteville State University was granted \$75.16 million awarded in Higher Education Emergency Relief Funds. For fiscal year 2021 \$16.80 million had been earned. The remaining funds will help the University maintain its stability within uncertain times ahead as the pandemic continues to impact the University.

Private gifts are an important supplement to the fundamental support from the State, student tuition and fees, and other revenue sources. Gifts are a significant factor in the growth and support of academic units and support for student scholarships. Economic pressures affecting donors may affect the future level of support the University receives from corporate and individual giving, including the support received through the Fayetteville State University Foundation, Inc., and Subsidiary.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina and faithful donors, the University's financial condition is strong enough to weather current economic uncertainties.



FINANCIAL STATEMENTS

Fayetteville State University
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 13,728,345.33
Restricted Cash and Cash Equivalents	9,599,508.53
Receivables, Net (Note 5)	8,910,972.88
Due from Primary Government	88,521.43
Inventories	211,794.57
Notes Receivable, Net (Note 5)	181,398.72

Total Current Assets	32,720,541.46
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	12,681,165.31
Receivables, Net (Note 5)	16,615.00
Prepaid Bond Insurance	294,528.89
Endowment Investments	28,493,287.77
Restricted Investments	434,040.42
Notes Receivable, Net (Note 5)	907,223.58
Net Other Postemployment Benefits Asset	132,957.00
Capital Assets - Nondepreciable (Note 6)	13,281,991.88
Capital Assets - Depreciable, Net (Note 6)	168,749,126.62

Total Noncurrent Assets	224,990,936.47
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Total Assets	257,711,477.93
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	9,735,456.25
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	15,073,639.00

Total Deferred Outflows of Resources	24,809,095.25
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	4,671,069.32
Unearned Revenue	3,032,780.03
Interest Payable	376,962.75
Long-Term Liabilities - Current Portion (Note 8)	4,150,213.57

Total Current Liabilities	12,231,025.67
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Noncurrent Liabilities:

Funds Held for Others	795,923.45
U.S. Government Grants Refundable	751,341.88
Long-Term Liabilities, Net (Note 8)	158,034,746.80

Total Noncurrent Liabilities	159,582,012.13
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Total Liabilities	171,813,037.80
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Fayetteville State University
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	738,655.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>44,023,283.00</u>
Total Deferred Inflows of Resources	<u>44,761,938.00</u>

NET POSITION

Net Investment in Capital Assets	<u>125,149,573.24</u>
Restricted:	
Nonexpendable:	
True Endowments	12,957,820.11
Student Loans and Other	<u>601,793.87</u>
Total Restricted-Nonexpendable Net Position	<u>13,559,613.98</u>
Expendable:	
Scholarships, Research, Instruction, and Other	18,045,438.22
Capital Projects	13,197,394.81
Debt Service	<u>1,722,831.36</u>
Total Restricted-Expendable Net Position	<u>32,965,664.39</u>
Unrestricted	<u>(105,729,254.23)</u>
Total Net Position	<u>\$ 65,945,597.38</u>

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

Fayetteville State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2021

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 11)	\$ 17,785,646.12
Federal Grants and Contracts	321,228.08
Sales and Services, Net (Note 11)	8,159,591.48
Interest Earnings on Loans	16,678.37
Other Operating Revenues	<u>1,659,417.73</u>
Total Operating Revenues	<u>27,942,561.78</u>

OPERATING EXPENSES

Salaries and Benefits	72,384,738.75
Supplies and Services	28,895,035.27
Scholarships and Fellowships	16,709,902.87
Utilities	2,778,322.06
Depreciation	<u>5,024,799.72</u>
Total Operating Expenses	<u>125,792,798.67</u>
Operating Loss	<u>(97,850,236.89)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	53,834,711.58
State Aid - Coronavirus	7,973,256.97
Student Financial Aid	17,938,953.43
Federal Aid - COVID-19	16,802,376.31
Noncapital Contributions, Net (Note 11)	16,343,179.97
Investment Income (Net of Investment Expense of \$205,703.99)	8,296,597.42
Interest and Fees on Debt	(2,518,242.03)
Other Nonoperating Expenses	<u>(733,238.64)</u>
Net Nonoperating Revenues	<u>117,937,595.01</u>
Income Before Other Revenues	<u>20,087,358.12</u>
Capital Appropriations	7,267,444.00
Capital Contributions	7,793,340.52
Additions to Endowments	<u>661,436.17</u>
Total Other Revenues	<u>15,722,220.69</u>
Increase in Net Position	35,809,578.81

NET POSITION

Net Position - July 1, 2020	<u>30,136,018.57</u>
Net Position - June 30, 2021	<u>\$ 65,945,597.38</u>

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

Fayetteville State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 26,734,655.02
Payments to Employees and Fringe Benefits	(75,938,644.30)
Payments to Vendors and Suppliers	(31,405,852.63)
Payments for Scholarships and Fellowships	(16,709,902.87)
Collection of Loans	285,345.23
Interest Earned on Loans	16,678.37
William D. Ford Direct Lending Receipts	25,829,511.00
William D. Ford Direct Lending Disbursements	(25,724,900.00)
Related Activity Agency Disbursements	(72,936.93)
Other Receipts	1,805,291.59
	<u>1,805,291.59</u>
Net Cash Used by Operating Activities	<u>(95,180,755.52)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	53,834,711.58
State Aid - Coronavirus	7,973,256.97
Student Financial Aid	17,762,707.67
Federal Aid - COVID-19	16,802,376.31
Noncapital Contributions	15,057,739.97
Additions to Endowments	661,436.17
	<u>661,436.17</u>
Cash Provided by Noncapital Financing Activities	<u>112,092,228.67</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	7,267,444.00
Capital Contributions	7,793,340.52
Acquisition and Construction of Capital Assets	(11,908,800.60)
Principal Paid on Capital Debt and Leases	(1,907,043.31)
Interest and Fees Paid on Capital Debt and Leases	(2,675,273.67)
	<u>(2,675,273.67)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(1,430,333.06)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	198,929.08
Investment Income	49,142.67
Purchase of Investments and Related Fees	(350,049.14)
	<u>(350,049.14)</u>
Net Cash Used by Investing Activities	<u>(101,977.39)</u>
Net Increase in Cash and Cash Equivalents	15,379,162.70
Cash and Cash Equivalents - July 1, 2020	<u>20,629,856.47</u>
Cash and Cash Equivalents - June 30, 2021	<u>\$ 36,009,019.17</u>

Fayetteville State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
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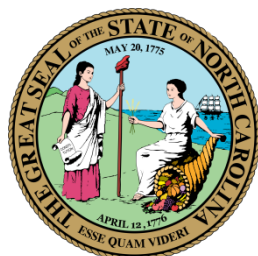
**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (97,850,236.89)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,024,799.72
Allowances and Write-Offs	(1,115,058.24)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	158,538.68
Inventories	(93,691.33)
Prepaid Items	(294,528.89)
Notes Receivable, Net	285,345.23
Net Other Postemployment Benefits Asset	(6,545.00)
Deferred Outflows Related to Pensions	(203,753.00)
Deferred Outflows Related to Other Postemployment Benefits	3,431,116.41
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	1,375,511.13
Funds Held for Others	177,547.93
Unearned Revenue	1,214,432.45
Net Pension Liability	1,882,856.00
Net Other Postemployment Benefits Liability	(16,076,081.00)
Compensated Absences	143,679.00
Workers' Compensation Liability	(291,662.72)
Deferred Inflows Related to Pensions	6,471,109.00
Deferred Inflows Related to Other Postemployment Benefits	585,866.00
Net Cash Used by Operating Activities	<u>\$ (95,180,755.52)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 8,453,158.74
Loss on Disposal of Capital Assets	(714,281.40)
Amortization of Bond Premiums/Discounts	5,308.35
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(1,285,440.00)
Change in Nonoperating Payables	101,964.29
Funds Escrowed to Defeasement Debt	18,498,719.35

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. Fayetteville State University (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *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 blended in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Blended Component Units - Although legally separate, Fayetteville State University Student Housing Corporation and Subsidiary (Corporation) and Fayetteville State University Foundation, Inc., and Subsidiary (Foundation), component units of the University, are reported as if they were part of the University.

The Corporation is governed by a board consisting of nine appointed directors. The Corporation's purpose is to develop, finance, prepare, and provide residential housing facilities for the students of the University. Because the directors of the Corporation are appointed by the University and the Corporation's sole purpose is to benefit Fayetteville State University, its financial statements have been blended with those of the University.

The Foundation is governed by a 21-member board consisting of eight ex-officio directors and 13 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries, have been included with those of the University.

Separate financial statements for the Corporation and Foundation may be obtained from Fayetteville State University, c/o Vice Chancellor for Business and Finance, 1200 Murchison Road, Fayetteville, NC 28301, or by calling 910-672-1151.

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

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 84, *Fiduciary Activities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.
- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

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

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

- G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method, except for fuel oil which is valued using the last invoice cost method and medical supplies which are valued using the average cost method.

- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years

The University does not capitalize its art collection. This collection adheres to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America

permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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.

There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be 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, limited obligation bonds payable, notes from direct borrowings, and capital leases payable. Other long-term liabilities include: pollution remediation payable, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and limited obligation 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.

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

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

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

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

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

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

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

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

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

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

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

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

- O. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

- P. **Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal,

state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, and postal 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 \$33,964,527.97, 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 \$3,075.86. The carrying amount of the University's deposits not with the State Treasurer was \$2,041,415.34, and the bank balance was \$2,041,415.34. 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, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$1,618,954.42.

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

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

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

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

Investments of the University’s component unit, Fayetteville State University Foundation, Inc., and Subsidiary, 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.

UNC Investment Fund, LLC - At June 30, 2021, the University and the Foundation had \$17,899,748.82 and \$10,593,538.95, respectively, for a total of \$28,493,287.77 invested in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	<u>Amount</u>
Other Securities	
Investments in Real Estate	<u>\$ 434,040.42</u>

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

Investment Type	Amount
Other Securities	
UNC Investment Fund	\$ 28,493,287.77
Investments in Real Estate	434,040.42
Total Investments	\$ 28,927,328.19

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University’s investments 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 in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2021:

	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Other Securities				
Investments in Real Estate	\$ 434,040.42	\$ -	\$ -	\$ 434,040.42
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	33,964,527.97			
UNC Investment Fund	28,493,287.77			
Total Investments as a Position in an External Investment Pool	<u>62,457,815.74</u>			
Total Investments Measured at Fair Value	<u>\$ 62,891,856.16</u>			

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

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

Investments in Real Estate - The Foundation currently holds 10 parcels of land that were gifted to the Foundation. These parcels were appraised at the time of gift and recorded at a value of \$434,040.42. This investment is classified at Level 3. These properties will be held as investments until a sale can be realized at the discretion of the Foundation.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The University's endowment spending policy governs the rate at which funds are released to the operating budget from the endowment. The University use a disciplined spending rate with a long-term spending rule. The target rate for spending is set up to 5.00% and 4.5%, respectively, of the University's and Foundation's endowment's trailing three-year average year end market value. In order to preserve the purchasing power of the endowment, the portfolio is invested with the expectation of generating a long-term rate of return at least equal to the payout plus the rate of inflation.

At June 30, 2021, net appreciation of \$15,795,225.05 was available to be spent, of which all \$15,795,225.05 was classified in net position as restricted expendable for scholarships, research, instruction, and other, as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,363,729.31	\$ -	\$ 1,363,729.31
Intergovernmental	7,401,252.87	46,563.09	7,354,689.78
Pledges	17,000.00	646.00	16,354.00
Interest on Loans	273,764.65	256,537.93	17,226.72
Other	158,973.07	-	158,973.07
Total Current Receivables	<u>\$ 9,214,719.90</u>	<u>\$ 303,747.02</u>	<u>\$ 8,910,972.88</u>
Noncurrent Receivables:			
Pledges	<u>\$ 21,000.00</u>	<u>\$ 4,385.00</u>	<u>\$ 16,615.00</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 649,267.66</u>	<u>\$ 467,868.94</u>	<u>\$ 181,398.72</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,193,926.83</u>	<u>\$ 286,703.25</u>	<u>\$ 907,223.58</u>

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	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,766,577.98	\$ -	\$ -	\$ 1,766,577.98
Construction in Progress	1,985,957.56	9,809,578.82	280,122.48	11,515,413.90
Total Capital Assets, Nondepreciable	3,752,535.54	9,809,578.82	280,122.48	13,281,991.88
Capital Assets, Depreciable:				
Buildings	205,202,295.24	-	1,669,248.54	203,533,046.70
Machinery and Equipment	20,749,030.31	2,110,793.06	-	22,859,823.37
General Infrastructure	20,464,506.89	280,122.48	22,033.52	20,722,595.85
Total Capital Assets, Depreciable	246,415,832.44	2,390,915.54	1,691,282.06	247,115,465.92
Less Accumulated Depreciation for:				
Buildings	57,795,075.56	3,188,258.75	961,588.39	60,021,745.92
Machinery and Equipment	10,228,832.87	1,059,870.35	-	11,288,703.22
General Infrastructure	6,294,631.81	776,670.62	15,412.27	7,055,890.16
Total Accumulated Depreciation	74,318,540.24	5,024,799.72	977,000.66	78,366,339.30
Total Capital Assets, Depreciable, Net	172,097,292.20	(2,633,884.18)	714,281.40	168,749,126.62
Capital Assets, Net	\$ 175,849,827.74	\$ 7,175,694.64	\$ 994,403.88	\$ 182,031,118.50

Other nonoperating expenses include a loss of \$707,660.15 related to the decrease in buildings shown above. The loss was caused by the University's decision to impair Bryant Hall. This decision was made to save operating costs after analyses of renovation proposals demonstrated that impairing the building was the most cost effective option.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 2,712,311.35
Accounts Payable - Capital Assets	579,884.88
Accrued Payroll	986,397.86
Contract Retainage	392,475.23
Total Accounts Payable and Accrued Liabilities	\$ 4,671,069.32

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 30,672,000.00	\$ -	\$ 1,139,000.00	\$ 29,533,000.00	\$ 1,196,000.00
Limited Obligation Bonds Payable	18,230,000.00	14,975,000.00	18,230,000.00	14,975,000.00	525,000.00
Plus: Unamortized Premium	-	3,523,719.35	25,300.68	3,498,418.67	-
Less: Unamortized Discount	(673,605.44)	-	(30,609.03)	(642,996.41)	-
Total Revenue Bonds and Limited Obligation Bonds Payable, Net	48,228,394.56	18,498,719.35	19,363,691.65	47,363,422.26	1,721,000.00
Notes from Direct Borrowings	8,279,449.48	-	636,436.50	7,643,012.98	659,823.24
Capital Leases Payable	1,303,076.07	-	400,326.16	902,749.91	299,851.45
Total Long-Term Debt	57,810,920.11	18,498,719.35	20,400,454.31	55,909,185.15	2,680,674.69
Other Long-Term Liabilities					
Pollution Remediation Payable	210,290.00	350,000.00	180,290.00	380,000.00	350,000.00
Employee Benefits					
Compensated Absences	4,424,133.00	2,788,859.00	2,645,180.00	4,567,812.00	805,540.95
Net Pension Liability	21,912,637.00	1,882,856.00	-	23,795,493.00	-
Net Other Postemployment Benefits Liability	92,401,935.00	-	17,361,521.00	75,040,414.00	-
Workers' Compensation	2,783,718.94	-	291,662.72	2,492,056.22	313,997.93
Total Other Long-Term Liabilities	121,732,713.94	5,021,715.00	20,478,653.72	106,275,775.22	1,469,538.88
Total Long-Term Liabilities, Net	\$ 179,543,634.05	\$ 23,520,434.35	\$ 40,879,108.03	\$ 162,184,960.37	\$ 4,150,213.57

Additional information regarding capital leases payable is included in Note 9.

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

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

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

B. Revenue Bonds Payable and Limited Obligation Bonds Payable - The University was indebted for revenue bonds payable and limited obligation bonds payables for the purposes shown in the following table:

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021
Revenue Bonds Payable					
<u>Fayetteville State University Series 2013A Bond</u>					
Student Center Renovation	2013A	3.00%-5.125%	04/01/2043	\$21,410,000.00	\$ 20,550,000.00
<u>Fayetteville State University Series 2015 General Revenue Refunding Bond</u>					
Dining	2015	3.26%	04/01/2023	1,497,000.00	405,000.00
<u>Fayetteville State University Housing Foundation, LLC Facilities Revenue Refunding Bond</u>					
University Place Apartments	2017	2.82%	11/01/2033	10,150,000.00	8,578,000.00
Total Revenue Bonds Payable				<u>33,057,000.00</u>	<u>29,533,000.00</u>
Limited Obligation Bonds Payable					
<u>Fayetteville State University Housing Foundation, LLC Limited Obligation Bonds</u>					
Student Housing Project	2021	5.00%	04/01/2043	14,975,000.00	14,975,000.00
Total Revenue Bonds Payable and Limited Obligation Bonds Payable (principal only)				<u>\$48,032,000.00</u>	44,508,000.00
Plus: Unamortized Premium					3,498,418.67
Less: Unamortized Discount					(642,996.41)
Total Revenue Bonds Payable and Limited Obligation Bonds Payable, Net					<u>\$ 47,363,422.26</u>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2021
Energy Savings Loan - University Project	Bank of America	3.60%	02/15/2032	\$ 10,400,044.00	\$ 7,512,346.68
UNC System Guaranteed Energy Savings	Bank of America	1.84%	02/14/2023	472,939.34	130,666.30
Total Notes from Direct Borrowings				<u>\$ 10,872,983.34</u>	<u>\$ 7,643,012.98</u>

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		Limited Obligation Bonds Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 1,196,000.00	\$ 1,276,626.28	\$ 525,000.00	\$ 632,277.78	\$ 659,823.24	\$ 262,737.49
2023	1,158,000.00	1,237,474.45	405,000.00	722,500.00	664,465.59	239,909.63
2024	1,006,000.00	1,199,470.54	425,000.00	702,250.00	629,505.70	217,153.94
2025	1,063,000.00	1,164,611.79	445,000.00	681,000.00	652,367.03	194,116.97
2026	1,125,000.00	1,127,579.98	470,000.00	658,750.00	678,956.99	170,230.33
2027-2031	6,607,000.00	4,962,872.23	2,715,000.00	2,917,000.00	3,808,683.43	457,026.97
2032-2036	7,063,000.00	3,516,206.30	3,465,000.00	2,167,750.00	549,211.00	7,440.25
2037-2041	6,860,000.00	1,988,243.78	4,435,000.00	1,209,250.00	-	-
2042-2046	3,455,000.00	268,550.02	2,090,000.00	158,000.00	-	-
Total Requirements	\$ 29,533,000.00	\$ 16,741,635.37	\$ 14,975,000.00	\$ 9,848,777.78	\$ 7,643,012.98	\$ 1,548,615.58

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

Revenue Bonds Payable - The University's outstanding revenue bonds payable of \$8,578,000.00 has pledged all buildings and other improvements and additions for the Series 2017 bonds, dated February 17, 2017. All machinery, devices, fixtures, apparatus, interior improvements, appurtenances, buildings materials and equipment of every kind and nature attached to or placed in or upon the buildings.

The indentures of the University's outstanding revenue bonds payable of \$29,533,000.00 contain provisions that an event of default will occur if (1) the University fails to make a payment of principal or installment of interest, (2) failure by the University to observe and perform any covenant or provision in the agreement, for which failure continues for a period of 30 days after written notice, (3) the Issuer Credit Rating of the University falls below investment grade.

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

Limited Obligation Bonds Payable - The indenture of the University's outstanding limited obligation bonds of \$14,975,000.00 contains provisions that an event of default will occur if (1) the University fails to make a payment of principal or installment of interest, (2) failure by the University to observe and perform any covenant or provision in the

agreement, for which failure continues for a period of 30 days after written notice.

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

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

The University has pledged machinery and equipment with a carrying value of \$7,467,243.87 as security for the Energy Savings Loan - University Project (University Project Agreement) dated February 7, 2014. The University Project Agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to make an installment payment when due, (2) the University fails to perform or observe any term, condition, or covenant of the agreement and failure continues for a period of 30 days after written notice is given, or (3) an attachment, levy, or execution of a security interest of lien is levied on or against the equipment financed.

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

Capital Leases Payable - The University has one capital lease property schedule outstanding with Dell Financial Services for the financing of IT Networking Equipment.

The Dell Financial Services property schedule is pursuant to the Master Lease Agreement (Dell Master Agreement) dated as of June 4, 2019, between Dell Financial Services (Lessor) and The University of North Carolina, General Administration. The Dell Master Agreement describes an event of default as failure to pay any rental payment.

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

On May 27, 2021 the Foundation issued \$14,975,000.00 in Fayetteville State University Housing Foundation, LLC Limited Obligation Bonds, Series 2021 refunding bonds with an average interest rate of 5.00%. The bonds were issued for a current refunding of \$17,760,000.00 of outstanding Fayetteville State University Student Housing Project Limited Obligation Bonds, Series 2011 with an average interest rate of 4.98%. The refunding was undertaken to reduce total debt service payments by \$4,675,459.76 over the next 22 years and resulted in an economic gain of \$3,700,213.53. The substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited.

G. Pollution Remediation Payable - The University has recognized a pollution remediation liability for underground tank removal at the Lily Building. The amount of the estimated liability is \$15,000.00. The University has also recognized a pollution remediation liability for underground tank removal at the Lyons Science Building. The amount of the estimated liability is \$15,000.00. Additionally, the University has recognized a liability for asbestos abatement at Vance Hall and Bryant Hall. The amounts of the estimated liabilities are \$175,000.00 and \$175,000.00, respectively. This estimate was calculated using the estimated costs of removal. This liability is subject to potential changes due to potential increases in the cost of work to be performed.

NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to computer networking 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	\$ 303,147.09
2023	303,147.09
2024	<u>303,147.09</u>
Total Minimum Lease Payments	909,441.27
Amount Representing Interest (1.80% Rate of Interest)	<u>6,691.36</u>
Present Value of Future Lease Payments	<u>\$ 902,749.91</u>

Machinery and equipment acquired under capital lease amounted to \$1,499,490.94 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 \$113,680.16 at June 30, 2021.

- B. Operating Lease Obligations** - The University entered into operating leases for managed printing, networking equipment, equipment for the mailroom, and the FSU Print Shop. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 143,012.45
2023	<u>97,666.57</u>
Total Minimum Lease Payments	<u>\$ 240,679.02</u>

Rental expense for all operating leases during the year was \$143,012.45.

NOTE 10 - NET POSITION

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (14,798,691.75)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(104,135,644.92)</u>
Effect on Unrestricted Net Position	(118,934,336.67)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>13,205,082.44</u>
Total Unrestricted Net Position	<u>\$ (105,729,254.23)</u>

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

NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts and Allowances</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 30,116,984.25</u>	<u>\$ 12,331,338.13</u>	<u>\$ -</u>	<u>\$ 17,785,646.12</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 6,077,837.85	\$ 2,429,933.78	\$ -	\$ 3,647,904.07
Dining	4,175,873.82	1,459,630.98	-	2,716,242.84
Copy Center	23,191.96	-	-	23,191.96
Bookstore	421,893.06	-	-	421,893.06
Parking	90,587.43	-	-	90,587.43
Athletic	34,674.53	-	-	34,674.53
Other	208,787.95	-	-	208,787.95
Sales and Services of Education and Related Activities	<u>1,016,309.64</u>	<u>-</u>	<u>-</u>	<u>1,016,309.64</u>
Total Sales and Services, Net	<u>\$ 12,049,156.24</u>	<u>\$ 3,889,564.76</u>	<u>\$ -</u>	<u>\$ 8,159,591.48</u>
Nonoperating Revenues:				
Noncapital Contributions, Net	<u>\$ 16,376,986.97</u>	<u>\$ -</u>	<u>\$ 33,807.00</u>	<u>\$ 16,343,179.97</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 38,400,416.04	\$ 1,490,141.28	\$ -	\$ -	\$ -	\$ 39,890,557.32
Research	470,347.66	1,473,803.56	-	-	-	1,944,151.22
Public Service	2,370,077.77	1,402,951.39	-	900.00	-	3,773,929.16
Academic Support	6,125,340.21	6,720,966.71	-	-	-	12,846,306.92
Student Services	3,803,678.76	487,017.74	-	-	-	4,290,696.50
Institutional Support	10,793,583.23	3,468,247.44	-	4,775.99	-	14,266,606.66
Operations and Maintenance of Plant	5,715,999.02	3,626,549.36	-	1,712,702.69	-	11,055,251.07
Student Financial Aid	-	-	16,709,902.87	-	-	16,709,902.87
Auxiliary Enterprises	4,705,296.06	10,225,357.79	-	1,059,943.38	-	15,990,597.23
Depreciation	-	-	-	-	5,024,799.72	5,024,799.72
Total Operating Expenses	\$ 72,384,738.75	\$ 28,895,035.27	\$ 16,709,902.87	\$ 2,778,322.06	\$ 5,024,799.72	\$ 125,792,798.67

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$2,542,343.28 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 11.

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a

member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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 \$1,944,594.42, and the University's contributions were \$4,790,184.25 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 \$23,795,493.00 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 0.19695%, which was a decrease of 0.01442 from its proportion measured as of June 30, 2019, which was 0.21137%.

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:

Net Pension Liability		
<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
\$ 42,826,298.91	\$ 23,795,493.00	\$ 7,832,585.30

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 \$7,051,151.00. 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 1,311,260.00	\$ -
Changes of Assumptions	806,363.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	2,631,538.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	196,111.00	738,655.00
Contributions Subsequent to the Measurement Date	<u>4,790,184.25</u>	<u>-</u>
Total	<u>\$ 9,735,456.25</u>	<u>\$ 738,655.00</u>

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 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:**

Year Ended June 30:	Amount
2022	\$ 1,578,435.00
2023	1,020,613.00
2024	823,611.00
2025	783,958.00
Total	\$ 4,206,617.00

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 \$56,951,937.99, of which \$19,214,450.60 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,152,867.04 and \$1,314,268.42, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

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

General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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 \$3,448,507.08 for the year ended June 30, 2021.

2. Disability Income

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

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within

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

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

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

section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2021 was 0.09% of covered payroll. The University's contributions to DIPNC were \$46,461.92 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 \$75,040,414.00 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 0.27051%, which was a decrease of 0.02154 from its proportion measured as of June 30, 2019, which was 0.29205%.

Net OPEB Asset: At June 30, 2021, the University reported an asset of \$132,957.00 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 0.27027%, which was a decrease of 0.02269 from its proportion measured as of June 30, 2019, which was 0.29296%.

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)				
	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>	
RHBF	\$ 88,994,798.16	\$ 75,040,414.00	\$ 63,800,292.06	
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>	
DIPNC	\$ (114,826.91)	\$ (132,957.00)	\$ (150,559.31)	

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

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4% - 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	\$ 60,497,240.52	\$ 75,040,414.00	\$ 94,482,507.39
DIPNC	\$ (133,175.54)	\$ (132,957.00)	\$ (132,764.73)

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	\$ (2,789,482.00)
DIPNC	103,023.00
Total OPEB Expense	\$ (2,686,459.00)

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	\$ 67,981.00	\$ 96,316.00	\$ 164,297.00
Changes of Assumptions	3,290,950.00	10,338.00	3,301,288.00
Net Difference Between Projected and Actual Earnings on Plan Investments	158,081.00	-	158,081.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	7,924,065.00	30,939.00	7,955,004.00
Contributions Subsequent to the Measurement Date	<u>3,448,507.08</u>	<u>46,461.92</u>	<u>3,494,969.00</u>
Total	<u>\$ 14,889,584.08</u>	<u>\$ 184,054.92</u>	<u>\$ 15,073,639.00</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	\$ 2,935,673.00	\$ -	\$ 2,935,673.00
Changes of Assumptions	30,452,585.00	10,470.00	30,463,055.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	22,524.00	22,524.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>10,596,557.00</u>	<u>5,474.00</u>	<u>10,602,031.00</u>
Total	<u>\$ 43,984,815.00</u>	<u>\$ 38,468.00</u>	<u>\$ 44,023,283.00</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 ended 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:**

Year Ended June 30:	RHBF	DIPNC
2022	\$ (11,302,635.00)	\$ 29,627.00
2023	(11,294,395.00)	20,584.00
2024	(3,447,895.00)	11,389.00
2025	(2,597,180.00)	17,245.00
2026	(3,901,633.00)	5,291.00
Thereafter	-	14,989.00
Total	\$ (32,543,738.00)	\$ 99,125.00

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the

State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State’s Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University 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 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the University for operations supported by the State’s General Fund. Other operations not supported by the State’s General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The University also purchased, through the Fund, extended coverage for “all risks” for all buildings and contents, excluding accounts, bills, currency, deeds, evidences of debt, money, notes or securities, animals, paved surfaces except building foundations and costs of excavations, grading, backfilling, or filling. “All risks” provides coverage to property for risk of direct physical loss. While conditions to the general policy still apply, “all risks” takes the place of exclusions in the general policy. Losses covered by the “all risks” policy are subject to a \$25,000 per occurrence deductible. The University also purchased additional insurance for any loss or damage to fine arts as well as a boiler and machinery policy.

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

comprehensive and collision coverage on certain vehicles. This coverage is subject to a \$100 deductible and is purchased separately through the North Carolina Department of Insurance.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$5,000,000 in the aggregate per fiscal year via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

The University purchased intercollegiate Sports Accident Insurance from a private insurance company through the North Carolina Department of Insurance. This policy covers medical expenses incurred for the treatment of injuries to covered persons. Covered persons include all student athletes, student managers, and student trainers whose names are on the official team roster of FSU's sponsored and supervised sports teams including basketball, bowling,

cheerleading, cross country, football, tennis, track and field, softball and volleyball. This coverage is effective during play, practice, and team related travel. There is a \$3,000 deductible for all sports (disappearing deductible).

The University purchased Camper's Accidental Insurance policies for the Upward Bound Residential Institute and the 21st Century Learning Center camps from a private insurance company through the North Carolina Department of Insurance. This policy includes a \$7,500 accidental death benefit, \$15,000 maximum accidental dismemberment benefit, and a \$25,000 maximum accident medical expense benefit. Covered persons include each camp attendee. This coverage is effective for the period the attendee is scheduled to be at the camp including while on the camp's premises during the day, not on camp premises but traveling to and from and attending or participating in camp activity supervised by camp authorities, and traveling between camp and home. There is not a deductible for this policy.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,391,426.53 and on other purchases were \$7,502,606.77 at June 30, 2021.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, 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 - Coronavirus - 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).

This caption also includes pass-through grant funds from the U.S. Department of Education, Governors Emergency Education Relief (GEER) Fund.

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
State Aid - Coronavirus:	N/A	\$ 324,500.00	\$ 7,973,256.97
Federal Aid - COVID-19:			
HEERF Funds	\$ 75,160,626.00	\$ 4,973,865.01	\$ 16,796,403.07
GEER Funds	289,580.00	-	5,973.24
Total Federal Aid - COVID-19	N/A	\$ 4,973,865.01	\$ 16,802,376.31

NOTE 18 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the:

Fayetteville State University Alumni Association, Incorporated

Fayetteville State University Development Corporation

Fayetteville State University Research Corporation

These organizations serve 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 University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from each organization to the University. The University had no financial support for the year ended June 30, 2021.

NOTE 19 - 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
June 30, 2021**

	Fayetteville State University	Fayetteville State University Foundation, Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
ASSETS					
Current Assets	\$ 27,401,224.46	\$ 4,168,501.00	\$ 1,150,816.00	\$ -	\$ 32,720,541.46
Capital Assets, Net	182,031,118.50	-	-	-	182,031,118.50
Other Noncurrent Assets	31,621,094.97	11,044,194.00	294,529.00	-	42,959,817.97
Component Unit Receivable from Primary Government	-	8,619,213.00	15,039,476.00	(23,658,689.00)	-
Total Assets	<u>241,053,437.93</u>	<u>23,831,908.00</u>	<u>16,484,821.00</u>	<u>(23,658,689.00)</u>	<u>257,711,477.93</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>24,809,095.25</u>	<u>-</u>	<u>2,770,842.00</u>	<u>(2,770,842.00)</u>	<u>24,809,095.25</u>
LIABILITIES					
Current Liabilities	10,823,425.67	818,124.00	589,476.00	-	12,231,025.67
Long-Term Liabilities, Net	132,062,327.80	8,024,000.00	17,948,419.00	-	158,034,746.80
Other Noncurrent Liabilities	1,547,265.33	-	-	-	1,547,265.33
Primary Government Payable to Component Unit	23,658,689.00	-	-	(23,658,689.00)	-
Total Liabilities	<u>168,091,707.80</u>	<u>8,842,124.00</u>	<u>18,537,895.00</u>	<u>(23,658,689.00)</u>	<u>171,813,037.80</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>47,532,780.00</u>	<u>-</u>	<u>-</u>	<u>(2,770,842.00)</u>	<u>44,761,938.00</u>
NET POSITION					
Net Investment in Capital Assets	125,149,573.24	-	-	-	125,149,573.24
Restricted - Nonexpendable	9,120,975.98	4,438,638.00	-	-	13,559,613.98
Restricted - Expendable	25,756,769.39	7,208,895.00	-	-	32,965,664.39
Unrestricted	(109,789,273.23)	3,342,251.00	717,768.00	-	(105,729,254.23)
Total Net Position	<u>\$ 50,238,045.38</u>	<u>\$ 14,989,784.00</u>	<u>\$ 717,768.00</u>	<u>\$ -</u>	<u>\$ 65,945,597.38</u>

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

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 17,785,646.12	\$ -	\$ -	\$ -	\$ 17,785,646.12
Federal Grants and Contracts	321,228.08	-	-	-	321,228.08
Sales and Services, Net	8,159,591.48	-	-	-	8,159,591.48
Interest Earnings on Loans	16,678.37	-	-	-	16,678.37
Other Operating Revenues	1,652,842.73	1,210,299.00	-	(1,203,724.00)	1,659,417.73
Total Operating Revenues	27,935,986.78	1,210,299.00	-	(1,203,724.00)	27,942,561.78
OPERATING EXPENSES					
Operating Expenses	121,144,111.95	1,190,347.00	273,176.00	(1,839,636.00)	120,767,998.95
Depreciation	5,024,799.72	-	-	-	5,024,799.72
Total Operating Expenses	126,168,911.67	1,190,347.00	273,176.00	(1,839,636.00)	125,792,798.67
Operating Income (Loss)	(98,232,924.89)	19,952.00	(273,176.00)	635,912.00	(97,850,236.89)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	53,834,711.58	-	-	-	53,834,711.58
State Aid - Coronavirus	7,973,256.97	-	-	-	7,973,256.97
Student Financial Aid	17,938,953.43	-	-	-	17,938,953.43
Federal Aid - COVID-19	16,802,376.31	-	-	-	16,802,376.31
Noncapital Contributions, Net	16,122,735.97	220,444.00	-	-	16,343,179.97
Investment Income (Net of Expenses)	5,273,610.42	3,273,629.00	717,505.00	(968,147.00)	8,296,597.42
Interest and Fees on Debt	(1,376,222.03)	(250,642.00)	(891,378.00)	-	(2,518,242.03)
University Support	-	(332,235.00)	-	332,235.00	-
Other Nonoperating Expenses	(733,238.64)	-	-	-	(733,238.64)
Net Nonoperating Revenues (Expenses)	115,836,184.01	2,911,196.00	(173,873.00)	(635,912.00)	117,937,595.01
Capital Appropriations	7,267,444.00	-	-	-	7,267,444.00
Capital Contributions	7,793,340.52	-	-	-	7,793,340.52
Additions to Endowments	223,148.17	438,288.00	-	-	661,436.17
Total Other Revenues	15,283,932.69	438,288.00	-	-	15,722,220.69
Increase (Decrease) in Net Position	32,887,191.81	3,369,436.00	(447,049.00)	-	35,809,578.81
NET POSITION					
Net Position, July 1, 2020	17,350,853.57	11,620,348.00	1,164,817.00	-	30,136,018.57
Net Position, June 30, 2021	\$ 50,238,045.38	\$ 14,989,784.00	\$ 717,768.00	\$ -	\$ 65,945,597.38

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

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Total
Net Cash Provided (Used) by Operating Activities	\$ (94,820,839.52)	\$ 207,789.00	\$ (567,705.00)	\$ (95,180,755.52)
Net Cash Provided by Noncapital Financing Activities	111,732,644.67	359,584.00	-	112,092,228.67
Net Cash Used by Capital and Related Financing Activities	(860,100.06)	(253,231.00)	(317,002.00)	(1,430,333.06)
Net Cash Provided (Used) by Investing Activities	(1,135,416.39)	162,733.00	870,706.00	(101,977.39)
Net Increase (Decrease) in Cash and Cash Equivalents	14,916,288.70	476,875.00	(14,001.00)	15,379,162.70
Cash and Cash Equivalents, July 1, 2020	15,789,767.47	3,675,272.00	1,164,817.00	20,629,856.47
Cash and Cash Equivalents, June 30, 2021	\$ 30,706,056.17	\$ 4,152,147.00	\$ 1,150,816.00	\$ 36,009,019.17

NOTE 20 - 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

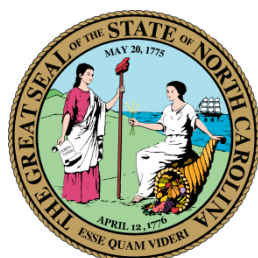
GASB Statement No. 98, The Annual Comprehensive Financial Report

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 and state and local governments.



REQUIRED SUPPLEMENTARY INFORMATION

Fayetteville State University
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 B-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.19695%	0.21137%	0.21589%	0.20533%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 23,795,493.00	\$ 21,912,637.00	\$ 21,494,201.00	\$ 16,291,788.00
Covered Payroll	\$ 33,206,388.62	\$ 33,891,806.35	\$ 33,622,655.13	\$ 35,015,412.22
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	71.66%	64.65%	63.93%	46.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.19053%	0.19931%	0.21146%	0.21480%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 17,511,675.00	\$ 7,344,968.00	\$ 2,479,201.00	\$ 12,924,556.81
Covered Payroll	\$ 29,708,166.27	\$ 30,607,328.10	\$ 30,894,777.52	\$ 31,862,338.89
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	58.95%	24.00%	8.02%	40.56%
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.

Fayetteville State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years

Exhibit B-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 4,790,184.25	\$ 4,306,868.60	\$ 4,165,303.00	\$ 3,624,522.56	\$ 3,494,538.14
Contributions in Relation to the Contractually Determined Contribution	4,790,184.25	4,306,868.60	4,165,303.00	3,624,522.56	3,494,538.14
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 32,409,906.95	\$ 33,206,388.62	\$ 33,891,806.35	\$ 33,622,655.13	\$ 35,015,412.22
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	\$ 2,718,297.21	\$ 2,800,570.52	\$ 2,684,756.17	\$ 2,654,132.13	\$ 2,342,704.39
Contributions in Relation to the Contractually Determined Contribution	2,718,297.21	2,800,570.52	2,684,756.17	2,654,132.13	2,342,704.39
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 29,708,166.27	\$ 30,607,328.10	\$ 30,894,777.52	\$ 31,862,338.89	\$ 31,487,962.18
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.

Fayetteville State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2021

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>
Teachers' and State Employees' Retirement System	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

Fayetteville State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Five Fiscal Years*

Exhibit B-3

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.27051%	0.29205%	0.28502%	0.25932%	0.28368%
Proportionate Share of Collective Net OPEB Liability	\$ 75,040,414.00	\$ 92,401,935.00	\$ 81,198,354.00	\$ 85,022,391.00	\$ 123,410,442.00
Covered Payroll	\$ 52,270,054.34	\$ 53,634,704.94	\$ 52,957,703.05	\$ 52,433,341.48	\$ 46,320,282.18
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	143.56%	172.28%	153.33%	162.15%	266.43%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.27027%	0.29296%	0.29911%	0.28403%	0.26253%
Proportionate Share of Collective Net OPEB Asset	\$ 132,957.00	\$ 126,412.00	\$ 90,858.00	\$ 173,599.00	\$ 163,031.00
Covered Payroll	\$ 52,270,054.34	\$ 53,634,704.94	\$ 52,957,703.05	\$ 52,433,341.48	\$ 46,320,282.18
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.25%	0.24%	0.17%	0.33%	0.35%
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.

Fayetteville State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit B-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 3,448,507.08	\$ 3,381,872.52	\$ 3,362,896.00	\$ 3,203,941.03	\$ 3,046,377.14
Contributions in Relation to the Contractually Determined Contribution	<u>3,448,507.08</u>	<u>3,381,872.52</u>	<u>3,362,896.00</u>	<u>3,203,941.03</u>	<u>3,046,377.14</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 51,624,357.55	\$ 52,270,054.34	\$ 53,634,704.94	\$ 52,957,703.05	\$ 52,433,341.48
Contributions as a Percentage of Covered Payroll	6.68%	6.47%	6.27%	6.05%	5.81%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 2,593,935.80	\$ 2,607,671.71	\$ 2,588,428.64	\$ 2,541,841.34	\$ 2,354,394.22
Contributions in Relation to the Contractually Determined Contribution	<u>2,593,935.80</u>	<u>2,607,671.71</u>	<u>2,588,428.64</u>	<u>2,541,841.34</u>	<u>2,354,394.22</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 46,320,282.18	\$ 47,498,574.02	\$ 47,933,853.69	\$ 47,959,270.49	\$ 47,087,884.27
Contributions as a Percentage of Covered Payroll	5.60%	5.49%	5.40%	5.30%	5.00%
	2021	2020	2019	2018	2017
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 46,461.92	\$ 52,270.05	\$ 75,088.59	\$ 74,140.78	\$ 199,246.69
Contributions in Relation to the Contractually Determined Contribution	<u>46,461.92</u>	<u>52,270.05</u>	<u>75,088.59</u>	<u>74,140.78</u>	<u>199,246.69</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 51,624,357.55	\$ 52,270,054.34	\$ 53,634,704.94	\$ 52,957,703.05	\$ 52,433,341.48
Contributions as a Percentage of Covered Payroll	0.09%	0.10%	0.14%	0.14%	0.38%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 189,913.16	\$ 194,744.15	\$ 210,909.00	\$ 211,020.80	\$ 244,857.02
Contributions in Relation to the Contractually Determined Contribution	<u>189,913.16</u>	<u>194,744.15</u>	<u>210,909.00</u>	<u>211,020.80</u>	<u>244,857.02</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 46,320,282.18	\$ 47,498,574.02	\$ 47,933,853.69	\$ 47,959,270.49	\$ 47,087,884.27
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.

Fayetteville State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2021

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.

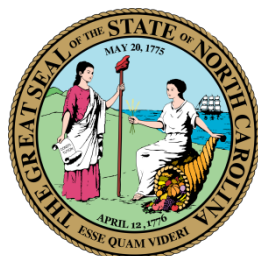
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

For the actuarial valuation measured as of June 30, 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

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Office of the State Auditor



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

Board of Trustees
Fayetteville State University
Fayetteville, 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 Fayetteville State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 October 28, 2021. Our report includes a reference to other auditors who audited the financial statements of Fayetteville State University Foundation, Inc., and Subsidiary and Fayetteville State University Housing Corporation and Subsidiary, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 28, 2021

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This audit required 625 hours at an approximate cost of \$66,250.00.