

STATE OF NORTH CAROLINA

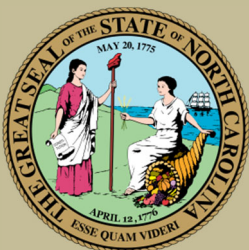
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE

PEMBROKE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2023

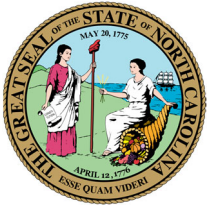
A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Pembroke for the year ended June 30, 2023, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

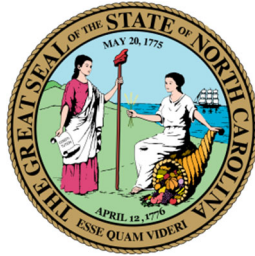


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

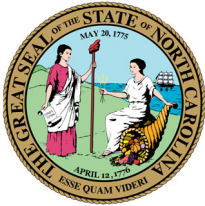
	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
A-1 STATEMENT OF NET POSITION.....	13
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	15
A-3 STATEMENT OF CASH FLOWS.....	16
NOTES TO THE FINANCIAL STATEMENTS.....	18
REQUIRED SUPPLEMENTARY INFORMATION	
B-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	59
B-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	60
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN).....	61
B-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS).....	62
B-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	64
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	66
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	67
ORDERING INFORMATION	69

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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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2023, 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 report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of The University of North Carolina at Pembroke, as of June 30, 2023, 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 The University of North Carolina at Pembroke Foundation, Inc., which represent 7 percent and 1 percent, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Pembroke Foundation, Inc., is based solely on the report of the other auditors.

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 The University of North Carolina at Pembroke 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.

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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 and GAGAS 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

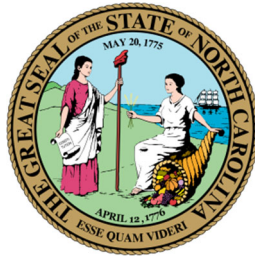
In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 17, 2023



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The University of North Carolina at Pembroke (University) for the year ended June 30, 2023, with comparative information for the year ended June 30, 2022. We encourage you to read this MD&A section in conjunction with the audited financial statements and the Notes to the Financial Statements appearing in this report.

About The University of North Carolina at Pembroke

The University is a constituent institution of the University of North Carolina and is North Carolina's Historically American Indian University, with approximately 7,600 students and 850 faculty and staff. Founded in 1887 and originally known as the Croatan Normal School, the University is one of the most diverse universities in the United States and has grown into a comprehensive public institution of higher learning, with 41 undergraduate majors and 18 graduate degree programs.

About the Financial Statements

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

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

The Statement of Net Position is the University's balance sheet. It reflects the total assets, liabilities, deferred inflows & outflows of financial resources, and net position of the University as of June 30, 2023. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or net asset value. Capital assets, which include the University's land, buildings, art, infrastructure, equipment, and right-to-use assets are shown net of accumulated depreciation and amortization. Net position is grouped in the following categories:

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

The Statement of Revenues, Expenses, and Changes in Net Position is the University's income statement. It details how net position has increased during the year ended June 30, 2023. Student tuition and fees revenue is shown net of scholarship discounts and bad debt expenses, depreciation and amortization is provided for capital assets, and there are required subtotals for operating income (loss) and income (loss) before capital contributions and additions to permanent endowments. It should be noted that the required subtotal for operating income or loss will reflect a "loss" for state-supported colleges and universities. This is due to the way operating and nonoperating items are defined under GASB Statement No. 9, *Reporting Cash Flows or Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all University expenses, except for interest on long-term debt. Operating revenues, however, exclude certain significant revenue streams that the University and other public institutions have traditionally relied upon to fund current operations, including state instructional support, contributions, and investment income.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2023. It breaks out the sources and uses of University cash into the following categories:

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

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

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

Financial Highlights

The University's net position continued its upward trend, increasing by \$17.3 million to \$149.6 million as of June 30, 2023. Fall 2022 enrollment decreased slightly by 653 students which lead to a decrease in operating revenues. State appropriations increased due to enrollment growth that occurred prior to Fall 2022. Operating expenses were lower due to a decrease in emergency federal aid - COVID-19 financial aid payments to eligible students as compared to fiscal year 2022.

Analysis of Financial Position - Statement of Net Position

The following tables in this section summarize and compare condensed balances as reported on the University's Statement of Net Position as of June 30, 2023 and June 30, 2022. The fiscal year 2022 amounts presented have been restated for the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. See notes 6 and 8 for details on the restated balances related to subscription-based assets and liabilities, respectively.

Assets and Deferred Outflows of Resources

	FY 2023	FY 2022 (as Restated)	Change
Cash and Short-Term Investments	\$ 37,488,856	\$ 45,124,529	\$ (7,635,673)
Receivables, Inventories, and Prepaid Assets	3,580,118	3,421,286	158,832
Current Assets	41,068,974	48,545,815	(7,476,841)
Endowment Investments	32,352,058	31,763,565	588,493
Restricted Cash and Cash Equivalents	20,391,929	16,340,226	4,051,703
Other Noncurrent Assets	1,146,738	1,212,756	(66,018)
Capital Assets, Net	218,151,045	222,758,255	(4,607,210)
Noncurrent Assets	272,041,770	272,074,802	(33,032)
Total Assets	\$ 313,110,744	\$ 320,620,617	\$ (7,509,873)
Deferred Loss on Refunding	\$ 818,969	\$ 922,417	\$ (103,448)
Deferred Outflows Related to Pensions	18,231,522	10,260,704	7,970,818
Deferred Outflows Related to OPEB	15,481,842	18,471,019	(2,989,177)
Deferred Outflows of Resources	\$ 34,532,333	\$ 29,654,140	\$ 4,878,193

Current cash and short-term investments decreased by \$7.6 million to \$37.5 million. The decrease in cash is primarily due to \$4.1 million early payoff of debt associated with Village Student Apartment Housing Complex (Village Apartments), which was permanently closed during the current year, and a \$2.0 million decrease in current restricted cash related to construction payables from the prior year.

Noncurrent restricted cash and cash equivalents increased \$4.1 million. This increase is due to funds received from the State Capital Infrastructure Fund (SCIF), which will be used for various capital construction projects.

Capital assets, net, decreased \$4.6 million mainly due to the University writing-off \$3.3 million for the Village Apartments. During fiscal year 2022, the Village Apartments were closed after the discovery of significant water damage to the sheathing and studs. After evaluating the damage during the current year, the University made the decision to not move forward with repairs and wrote-off the remaining value of the buildings. See the Capital Assets section below for more information.

Deferred outflows related to pensions increased \$8.0 million due to the net difference between projected and actual earnings on plan investments. Deferred outflows related to other postemployment benefit (OPEB) plans decreased \$3.0 million due to differences between the University's contributions and proportionate share of contributions and changes in actuarial assumptions performed every five years. See Notes 13 and 14 for further details regarding deferred outflows of resources relating to pensions and OPEB, respectively.

Liabilities and Deferred Inflows of Resources

	FY 2023	FY 2022 (as Restated)	Change
Accounts Payable and Accrued Liabilities	\$ 1,959,250	\$ 4,329,101	\$ (2,369,851)
Unearned Revenue	2,955,676	3,361,744	(406,068)
Current Portion of Long-Term Liabilities	7,063,276	6,943,272	120,004
Other Current Liabilities	357,673	429,447	(71,774)
Current Liabilities	12,335,875	15,063,564	(2,727,689)
Other Noncurrent Liabilities	868,188	934,121	(65,933)
Noncurrent Portion of Long-Term Liabilities	146,157,765	159,574,377	(13,416,612)
Noncurrent Liabilities	147,025,953	160,508,498	(13,482,545)
Total Liabilities	\$ 159,361,828	\$ 175,572,062	\$ (16,210,234)
Deferred Inflows Related to Pensions	\$ 973,267	\$ 11,942,731	\$ (10,969,464)
Deferred Inflows Related to OPEB	36,925,529	29,642,808	7,282,721
Deferred Inflows for Irrevocable Split-Interest Agreements	750,000	750,000	-
Deferred Inflows of Resources	\$ 38,648,796	\$ 42,335,539	\$ (3,686,743)

Accounts payable and accrued liabilities decreased \$2.4 million primarily due to a decrease in construction payables over the prior year. During the prior year, the University completed two large construction projects for the new School of Business Complex and the renovation of West Hall. The University did not have any major construction projects underway at June 30, 2023.

The noncurrent portion of long-term liabilities decreased \$13.4 million primarily due to the following: a decrease of \$6.7 million in long term debt due to early payment on the limited obligation bonds associated with the Village Apartments; a \$25.2 million decrease in net OPEB liability; and an increase in the net pension liability of \$18.8 million. See Notes 13 and 14 for further details regarding net pension liability and net OPEB liability, respectively.

Deferred inflows related to pensions decreased \$11.0 million primarily due to net differences between projected and actual earnings on plan investments. Deferred inflows related to OPEB increased \$7.3 million due to changes in actuarial assumptions performed every five years. See Notes 13 and 14 for further details regarding deferred inflows relating to pensions and OPEB, respectively.

Net Position

	FY 2023	FY 2022 (as Restated)	Change
Net Investment in Capital Assets	\$ 173,066,110	\$ 168,855,214	\$ 4,210,896
Restricted			
Nonexpendable	20,962,000	19,710,641	1,251,359
Expendable	39,871,525	40,109,749	(238,224)
Unrestricted	(84,267,182)	(96,308,448)	12,041,266
Total Net Position	\$ 149,632,453	\$ 132,367,156	\$ 17,265,297

Net investment in capital assets represents the University's total investment in capital assets, net of outstanding liabilities related to those capital assets. This increased by \$4.2 million during fiscal year 2023 due to the acquisition and construction of capital assets as well as principal payments on capital debt outpacing depreciation and amortization expense.

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

Unrestricted net position includes resources not exposed to externally imposed restrictions, and are derived from operating activities, unrestricted gifts, and interest income. Unrestricted net position increased \$12.0 million mainly due to positive net changes in pension and OPEB activity during the current fiscal year.

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

Operating Revenues	FY 2023	FY 2022	Change
Student Tuition and Fees, Net	\$ 20,807,290	\$ 23,778,906	\$ (2,971,616)
Grants and Contracts	-	1,015,602	(1,015,602)
Sales and Services, Net	13,177,416	16,474,773	(3,297,357)
Other Operating Revenues	227,758	1,012,671	(784,913)
Total Operating Revenues	\$ 34,212,464	\$ 42,281,952	\$ (8,069,488)

Student tuition and fees, net decreased \$3.0 million and sales and services, net decreased \$3.3 million. These decreases are due to a decline in undergraduate enrollment and residential students during the current year, which was expected, due to the decline of North Carolina graduating high school seniors for the class of 2022.

Operating Expenses	FY 2023	FY 2022	Change
Salaries and Benefits	\$ 77,756,847	\$ 76,490,406	\$ 1,266,441
Supplies and Services	51,565,022	43,052,242	8,512,780
Scholarships and Fellowships	13,177,560	30,474,182	(17,296,622)
Utilities	3,765,682	3,286,290	479,392
Depreciation/Amortization	9,449,462	9,274,269	175,193
Total Operating Expenses	155,714,573	162,577,389	(6,862,816)
Operating Loss	\$ (121,502,109)	\$ (120,295,437)	\$ (1,206,672)

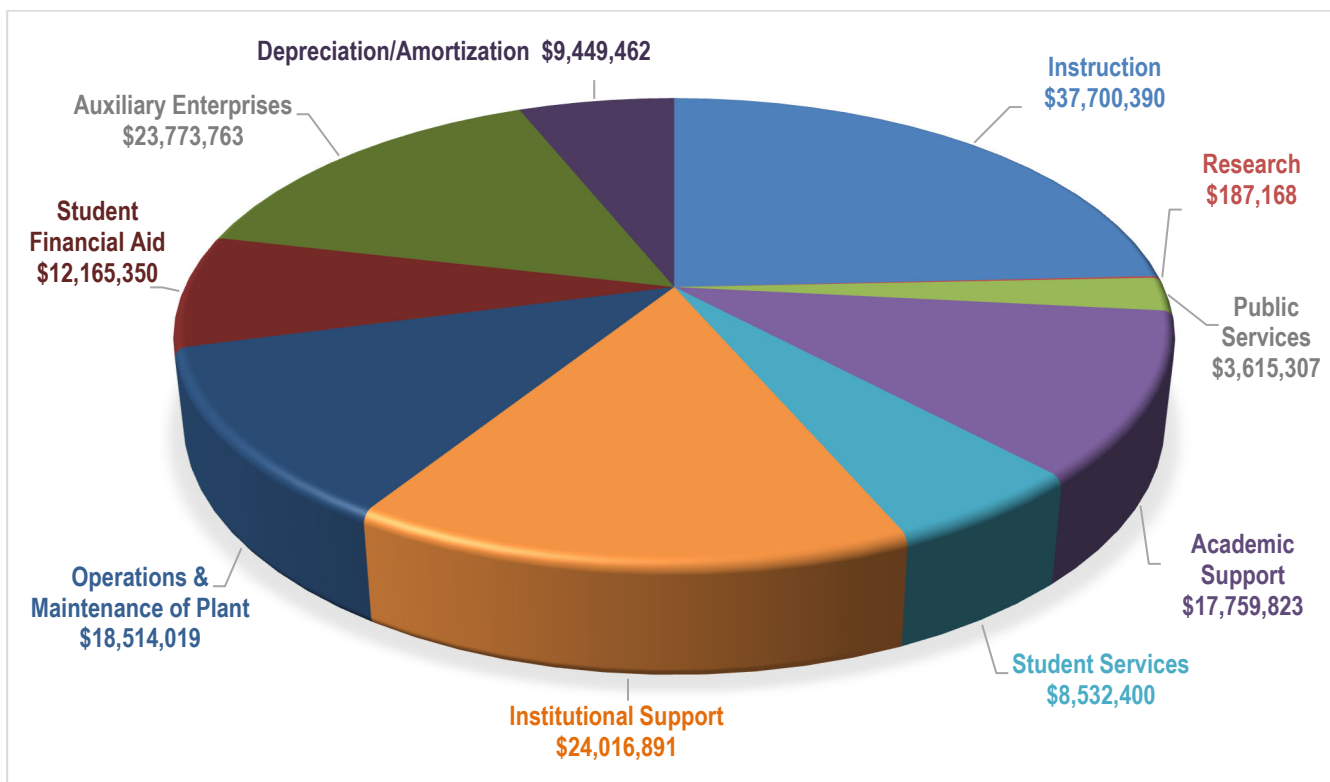
Total operating expenses decreased by \$6.9 million from the previous year. The significant changes were as follows:

- Salaries and benefits increased \$1.3 million primarily due to a 3.5% increase in state salaries offset by the change in pension and OPEB expense recognized during the year.
- Supplies and services increased \$8.5 million primarily due to the following:
 - Approximately \$3.3 million increase in software and network expenses to support virtual desktops and additional security to the campus network,

- \$1.7 million increase in impairment loss for the Village Apartments,
 - \$1.1 million increase in library materials over prior year,
 - \$1.0 million in computer hardware to replace outdated computers,
 - \$800 thousand increase in travel expense over prior year, and
 - Approximately \$500 thousand security cameras and communication system upgrades.
- Scholarships and fellowships decreased \$17.3 million primarily due to a \$15.8 million decrease in emergency federal aid-COVID-19 financial aid payments to eligible students and an approximately \$900 thousand decrease in Pell awards due to a decrease in student enrollment year over year.

Operating expenses by functional area for fiscal year 2023 are shown in the graph below:

Operating Expenses by Functional Area - \$155,714,573



Instruction expense of \$37.7 million remains the largest expense by function at 24.2% of total operating expenses.

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

Nonoperating Revenues (Expenses)

	FY 2023	FY 2022 (as Restated)	Change
State Appropriations	\$ 101,766,391	\$ 96,532,488	\$ 5,233,903
State Aid - Coronavirus	681,890	2,253,775	(1,571,885)
Federal Aid - Covid-19	819,349	24,097,673	(23,278,324)
Student Financial Aid and Noncapital Contributions, Net	29,360,934	26,533,250	2,827,684
Investment Income (Loss), Net	1,317,834	(589,624)	1,907,458
Interest and Fees on Debt	(1,787,517)	(2,312,065)	524,548
Other Nonoperating Revenues (Expenses)	373,188	(521,381)	894,569
Net Nonoperating Revenues	\$ 132,532,069	\$ 145,994,116	\$ (13,462,047)
Other Revenues			
Capital Appropriations	\$ 168,868	\$ 8,282,994	\$ (8,114,126)
Capital Contributions	4,798,076	6,016,650	(1,218,574)
Additions to Permanent Endowments	1,268,394	673,903	594,491
Total Other Revenues	\$ 6,235,338	\$ 14,973,547	\$ (8,738,209)
Reconciliation of Net Position			
Beginning Net Position	\$ 132,367,156	\$ 91,611,512	\$ 40,755,644
Total Revenues	174,767,388	206,672,685	(31,905,297)
Total Expenses	(157,502,091)	(166,000,459)	8,498,368
Increase in Net Position	17,265,297	40,672,226	(23,406,929)
Restatement to record the University's SBITA Assets, Liabilities, and Deferred Inflows of Resources Pursuant to GASB 96 Requirements	-	83,418	(83,418)
Ending Net Position	\$ 149,632,453	\$ 132,367,156	\$ 17,265,297

Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving goods or services for those revenues. The University's net nonoperating revenues were \$132.5 million in fiscal year 2023, a decrease of \$13.5 million.

State appropriations increased \$5.2 million due to positive enrollment growth at the University in prior years.

During the current fiscal year, the University received \$682 thousand in state aid - coronavirus, a decrease of \$1.6 million when compared to the prior year. The decrease is due to the expiration of funds and completion of COVID-19 projects funded by the State during the current year. The University received \$819 thousand in federal aid for COVID-19 relief, a decrease of \$23.3 million when compared to the prior year. The decrease is due to the University awarding the last of COVID-19 funds awarded and no new awards received during the current year.

Student financial aid and noncapital contributions, net increased \$2.8 million due to additional scholarship-type grants awarded to the University during the year.

Investment income, net increased \$1.9 million, primarily due to the market performance of endowment investments.

The University was given capital appropriations of \$169 thousand, a decrease of \$8.1 million from fiscal year 2022. This decrease is due to no major projects being underway during the current year versus the prior year when the University was completing the School of Business Complex.

Capital contributions primarily consists of SCIF grants. During the current year, the University received \$4.8 million in grants, a decrease of \$1.2 million. The decrease resulted from fewer capital projects during the current year as compared to prior year.

Capital Assets and Debt Administration

An additional \$9.1 million of capital assets were capitalized, consisting of land, buildings, general infrastructure, various pieces of machinery and equipment, and right-to-use assets. Construction in progress was \$1.5 million at June 30, 2023. The majority of this balance pertains to the construction of the new elevator at Lumbee Hall, lighting projects at Weinstein Health Science Building, Jones Health & Physical Education Center, and Oxendine Science Building, and a campus recreation complex.

At June 30, 2023, outstanding commitments on construction contracts were \$857 thousand.

At June 30, 2023, the University had outstanding bond indebtedness in the amount of \$39.5 million of which \$2.0 million is due within the next year, and direct borrowings in the amount of \$5.3 million of which \$736 thousand is due within the next year.

During the prior fiscal year, the University discovered water infiltration that caused damage to several buildings located within the Village Apartments. To evaluate the situation more thoroughly, and in the best interest of students, the Village Apartments were closed for the 2023 academic year. During the 2023 fiscal year, the University made the decision to not move forward with repairs. The construction of the Village Apartments was financed with the 2017 limited obligation bonds and the University paid the outstanding balance of \$4.1 million in full. The University recognized a write-off of the assets of \$3.3 million during the 2023 fiscal year has plans to demolish the apartments during the 2024 fiscal year.

Standard and Poor's maintained the University's issuer credit rating at an "A-" with a stable outlook during the current year. For more detailed information about outstanding debt, see Note 8 - Long-Term Liabilities in the Notes to the Financial Statements.

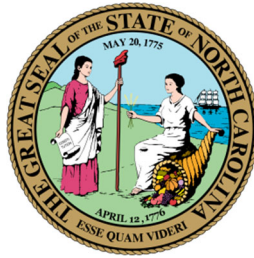
Economic Factors Affecting Future Operations

The following table compares fall semester total headcount and full-time-equivalent (FTE) students for the previous five years.

	Fall Semester				
	2023	2022	2021	2020	2019
Headcount					
Undergraduate	5,485	5,644	6,318	6,436	6,353
Graduate	2,145	2,022	2,001	1,826	1,345
Total Headcount	<u>7,630</u>	<u>7,666</u>	<u>8,319</u>	<u>8,262</u>	<u>7,698</u>
FTE					
Undergraduate	4,802	5,003	5,595	5,766	5,792
Graduate	1,675	1,564	1,559	1,445	1,066
Total FTE	<u>6,477</u>	<u>6,567</u>	<u>7,154</u>	<u>7,211</u>	<u>6,858</u>

The University has had steady enrollment, increasing each year until Fall of 2022. The decline in undergraduate enrollment was expected due to the decline of graduating high school seniors this past year. While the University experienced a decline in undergraduates, graduate students continued to grow with the University's accelerated graduate programs.

Based on currently known facts about the University's financial performance early in the Fall 2023 semester, management is confident that its sound financial position will be maintained during the next operating period. University administration will continue to effectively manage the financial resources of the University to serve the State of North Carolina and to provide the highest quality educational experience to our students.



FINANCIAL STATEMENTS

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2023

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 26,069,145.24
Restricted Cash and Cash Equivalents	9,235,151.74
Restricted Short-Term Investments	2,184,558.60
Receivables, Net (Note 5)	3,403,865.73
Inventories	63,259.17
Prepaid Assets	103,100.00
Notes Receivable, Net (Note 5)	9,893.58
	<hr/>
Total Current Assets	41,068,974.06
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	20,391,929.35
Receivables, Net (Note 5)	171,026.23
Endowment Investments	32,352,057.80
Cash Surrender of Life Insurance Policies	167,238.74
Notes Receivable, Net (Note 5)	58,473.18
Beneficial Interest in Assets Held by Others	750,000.00
Capital Assets - Nondepreciable (Note 6)	6,996,609.22
Capital Assets - Depreciable, Net (Note 6)	211,154,435.88
	<hr/>
Total Noncurrent Assets	272,041,770.40
	<hr/>
Total Assets	313,110,744.46

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	818,968.20
Deferred Outflows Related to Pensions	18,231,522.21
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	15,481,842.27
	<hr/>
Total Deferred Outflows of Resources	34,532,332.68

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,959,250.17
Deposits Payable	2,435.53
Unearned Revenue	2,955,676.05
Interest Payable	355,238.07
Long-Term Liabilities - Current Portion (Note 8)	7,063,275.66
	<hr/>
Total Current Liabilities	12,335,875.48
	<hr/>
Noncurrent Liabilities:	
Deposits Payable	205,474.73
Funds Held for Others	490,309.25
U.S. Government Grants Refundable	172,404.18
Long-Term Liabilities, Net (Note 8)	146,157,764.84
	<hr/>
Total Noncurrent Liabilities	147,025,953.00
	<hr/>
Total Liabilities	159,361,828.48

The University of North Carolina at Pembroke
Statement of Net Position
June 30, 2023

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows for Irrevocable Split-Interest Agreements	750,000.00
Deferred Inflows Related to Pensions	973,267.01
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	36,925,528.53
	<hr/>
Total Deferred Inflows of Resources	38,648,795.54
	<hr/>

NET POSITION

Net Investment in Capital Assets	173,066,109.68
Restricted:	
Nonexpendable:	
Scholarships and Fellowships	12,205,606.66
True Endowments	8,558,937.66
Departmental Uses	197,456.34
	<hr/>
Total Restricted-Nonexpendable Net Position	20,962,000.66
	<hr/>
Expendable:	
Scholarships and Fellowships	4,726,843.95
Endowed Professorships	6,753,005.54
Debt Service	1,094,985.22
Operations and Maintenance	5,029,440.44
Departmental Uses	2,875,823.71
Capital Projects	18,563,816.99
Student Loans	94,863.74
Other	732,745.26
	<hr/>
Total Restricted-Expendable Net Position	39,871,524.85
	<hr/>
Unrestricted	(84,267,182.07)
	<hr/>
Total Net Position	\$ 149,632,453.12
	<hr/> <hr/>

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

**The University of North Carolina at Pembroke
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2023**

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 11)	\$ 20,807,289.50
Sales and Services, Net (Note 11)	13,177,416.37
Interest Earnings on Loans	5,943.42
Other Operating Revenues	221,814.59
	<hr/>
Total Operating Revenues	34,212,463.88

OPERATING EXPENSES

Salaries and Benefits	77,756,847.41
Supplies and Services	51,565,021.67
Scholarships and Fellowships	13,177,559.98
Utilities	3,765,682.42
Depreciation/Amortization	9,449,461.53
	<hr/>
Total Operating Expenses	155,714,573.01

Operating Loss	<hr/> (121,502,109.13)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	101,766,390.64
State Aid - Coronavirus	681,889.99
Student Financial Aid	15,436,201.62
Federal Aid - COVID-19	819,348.54
Noncapital Contributions, Net (Note 11)	13,924,732.71
Investment Income (Net of Investment Expense of \$170,502.28)	1,317,834.07
Interest and Fees on Debt	(1,787,516.62)
Other Nonoperating Revenues	373,187.75
	<hr/>
Net Nonoperating Revenues	132,532,068.70

Income Before Other Revenues	<hr/> 11,029,959.57
------------------------------	---------------------

Capital Appropriations	168,868.26
Capital Contributions	4,798,075.38
Additions to Endowments	1,268,394.10
	<hr/>
Total Other Revenues	6,235,337.74

Increase in Net Position	17,265,297.31
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NET POSITION

Net Position - July 1, 2022, as Restated (Note 19)	<hr/> 132,367,155.81
Net Position - June 30, 2023	<hr/> \$ 149,632,453.12

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

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 33,420,716.27
Payments to Employees and Fringe Benefits	(92,295,018.70)
Payments to Vendors and Suppliers	(52,371,336.13)
Payments for Scholarships and Fellowships	(13,177,559.98)
Collection of Loans	61,084.79
Interest Earned on Loans	5,943.42
William D. Ford Direct Lending Receipts	31,260,824.00
William D. Ford Direct Lending Disbursements	(31,260,824.00)
Related Activity Agency Receipts	70,239.77
Other Receipts	855,251.54
	<hr/>
Net Cash Used by Operating Activities	(123,430,679.02)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	101,766,390.64
State Aid - Coronavirus	681,889.99
Student Financial Aid	15,314,264.06
Federal Aid - COVID-19	819,348.54
Noncapital Contributions	13,370,418.20
Additions to Endowments	1,268,394.10
	<hr/>
Cash Provided by Noncapital Financing Activities	133,220,705.53

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	168,868.26
Capital Contributions	4,798,075.38
Proceeds from Sale of Capital Assets	11,472.50
Acquisition and Construction of Capital Assets	(9,889,588.01)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(7,383,842.89)
Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities	(1,808,323.13)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(14,103,337.89)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,508,619.28
Investment Income	689,157.15
Purchase of Investments and Related Fees	(1,870,371.32)
	<hr/>
Net Cash Provided by Investing Activities	327,405.11
Net Decrease in Cash and Cash Equivalents	(3,985,906.27)
Cash and Cash Equivalents - July 1, 2022	59,682,132.60
	<hr/>
Cash and Cash Equivalents - June 30, 2023	\$ 55,696,226.33

The University of North Carolina at Pembroke
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023

Exhibit A-3
Page 2 of 2

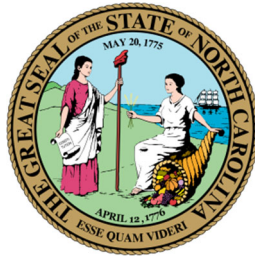
**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (121,502,109.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	9,449,461.53
Capital Asset Impairment Loss	3,339,487.64
Allowances and Write-Offs	204,234.24
Other Nonoperating Revenues	591,495.16
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(327,931.23)
Inventories	17,908.75
Prepaid Assets	(98,100.00)
Notes Receivable, Net	78,060.21
Net Other Postemployment Benefits Asset	50,181.03
Deferred Outflows Related to Pensions	(7,970,818.00)
Deferred Outflows Related to Other Postemployment Benefits	2,989,177.00
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(529,131.25)
Funds Held for Others	70,239.77
Unearned Revenues	(406,067.69)
Net Pension Liability	18,809,053.00
Net Other Postemployment Benefits Liability	(24,682,497.00)
Compensated Absences	290,192.92
Workers' Compensation Liability	(101,915.73)
Deposits Payable	(14,857.24)
Deferred Inflows Related to Pensions	(10,969,464.00)
Deferred Inflows Related to Other Postemployment Benefits	7,282,721.00
Net Cash Used by Operating Activities	<u>\$ (123,430,679.02)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 851,237.85
Change in Fair Value of Investments	628,676.92
Loss on Disposal of Capital Assets	(223,905.14)
Amortization of Bond Premiums	(53,103.93)
Amortization of Deferred Loss on Refunding	103,448.62
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(542,745.00)

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Pembroke (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

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

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

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

Separate financial statements for the Foundation may be obtained from the University Controller's Office, PO Box 1510, Pembroke, NC 28372, or by calling 910-521-6583.

Condensed combining information regarding the blended component unit is provided in Note 17.

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

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

Real estate investment trusts and private equity limited partnerships are reported at Net Asset Value (NAV).

Real estate not held by a governmental external investment pool and other asset holdings are reported at fair market value as determined by appraisal as of June 30, 2023.

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

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

G. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to

July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-60 years

Right-to-use leased and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease liabilities are capitalized as a right-to-use asset when the underlying leased asset has a cost of \$5,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-to-use asset when the underlying subscription asset has a cost of \$5,000 or greater and an estimated useful life of more than one year.

Amortization for right-to-use leased and subscription assets is computed using the straight-line method over the shorter of the lease/subscription term or the underlying asset's estimated useful life. If a lease agreement contains a purchase option the University is reasonably certain will be exercised, the right-to-use leased asset is amortized over the asset's estimated useful life.

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **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, bonds from direct placements, and notes from direct borrowings. Other long-term liabilities include: lease liabilities, subscription liabilities, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2022 *Annual Comprehensive 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 2022 *Annual Comprehensive 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 and Disability Income Plan of North Carolina. 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 assets 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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

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

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

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

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

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

O. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students'

behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

Q. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as dining, residential life, motor pool, and the print shop. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$51,609,974.31, 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 0.7 years as of June 30, 2023. 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, 2023 was \$5,756.43. The carrying amount of the University's deposits not with the State Treasurer was \$4,080,495.59, and the bank balance was \$4,158,251.58. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2023, the amount of the University's bank balance that was exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$3,631,132.85.

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

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

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

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

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

Investments 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.

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

The following table presents investments by type and investments subject to interest rate risk at June 30, 2023, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
U.S. Treasuries	\$ 786,646.10	\$ 17,829.14	\$ 464,961.59	\$ 166,250.70	\$ 137,604.67
U.S. Agencies	91,524.13	-	-	-	91,524.13
Asset-Backed Securities	101,145.30	101,145.30	-	-	-
Debt Mutual Funds	1,516,643.06	303,435.90	456,279.58	548,982.86	207,944.72
Money Market Mutual Funds	240,789.78	240,789.78	-	-	-
Pooled Debt Funds	398,986.37	-	-	398,986.37	-
Domestic Corporate Bonds	676,689.84	-	406,569.62	228,521.92	41,598.30
Total Debt Securities	3,812,424.58	\$ 663,200.12	\$ 1,327,810.79	\$ 1,342,741.85	\$ 478,671.82
Other Securities					
UNC Investment Fund	20,343,314.95				
International Mutual Funds	385,319.67				
Investments in Real Estate	555,240.46				
Real Estate Investment Trust	127,187.09				
Private Equity Limited Partnerships	1,027,795.53				
Domestic Stocks	3,621,225.07				
Foreign Stocks	2,322,455.45				
Structured Products	157,095.00				
Total Long-Term Investment Pool	\$ 32,352,057.80				

At June 30, 2023, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	Unrated
U.S. Agencies	\$ 91,524.13	\$ 91,524.13	\$ -	\$ -	\$ -	\$ -
Asset-Backed Securities	101,145.30	101,145.30	-	-	-	-
Debt Mutual Funds	1,516,643.06	628,302.39	-	43,826.91	136,606.53	707,907.23
Money Market Mutual Funds	240,789.78	-	-	-	-	240,789.78
Pooled Debt Funds	398,986.37	-	-	-	-	398,986.37
Domestic Corporate Bonds	676,689.84	-	39,308.14	232,057.40	405,324.30	-
Totals	\$ 3,025,778.48	\$ 820,971.82	\$ 39,308.14	\$ 275,884.31	\$ 541,930.83	\$ 1,347,683.38

Rating Agency: Standards & Poor's

UNC Investment Fund, LLC - At June 30, 2023, the University's investments include \$20,343,314.95, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2023, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 2,184,558.60	\$ 2,184,558.60

At June 30, 2023, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Unrated
Money Market Mutual Funds	\$ 2,184,558.60

Rating Agency: Standard & Poor's

Total Investments - The following table presents the total investments at June 30, 2023:

Investment Type	Amount
Debt Securities	
U.S. Treasuries	\$ 786,646.10
U.S. Agencies	91,524.13
Asset-Backed Securities	101,145.30
Debt Mutual Funds	1,516,643.06
Money Market Mutual Funds	2,425,348.38
Pooled Debt Funds	398,986.37
Domestic Corporate Bonds	676,689.84
Other Securities	
UNC Investment Fund	20,343,314.95
International Mutual Funds	385,319.67
Investments in Real Estate	555,240.46
Real Estate Investment Trust	127,187.09
Private Equity Limited Partnerships	1,027,795.53
Domestic Stocks	3,621,225.07
Foreign Stocks	2,322,455.45
Structured Products	157,095.00
Total Investments	\$ 34,536,616.40

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University’s investments are recorded at fair value as of June 30, 2023. 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, 2023:

	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	\$ 786,646.10	\$ -	\$ 786,646.10	\$ -
U.S. Agencies	91,524.13	-	91,524.13	-
Debt Mutual Funds	1,516,643.06	1,516,643.06	-	-
Money Market Mutual Funds	2,425,348.38	2,425,348.38	-	-
Pooled Debt Funds	398,986.37	398,986.37	-	-
Domestic Corporate Bonds	676,689.84	676,689.84	-	-
Asset-Backed Securities	101,145.30	101,145.30	-	-
Total Debt Securities	5,996,983.18	5,118,812.95	878,170.23	-
Other Securities				
Investments in Real Estate	555,240.46	555,240.46	-	-
Domestic Stocks	3,621,225.07	3,621,225.07	-	-
Foreign Stocks	2,322,455.45	2,322,455.45	-	-
International Mutual Funds	385,319.67	385,319.67	-	-
Structured Products	157,095.00	157,095.00	-	-
Total Investments by Fair Value Level	13,038,318.83	\$12,160,148.60	\$ 878,170.23	\$ -
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	1,027,795.53			
Real Estate Investment Trusts	127,187.09			
Total Investments Measured at the NAV	1,154,982.62			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	51,609,974.31			
UNC Investment Fund	20,343,314.95			
Total Investments as a Position in an External Investment Pool	71,953,289.26			
Total Investments Measured at Fair Value	\$ 86,146,590.71			

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 Statement No. 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 Statement No. 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

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

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2023:

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)
Private Equity Limited Partnerships ^A	\$ 1,027,795.53	\$ 914,117.33	Not Allowed
Real Estate Investment Trust ^B	127,187.09	-	Daily
Total Investments Measured at the NAV	\$ 1,154,982.62		

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

B. Real Estate Investment Trust - This type includes investments that seek long-term capital appreciation through acquiring publicly traded interests in equity real estate funds and direct real-estate assets. These investments can be sold in publicly traded markets. Income is received through distributions to shareholders.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy which limits spending to 5.5% of the “average market value” of the endowment funds. The “average market value” is defined as an average of the market values on November 30 and December 31 of the previous five years. The actual spending may be less than the 6% maximum rate due to the economic environment. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At

June 30, 2023, net appreciation of \$11,479,849.49 was available to be spent, of which the entire amount was classified in net position as restricted expendable.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2023, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,983,169.73	\$ 706,613.61	\$ 1,276,556.12
Accounts	1,115,887.51	653,286.46	462,601.05
Intergovernmental	1,530,249.33	-	1,530,249.33
Pledges	149,399.14	14,939.91	134,459.23
Total Current Receivables	\$ 4,778,705.71	\$ 1,374,839.98	\$ 3,403,865.73
Noncurrent Receivables:			
Pledges	\$ 190,029.14	\$ 19,002.91	\$ 171,026.23
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 16,101.29	\$ 6,207.71	\$ 9,893.58
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 83,533.12	\$ 25,059.94	\$ 58,473.18

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2023, is presented as follows:

	Balance July 1, 2022 (as Restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 4,460,325.29	\$ 829,851.51	\$ -	\$ 5,290,176.80
Art, Literature, and Artifacts	178,729.87	-	-	178,729.87
Construction in Progress	2,237,503.17	3,886,974.83	4,596,775.45	1,527,702.55
Total Capital Assets, Nondepreciable	6,876,558.33	4,716,826.34	4,596,775.45	6,996,609.22
Capital Assets, Depreciable:				
Buildings	258,985,250.51	3,694,264.94	7,941,134.36	254,738,381.09
Machinery and Equipment	40,364,554.67	3,843,749.98	1,173,217.82	43,035,086.83
General Infrastructure	26,986,669.43	72,659.00	-	27,059,328.43
Right-to-Use Leased Buildings	114,858.64	-	-	114,858.64
Right-to-Use Leased Machinery and Equipment	467,028.49	-	-	467,028.49
Right-to-Use Leased General Infrastructure	44,981.95	28,050.64	15,303.68	57,728.91
Right-to-Use Subscription Assets	904,606.04	658,341.07	-	1,562,947.11
Total Capital Assets, Depreciable	327,867,949.73	8,297,065.63	9,129,655.86	327,035,359.50
Less Accumulated Depreciation/Amortization for:				
Buildings	79,742,547.11	3,485,136.16	4,601,646.72	78,626,036.55
Machinery and Equipment	21,228,201.33	4,726,603.39	937,840.18	25,016,964.54
General Infrastructure	10,810,795.79	634,192.60	-	11,444,988.39
Right-to-Use Leased Buildings	39,989.47	39,989.47	-	79,978.94
Right-to-Use Leased Machinery and Equipment	143,924.14	142,056.37	-	285,980.51
Right-to-Use Leased General Infrastructure	20,794.83	19,973.33	15,303.68	25,464.48
Right-to-Use Subscription Assets	-	401,510.21	-	401,510.21
Total Accumulated Depreciation/Amortization	111,986,252.67	9,449,461.53	5,554,790.58	115,880,923.62
Total Capital Assets, Depreciable, Net	215,881,697.06	(1,152,395.90)	3,574,865.28	211,154,435.88
Capital Assets, Net	\$ 222,758,255.39	\$ 3,564,430.44	\$ 8,171,640.73	\$ 218,151,045.10

As of June 30, 2023, the total amount of right-to-use leased and subscription assets was \$639,616.04 and \$1,562,947.11, and the related accumulated amortization was \$391,423.93 and \$401,510.21, respectively.

Supplies and services expense includes an impairment loss of \$3,339,487.64 due to the write-off of the Village Student Apartment Housing Complex. During fiscal year 2022, the Village Student Apartment Housing Complex was closed after the discovery of significant water damage to the sheathing and studs. After evaluating the damages during the current year, the University made the decision to not move forward with repairs and the buildings will be demolished.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2023, were as follows:

	<u>Amount</u>
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,049,266.21
Accounts Payable - Capital Assets	322,579.08
Accrued Payroll	229,498.63
Contract Retainage	160,409.26
Other	197,496.99
	<hr/>
Total Accounts Payable and Accrued Liabilities	\$ 1,959,250.17

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, 2023, is presented as follows:

	Balance July 1, 2022 (as Restated)	Additions	Reductions	Balance June 30, 2023	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 1,275,000.00	\$ -	\$ 80,000.00	\$ 1,195,000.00	\$ 85,000.00
Limited Obligation Bonds	25,915,000.00	-	5,025,000.00	20,890,000.00	995,000.00
Bonds from Direct Placements	17,261,799.27	-	816,668.04	16,445,131.23	886,808.71
Plus: Unamortized Premium	1,009,012.71	-	53,103.93	955,908.78	-
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net	45,460,811.98	-	5,974,771.97	39,486,040.01	1,966,808.71
Notes from Direct Borrowings	6,219,749.80	-	875,482.83	5,344,266.97	735,948.21
Total Long-Term Debt	51,680,561.78	-	6,850,254.80	44,830,306.98	2,702,756.92
Other Long-Term Liabilities					
Lease Liabilities	426,427.01	28,050.64	200,717.28	253,760.37	162,232.51
Subscription (SBITA) Liabilities	821,188.54	340,198.87	385,974.74	775,412.67	351,938.78
Employee Benefits					
Compensated Absences	4,248,666.98	3,818,734.02	3,528,541.10	4,538,859.90	1,128,180.91
Net Pension Liability	9,465,409.66	18,809,053.00	-	28,274,462.66	-
Net Other Postemployment Benefits Liability	96,716,720.78	89,791.00	25,315,033.00	71,491,478.78	-
Workers' Compensation	3,158,674.87	103,680.86	205,596.59	3,056,759.14	2,718,166.54
Total Other Long-Term Liabilities	114,837,087.84	23,189,508.39	29,635,862.71	108,390,733.52	4,360,518.74
Total Long-Term Liabilities, Net	\$ 166,517,649.62	\$ 23,189,508.39	\$ 36,486,117.51	\$ 153,221,040.50	\$ 7,063,275.66

Additional information regarding lease and subscription (SBITA) liabilities is included in Note 9.

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

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

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023	See Table Below
Revenue Bonds Payable						
Auxiliaries						
Multipurpose Facility Athletic Field House	2008A	4.00-5.00%	10/01/2033	\$ 2,055,000.00	\$ 1,195,000.00	
Limited Obligation Bonds						
Oak Hall Project	2017	3.62%	03/01/2036	9,970,000.00	7,370,000.00	(1)
Cypress Hall Project	2019	3.18%	03/01/2041	14,920,000.00	13,520,000.00	(1)
Total Limited Obligation Bonds				24,890,000.00	20,890,000.00	
Bonds from Direct Placements						
Student Housing - Courtyard Apartments	2019A	3.42%	06/01/2031	6,636,086.30	5,045,922.35	(2)
Student Housing - Courtyard Apartments II	2019B	3.42%	06/01/2035	12,613,362.57	11,399,208.88	(2)
Total Bonds from Direct Placements				19,249,448.87	16,445,131.23	
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements (principal only)				\$ 46,194,448.87	38,530,131.23	
Plus: Unamortized Premium					955,908.78	
Total Revenue Bonds Payable, Limited Obligation Bonds, and Bonds from Direct Placements, Net					\$ 39,486,040.01	

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

Ref	Revenue Source	Total Future Revenues Pledged	For the Year Ended June 30, 2023			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Oak and Cypress Hall Lease Revenues	\$ 27,840,593.50	\$ 1,105,773.35	\$ 1,275,000.00	\$ 984,511.00	48.53%
(2)	Housing Revenues	20,567,546.35	1,224,705.22	816,668.04	590,353.52	54.39%

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023
Energy Service Agreement	Siemens Public Inc.	3.91%	08/01/2029	\$ 4,500,000.00	\$ 2,420,930.86
Construction of Student Health Bldg.	PNC	2.87%	04/01/2025	4,610,000.00	1,995,000.00
40-Passenger Coachliner	Santander	3.13%	07/06/2027	242,334.00	178,336.11
Construction of Caton Fieldhouse	Caton Pembroke CRAT	5.00%	07/27/2037	750,000.00	750,000.00
Total Notes from Direct Borrowings				\$ 10,102,334.00	\$ 5,344,266.97

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2023, are as follows:

Fiscal Year	Annual Requirements							
	Revenue Bonds Payable		Limited Obligation Bonds		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 85,000.00	\$ 55,806.26	\$ 995,000.00	\$ 795,844.00	\$ 886,808.71	\$ 562,423.52	\$ 735,948.21	\$ 190,256.13
2025	90,000.00	51,656.26	1,035,000.00	752,787.00	960,614.56	532,094.64	2,003,548.36	165,330.73
2026	95,000.00	47,434.38	1,080,000.00	707,937.00	1,038,248.83	499,241.64	407,210.91	103,783.43
2027	100,000.00	42,925.00	1,125,000.00	661,113.00	1,119,881.65	463,733.52	433,041.86	87,787.48
2028	100,000.00	38,300.00	1,175,000.00	612,315.00	1,205,690.08	425,433.52	456,351.81	70,802.66
2029-2033	590,000.00	110,618.75	6,685,000.00	2,248,834.00	7,475,055.25	1,444,597.24	558,165.82	204,022.74
2034-2038	135,000.00	3,375.00	5,915,000.00	982,613.50	3,758,832.15	194,891.04	750,000.00	150,000.00
2039-2043	-	-	2,880,000.00	189,150.00	-	-	-	-
Total Requirements	\$ 1,195,000.00	\$ 350,115.65	\$ 20,890,000.00	\$ 6,950,593.50	\$ 16,445,131.23	\$ 4,122,415.12	\$ 5,344,266.97	\$ 971,983.17

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

Revenue Bonds Payable - As of June 30, 2023, the University has one general revenue bonds payable in the University of North Carolina System Pool, with a total outstanding balance of \$1,195,000.00 (Revenue Bond). The Revenue Bond was issued to fund the construction and equipping of certain student facilities on the University's campus in Pembroke, North Carolina. The series has been issued under and secured by indentures between the Board of Governors of the University of North Carolina (UNC Board) and The Bank of New York Mellon Trust Company, N.A. (BNY Mellon).

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

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

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

Limited Obligation Bonds - The University has two limited obligation bonds (LOBs) payable, with a total outstanding balance of \$20,890,000.00 as of June 30, 2023. The

bonds were issued to fund the construction and equipping of student housing facilities on the University's campus in Pembroke, North Carolina.

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

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

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

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

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

Under the Use Agreement, the University is granted the option to terminate the Lease and to purchase the Company's interest in the project by paying the Purchase Option Price. Purchase Option Price is defined in the Use Agreement as the amount which shall equal \$1.00 plus the amount then necessary to pay or defease the principal of all LOBs

outstanding, including any premium thereon or interest accrued or to accrue to the applicable prepayment or maturity date, plus all unpaid fees or expenses payable to the Trustee and the Company.

Bonds from Direct Placements - As of June 30, 2023, the University reported two bonds from direct placements payable to the Public Finance Authority (Authority), with a total outstanding balance of \$16,445,131.23 (collectively, the 2019 Issuances). The Authority issued these bonds to PNC Bank, National Association (Bank). The 2019 Issuances are obligations of the Foundation and are secured by all personal property of the Foundation including accounts, securities, inventories, and other assets. The 2019 Issuances were issued primarily to (1) redeem in advance of their maturity the outstanding Revenue Bond Series 2001A and (2) to finance and refinance all or a portion of the costs of the acquisition, construction, and equipping of a new student housing facility. The source of repayment for the 2019 Issuances shall be rent payments made under a lease between the Foundation and the University and gross revenues from the constructed housing project as well as other available funds.

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

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

Notes from Direct Borrowings - The University has pledged machinery and equipment with a carrying value of \$3,092,061.39 as security for Siemens Public Service Agreement Note (Energy Service Agreement) dated July 15, 2011. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to make an installment payment when due, (2) the University fails to perform or observe any term, condition, or covenant of the Siemens Agreement and failure continues for a period of 30 days after written notice is given, or (3) an attachment, levy, or execution of a security interest or lien is levied on or against the equipment financed.

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

The University has a note with a total outstanding balance of \$1,995,000.00 as of June 30, 2023. This note was issued to finance the costs of refunding a portion of debt outstanding and to undertake a project consisting of the acquisition, construction, and

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

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

The University has a purchase agreement with Santander Bank (Lessor) with a total outstanding balance of \$178,336.11 as of June 30, 2023 for the financing of a 40-passenger bus (Property). The agreement includes a 7-year property schedule that has a designated option to purchase beginning after the payment in year three (3) and in all subsequent years through year seven (7). At the end of year seven (7) the title and all interest in the property will transfer to the University.

The purchase agreement contains provisions that in the event of default, the Lessor may, at its sole discretion, (1) enforce this agreement by appropriate action to collect amounts due or to become due hereunder, (2) take possession of the Property, (3) terminate this agreement and repossess the Property, (4) sell the Property or any portion thereof for the Lessor's account at public or private sale, or (5) pursue and exercise any other remedy available at law or in equity, in which event the Lessee shall be liable for any and all costs and expenses incurred by Lessor in connection therewith.

The University has a promissory note with the Caton Pembroke Charitable Remainder Annuity Trust (CRAT) with an outstanding balance of \$750,000.00 as of June 30, 2023. This note was issued to finance a portion of the construction cost of the Caton Fieldhouse. This agreement is dated July 27, 2007 and the University is paying interest only at the rate of five percent (5%) quarterly for a total of one hundred and twenty quarters or thirty years or such time as the trust property of the Caton Pembroke CRAT dated July 6, 2007 is distributed to the University's Foundation pursuant to the terms of the trust agreement, whichever occurs earlier.

The promissory note contains provisions that in the event of default that is not cured within thirty days after written notice of such default, the CRAT may, at its option, declare all outstanding sums owed on the note to be immediately due and payable.

NOTE 9 - LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

A. Lessee Arrangements - The University has lease agreements for the right to use office space, parking lots, and equipment. The leases expire at various dates, and some have renewal options. Lease liabilities and right-to-use leased assets are recorded based on the present value of the expected receipts over the term of the respective leases. The expected

payments are discounted using the interest rate stated per the lease contract or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the University did not recognize any variable payment amounts.

The University's lessee arrangements at June 30, 2023, are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2023	Current Portion	Lease Terms ⁽¹⁾	Interest Rate/Ranges
Lessee:					
Right-to-Use Leased Buildings	1	\$ 36,430.55	\$ 36,430.55	3 Years	1.003%
Right-to-Use Leased Machinery and Equipment	4	182,568.83	106,334.98	2-4 Years	0.751% - 1.177%
Right-to-Use Leased General Infrastructure	3	34,760.99	19,466.98	3-4 Years	0.751% - 1.003%
Total	8	\$ 253,760.37	\$ 162,232.51		

(1) The lease terms represent the range of remaining terms in each lease.

B. Subscription-Based Information Technology Arrangements (SBITAs) - The University enters SBITAs for the right to use information technology software and cloud computing arrangement (network) assets from external parties. The SBITAs expire at various dates, and some have renewal options. Subscription liabilities and the related right-to-use subscription assets are recorded based on the present value of expected payments over the term of the respective SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the University did not recognize any variable payment amounts.

The University's SBITAs at June 30, 2023, are summarized below (excluding short-term SBITAs):

SBITA	Number of SBITAs	Subscription (SBITA) Liabilities June 30, 2023	Current Portion	SBITA Terms	Interest Rate Ranges
Right-to-Use Subscription Assets	14	\$ 775,412.67	\$ 351,938.78	1 - 4 Years	2.44% - 3.69%

C. Annual Requirements - The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2023, are as follows:

Fiscal Year	Annual Requirements			
	Lease Liabilities		Subscription (SBITA) Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 162,232.51	\$ 1,995.19	\$ 351,938.78	\$ 21,735.49
2025	85,872.14	470.96	269,907.90	11,979.70
2026	5,655.82	14.16	117,014.47	4,204.09
2027	-	-	36,551.52	1,036.48
Total Requirements	\$ 253,760.47	\$ 2,480.31	\$ 775,412.67	\$ 38,955.76

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	\$ (11,016,207.46)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(92,935,165.04)</u>
Effect on Unrestricted Net Position	(103,951,372.50)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>19,684,190.43</u>
Total Unrestricted Net Position	<u><u>\$ (84,267,182.07)</u></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>\$ 29,140,632.26</u>	<u>\$ 7,734,292.80</u>	<u>\$ 599,049.96</u>	<u>\$ 20,807,289.50</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 8,135,783.67	\$ 2,402,910.44	\$ -	\$ 5,732,873.23
Dining	5,103,437.62	1,471,243.34	-	3,632,194.28
Student Union Services	307,554.53	143,506.78	-	164,047.75
Health, Physical Education, and Recreation Services	1,396,901.80	407,578.72	-	989,323.08
Parking	446,671.64	-	60,779.26	385,892.38
Athletic	620,139.86	-	-	620,139.86
Motor Pool	32,033.02	-	-	32,033.02
Lyceum	211,426.77	-	-	211,426.77
Printing	323,861.03	-	-	323,861.03
Vending	97,868.33	-	-	97,868.33
Sales and Services of Education and Related Activities	<u>987,756.64</u>	<u>-</u>	<u>-</u>	<u>987,756.64</u>
Total Sales and Services, Net	<u>\$ 17,663,434.91</u>	<u>\$ 4,425,239.28</u>	<u>\$ 60,779.26</u>	<u>\$ 13,177,416.37</u>
Nonoperating Revenues:				
Noncapital Contributions, Net	<u>\$ 13,938,072.74</u>	<u>\$ -</u>	<u>\$ 13,340.03</u>	<u>\$ 13,924,732.71</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 31,121,122.95	\$ 6,577,499.87	\$ 1,766.90	\$ -	\$ -	\$ 37,700,389.72
Research	159,524.11	27,644.29	-	-	-	187,168.40
Public Service	1,937,248.98	1,179,716.38	497,413.52	928.22	-	3,615,307.10
Academic Support	10,692,760.91	6,409,065.88	657,995.98	-	-	17,759,822.77
Student Services	6,164,117.50	2,368,282.45	-	-	-	8,532,399.95
Institutional Support	12,406,189.66	11,610,702.03	-	-	-	24,016,891.69
Operations and Maintenance of Plant	9,650,775.07	6,686,451.81	-	2,176,792.30	-	18,514,019.18
Student Financial Aid	44,208.10	116,853.06	12,004,288.58	-	-	12,165,349.74
Auxiliary Enterprises	5,580,900.13	16,588,805.90	16,095.00	1,587,961.90	-	23,773,762.93
Depreciation/Amortization	-	-	-	-	9,449,461.53	9,449,461.53
Total Operating Expenses	\$ 77,756,847.41	\$ 51,565,021.67	\$ 13,177,559.98	\$ 3,765,682.42	\$ 9,449,461.53	\$ 155,714,573.01

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 \$1,019,367.16 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. 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. Plan members 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 and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The University's contractually-required contribution rate for the year ended June 30, 2023 was 17.38% of covered payroll. Plan members' contributions to the pension plan were \$2,157,300.47, and the University's contributions were \$6,248,980.36 for the year ended June 30, 2023.

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 2022 *Annual Comprehensive 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 are 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 2022 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2023, the University reported a liability of \$28,274,462.66 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. The University’s proportion of the net pension liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University’s proportion was 0.19050%, which was a decrease of 0.01164 from its proportion measured as of June 30, 2021, which was 0.20214%.

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	12/31/2021
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

* Salary increases include 3.25% inflation and productivity factor

** Investment rate of return includes inflation assumption and is 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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, 2022 (the measurement date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2022 is 0.78%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2021 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, 2022 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

<u>Net Pension Liability</u>		
<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
\$ 49,990,691.87	\$ 28,274,462.66	\$ 10,349,453.52

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2023, the University recognized pension expense of \$6,136,163.00. At June 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 123,109.00	\$ 385,385.00
Changes of Assumptions	2,230,747.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	9,286,467.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	342,218.85	587,882.01
Contributions Subsequent to the Measurement Date	6,248,980.36	-
Total	<u>\$ 18,231,522.21</u>	<u>\$ 973,267.01</u>

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized as pension expense as follows:

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2024	\$ 3,148,662.00
2025	2,626,409.00
2026	782,533.00
2027	4,451,670.84
Total	<u>\$ 11,009,274.84</u>

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

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statute 135-5.1 and may be amended only by the North Carolina General Assembly. Participants are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the University's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the University contributes 6.84%. For the current fiscal year, the University had a total payroll of \$68,303,448.48, of which \$25,461,094.92 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,527,665.70 and \$1,741,538.89, respectively. The amount of pension 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 2022 *Annual Comprehensive 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 other postemployment benefits (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 benefit 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 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 2022 *Annual Comprehensive 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 by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of 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 the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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 (CJRS), the Legislative Retirement System (LRS), the University Employees' 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 Plan's total noncontributory premium. 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 five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repealed retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amended Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the TSERS (or in an allowed local system unit), CJRS, or LRS 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.

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 Act. The University's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The University's contributions to the RHBF were \$4,231,569.48 for the year ended June 30, 2023.

In fiscal year 2021, the Plan transferred \$187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2023, the University recognized noncapital contributions for RHBF of \$542,745.00.

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 and LEAs which are not part of the State's reporting entity, and the University Employees' 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, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. 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 University Employees' ORP, earned within 96 months prior to becoming disabled 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. A general 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; (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, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, 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 University Employees' 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, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security benefits.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act 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, 2023 was 0.10% of covered payroll. The University's contributions to DIPNC were \$61,416.10 for the year ended June 30, 2023.

C. Net OPEB Liability

Retiree Health Benefit Fund: At June 30, 2023, the University reported a liability of \$71,401,687.78 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The University’s proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University’s proportion was 0.30068%, which was a decrease of 0.01216 from its proportion measured as of June 30, 2021, which was 0.31284%.

Disability Income Plan of North Carolina: At June 30, 2023, the University reported a liability of \$89,791.00 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The University’s proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University’s proportion was 0.30184%, which was a decrease of 0.00538 from its proportion measured as of June 30, 2021, which was 0.30722%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2021, 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, 2022 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2021	12/31/2021
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.0%
Healthcare Cost Trend Rate - Medical***	6% grading down to 5% by 2027	N/A
Healthcare Cost Trend Rate - Prescription Drug***	9.5% grading down to 5% by 2031	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	0% through 2025, 5% thereafter	N/A
Healthcare Cost Trend Rate - Administrative***	3%	N/A

* Salary increases include 3.25% inflation and productivity factor.

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

*** Disability Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan 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 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2022 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2022 is 0.78%.

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. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. 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 the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described above, 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. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

The actuarial assumptions used in the December 31, 2021 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.54% at June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from employers would 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 to current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

The discount rate used to measure the total OPEB liability for DIPNC was 3.08% at June 30, 2022 compared to 3.0% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.08%, 3.0% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.54% was used during the period that the plan was projected to have no fiduciary net position. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the University’s proportionate share of the net OPEB liability of the plans, as well as what the plans’ net OPEB liability 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		
		1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF	\$	84,103,368.17	\$ 71,401,687.78	\$ 61,028,490.40
		1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC	\$	110,567.01	\$ 89,791.00	\$ 68,964.40

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the plans, as well as what the plans’ net OPEB liability 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		
		1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF	\$	58,775,296.71	\$ 71,401,687.78	\$ 87,723,898.15

Effective with the actuarial valuation as of December 31, 2021, the liability for the State’s potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

OPEB Expense: For the fiscal year ended June 30, 2023, the University recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	\$ (10,198,186.00)
DIPNC	127,451.00
Total OPEB Expense	\$ (10,070,735.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 693,216.00	\$ 100,649.00	\$ 793,865.00
Changes of Assumptions	5,716,633.00	5,771.00	5,722,404.00
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	618,308.00	94,971.00	713,279.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,947,721.52	11,587.17	3,959,308.69
Contributions Subsequent to the Measurement Date	4,231,569.48	61,416.10	4,292,985.58
Total	\$ 15,207,448.00	\$ 274,394.27	\$ 15,481,842.27

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

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 197,576.00	\$ -	\$ 197,576.00
Changes of Assumptions	32,496,588.53	16,634.00	32,513,222.53
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,206,840.00	7,890.00	4,214,730.00
Total	\$ 36,901,004.53	\$ 24,524.00	\$ 36,925,528.53

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities related to RHBFB and DIPNC in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as 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 Ending June 30:	RHBFB	DIPNC
2024	\$ (7,873,274.00)	\$ 47,211.00
2025	(5,871,867.00)	53,745.00
2026	(7,139,752.00)	38,856.00
2027	(5,040,233.01)	30,166.00
2028	-	6,782.00
Thereafter	-	11,694.17
Total	\$ (25,925,126.01)	\$ 188,454.17

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.

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with private insurance companies. 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. Examples of such coverage are workers' compensation for non-appropriated employees, student accident, student health, boiler and machinery accident and hazardous substance, internship liability, commercial inland marine for music and related equipment, biodiesel, and fine arts.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$857,019.79 and on other purchases were \$1,458,466.29 at June 30, 2023.

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 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2023, is presented as follows:

**Condensed Statement of Net Position
Proprietary Fund
June 30, 2023**

	University	UNCP Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	\$ 34,291,916.96	\$ 8,920,542.78	\$ (2,143,485.68)	\$ 41,068,974.06
Capital Assets, Net	215,679,031.52	17,910,729.20	(15,438,715.62)	218,151,045.10
Other Noncurrent Assets	42,351,143.11	11,539,582.19	-	53,890,725.30
Component Unit Receivable from Primary Government	-	35,453,322.52	(35,453,322.52)	-
Total Assets	<u>292,322,091.59</u>	<u>73,824,176.69</u>	<u>(53,035,523.82)</u>	<u>313,110,744.46</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>33,713,364.48</u>	<u>818,968.20</u>	<u>-</u>	<u>34,532,332.68</u>
LIABILITIES				
Current Liabilities	11,375,981.34	3,103,379.82	(2,143,485.68)	12,335,875.48
Long-Term Liabilities, Net	108,998,535.54	37,159,229.30	-	146,157,764.84
Other Noncurrent Liabilities	868,188.16	-	-	868,188.16
Component Unit Payable to Primary Government	35,453,322.52	-	(35,453,322.52)	-
Total Liabilities	<u>156,696,027.56</u>	<u>40,262,609.12</u>	<u>(37,596,808.20)</u>	<u>159,361,828.48</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>37,898,795.54</u>	<u>16,188,715.62</u>	<u>(15,438,715.62)</u>	<u>38,648,795.54</u>
NET POSITION				
Net Investment in Capital Assets	170,781,528.93	2,284,580.75	-	173,066,109.68
Restricted - Nonexpendable	12,924,504.84	8,037,495.82	-	20,962,000.66
Restricted - Expendable	31,705,224.21	8,166,300.64	-	39,871,524.85
Unrestricted	(83,970,625.01)	(296,557.06)	-	(84,267,182.07)
Total Net Position	<u>\$ 131,440,632.97</u>	<u>\$ 18,191,820.15</u>	<u>\$ -</u>	<u>\$ 149,632,453.12</u>

**Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2023**

	UNCP	UNCP Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 20,807,289.50	\$ -	\$ -	\$ 20,807,289.50
Sales and Services, Net	13,515,384.36	4,625,792.37	(4,963,760.36)	13,177,416.37
Other Operating Revenues	1,936,780.20	347,343.07	(2,056,365.26)	227,758.01
Total Operating Revenues	<u>36,259,454.06</u>	<u>4,973,135.44</u>	<u>(7,020,125.62)</u>	<u>34,212,463.88</u>
OPERATING EXPENSES				
Salaries and Benefits	77,756,847.41	-	-	77,756,847.41
Supplies and Services	53,717,378.07	1,953,243.09	(4,105,599.49)	51,565,021.67
Scholarships and Fellowships	13,146,712.46	648,632.56	(617,785.04)	13,177,559.98
Utilities	3,369,933.99	395,748.43	-	3,765,682.42
Depreciation/Amortization	8,849,854.98	599,606.55	-	9,449,461.53
Total Operating Expenses	<u>156,840,726.91</u>	<u>3,597,230.63</u>	<u>(4,723,384.53)</u>	<u>155,714,573.01</u>
Operating Income (Loss)	<u>(120,581,272.85)</u>	<u>1,375,904.81</u>	<u>(2,296,741.09)</u>	<u>(121,502,109.13)</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	101,766,390.64	-	-	101,766,390.64
State Aid - Coronavirus	681,889.99	-	-	681,889.99
Student Financial Aid	15,436,201.62	-	-	15,436,201.62
Federal Aid - COVID-19	819,348.54	-	-	819,348.54
Noncapital Contributions	13,286,864.87	1,255,652.88	(617,785.04)	13,924,732.71
Investment Income, Net	1,254,976.30	62,857.77	-	1,317,834.07
Interest and Fees on Debt	(1,958,963.93)	(1,612,432.34)	1,783,879.65	(1,787,516.62)
Other Nonoperating Revenues (Expenses)	1,960,386.73	(2,717,845.46)	1,130,646.48	373,187.75
Net Nonoperating Revenues (Expenses)	<u>133,247,094.76</u>	<u>(3,011,767.15)</u>	<u>2,296,741.09</u>	<u>132,532,068.70</u>
Capital Appropriations	168,868.26	-	-	168,868.26
Capital Contributions	4,752,009.00	46,066.38	-	4,798,075.38
Additions to Endowments	50,566.33	1,217,827.77	-	1,268,394.10
Total Other Revenues	<u>4,971,443.59</u>	<u>1,263,894.15</u>	<u>-</u>	<u>6,235,337.74</u>
Increase (Decrease) in Net Position	<u>17,637,265.50</u>	<u>(371,968.19)</u>	<u>-</u>	<u>17,265,297.31</u>
NET POSITION				
Net Position, July 1, 2022, as Restated	113,719,949.97	18,563,788.34	-	132,283,738.31
Net Position, June 30, 2023	<u>\$ 131,357,215.47</u>	<u>\$ 18,191,820.15</u>	<u>\$ -</u>	<u>\$ 149,549,035.62</u>

**Condensed Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2023**

	University	UNCP Foundation, Inc.	Total
Net Cash Provided (Used) by Operating Activities	\$ (124,937,566.73)	\$ 1,506,887.71	\$ (123,430,679.02)
Cash Provided by Noncapital Financing Activities	131,006,107.81	2,214,597.72	133,220,705.53
Net Cash Used by Capital Financing and Related Financing Activities	(9,978,853.58)	(4,124,484.31)	(14,103,337.89)
Net Cash Provided (Used) by Investing Activities	1,462,520.26	(1,135,115.15)	327,405.11
Net Decrease in Cash and Cash Equivalents	<u>(2,447,792.24)</u>	<u>(1,538,114.03)</u>	<u>(3,985,906.27)</u>
Cash and Cash Equivalents, July 1, 2022	<u>53,478,413.25</u>	<u>6,203,719.35</u>	<u>59,682,132.60</u>
Cash and Cash Equivalents, June 30, 2023	<u>\$ 51,030,621.01</u>	<u>\$ 4,665,605.32</u>	<u>\$ 55,696,226.33</u>

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2023, the University implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITAs.

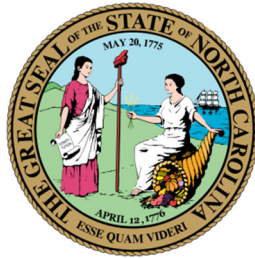
NOTE 19 - NET POSITION RESTATEMENT

As of July 1, 2022, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2022 Net Position as Previously Reported	\$ 132,283,738.31
Restatement	
Record the University's SBITA Assets and Liabilities Pursuant to GASB 96	
Requirements for Subscription-Based Information Technology Arrangements	<u>83,417.50</u>
July 1, 2022 Net Position as Restated	<u>\$ 132,367,155.81</u>

NOTE 20 - SUBSEQUENT EVENT

On October 31, 2023, the University entered into an agreement with DNT Asset Trust (Lender) under which the Lender agreed to provide the University with a \$7,910,000 revenue bond to finance the costs of the acquisition, construction, renovation, and improving of the Campus Recreation Field/Baseball and Softball Complex authorized by Session Law 2018-35 and supplemented by Session Law 2023-66. The revenue bond interest rate is 4.55% with a maturity date of October 1, 2030.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

Teachers' and State Employees' Retirement System	2023	2022	2021	2020	2019
Proportionate Share Percentage of Collective Net Pension Liability	0.19050%	0.20214%	0.20258%	0.19127%	0.18697%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 28,274,462.66	\$ 9,465,409.66	\$ 24,475,710.00	\$ 19,828,879.00	\$ 18,614,900.00
Covered Payroll	\$ 33,162,447.81	\$ 32,453,592.69	\$ 32,935,266.00	\$ 30,491,200.00	\$ 28,225,105.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	85.26%	29.17%	74.31%	65.03%	65.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.14%	94.86%	85.98%	87.56%	87.61%
	2018	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.18521%	0.17662%	0.16559%	0.16521%	0.17040%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 14,695,378.00	\$ 16,233,202.00	\$ 6,102,319.00	\$ 1,936,957.00	\$ 10,345,016.00
Covered Payroll	\$ 27,321,437.00	\$ 25,493,403.69	\$ 24,264,258.14	\$ 23,228,361.00	\$ 23,946,234.50
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	53.79%	63.68%	25.15%	8.34%	43.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

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

Exhibit B-2

Teachers' and State Employees' Retirement System	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 6,248,980.36	\$ 5,432,008.95	\$ 4,796,641.00	\$ 4,271,704.00	\$ 3,747,368.00
Contributions in Relation to the Contractually Determined Contribution	6,248,980.36	5,432,008.95	4,796,641.00	4,271,704.00	3,747,368.00
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 35,955,007.80	\$ 33,162,447.81	\$ 32,453,592.69	\$ 32,935,266.00	\$ 30,491,200.00
Contributions as a Percentage of Covered Payroll	17.38%	16.38%	14.78%	12.97%	12.29%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 3,042,666.00	\$ 2,726,679.00	\$ 2,332,649.00	\$ 2,220,179.62	\$ 2,018,544.57
Contributions in Relation to the Contractually Determined Contribution	3,042,666.00	2,726,679.00	2,332,649.00	2,220,179.62	2,018,544.57
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 28,225,105.00	\$ 27,321,437.00	\$ 25,493,403.69	\$ 24,264,258.14	\$ 23,228,361.00
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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

**The University of North Carolina at Pembroke
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2023**

Changes of Benefit Terms:

Teachers' and State Employees' Retirement System	Cost of Living Increase									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLAs) in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan net pension liability.

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017, and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of July 1, 2016, received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and before June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

In December 2021, for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of September 1, 2021, received a one-time cost-of-living supplement payment, equal to 2% of the beneficiary's annual retirement allowance.

Benefit recipients of the TSERS will receive a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid by October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each year for the plan. 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. See Note 13 for more information on the specific assumptions for the 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 January 2021, the actuarial assumptions for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of the TSERS 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 the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for the TSERS was lowered from 7.00% to 6.50% effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

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

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

Retiree Health Benefit Fund	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportionate Share Percentage of Collective Net OPEB Liability	0.30068%	0.31284%	0.31545%	0.30559%	0.30011%
Proportionate Share of Collective Net OPEB Liability	\$ 71,401,687.78	\$ 96,716,720.78	\$ 87,509,234.75	\$ 96,687,793.75	\$ 85,496,262.00
Covered Payroll	\$ 58,080,514.00	\$ 56,021,418.00	\$ 57,075,308.00	\$ 54,685,439.00	\$ 51,149,303.00
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	122.94%	172.64%	153.32%	176.81%	167.15%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	10.58%	7.72%	6.92%	4.40%	4.40%
	<u>2018</u>	<u>2017</u>			
Proportionate Share Percentage of Collective Net OPEB Liability	0.28521%	0.33211%			
Proportionate Share of Collective Net OPEB Liability	\$ 93,510,444.00	\$ 144,479,138.00			
Covered Payroll	\$ 49,924,549.00	\$ 47,954,109.00			
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	187.30%	301.29%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%			

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

**Exhibit B-3
Page 2 of 2**

Disability Income Plan of North Carolina	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.30184%	0.30722%	0.32034%	0.31130%	0.30767%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ 89,791.00	\$ (50,181.03)	\$ (157,588.01)	\$ (134,326.00)	\$ (93,458.00)
Covered Payroll	\$ 58,080,514.00	\$ 56,021,418.00	\$ 57,075,308.00	\$ 54,685,439.00	\$ 51,149,303.00
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.15%	0.09%	0.28%	0.25%	0.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%
	<u>2018</u>	<u>2017</u>			
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.30814%	0.30805%			
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (188,335.00)	\$ (191,299.00)			
Covered Payroll	\$ 49,924,549.00	\$ 47,954,109.00			
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.38%	0.40%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.23%	116.06%			

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

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

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

**Exhibit B-4
Page 1 of 2**

Retiree Health Benefit Fund	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 4,231,569.48	\$ 3,653,264.33	\$ 3,742,231.00	\$ 3,692,772.00	\$ 3,428,777.00
Contributions in Relation to the Contractually Determined Contribution	4,231,569.48	3,653,264.33	3,742,231.00	3,692,772.00	3,428,777.00
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 61,416,102.72	\$ 58,080,514.00	\$ 56,021,418.00	\$ 57,075,308.00	\$ 54,685,439.00
Contributions as a Percentage of Covered Payroll	6.89%	6.29%	6.68%	6.47%	6.27%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 3,094,533.00	\$ 2,900,558.00	\$ 2,685,430.00	\$ 2,545,903.00	\$ 2,406,033.00
Contributions in Relation to the Contractually Determined Contribution	3,094,533.00	2,900,558.00	2,685,430.00	2,545,903.00	2,406,033.00
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 51,149,303.00	\$ 49,924,549.00	\$ 47,954,109.00	\$ 46,373,457.00	\$ 44,556,163.00
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

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

**Exhibit B-4
Page 2 of 2**

Disability Income Plan of North Carolina	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 61,416.10	\$ 52,272.46	\$ 50,419.00	\$ 57,075.00	\$ 76,560.00
Contributions in Relation to the Contractually Determined Contribution	61,416.10	52,272.46	50,419.00	57,075.00	76,560.00
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 61,416,102.72	\$ 58,080,514.00	\$ 56,021,418.00	\$ 57,075,308.00	\$ 54,685,439.00
Contributions as a Percentage of Covered Payroll	0.10%	0.09%	0.09%	0.10%	0.14%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 71,609.00	\$ 204,687.00	\$ 196,612.00	\$ 190,131.00	\$ 196,047.00
Contributions in Relation to the Contractually Determined Contribution	71,609.00	204,687.00	196,612.00	190,131.00	196,047.00
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 51,149,303.00	\$ 49,924,549.00	\$ 47,954,109.00	\$ 46,373,457.00	\$ 44,556,163.00
Contributions as a Percentage of Covered Payroll	0.14%	0.41%	0.41%	0.41%	0.44%

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

The University of North Carolina at Pembroke
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2023

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.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Effective January 1, 2022, the structure of employer contributions to the RHBF was altered by legislation. Previously, non-Medicare-eligible retirees had the same employer contribution rate as active employees. As a result of the legislative change, non-Medicare-eligible retirees have the same employer contribution rate as Medicare-eligible retirees.

Beginning with the Disability Income Plan of North Carolina (DIPNC) actuarial valuation as of December 31, 2017, the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of employee's short-term disability benefit period. Effective with the actuarial valuation as of December 31, 2021, this liability was removed from the actuarial valuation because the reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019.

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 preceding 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 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.

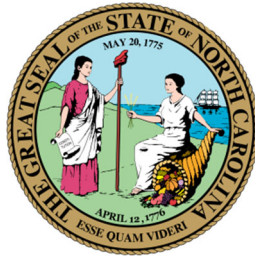
Changes of Assumptions: Consistent with prior years, for the actuarial valuation measured as of June 30, 2022 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.54%, from 2.16% as of June 30, 2021. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims 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 five years. The terms of the Pharmacy Benefits Management contract effective January 1, 2023 were incorporated in the valuation.

For the actuarial valuation measured as of June 30, 2022 for DIPNC, the discount rate was updated to 3.08%, from 3.00% as of June 30, 2021. This was a result of an update to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end, combined with the determination that the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members.

In 2020, 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, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS and the Committee on Actuarial Valuation of Retired Employees' Health Benefits 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 mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the TSERS actuarial valuation to better align with the anticipated incidence of disability.

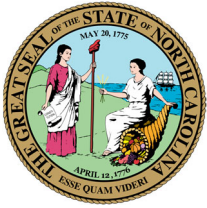
For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. 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 in December 2019 and first recognized in the 2020 OPEB report.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Pembroke (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 17, 2023. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Pembroke Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 17, 2023

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This audit required 615 hours at an approximate cost of \$83,640.