

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

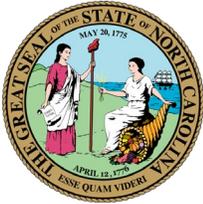
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2022, 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

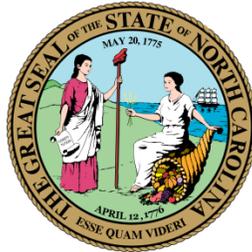


**Beth A. Wood, CPA
State Auditor**

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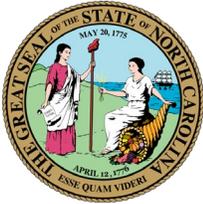
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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding.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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of North Carolina State University, and its discretely presented component units, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 21 percent of the assets of the business-type activities, and 91 percent and 37 percent, respectively, of the assets and revenues of the fiduciary activities; nor the financial statements of the North Carolina State University Foundation, Inc. or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United

States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Carolina State University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 8, 2022 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 8, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the North Carolina State University (University).

Financial Highlights

The University's net position increased by \$227.7 million to \$1.29 billion in fiscal year 2022. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Revenues increased by \$62.8 million or 3.6%, to \$1.81 billion in fiscal year 2022. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. Recovery from the coronavirus pandemic (COVID-19) saw an increase in revenues especially in the areas of auxiliaries. Substantial increases in sales and services due to students, faculty and staff returning to campus were offset by significant decreases in investment earnings due to market downturns.

Expenses increased 4.9% in 2022, up \$76.2 million over fiscal year 2021 expenses. Expenses represent amounts paid or accrued for operating or nonoperating purposes. The largest increases were in Auxiliaries, Academic Support and Student Financial Aid caused by a return to campus operations as well as federal COVID-19 student emergency financial grants.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The University presents two sets of fund financial statements 1) proprietary fund financial statements, which account for the University's primary activities and 2) fiduciary fund financial statements, which account for the University's custodial funds. See Note 1J for additional information regarding the University's fiduciary activities. Management's discussion and analysis concentrates on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position as condensed comparative financial information is not required for fiduciary activities.

The 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 University blends two component units as if they were part of the University, and two entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the

evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position*. Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

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

Comparative Condensed Financial Statement Information

Statement of Net Position

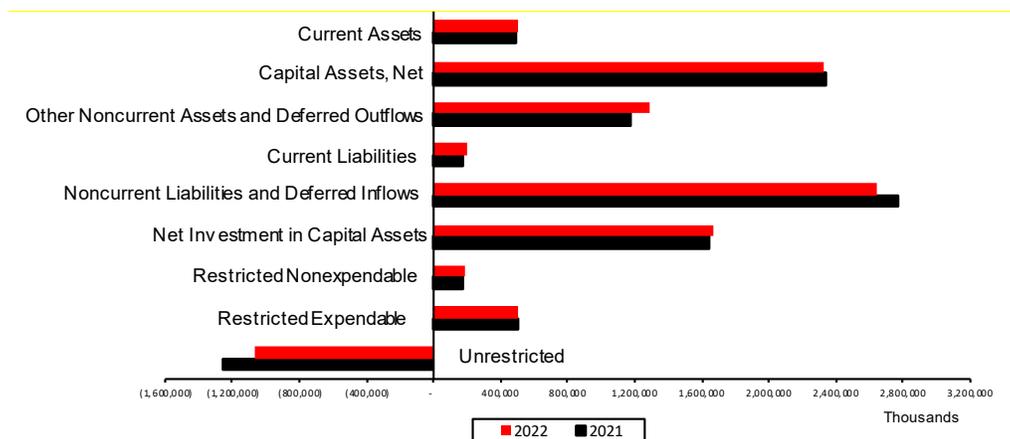
The *Statement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2022. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2022 and restated as of June 30, 2021.

	2022	Restated 2021 (1)	Changes
Assets			
Current Assets	\$ 509,523,173	\$ 487,814,497	\$ 21,708,676
Capital Assets, Net	2,327,670,598	2,343,254,036	(15,583,438)
Other Noncurrent Assets	957,350,938	868,101,606	89,249,332
Total Assets	3,794,544,709	3,699,170,139	95,374,570
Deferred Outflows of Resources			
Deferred Outflows Related to Asset Retirement Obligations	13,833,032	13,406,266	426,766
Deferred Outflows Related to Pensions	103,201,438	107,473,251	(4,271,813)
Deferred Outflows Related to OPEB	208,058,525	181,920,238	26,138,287
Total Deferred Outflows of Resources	325,092,995	302,799,755	22,293,240
Liabilities			
Current Liabilities	193,884,940	173,607,889	20,277,051
Noncurrent Liabilities			
Long-Term Liabilities, Net	2,025,565,564	2,144,927,960	(119,362,396)
Other Noncurrent Liabilities	77,341,333	77,329,217	12,116
Total Liabilities	2,296,791,837	2,395,865,066	(99,073,229)
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	135,253,742	-	135,253,742
Deferred Inflows Related to OPEB	367,414,029	544,559,203	(177,145,174)
Deferred Inflows for Leases	30,918,287	-	30,918,287
Total Deferred Inflows of Resources	533,586,058	544,559,203	(10,973,145)
Net Position			
Net Investment in Capital Assets	1,672,167,098	1,637,378,907	34,788,191
Restricted			
Nonexpendable	184,814,320	175,778,621	9,035,699
Expendable	500,548,463	500,964,624	(416,161)
Unrestricted	(1,068,270,072)	(1,252,576,527)	184,306,455
Total Net Position	\$ 1,289,259,809	\$ 1,061,545,625	\$ 227,714,184

(1) Restatement - The University restated certain amounts on the 2021 condensed Statement of Net Position due to changes in pool accounting and the implementation of GASB Statement No. 87, *Leases* (see Note 21, Net Position Restatements).

The following graph illustrates the assets, deferred outflows, liabilities, deferred inflows, and net position of the University as of June 30, 2022 as compared to restated June 30, 2021 balances.



Assets totaled \$3.79 billion, an increase of \$95.4 million over the prior year as restated. This change in assets includes an increase in current assets of \$21.7 million, an overall decrease in net capital assets of \$15.6 million, and an increase in other noncurrent assets of \$89.2 million.

Current assets increased by \$21.7 million in fiscal year 2022, primarily due to changes in current cash and receivables. Restricted cash and cash equivalents decreased \$8.1 million mainly due to payments towards capital projects, offset by an increase in contracts and grants overhead and gifts. Cash and cash equivalents increased \$2.8 million primarily due to an increase in unspent appropriations that remained on hand at year end. Receivables increased \$26.1 million primarily due to increases in contract and grant receivables. Implementation of GASB Statement No. 87, *Leases*, resulted in a new category with an initial balance of \$2.7 million in current leases receivable.

The decrease in net capital assets of \$15.6 million is due largely to the depreciation and amortization on capital assets in excess of additions during the year. See the capital assets section below for more details.

The \$89.2 million increase in other noncurrent assets is primarily made up of increases in noncurrent restricted cash, endowment investments, other investments and leases receivable. Noncurrent restricted cash increased \$7.3 million primarily due to increases in capital improvements allotments. Endowment investments increased \$9.3 million primarily due to additions to endowments in the long-term investment fund. Other investments increased \$46.1 million primarily due to increased University investment in the intermediate term fund and small market increases. Implementation of GASB Statement No. 87, *Leases*, resulted in a new category with an initial balance of \$28.9 million in noncurrent leases receivable.

The deferred outflows of resources for the University's asset retirement obligations, the deferred outflows for pensions and deferred outflows for OPEB are shown in a separate section of the financial statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented in fiscal year 2013, established deferred sections of the financial statements. The deferred outflow for the asset retirement obligation is the University's obligation and cost to retire the nuclear reactor on campus. The deferred outflows for pensions and OPEB accounts reflect the University's allocated portion of deferred outflows for the TSERS cost-sharing pension plan and the State's OPEB plans. Amounts in these accounts are amortized over time as pension and OPEB expenses. Deferred outflows of resources increased \$22.3 million in current year primarily relating to pension and OPEB. The \$26.1 million increase in the deferred outflows of OPEB and the \$4.3 million decrease in deferred outflows of pensions are due to changes in the pension and OPEB rate of return on investments in the plans as well as changes in assumptions and the University's proportionate share of contributions to the plans.

Liabilities totaled \$2.30 billion, a decrease of \$99.1 million over the prior year as restated for GASB Statement No. 87, *Leases*. The decrease in liabilities is attributable to an increase in current liabilities of \$20.3 million and a decrease in noncurrent liabilities of \$119.4 million.

Current liabilities totaled \$193.9 million. These liabilities include accounts payable and accrued liabilities, payables to other entities, unearned revenue, interest payable, leases payable and the current portion of University debt. Current liabilities increased by \$20.3 million, primarily caused by the implementation of GASB Statement No. 87, *Leases*, adding \$12.2 million in

current leases payable. Unearned revenue increased \$5.8 million due to the timing of contract and grants projects and an increase in dining plan receipts.

Noncurrent liabilities totaled \$2.10 billion, and include deposits payable, funds held for other entities, unearned revenue, and long-term liabilities. The primary factor in the \$119.4 million decrease in noncurrent liabilities was long-term liabilities. Long-term liabilities balances changed primarily due to the implementation of GASB Statement No. 87, *Leases*, along with an increase in net OPEB liability of \$100.1 million offset by a decrease in the net pension liability for the Teachers' and State Employees' Retirement System (TSERS) plan of \$171.0 million which was the result of the difference between the projected and actual investment earnings and assumption changes in both plans. Revenue bonds and notes from direct borrowings decreased \$28.3 million and leases payable decreased \$9.9 million due to annual payments.

Deferred inflows for pensions and deferred inflows for OPEB, are required by the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) and are shown in a separate section in the financial statements. This \$502.7 million deferred inflows of resources is another allocation of TSER's cost-sharing pension plan balances and OPEB plan balances. The \$41.9 million net decrease in deferred inflows for pension and OPEB is driven by the change in pension and OPEB liabilities related to the difference between projected and actual investment earnings and assumption changes. These deferred inflows for pensions and OPEB are amortized over time as pension expense and OPEB expense. Also added this fiscal year, as a result of the implementation of GASB Statement No. 87, *Leases*, is \$30.9 million in deferred inflows for leases.

Net position totaled \$1.29 billion, an increase of \$227.7 million over the prior year. The negative unrestricted net position balance decreased by \$184.3 million mainly due to fluctuations in Pension and OPEB reporting. Net investment in capital assets increased \$34.8 million due to the construction of capital projects and reduction of capital related debt. Restricted nonexpendable net position increased \$9.0 million driven mainly by the increase in gifts for professorships and the State matching for professorships.

As reported in Note 11 Net Position, the total impact from reporting the Retirement Health Benefit Fund (RHBF) as well as the pension plan obligations at June 30, 2022 was a negative \$1.48 billion. The difference between the net effect amount reported in Note 11 and the unrestricted net position reported on the financial statements (a negative \$1.07 billion) is a positive \$411.4 million. This positive difference represents unrestricted funds held by the University in its institutional trust, special, debt, and investment funds, as well as any unrestricted funds held by the University's blended component units.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 2.6 times compared to 2.8 times in the prior year. The University's total assets are more than the University's liabilities with a ratio 1.7 times as compared to 1.5 times in the prior year, as restated. These financial ratios are indicators of the University's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ended June 30, 2022. The activity balances

are classified as operating, nonoperating, or other revenues, expense, gains or losses. Activities classified as operating include all revenues of the University except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital contributions, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital appropriations, capital contributions and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2022, and June 30, 2021.

	<u>2022</u>	<u>2021</u>	<u>Changes</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 352,522,696	\$ 329,081,529	\$ 23,441,167
Federal Appropriations	23,658,433	23,020,618	637,815
Grants and Contracts	338,147,898	328,058,661	10,089,237
Sales and Services, Net	277,571,723	179,038,888	98,532,835
Other, Net	18,896,582	19,478,322	(581,740)
Total Operating Revenues	<u>1,010,797,332</u>	<u>878,678,018</u>	<u>132,119,314</u>
Operating Expenses			
Salaries and Benefits	948,272,061	953,216,704	(4,944,643)
Supplies and Services	415,663,548	369,660,959	46,002,589
Scholarships and Fellowships	79,015,639	69,942,018	9,073,621
Utilities	36,356,305	29,188,289	7,168,016
Depreciation/Amortization	132,763,004	114,947,438	17,815,566
Total Operating Expenses	<u>1,612,070,557</u>	<u>1,536,955,408</u>	<u>75,115,149</u>
Operating Loss	<u>(601,273,225)</u>	<u>(658,277,390)</u>	<u>57,004,165</u>
Nonoperating Revenues (Expenses)			
State Appropriations	578,015,894	520,557,104	57,458,790
Student Financial Aid	53,111,751	51,538,568	1,573,183
Other Noncapital Aid and Contributions	152,027,949	134,366,272	17,661,677
Investment Income (Loss), Net	(15,727)	161,240,750	(161,256,477)
Other	(4,221,541)	(18,446,972)	14,225,431
Net Nonoperating Revenues	<u>778,918,326</u>	<u>849,255,722</u>	<u>(70,337,396)</u>
Income Before Other Revenues	177,645,101	190,978,332	(13,333,231)
Capital Appropriations and Contributions	39,359,532	114,552,893	(75,193,361)
Additions to Permanent Endowments	10,709,551	8,332,544	2,377,007
Increase in Net Position	<u>227,714,184</u>	<u>313,863,769</u>	<u>(86,149,585)</u>
Beginning Net Position	<u>1,061,545,625</u>	<u>747,681,856</u>	<u>313,863,769</u>
Ending Net Position	<u>\$ 1,289,259,809</u>	<u>\$ 1,061,545,625</u>	<u>\$ 227,714,184</u>

Fiscal Year 2021-2022 total revenues are \$1,859,280,998 and total expenses are \$1,631,566,814.

Fiscal Year 2020-2021 total revenues are \$1,869,266,149 and total expenses are \$1,555,402,380.

(1) Depreciation/amortization expense for fiscal year 2021-2022 included \$13.1 million for the amortization of right-to-use leased assets.

The amount for fiscal year 2020-2021 was not restated.

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenues/expenses for the fiscal year 2022 and 2021, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

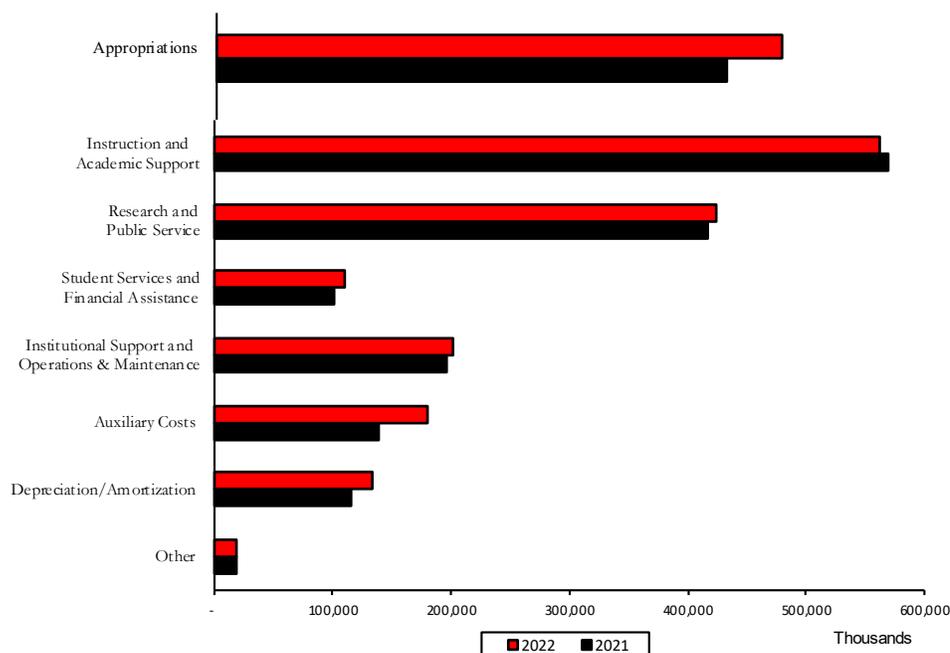
Title	% to Total 2022	% to Total 2021
State Appropriations	32%	29%
Research Contracts and Grants	19%	19%
Student Tuition and Fees	20%	19%
Sales and Services	15%	10%
Noncapital Aid and Contributions	11%	11%
Federal Appropriations	1%	1%
Other	2%	11%
Total	100%	100%

Operating and Nonoperating Expenses

Title	% to Total 2022	% to Total 2021
Instruction	28%	31%
Research	18%	19%
Public Service	8%	8%
Auxiliary Enterprises	11%	9%
Operations & Maintenance of Plant	5%	5%
Academic Support	7%	6%
Institutional Support	7%	7%
Depreciation/Amortization	8%	7%
Student Financial Aid	5%	5%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function (*in thousands*).

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses

Total revenues (operating, nonoperating, and other) decreased \$10.0 million or 0.5% compared to the prior year. Operating revenue increased \$132.1 million mainly due to increases in sales and services of \$98.5 million and tuition and fees of \$23.4 million due to students returning to campus. Research contracts and grants increased by \$10.0 million, primarily due to increases in grants in College of Agriculture and Life Sciences, College of Sciences and College of Engineering. Other revenue decreased \$72.8 million mainly due to decreases in capital contributions of \$67.5 million due to the completion of the Plant Sciences Building and other capital projects, and a decrease in capital appropriations to zero from \$7.7 million in the prior year, offset by increases in additions to endowments of \$2.4 million. Nonoperating revenue decreased \$70.3 million. Investment income decreased \$161.3 million due to market losses offset by increases in state appropriations and state and federal aid relating to COVID-19.

Total expenses (operating and nonoperating) increased \$76.2 million or 4.9% compared to the prior year. Salaries and benefits decreased \$4.9 million mainly due to decreases in pension and OPEB expenses. Supplies and services increased \$46.0 million driven by increases in travel and service contracts as the campus and its auxiliaries returned to normal, on campus, operations. Depreciation and amortization increased \$17.8 million.

Capital Assets and Long-Term Debt Activities

Capital Assets

As shown in the following table, the University increased its net capital assets by \$15.6 million during fiscal year 2022.

	2022	2021 (as restated)	Changes
Land and Permanent Easements	\$ 78,287,761	\$ 78,542,761	\$ (255,000)
Construction in Progress	49,886,411	122,538,600	(72,652,189)
Computer Software in Development	844,548	712,726	131,822
Buildings	2,754,679,091	2,610,874,414	143,804,677
Machinery and Equipment	471,972,597	448,764,838	23,207,759
General Infrastructure	263,410,950	261,249,232	2,161,718
Computer Software	41,791,542	38,176,504	3,615,038
Right-to-Use Leased Buildings	106,985,404	105,060,909	1,924,495
Right-to-Use Leased Machinery and Equipment	18,662,432	18,850,378	(187,946)
Total Capital Assets	3,786,520,736	3,684,770,362	101,750,374
Accumulated Depreciation/Amortization	(1,458,850,138)	(1,341,516,326)	(117,333,812)
Net Capital Assets	<u>\$ 2,327,670,598</u>	<u>\$ 2,343,254,036</u>	<u>\$ (15,583,438)</u>

As of July 1, 2021, the University implemented GASB Statement No. 87, *Leases*. This implementation included the addition of right-to-use assets which are included in the restated 2021 amounts in the preceding table. More information on this implementation can be seen in Notes 6 and 10 relating to capital assets and lease liability, respectively.

During fiscal year 2022, the University continued construction on new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing and other capital funding from the State of North Carolina.

In addition to costs incurred, the University had \$64.4 million in outstanding commitments for construction as of June 30, 2022.

Construction of the Plant Sciences Building, a new multi-disciplinary building that will house the N.C. Plant Sciences Initiative (NC PSI) based in the College of Agriculture and Life Sciences, was completed during fiscal year 2022. This addition will serve a critical need for the University as it takes on the challenges of agriculture and society. The NC PSI will bring experts from across disciplines, like engineering, bioinformatics and plant sciences, together in a team based environment to deliver innovations, new technologies, crop varieties and management practices to increase the world's agricultural productivity.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects and to purchase or lease equipment. As shown in the following table, the University decreased its long-term debt during fiscal year 2022.

	<u>2022</u>	<u>2021</u>	<u>Changes</u>
Revenue Bonds	\$ 509,555,091	\$ 532,398,813	\$ (22,843,722)
Notes from Direct Borrowings	<u>46,218,657</u>	<u>51,718,686</u>	<u>(5,500,029)</u>
Total Long-Term Debt	<u>\$ 555,773,748</u>	<u>\$ 584,117,499</u>	<u>\$ (28,343,751)</u>

Long-term debt decreased \$28.3 million, due to regular principal payments.

Economic Factors That Will Affect the Future

As the State began to recover from the COVID-19 Pandemic in fiscal year 2022, large sectors of the economy began to reopen on a path to normalcy. Along with the reopening of the economy, however, came a host of other economic challenges and the State of North Carolina was not immune from these issues. Supply chain backlogs, inflation, rising interest rates, and job openings that exceeded the available work force put further pressure on general inflation. As it became increasingly clear that high inflation levels were here to stay, the Federal Reserve Bank began to raise interest rates in an effort to quell inflation. The state's unemployment rate remains a very low 3.5%, and the State of North Carolina (already the 9th most populous of the US states) continues to grow. The growth of the state's economy, combined with the demand for workers, means that wage increases are likely to continue unless the State begins to experience an economic slowdown. After decades of low inflation, it is clear that high inflation is not a temporal phenomenon, but something that will impact how the University performs in the next year and beyond.

In the political arena, the University of North Carolina System ended fiscal year 2021 with an on-time state budget for fiscal year 2022, and pay increases for state employees in the next two years (2022 and 2023) of the biennium. Furthermore, the State's receipt of federal stimulus money, combined with better-than-projected financial performance and tax collections, allowed it to increase the rainy-day fund. Inflation reserves have also been established for approved capital projects.

For fall semester, as of September 2022, the University enrolled 36,700 students including a small number of certificate and non-degree seeking students. Of the 35,389 students in fall 2022 who were degree seeking, approximately 29% were graduate and professional students, and the rest were undergraduates. The COVID-19 Pandemic led to a loss of graduate and international student enrollment for fall 2020, but the University saw a recovery in enrollment for 2021 and 2022.

For the fall semester 2022, the incoming first year class of 5,601 students set an institutional record. Despite the pandemic and its impact on the economic circumstances of Americans, both first year retention and graduation rates have held up thus far with no deterioration in student success rates. The University reopened for the fall semester 2022 with no COVID-related restrictions.

The University enjoys a diversified base of revenues, comprised of five major sources: these include tuition and fees, state appropriations, grants and contracts, gifts and endowment

income, and sales and services. While sales and services revenue was negatively impacted by the pandemic in both fiscal years 2020 and 2021, the return of students to campus for the fiscal year 2022 fall semester led to a recovery of these on-campus revenue sources for fiscal year 2022. The University received and expended a significant portion of the federal Higher Education Emergency Relief Fund (HEERF) grant on its on-campus testing program for students, faculty, and staff. Fiscal year 2023 sales and services performance and economic activity largely resembles pre-pandemic operations.

The UNC System remains committed to affordability and access, and the University's low student charges continue to result in a consistent rating as one of the nation's best values in higher education. The University implemented a Fixed Tuition Program as required by *North Carolina General Statute § 116-143.9*. Beginning with the fall semester 2016, tuition rates at UNC institutions were fixed for eight consecutive semesters for all resident bachelor's degree-seeking freshmen. Other mandatory fees are subject to a cap on increases, and campuses have been encouraged to think about keeping total rates, fees, and charges as low as possible. The University's total student charges make it one of the nation's largest, most affordable land grant institutions.

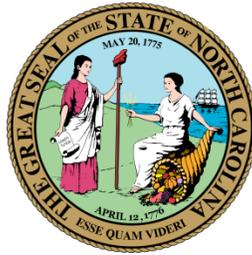
The State of North Carolina continues to provide significant operational support in the form of annual state appropriations, and one-time and recurring capital support to the University. State appropriations for operations were consistent in fiscal year 2022, with a slight drop anticipated for fiscal year 2023 reflecting prior nonrecurring revenue to support the costs of growing the College of Engineering by 4,000 students.

The State also provides significant capital support for buildings on campus, and for building reserves associated with state-funded buildings. The State has committed to fund half of the \$180 million of funding needed to construct the University's new Integrative Sciences Building. The State has also provided funding for capital support for repairs and renovations on UNC campuses.

The University is a research powerhouse and our faculty continue to receive an increasing number of awards every year. In fiscal year 2021, our annual expenditures were \$547 million. The University ranks #7 in research funding among all universities without a medical school and 6th among public universities without a medical school. It consistently ranks in the top five institutions (without a medical school) by number of start-ups launched, licensing agreements, and disclosures. The continued growth of the Research Triangle with new firms relocating or expanding here every year, suggests that historic commercialization activity in partnership with private industry will only continue to grow.

The University completed its \$2 billion capital campaign in December 2021, meeting its aspirational goal by May 2021. The University closed fiscal year 2022 with an endowment of just over \$2 billion. Gifts and endowment cannot make up the difference between revenue lost and the costs of providing education in an environment marked by higher inflation, but these other resources will help to make the future more promising since so much of the support is directed to student financial aid, professorships, and programs that will enhance the University's future. With the growth of endowment, the annual endowment spending provided by the endowment grew by \$10 million between fiscal years 2022 and 2023, from \$55 million to \$65 million of annual support.

Fiscal year 2021-2022 is the base year of the University's new strategic plan, "Wolfpack 2030: Powering the Extraordinary" and information about the goals can be found here: <https://strategicplan.ncsu.edu/current-plan/wolfpack-2030-powering-the-extraordinary/>.



FINANCIAL STATEMENTS

North Carolina State University
Statement of Net Position
Proprietary Fund
June 30, 2022

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 195,783,587
Restricted Cash and Cash Equivalents	169,063,884
Receivables, Net (Note 5)	114,839,683
Due from Primary Government	14,457,115
Due from State of North Carolina Component Units	3,914,540
Inventories	6,570,748
Notes Receivable, Net (Note 5)	2,203,852
Leases Receivable	2,689,764
	<hr/>
Total Current Assets	509,523,173

Noncurrent Assets:

Restricted Cash and Cash Equivalents	171,049,236
Endowment Investments	531,981,083
Other Investments	222,570,105
Notes Receivable, Net (Note 5)	2,237,233
Leases Receivable	28,900,803
Net Other Postemployment Benefits Asset	612,478
Capital Assets - Nondepreciable (Note 6)	129,018,720
Capital Assets - Depreciable, Net (Note 6)	2,198,651,878
	<hr/>
Total Noncurrent Assets	3,285,021,536

Total Assets	<hr/> 3,794,544,709
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Asset Retirement Obligations	13,833,032
Deferred Outflows Related to Pensions	103,201,438
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	208,058,525
	<hr/>
Total Deferred Outflows of Resources	325,092,995

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	53,881,808
Due to Primary Government	11,702,339
Due to State of North Carolina Component Units	1,554,343
Unearned Revenue	76,397,552
Interest Payable	4,744,452
Long-Term Liabilities - Current Portion (Note 9)	45,604,446
	<hr/>
Total Current Liabilities	193,884,940

North Carolina State University
Statement of Net Position
Proprietary Fund
June 30, 2022

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:	
Deposits Payable	6,746,909
Funds Held for Others	3,092,348
Unearned Revenue	65,910,778
U.S. Government Grants Refundable	1,591,298
Long-Term Liabilities, Net (Note 9)	<u>2,025,565,564</u>
Total Noncurrent Liabilities	<u>2,102,906,897</u>
Total Liabilities	<u>2,296,791,837</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	135,253,742
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	367,414,029
Deferred Inflows for Leases	<u>30,918,287</u>
Total Deferred Inflows of Resources	<u>533,586,058</u>
NET POSITION	
Net Investment in Capital Assets	1,672,167,098
Restricted:	
Nonexpendable:	
Scholarships and Fellowships	14,241,900
Endowed Professorships	155,108,904
Departmental Uses	11,597,363
Loans	<u>3,866,153</u>
Total Restricted-Nonexpendable Net Position	<u>184,814,320</u>
Expendable:	
Scholarships and Fellowships	51,145,488
Research	33,621,265
Endowed Professorships	186,322,123
Departmental Uses	113,636,537
Loans	1,010,940
Capital Projects	98,582,062
Debt Service	13,446,894
Other	<u>2,783,154</u>
Total Restricted-Expendable Net Position	<u>500,548,463</u>
Unrestricted	<u>(1,068,270,072)</u>
Total Net Position	<u>\$ 1,289,259,809</u>

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

North Carolina State University
Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2022

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 12)	\$ 352,522,696
Federal Appropriations	23,658,433
Federal Grants and Contracts	191,606,997
State and Local Grants and Contracts	44,139,854
Nongovernmental Grants and Contracts	102,401,047
Sales and Services, Net (Note 12)	277,571,723
Interest Earnings on Loans	191,850
Lease Income	3,578,541
Other Operating Revenues, Net (Note 12)	15,126,191
	<hr/>
Total Operating Revenues	1,010,797,332

OPERATING EXPENSES

Salaries and Benefits	948,272,061
Supplies and Services	415,663,548
Scholarships and Fellowships	79,015,639
Utilities	36,356,305
Depreciation/Amortization	132,763,004
	<hr/>
Total Operating Expenses	1,612,070,557
	<hr/>
Operating Loss	(601,273,225)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	578,015,894
State Aid - Coronavirus	13,639,175
Student Financial Aid	53,111,751
Federal Aid - COVID-19	42,759,331
Noncapital Contributions	95,629,443
Investment Loss (Includes Investment Expense of \$6,473,386)	(15,727)
Interest and Fees on Debt	(19,496,257)
Interest Earned on Leases	2,183,601
Other Nonoperating Revenues	13,091,115
	<hr/>
Net Nonoperating Revenues	778,918,326
	<hr/>
Income Before Other Revenues	177,645,101
	<hr/>
Capital Contributions	39,359,532
Additions to Endowments	10,709,551
	<hr/>
Total Other Revenues	50,069,083
	<hr/>
Increase in Net Position	227,714,184

NET POSITION

Net Position - July 1, 2021	1,061,545,625
	<hr/>
Net Position - June 30, 2022	\$ 1,289,259,809
	<hr/> <hr/>

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

North Carolina State University
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2022

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 973,098,570
Payments to Employees and Fringe Benefits	(1,070,744,742)
Payments to Vendors and Suppliers	(436,448,827)
Payments for Scholarships and Fellowships	(79,015,639)
Loans Issued	(69,366)
Collection of Loans	1,497,764
Interest Earned on Loans	190,734
William D. Ford Direct Lending Receipts	106,928,879
William D. Ford Direct Lending Disbursements	(108,666,828)
Related Activity Agency Receipts	54,348,508
Related Activity Agency Disbursements	(54,247,794)
Other Receipts	16,629,239
	<hr/>
Net Cash Used by Operating Activities	(596,499,502)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	578,015,894
State Aid - Coronavirus	13,639,175
Student Financial Aid	53,111,751
Federal Aid - COVID-19	42,759,331
Noncapital Contributions	88,985,437
Additions to Endowments	10,709,551
	<hr/>
Total Cash Provided by Noncapital Financing Activities	787,221,139

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Contributions	42,278,687
Proceeds from Sale of Capital Assets	1,030,730
Proceeds from Insurance on Capital Assets	384,219
Proceeds from Lease Arrangements	5,089,861
Acquisition and Construction of Capital Assets	(121,687,693)
Principal Paid on Capital Debt and Leases	(38,367,785)
Interest and Fees Paid on Capital Debt and Leases	(21,165,958)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(132,437,939)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	34,149,506
Investment Income	885,270
Purchase of Investments and Related Fees	(103,608,417)
	<hr/>
Net Cash Used by Investing Activities	(68,573,641)
Net Decrease in Cash and Cash Equivalents	(10,289,943)
Cash and Cash Equivalents - July 1, 2021, as Restated (Note 21)	546,186,650
	<hr/>
Cash and Cash Equivalents - June 30, 2022	\$ 535,896,707

North Carolina State University
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2022

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (601,273,225)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	132,763,004
Lease Income (Amortized Deferred Inflows of Resources)	(3,578,541)
Other Nonoperating Income	3,035,858
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(25,090,132)
Due from Primary Government	(2,904,962)
Inventories	207,197
Notes Receivable, Net	1,362,497
Net Other Postemployment Benefits Asset	1,333,902
Deferred Outflows Related to Asset Retirement Obligations	(426,766)
Deferred Outflows Related to Pensions	4,271,813
Deferred Outflows Related to Other Postemployment Benefits	(26,138,287)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	15,149,702
Due to Primary Government	824,459
Due to State of North Carolina Component Units	505,642
Funds Held for Others	100,714
Unearned Revenue	4,292,457
Net Pension Liability	(171,032,750)
Net Other Postemployment Benefits Liability	107,281,132
Compensated Absences	1,623,232
Deposits Payable	1,463,477
Workers' Compensation Liability	977,641
Pollution Remediation Payable	(120,291)
Asset Retirement Obligation	764,157
Deferred Inflows Related to Pensions	135,253,742
Deferred Inflows Related to Other Postemployment Benefits	(177,145,174)
Net Cash Used by Operating Activities	<u>\$ (596,499,502)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 2,165,174
Assets Acquired through a Gift	754,895
Gain on Exchange of Assets	10,941,092
Change in Fair Value of Investments	985,288
Loss on Disposal of Capital Assets	(1,385,489)
Amortization of Bond Premiums	(2,080,110)
Increase in Receivables Related to Nonoperating/Other Revenues	1,015,625
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(7,156,041)

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

North Carolina State University
Statement of Fiduciary Net Position
Fiduciary Funds - Custodial Funds
June 30, 2022

Exhibit B-1

	<u>External Investment Pool Funds</u>	<u>Other Funds</u>	<u>Total Custodial Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 45,288,295	\$ 45,288,295
Investments (Note 2):			
Intermediate Investments	23,298,756	-	23,298,756
Long-Term Investments	416,237,660	-	416,237,660
Total Assets	<u>439,536,416</u>	<u>45,288,295</u>	<u>484,824,711</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities (Note 7)	<u>-</u>	<u>4,707</u>	<u>4,707</u>
Total Liabilities	<u>-</u>	<u>4,707</u>	<u>4,707</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for:			
Pool Participants	439,536,416	-	439,536,416
Individuals/Affiliated Organizations	<u>-</u>	<u>45,283,588</u>	<u>45,283,588</u>
Total Fiduciary Net Position	<u>\$ 439,536,416</u>	<u>\$ 45,283,588</u>	<u>\$ 484,820,004</u>

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

North Carolina State University
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Custodial Funds
For the Fiscal Year Ended June 30, 2022

Exhibit B-2

	<u>External Investment Pool Funds</u>	<u>Other Funds</u>	<u>Total Custodial Funds</u>
ADDITIONS			
Contributions:			
Pool Participants	\$ 25,233,589	\$ -	\$ 25,233,589
Individuals/Affiliated Organizations	-	60,823,695	60,823,695
Total Contributions	<u>25,233,589</u>	<u>60,823,695</u>	<u>86,057,284</u>
Investment Activity:			
Investment Income	10,588,726	68,625	10,657,351
Investment Expenses	(571,036)	-	(571,036)
Net Investment Income	<u>10,017,690</u>	<u>68,625</u>	<u>10,086,315</u>
Total Additions	<u>35,251,279</u>	<u>60,892,320</u>	<u>96,143,599</u>
DEDUCTIONS			
Withdrawals and Distributions	<u>13,224,332</u>	<u>51,225,860</u>	<u>64,450,192</u>
Increase in Fiduciary Net Position	22,026,947	9,666,460	31,693,407
NET POSITION			
Net Position - July 1, 2021, as Restated (Note 21)	<u>417,509,469</u>	<u>35,617,128</u>	<u>453,126,597</u>
Net Position - June 30, 2022	<u>\$ 439,536,416</u>	<u>\$ 45,283,588</u>	<u>\$ 484,820,004</u>

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2022

Exhibit C-1

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
ASSETS		
Cash and Cash Equivalents	\$ 38,698,868	\$ 30,817,571
Intermediate Investments	20,803,562	25,010,162
Long-Term Investments	586,281,926	156,643,834
Assets Held in Charitable Trusts and Annuities	1,558,032	-
Donated Property and Land	2,301,950	31,998,199
Receivables, Net	280,418	367,292
Pledges Receivable/Promises	23,249,091	3,278,258
Property and Equipment, Net	5,645,981	73,526
Other Assets	301,194	20,512
	<u>\$ 679,121,022</u>	<u>\$ 248,209,354</u>
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 858,617	\$ 368,582
Due to Others	233,977	74,965
Life Income Funds Payable	4,425,612	5,134,227
Deferred Revenue	6,000	7,410
Funds Held for Others	88,075	204,345
	<u>5,612,281</u>	<u>5,789,529</u>
NET ASSETS		
Without Donor Restrictions	21,477,821	4,211,434
With Donor Restrictions	652,030,920	238,208,391
	<u>673,508,741</u>	<u>242,419,825</u>
Total Net Assets	<u>\$ 679,121,022</u>	<u>\$ 248,209,354</u>
Total Liabilities and Net Assets	<u>\$ 679,121,022</u>	<u>\$ 248,209,354</u>

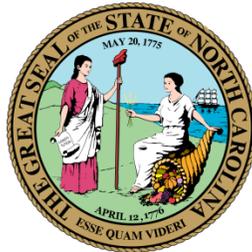
The accompanying notes to the financial statements are an integral part of this statement.

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2022

Exhibit C-2

	North Carolina State University Foundation, Inc.	The North Carolina Agricultural Foundation, Inc.
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Gains:		
Contributions	\$ 36,941	\$ 168,642
Donated Services and Salaries	388,000	1,381,000
Net Investment Loss	(1,234,605)	(1,647,530)
Other Income	1,002,042	86
Net Assets Released from Restrictions: Program or Time Restrictions	33,286,029	22,628,889
Total Revenue and Gains	33,478,407	22,531,087
Expenses:		
Scholarships and Fellowships	10,821,831	2,456,513
University Support	12,037,145	10,932,074
Capital Support	1,554,697	9,082,265
Administrative	277,438	265,600
Fundraising	9,244,390	1,895,974
Other	902,503	(37,103)
Total Expenses	34,838,004	24,595,323
Decrease in Net Assets Without Donor Restrictions	(1,359,597)	(2,064,236)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	27,564,626	17,251,529
Grant Revenue	-	865,098
Change in Pledges Receivables	573,173	(1,676,226)
Disposal of Other Assets	(244,250)	(4,584)
Net Investment Income	8,384,404	2,945,954
Royalties	-	338,240
Change in Value of Split Interest Agreements and Trusts	(610,886)	69,767
Other Income	6,313,024	9,284,620
Net Assets Released from Restrictions: Program or Time Restrictions	(33,286,029)	(22,628,889)
Increase in Net Assets with Donor Restrictions	8,694,062	6,445,509
Increase in Net Assets	7,334,465	4,381,273
Net Assets at Beginning of Year, as Restated (Note 22)	666,174,276	238,038,552
Net Assets at End of Year	\$ 673,508,741	\$ 242,419,825

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

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

Blended Component Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of eight ex officio members and eight elected members. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected members of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a five-member Board of Directors appointed based on their positions held with North Carolina State University. Additional members of the board may be appointed by the Chancellor of North Carolina State University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002 to construct, own and operate a golf course located on the North Carolina State University Centennial Campus. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006 to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007 to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007

and changed its name to Bell Tower Holdings, LLC on December 14, 2009. The purposes of Bell Tower Holdings LLC are to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008 the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012 to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. On September 27, 2016 the Corporation established the Wolfpack Investor Network, LLC (WIN) to connect the NC State alumni network with the NC State entrepreneurial community. C2I, LLC was formed on December 21, 2018 to act as an intermediary between the University and private parties in connection with certain real estate operations, execute innovation space management agreements, and procure resources for enhanced innovation activation and programming. On February 19, 2020, NC State Research, LLC was formed to manage, operate, host and oversee research related operations, unity, activities, and initiatives of North Carolina State University faculty, departments, centers and institutes, as well as federal agencies. Because the Corporation's Board consists of University employees and members appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund, and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

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

Discretely Presented Component Units - The North Carolina State University Foundation, Inc. (Foundation) and The North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation and Agricultural Foundation are legally separate, tax-exempt components of the University. These entities act primarily as fundraising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon, that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundation and Agricultural Foundation are private nonprofit organizations that report their financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from

the Governmental Accounting Standards Board revenue recognition criteria and presentation features. No modifications have been made to their financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2022, the Foundation distributed \$24,213,198 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2022, the Agricultural Foundation distributed \$26,032,148 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

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

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

Fiduciary Funds - This fund accounts for all of the University's fiduciary activities, which are considered custodial funds. These resources are held by the University in a purely custodial capacity on behalf of individuals, affiliated organizations, and other external parties. Custodial funds include the external portion of the NC State Investment Fund as well as resources held on behalf of individuals and other external organizations.

- 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, savings accounts, money market accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

Domestic stocks are reported at cost since there are no readily determinable fair values. These investments consist of technology transfer stocks and the Wolfpack Investor Network's Seed Capital Endowment Fund stocks.

The Kamphoefner art collection, a gift to the Endowment Fund in 1979, is recorded at estimated fair value as of the date of donation. Mineral rights were a gift to the Endowment Fund in 1987. The most recent sale from 2016 was used to adjust the value per acre.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and the physical plant, which uses the moving weighted average 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. Right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the leased asset into service.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated computer software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. The University capitalizes intangible right-to-use assets (for lessees) and lease receivables (for lessors) when future lease payments over the lease term are \$1,000,000 or greater. When remaining lease payments or receipts are below this threshold, lease transactions are recognized as revenues or expenses, unless required for tracking purposes by current University business practices. This threshold should only be

applied once upon entering into a lease agreement as defined by GASB Statement No. 87, *Leases*.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	4-22 years
General Infrastructure	15-75 years
Computer Software	2-15 years

Amortization for right-to-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset’s estimated useful life, unless the lease contains a purchase option the University is reasonably certain will be exercised. In those instances, the right-to-use leased asset is amortized over the asset’s estimated useful life.

The University does not capitalize its Arts and Design or Historic collections. These collections adhere to the University’s policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

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

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

Revenue bonds are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds are not material to the accompanying financial statements and are expensed in the year 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 2021 *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 14 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 2021 *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. See Note 15 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:

Proprietary Fund

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

Fiduciary Funds

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

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

extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, the Creamery, Telecommunications, Physical Plant, and Motor Pool. 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, 2022, the amount shown on the Statement of Net Position and the Statement of Fiduciary Net Position as cash and cash equivalents includes \$531,790,753 for the proprietary fund and \$45,288,295 for fiduciary funds, 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 0.9 years as of June 30, 2022. 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, 2022 was \$16,938. The carrying amount of the University's deposits not with the State Treasurer was \$4,089,016, and the bank balance was \$4,319,443. 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 follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2022, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$3,562,267.

- 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.

Additionally, the University has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds 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 Endowment Fund, including those invested in the Investment Fund, a University component unit, 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.

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund's internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University's reporting entity represent the Investment Fund's external participants. The external portion of the Investment Fund is presented in the fiduciary fund financial statements. The Investment Fund includes the Long-Term Investment Pool (LTIP) and the Intermediate Term Fund (ITF) which was established on July 3, 2014 for the collective investment of the participants' excess operating funds.

Oversight of the Investment Fund is provided by its Members Board and Board of Directors. The Members Board is responsible for providing governance and oversight to the Investment Fund. The Members Board has chosen not to make individual security or manager selection decisions. The Board of Directors' primary role is to oversee all aspects of the investment program, including development and approval of the Investment Policy Statement and any changes made to it after its initial adoption, in a prudent manner with regard to preserving principal while providing reasonable returns. An Investment Committee of the Board of Directors is responsible for oversight of the ITF.

Bank of New York Mellon is the custodian for the Investment Fund and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Investment Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund's investments. The annual financial report for the Investment Fund may be obtained from the Foundations Accounting and Investment Office, Campus Box 7207, Raleigh, NC 27695 or by calling (919) 513-7149 or at <http://foundationsaccounting.ofa.ncsu.edu/investment-fund>.

The following tables in this section present the Investment Fund in total, including both proprietary and fiduciary funds. See Note 2C below for further details regarding investments by fund type within the Investment Fund.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2022, for the Investment Fund.

Investment Fund

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Collective Investment Funds	\$ 146,889,489	\$120,817,717	\$ 5,971,327	\$ 20,100,445
Debt Mutual Funds	270,292,143	-	238,510,613	31,781,530
Total Debt Securities	417,181,632	\$120,817,717	\$ 244,481,940	\$ 51,881,975
Other Securities				
UNC Investment Fund	1,399,904,579			
Private Equity Limited Partnerships	83,158,888			
Total Investment Fund	\$ 1,900,245,099			

At June 30, 2022, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on S&P rating):

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Collective Investment Funds	\$ 146,889,489	\$ 5,971,327	\$ 19,355,579	\$ -	\$ -	\$ 744,866	\$ 120,817,717
Debt Mutual Funds	270,292,143	-	-	160,639,390	77,871,223	-	31,781,530
Totals	\$ 417,181,632	\$ 5,971,327	\$ 19,355,579	\$ 160,639,390	\$ 77,871,223	\$ 744,866	\$ 152,599,247

UNC Investment Fund, LLC - At June 30, 2022, the University's investments include \$1,399,904,579, 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 at June 30, 2022, for the University's non-pooled investments.

Non-Pooled Investments

	<u>Amount</u>
Investment Type	
Domestic Stocks	382,362
Collections and Mineral Rights	<u>65,134</u>
Total Non-Pooled Investments	<u>\$ 447,496</u>

Total Investments - The following table presents the total investments at June 30, 2022:

	<u>Amount</u>
Investment Type	
Debt Securities	
Collective Investment Funds	\$ 146,889,489
Debt Mutual Funds	270,292,143
Other Securities	
UNC Investment Fund	1,399,904,579
Private Equity Limited Partnerships	83,158,888
Domestic Stocks	382,362
Collections and Mineral Rights	<u>65,134</u>
Total Investments	<u>\$ 1,900,692,595</u>

Total investments include \$706,604,991 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2022, is as follows:

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash on Hand	\$ 16,938	\$ -	\$ 16,938
Amount of Deposits with Private Financial Institutions	4,089,016	-	4,089,016
Deposits in the Short-Term Investment Fund	531,790,753	45,288,295	577,079,048
Investment Fund	754,103,692	439,536,416	1,193,640,108
Non-Pooled Investments	447,496	-	447,496
Total Deposits and Investments	\$ 1,290,447,895	\$ 484,824,711	\$ 1,775,272,606
Deposits			
Current			
Cash and Cash Equivalents	\$ 195,783,587	\$ 45,288,295	\$ 241,071,882
Restricted Cash and Cash Equivalents	169,063,884	-	169,063,884
Noncurrent			
Restricted Cash and Cash Equivalents	171,049,236	-	171,049,236
Total Deposits	535,896,707	45,288,295	581,185,002
Investments			
Noncurrent			
Endowment Investments	531,981,083	-	531,981,083
Other Long-Term Investments	222,570,105	-	222,570,105
Intermediate Investments	-	23,298,756	23,298,756
Long-Term Investments	-	416,237,660	416,237,660
Total Investments	754,551,188	439,536,416	1,194,087,604
Total Deposits and Investments	\$ 1,290,447,895	\$ 484,824,711	\$ 1,775,272,606

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments are recorded at fair value as of June 30, 2022. 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.

NOTES TO THE FINANCIAL STATEMENTS

- 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 proprietary and fiduciary fund investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2022:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Collective Investment Funds	\$ 146,889,489	\$ 146,889,489	\$ -	\$ -
Debt Mutual Funds	270,292,143	270,292,143	-	-
Total Investments by Fair Value Level	417,181,632	\$ 417,181,632	\$ -	\$ -
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	83,158,888			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	577,079,048			
UNC Investment Fund	1,399,904,579			
Total Investments as a Position in an External Investment Pool	1,976,983,627			
Total Investments Measured at Fair Value	\$ 2,477,324,147			

Debt Securities - Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2022.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships	\$ 83,158,888	\$ 40,709,169	N/A	N/A

Private Equity Limited Partnerships - Private equities include venture capital partnerships, buy-outs, and international funds. The valuation of the underlying private companies requires significant judgment and interpretation by the general partners of the underlying investment partnerships due to the absence of quoted market values, inherent lack of liquidity, and the long-term nature of such investments. Private companies are initially valued based upon transaction price, with subsequent adjustments to values which reflect the consideration of available market data, including primarily observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are also adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

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, or applicable State of NC law. 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 pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long-term investment pool (for a twenty quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2022, net appreciation of \$358,704,786 was available to be spent, of which \$331,484,164 was restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2022, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,232,209	\$ 1,242,412	\$ 989,797
Student Sponsors	1,284,871	-	1,284,871
Accounts	22,265,330	2,598,979	19,666,351
Intergovernmental	65,076,810	-	65,076,810
Grant Sponsors	27,793,742	-	27,793,742
Interest on Loans	445,226	417,114	28,112
Total Current Receivables	<u>\$119,098,188</u>	<u>\$ 4,258,505</u>	<u>\$114,839,683</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,909,221	\$ 8,805	\$ 1,900,416
Institutional Student Loan Programs	303,436	-	303,436
Total Notes Receivable - Current	<u>\$ 2,212,657</u>	<u>\$ 8,805</u>	<u>\$ 2,203,852</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 2,904,879	\$ 711,186	\$ 2,193,693
Institutional Student Loan Programs	216,365	172,825	43,540
Total Notes Receivable - Noncurrent	<u>\$ 3,121,244</u>	<u>\$ 884,011</u>	<u>\$ 2,237,233</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 78,542,761	\$ -	\$ 255,000	\$ 78,287,761
Construction in Progress	122,538,600	76,874,812	149,527,001	49,886,411
Computer Software in Development	712,726	3,570,306	3,438,484	844,548
Total Capital Assets, Nondepreciable	201,794,087	80,445,118	153,220,485	129,018,720
Capital Assets, Depreciable:				
Buildings	2,610,874,414	147,365,283	3,560,606	2,754,679,091
Machinery and Equipment	448,764,838	36,797,267	13,589,508	471,972,597
General Infrastructure	261,249,232	2,161,718	-	263,410,950
Computer Software	38,176,504	3,615,038	-	41,791,542
Right-to-Use Leased Buildings	105,060,909	2,167,785	243,290	106,985,404
Right-to-Use Leased Machinery and Equipment	18,850,378	9,061	197,007	18,662,432
Total Capital Assets, Depreciable	3,482,976,275	192,116,152	17,590,411	3,657,502,016
Less Accumulated Depreciation/Amortization for:				
Buildings	947,937,752	79,766,549	3,366,307	1,024,337,994
Machinery and Equipment	271,030,724	29,108,330	11,622,589	288,516,465
General Infrastructure	91,194,484	6,321,559	-	97,516,043
Computer Software	29,478,450	3,682,858	-	33,161,308
Right-to-Use Leased Buildings	1,497,825	11,500,555	243,289	12,755,091
Right-to-Use Leased Machinery and Equipment	377,091	2,383,153	197,007	2,563,237
Total Accumulated Depreciation/Amortization	1,341,516,326	132,763,004	15,429,192	1,458,850,138
Total Capital Assets, Depreciable, Net	2,141,459,949	59,353,148	2,161,219	2,198,651,878
Capital Assets, Net	\$ 2,343,254,036	\$ 139,798,266	\$ 155,381,704	\$ 2,327,670,598

At year-end, the total amount of leased assets was \$125,647,836 and the related accumulated amortization was \$15,318,328.

On September 1, 2015, the North Carolina Council of State approved a request from the University for a land exchange between the State of North Carolina and Reedy Creek Investments (RCI). According to the terms of the North Carolina Council of State approval, RCI was to acquire various parcels and convey each parcel to the State. These parcels were to be selected by the University and allocated to the University by the State. Upon the transfer of property of sufficient aggregate value and in exchange for the parcels, the State agreed to convey an approximately 80-acre tract of land located on Trinity and Trenton Roads, Raleigh, NC to RCI.

As of July 8, 2021, RCI acquired for, and caused to be conveyed to the State, eight tracts of land to complete the exchange. The acquisition of each property, including those subject to private commercial leases, has been individually approved by the University's College of Sciences and the leases have been approved by the North Carolina Department of Administration in accordance with North Carolina General Statutes § 146-27. The property acquired by RCI for transfer to the University, totaling \$10,956,642, was included in land and

building additions as received since the inception of the exchange at the properties' market price as the fair value of the property acquired was more clearly evident than the value of the 80-acre tract of land that was conveyed. The 80-acre tract of land and the structures located on the land were accounted for at their historical cost and had a cost of \$350,746 with associated accumulated depreciation of \$335,196. A net gain on this exchange of \$10,941,092 was recognized as part of the total \$13,091,115 in the other nonoperating section of the University's Statement of Revenues, Expenses, and Changes in Net Position during the fiscal year.

Concurrently with the acquisition of the final property, the WN Reynolds Faculty House, the State of North Carolina conveyed to Wake Pines, LLC (as assignee of RCI) the 80-acre tract of land located on Trinity and Trenton Roads. At that time, the State of North Carolina also entered into a ten-year, no cost, lease of the same 80-acre tract of land from Wake Pines, LLC for continued use of the property by the University (the lease will expire July 7, 2031).

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2022, were as follows:

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	\$ 29,053,093	\$ 4,707
Accounts Payable - Capital Assets	10,470,324	
Accrued Payroll	8,507,249	
Contract Retainage	5,157,901	
Other	693,241	
	<u>53,881,808</u>	<u>4,707</u>
Total Current Accounts Payable and Accrued Liabilities	\$ 53,881,808	\$ 4,707

NOTE 8 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM AND LINE OF CREDIT

The University has available Commercial Paper Program financing for short-term debt credit up to \$100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2022, the Commercial Paper balance was zero. The commercial paper contains a provision that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied. The Commercial Paper Program was unused during the year ended June 30, 2022.

The NC State University Partnership Corporation (Corporation), through the NC State University Centennial Development LLC, has available a Line of Credit, from TowneBank, up to \$300,000 for operations at the Lonnie Poole Golf Course. The line is unsecured and must maintain a zero balance for at least 30 consecutive days during each twelve months. As of June 30, 2022, the Line of Credit balance was zero. The Line of Credit contains an event of

default provision that if the Corporation is unable to make any payment when due, all commitments and obligations of the Lender immediately will terminate and, at Lender's option, all indebtedness immediately will become due and payable. Also, upon default, the interest rate on the Line of Credit will be increased by an additional 3% margin, subject to the maximum interest rate limitations under applicable law.

Unused Line of Credit - The NC State University Partnership Corporation, through the NC State University Centennial Development LLC, Line of Credit from TowneBank was unused during the year ended June 30, 2022 and has no outstanding balance.

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 471,400,000	\$ -	\$ 16,355,000	\$ 455,045,000	\$ 16,650,000
Bonds from Direct Placements	33,417,510	-	4,408,612	29,008,898	4,523,840
Plus: Unamortized Premium	27,581,303	-	2,080,110	25,501,193	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	532,398,813	-	22,843,722	509,555,091	21,173,840
Notes from Direct Borrowings	51,718,686	-	5,500,029	46,218,657	6,085,066
Total Long-Term Debt	584,117,499	-	28,343,751	555,773,748	27,258,906
Other Long-Term Liabilities					
Pollution Remediation Payable	4,291,044	-	120,291	4,170,753	105,669
Asset Retirement Obligations	14,338,276	764,157	-	15,102,433	-
Leases Payable	122,028,033	2,165,174	12,104,144	112,089,063	12,244,315
Employee Benefits					
Compensated Absences	84,969,061	52,873,508	51,250,276	86,592,293	4,270,856
Net Pension Liability	274,052,313	-	171,032,750	103,019,563	-
Net Other Postemployment Benefits Liability	1,082,941,007	100,125,091	-	1,183,066,098	-
Workers' Compensation	10,378,418	4,054,634	3,076,993	11,356,059	1,724,700
Total Other Long-Term Liabilities	1,592,998,152	159,982,564	237,584,454	1,515,396,262	18,345,540
Total Long-Term Liabilities, Net	\$ 2,177,115,651	\$ 159,982,564	\$ 265,928,205	\$ 2,071,170,010	\$ 45,604,446

Additional information regarding leases payable is included in Note 10.

Additional information regarding the net pension liability is included in Note 14.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

Additional information regarding worker's compensation is included in Note 16.

NOTES TO THE FINANCIAL STATEMENTS

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
General Revenue					
Various Construction Projects	2010A	5%	10/01/2022	\$ 18,065,000	\$ 1,095,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2023	132,440,000	4,985,000
Adv Refund 2005A / Talley Student Union	2013B	2.223% - 4%	10/01/2041	141,650,000	124,955,000
Refund 2003B and 2015	2018	5%	10/01/2028	87,165,000	61,045,000
Refund 2010B / Carmichael	2020A	2.375% - 5%	10/01/2044	82,335,000	82,335,000
Adv Refund 2013A / Fitts-Woolard; Plant Sciences	2020B	0.702% - 3.02%	10/01/2042	184,445,000	180,630,000
Total Revenue Bonds Payable				646,100,000	455,045,000
General Revenue Bonds from Direct Placements					
Various Construction Projects	2017	2.58%	10/01/2031	50,438,952	29,008,898
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				\$ 696,538,952	484,053,898
Plus: Unamortized Premium					25,501,193
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					\$ 509,555,091

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
Energy Conservation Loan	BB&T	3.245%	09/01/2028	\$ 19,700,703	\$ 10,542,250
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	35,676,407
Total Notes from Direct Borrowings				\$ 75,760,713	\$ 46,218,657

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2022, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 16,650,000	\$ 15,112,851	\$ 4,523,840	\$ 690,072	\$ 6,085,066	\$ 1,691,346
2024	18,090,000	14,400,224	3,629,012	584,900	6,600,585	1,446,955
2025	18,785,000	13,676,476	3,419,944	493,969	7,194,130	1,180,859
2026	19,370,000	12,975,472	3,358,417	406,528	7,747,122	892,109
2027	20,745,000	12,241,225	2,477,845	331,240	8,370,524	580,329
2028-2032	128,165,000	49,385,139	11,599,840	718,901	10,221,230	246,102
2033-2037	91,360,000	31,856,009	-	-	-	-
2038-2042	108,250,000	14,828,379	-	-	-	-
2043-2045	33,630,000	806,368	-	-	-	-
Total Requirements	\$ 455,045,000	\$ 165,282,143	\$ 29,008,898	\$ 3,225,610	\$ 46,218,657	\$ 6,037,700

- 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 and Bonds from Direct Placements - The outstanding revenue bonds payable and bonds from direct placements contain provisions that on the occurrence and continuance of an event of default, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable (except if matured installments are paid before any judgment or decree is obtained). Events of default are defined as (1) failure to make any payment when due or (2) failure to perform any covenant, condition, agreement, or provision (other than failure to pay), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the outstanding notes from direct borrowings. The outstanding notes from direct borrowings also contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, or (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 reasonably corrected within 30 days.

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

- F. Prior Year Bond Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2022, the outstanding balance of prior year defeased bonds was \$113,945,000.
- G. Pollution Remediation Payable** - The University has recognized a pollution remediation liability for remediation of Lot 86 which the University used as a burial site for hazardous chemical and low level radioactive waste generated in the University's laboratories. The amount of the estimated liability is \$4,170,753. This estimate was calculated at its expected amount, using the expected cash flow technique. This liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.
- H. Asset Retirement Obligations** - The University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The amount of the estimated liability is \$15,102,433. The liability was estimated by analyzing the actual decommissioning costs of a representative university

reactor facility and adjusting the costs to be consistent with the NC State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 42 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The University is a State government organization and decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of NC General Statute 116-11(9)(a).

NOTE 10 - LEASES

The University’s leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Receivable (Liability) June 30, 2022	Current Portion	Lease Terms ⁽¹⁾	Interest Rate/ Ranges
Lessor:					
Land	16	\$ 23,753,606	\$ 33,714	42.3 years	6.25% - 8.5%
Buildings	25	7,836,961	2,656,050	4.2 years	8.5%
Total	41	\$ 31,590,567	\$ 2,689,764		
Lessee:					
Right-to-Use Land	40	\$ (96,288,456)	\$ (10,087,161)	37.5 years	0.316% - 10%
Right-to-Use Buildings	3	(15,800,607)	(2,157,154)	7.1 years	1.527% - 4.5%
Total	43	\$ (112,089,063)	\$ (12,244,315)		

(1) The lease terms were calculated using weighted averages based on lease receivable (payable) amounts.

A. Lease Receivable - The University recognized revenues of \$123,896 for termination payments not previously included in the measurement of the lease receivable. The lease receivable includes \$1,122,659 for a sublease with Appalachian State University (a constituent university of the University of North Carolina System) for the right to use part of a building located on the North Carolina Research Campus. The sublease has a remaining lease term of eight years.

B. Lease Liability - Measurement of the lease liability excluded the following variable payment amounts: 1) the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index) and 2) payments based on future performance or usage of the underlying assets. During the fiscal year, the University recognized expenses of \$21,923 for these changes in variable payments not previously included in the measurement of the lease liability. The lease liability includes \$44,809,955 for a use agreement with the Centennial Authority (a component unit of the State of North Carolina) for men’s basketball games at the PNC Arena (see Note 19). The use agreement has a remaining lease term of 74 years.

The University had commitments under leases before the lease term as follows:

- A seven-year lease agreement for the right to use 5,257 square feet in a building located on the University’s Centennial Campus beginning December 1, 2022 with total payments over the period of \$1,581,200, and
- A three-year lease agreement for the right to use 1,589 square feet in a building located in Asheville, NC beginning October 1, 2022 with total payments over the period of \$97,838.

Future principal and interest lease payments as of June 30, 2022 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 12,244,315	\$ 2,647,578	\$ 14,891,893
2024	11,858,304	2,373,621	14,231,925
2025	11,330,890	2,077,112	13,408,002
2026	9,201,362	1,779,599	10,980,961
2027	8,242,889	1,489,931	9,732,820
2028-2032	14,401,346	6,124,539	20,525,885
2033-2037	-	5,790,377	5,790,377
2038-2042	-	5,790,377	5,790,377
2043-2047	-	5,790,377	5,790,377
2048-2052	-	5,793,548	5,793,548
2053-2057	-	5,790,377	5,790,377
2058-2062	463,062	5,783,760	6,246,822
2063-2067	2,553,135	5,576,738	8,129,873
2068-2072	3,571,578	5,185,964	8,757,542
2073-2077	4,788,127	4,645,501	9,433,628
2078-2082	6,224,750	3,937,116	10,161,866
2083-2087	7,919,343	3,026,928	10,946,271
2088-2092	9,911,370	1,879,799	11,791,169
2093-2097	9,378,592	490,411	9,869,003
Total	\$ 112,089,063	\$ 75,973,653	\$ 188,062,716

NOTE 11 - 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	\$ (135,071,867)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(1,344,603,274)
Effect on Unrestricted Net Position	(1,479,675,141)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>411,405,069</u>
Total Unrestricted Net Position	\$ (1,068,270,072)

NOTES TO THE FINANCIAL STATEMENTS

See Notes 14 and 15 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 463,157,877	\$ 110,822,439	\$ (187,258)	\$ 352,522,696
Sales and Services, Net	\$ 301,821,151	\$ 23,897,971	\$ 351,457	\$ 277,571,723
Other Revenues, Net	\$ 15,151,487	\$ -	\$ 25,296	\$ 15,126,191

NOTE 13 - 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	\$ 395,676,063	\$ 57,620,454	\$ -	\$ 13,934	\$ -	\$ 453,310,451
Research	188,421,124	106,664,668	-	829,725	-	295,915,517
Public Service	78,991,128	48,803,375	-	388,928	-	128,183,431
Academic Support	60,203,888	49,295,311	-	99,511	-	109,598,710
Student Services	15,176,801	10,979,121	-	-	-	26,155,922
Institutional Support	85,233,297	30,299,387	-	57,967	-	115,590,651
Operations and Maintenance of Plant	36,000,996	22,576,990	-	27,444,352	-	86,022,338
Student Financial Aid	1,545,955	3,159,147	79,015,639	-	-	83,720,741
Auxiliary Enterprises	87,022,809	86,265,095	-	7,521,888	-	180,809,792
Depreciation/ Amortization	-	-	-	-	132,763,004	132,763,004
Total Operating Expenses	\$ 948,272,061	\$ 415,663,548	\$ 79,015,639	\$ 36,356,305	\$ 132,763,004	\$ 1,612,070,557

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. 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, 2022 was 16.38% of covered payroll. Plan members' contributions to the pension plan were \$21,197,746, and the University's contributions were \$57,869,845 for the year ended June 30, 2022.

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 2021 *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, the 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 2021 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2022, the University reported a liability of \$103,019,563 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. 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, 2021, the University's proportion was 2.20005%, which was a decrease of 0.06822 from its proportion measured as of June 30, 2020, which was 2.26827%.

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	12/31/2020
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 net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2020 valuations 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, 2021 (the measurement date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 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, 2021 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:

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
\$ 345,566,430	\$ 103,019,563	\$ (98,597,683)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2022, the University recognized pension expense of \$26,836,338. At June 30, 2022, 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	\$ 5,790,862	\$ 2,339,687
Changes of Assumptions	38,643,646	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	127,642,523
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	897,085	5,271,532
Contributions Subsequent to the Measurement Date	57,869,845	-
Total	\$ 103,201,438	\$ 135,253,742

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, 2023. 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:

Year Ending June 30:	Amount
2023	\$ (13,784,089)
2024	(16,944,538)
2025	(20,045,974)
2026	(39,147,548)
Total	\$ (89,922,149)

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 \$881,633,407, of which \$346,076,708 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$20,764,602 and \$23,671,647, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. Forfeitures reduced the University's pension expense during the current fiscal year by \$3,014,299.

NOTE 15 - 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 2021 *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 benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment

Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2021 *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 eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when 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, the Legislative Retirement System, 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 State Health 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 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The University's contractually-required contribution rate for the year ended June 30, 2022 was 6.29% of covered payroll. The University's contributions to the RHBF were \$43,990,528 for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (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 RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2022, the University recognized noncapital contributions for RHBF of \$7,156,041.

2. Disability Income

Plan Administration: As discussed in Note 16, 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 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, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2022 was 0.09% of covered payroll. The University's contributions to DIPNC were \$629,435 for the year ended June 30, 2022.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2022, the University reported a liability of \$1,183,066,098 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. 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, 2021, the University's proportion was 3.82676%, which was a decrease of 0.07702 from its proportion measured as of June 30, 2020, which was 3.90378%.

Net OPEB Asset: At June 30, 2022, the University reported an asset of \$612,478 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The University's proportion of the net OPEB asset 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, 2021, the University's proportion was 3.74971%, which was a decrease of 0.20683 from its proportion measured as of June 30, 2020, which was 3.95654%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, 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, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.25% inflation and productivity factor.

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

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled 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 a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return 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, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal

rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

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 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 earlier in the note, benefits are dependent on membership requirements.

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

The actuarial assumptions used in the December 31, 2020 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 the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows 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 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows 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 projected to be available to make all projected future benefit payments to the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Net OPEB Liability (Asset)			
	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF	\$ 1,407,239,290	\$ 1,183,066,098	\$ 1,001,510,046
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC	\$ (386,708)	\$ (612,478)	\$ (821,336)

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

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	\$ 958,083,591	\$ 1,183,066,098	\$ 1,481,524,853
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	\$ (644,650)	\$ (612,478)	\$ (572,393)

OPEB Expense: For the fiscal year ended June 30, 2022, the University recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	\$ (51,201,638)
DIPNC	1,355,628
Total OPEB Expense	\$ (49,846,010)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 6,984,651	\$ 1,561,642	\$ 8,546,293
Changes of Assumptions	96,764,623	107,542	96,872,165
Net Difference Between Projected and Actual Earnings on Plan Investments	-	59,770	59,770
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	57,818,639	141,695	57,960,334
Contributions Subsequent to the Measurement Date	<u>43,990,528</u>	<u>629,435</u>	<u>44,619,963</u>
Total	<u>\$ 205,558,441</u>	<u>\$ 2,500,084</u>	<u>\$ 208,058,525</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 22,022,367	\$ -	\$ 22,022,367
Changes of Assumptions	287,510,774	222,358	287,733,132
Net Difference Between Projected and Actual Earnings on Plan Investments	605,186	-	605,186
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>56,957,290</u>	<u>96,054</u>	<u>57,053,344</u>
Total	<u>\$ 367,095,617</u>	<u>\$ 318,412</u>	<u>\$ 367,414,029</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2023. 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:**

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2023	\$(147,380,285)	\$ 409,613
2024	(29,338,195)	282,048
2025	(11,523,822)	363,269
2026	(25,718,621)	185,147
2027	8,433,219	77,230
Thereafter	-	234,930
Total	<u>\$(205,527,704)</u>	<u>\$ 1,552,237</u>

NOTE 16 - 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 15, 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 15, 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. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Flood insurance can also be purchased as separate coverage for high risk flood exposures.

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, the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts property, master crime, inland marine property, musical instruments, campers accident and sickness coverage, athletic accident, boiler and machinery, watercraft, oceanographic equipment, cyber and data breach, student health, business travel, unmanned aerial systems liability, equine mortality, event cancellation, liquor liability, internship liability, volunteer liability, and nuclear energy liability.

NOTE 17 - 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 and other purchases were \$64,376,983 at June 30, 2022.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling \$6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was \$250,000 as of June 30, 2022.

B. Pending Litigation and Claims - As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court's decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State's Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately \$6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has transferred \$2,273,817 to the Office of State Budget and Management leaving approximately \$4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

The University is a party to other 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 18 - RELATED PARTIES

Foundations - There are 7 separately incorporated nonprofit foundations associated with the University. These foundations are North Carolina State Alumni Association, Inc., NC State Engineering Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., North Carolina Textile Foundation, Inc., and NC State Student Aid Association, Inc.

Effective July 1, 2021, the North Carolina Tobacco Foundation, Inc. merged with The North Carolina Agricultural Foundation, Inc.

These organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for amounts reported within the fiduciary statements and support from each organization to the University. This support approximated \$40,321,136 for the year ended June 30, 2022.

Nonprofit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. Per the agreement, the University is required to pay the greater of 10% of gross ticket revenues or \$57,430 for each men's and \$25,126 for each women's basketball game to compensate the Authority for facility rental and operating expenses for games held during fiscal year 2022. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance. In fiscal year 2012, the name of the ESA was changed to "PNC Arena."

In fiscal year 2008, the University entered a Capital Improvement Plan Agreement with the Authority to pay \$6,000,000 in quarterly installments over 15 years.

NOTE 19 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2022, is presented as follows:

**Condensed Statement of Net Position
Proprietary Fund
June 30, 2022**

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 468,505,918	\$ 29,818,292	\$ 11,198,963	\$ -	\$ 509,523,173
Capital Assets, Net	2,306,061,318	-	21,609,280	-	2,327,670,598
Other Noncurrent Assets	203,247,245	754,103,693 ¹	-	-	957,350,938
Primary Government Receivable from Component Unit	2,785,750	-	-	(2,785,750)	-
Total Assets	2,980,600,231	783,921,985	32,808,243	(2,785,750)	3,794,544,709
TOTAL DEFERRED OUTFLOWS OF RESOURCES	325,092,995	-	-	-	325,092,995
LIABILITIES					
Current Liabilities	186,357,260	872,628	6,655,052	-	193,884,940
Long-Term Liabilities, Net	2,025,565,564	-	-	-	2,025,565,564
Other Noncurrent Liabilities	75,639,469	-	1,701,864	-	77,341,333
Component Unit Payable to Primary Government	-	-	2,785,750	(2,785,750)	-
Total Liabilities	2,287,562,293	872,628	11,142,666	(2,785,750)	2,296,791,837
TOTAL DEFERRED INFLOWS OF RESOURCES	533,586,058	-	-	-	533,586,058
NET POSITION					
Net Investment in Capital Assets	1,655,639,818	-	16,527,280	-	1,672,167,098
Restricted - Nonexpendable	(598,235,037)	783,049,357 ²	-	-	184,814,320
Restricted - Expendable	500,395,151	-	153,312	-	500,548,463
Unrestricted	(1,073,255,057)	-	4,984,985	-	(1,068,270,072)
Total Net Position	\$ 484,544,875	\$ 783,049,357	\$ 21,665,577	\$ -	\$ 1,289,259,809

¹ Total investments in the NC State Investment Fund, Inc. audit report included \$706,604,991 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements. See Note 2. It will therefore be excluded from the Condensed Statement of Net Position and the Condensed Statement of Revenues, Expenses, and Changes in Net Position.

² Restricted nonexpendable assets are held in the NC State Investment Fund, Inc. while the associated liabilities are held in North Carolina State University statements resulting in a negative net position before blending.

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

Proprietary Fund

For the Fiscal Year Ended June 30, 2022

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenue	\$ 1,009,160,110	\$ -	\$ 5,047,944	\$ (3,410,722)	\$ 1,010,797,332
OPERATING EXPENSES					
Operating Expenses	1,478,343,426	-	4,374,849	(3,410,722)	1,479,307,553
Depreciation/Amortization	131,624,482	-	1,138,522	-	132,763,004
Total Operating Expenses	1,609,967,908	-	5,513,371	(3,410,722)	1,612,070,557
Operating Loss	(600,807,798)	-	(465,427)	-	(601,273,225)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	578,015,894	-	-	-	578,015,894
State Aid - Coronavirus	13,639,175	-	-	-	13,639,175
Student Financial Aid	53,111,751	-	-	-	53,111,751
Federal Aid - COVID-19	42,759,331	-	-	-	42,759,331
Noncapital Contributions	95,629,443	-	-	-	95,629,443
Investment Income (Loss), Net	670,230	(685,957)	-	-	(15,727)
Other Nonoperating Revenues (Expenses)	(4,283,879)	-	62,338	-	(4,221,541)
Net Nonoperating Revenues (Expenses)	779,541,945	(685,957)	62,338	-	778,918,326
Capital Contributions	39,359,532	-	-	-	39,359,532
Additions to Endowments	10,709,551	-	-	-	10,709,551
Total Other Revenues	50,069,083	-	-	-	50,069,083
Transfers	(49,952,430)	49,952,430	-	-	-
Increase (Decrease) in Net Position	178,850,800	49,266,473	(403,089)	-	227,714,184
NET POSITION					
Net Position, July 1, 2021, as restated	305,694,075	733,782,884	22,068,666	-	1,061,545,625
Net Position, June 30, 2022	\$ 484,544,875	\$ 783,049,357	\$ 21,665,577	\$ -	\$ 1,289,259,809

Condensed Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2022

	North Carolina State University	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (596,755,774)	\$ -	\$ 256,272	\$ (596,499,502)
Cash Provided by Noncapital Financing Activities	786,752,757	-	468,382	787,221,139
Net Cash Used by Capital Financing and Related Financing Activities	(131,354,069)	-	(1,083,870)	(132,437,939)
Net Cash Used by Investing Activities	(50,317,225)	(18,256,416)	-	(68,573,641)
Net Increase (Decrease) in Cash and Cash Equivalents	8,325,689	(18,256,416)	(359,216)	(10,289,943)
Cash and Cash Equivalents, July 1, 2021, as restated	493,829,010	48,074,708	4,282,932	546,186,650
Cash and Cash Equivalents, June 30, 2022	\$ 502,154,699	\$ 29,818,292	\$ 3,923,716	\$ 535,896,707

NOTE 20 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

NOTE 21 - NET POSITION RESTATEMENT

As of July 1, 2021, fiduciary funds net position as previously reported was restated as follows:

	Fiduciary Activities - Custodial Funds		
	External Investment Pool Funds	Other Funds	Total
July 1, 2021 Net Position as Previously Reported	\$ 430,514,823	\$ 36,635,219	\$ 467,150,042
Restatement:			
To Remove the North Carolina Tobacco Foundation, Inc. Activity Previously Presented in the Custodial Funds.	(13,005,354)	(1,018,091)	(14,023,445)
July 1, 2021 Net Position as Restated	\$ 417,509,469	\$ 35,617,128	\$ 453,126,597

The University restated cash and cash equivalents, investments, and accounts payable between the proprietary and fiduciary funds statements to reflect changes in pool accounting. The University, as the sponsoring government, reports cash, investments, and accounts payable balances for the NC State Investment Fund in the proprietary fund and reports the equity position of external pool participants as investments in the fiduciary funds.

As of July 1, 2021, the University implemented GASB Statement No. 87, Leases. Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 6 and Note 10 for details on the restated balances relating to capital assets and lease liability, respectively.

NOTE 22 - DISCRETELY PRESENTED COMPONENT UNITS

The University's discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units' audited financial statements follow:

North Carolina State University Foundation, Inc.**Long-Term Investments**

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2022 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 174,206	\$ 174,206
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	261,019,667	516,304,535
SRI Fund	55,341,577	65,182,245
Life Income Funds	<u>4,607,917</u>	<u>4,620,940</u>
Total	<u>\$ 321,143,367</u>	<u>\$ 586,281,926</u>

Life Income Funds

The consolidated financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2022 have asset balances of \$4,620,940.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$4,425,612 at June 30, 2022. Payments from these funds were \$668,128 during the year ended June 30, 2022. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2022, the CGA reserve balance was \$8,010.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

Receivable in Less than One Year	\$ 8,583,414
Receivable in One to Five Years	15,977,527
Receivable in Greater than Five Years	<u>2,128,750</u>
Total Gross Pledges Receivable	26,689,691
Less Allowance for Uncollectible Pledges	(1,335,000)
Less Unamortized Discount (Discount Rate of 0.07% to 3.21%)	<u>(2,105,600)</u>
Net Pledges Receivable	<u>\$ 23,249,091</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation’s outstanding pledge balance, excluding large pledges for which signed memorandums of understanding exist and therefore the Foundation is reasonably assured of collecting. Two donors represented approximately \$10.6 million of total undiscounted pledges receivable at June 30, 2022. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

The North Carolina Agricultural Foundation, Inc.

Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2022 consisted of:

	<u>Cost</u>	<u>Fair Value</u>
STIF	\$ 592,406	\$ 592,406
NC State Investment Fund, Inc.		
Long Term Investment Pool (LTIP)	66,396,961	147,585,459
Life Income Funds	<u>8,602,792</u>	<u>8,465,969</u>
Total	<u>\$ 75,592,159</u>	<u>\$ 156,643,834</u>

Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift and marked to market thereafter. Life income funds at June 30, 2022 have asset balances of \$8,465,969.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$5,134,227 at June 30, 2022. Payments from these funds were \$603,778 during the year ended June 30, 2022. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2022, the CGA reserve balance was \$95,114.

Pledges Receivable

Pledges receivable consisted of the following at June 30:

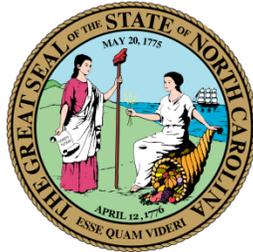
Receivable in Less than One Year	\$ 2,010,909
Receivable in One to Five Years	1,537,960
Receivable in Greater than Five Years	<u>114,000</u>
Total Gross Pledges Receivable	3,662,869
Less Allowance for Uncollectible Pledges	(184,000)
Less Unamortized Discount (Discount Rate of 0.07% to 1.23%)	<u>(200,611)</u>
Net Pledges Receivable	<u>\$ 3,278,258</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

NET ASSETS RESTATEMENT

As of July 1, 2021, net assets as previously reported was restated as follows:

July 1, 2021 Net Assets as Previously Reported	\$ 223,990,701
Restatements:	
Merger of the North Carolina Tobacco Foundation, Inc. with the North Carolina Agricultural Foundation, Inc., effective July 1, 2021	<u>14,047,851</u>
July 1, 2021 Net Assets as Restated	<u>\$ 238,038,552</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit D-1

Teachers' and State Employees' Retirement System	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate Share Percentage of Collective Net Pension Liability	2.20005%	2.26827%	2.26106%	2.22637%	2.22596%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 103,019,563	\$ 274,052,313	\$ 234,403,118	\$ 221,659,379	\$ 176,617,483
Covered Payroll	\$ 344,917,119	\$ 353,653,996	\$ 346,742,820	\$ 331,594,965	\$ 324,634,557
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	29.87%	77.49%	67.60%	66.85%	54.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.86%	85.98%	87.56%	87.61%	89.51%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Proportionate Share Percentage of Collective Net Pension Liability	2.20202%	2.13940%	2.14599%	2.11750%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 202,388,385	\$ 78,841,126	\$ 25,160,037	\$ 128,553,827	
Covered Payroll	\$ 312,155,082	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	64.84%	25.55%	8.24%	41.99%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%	

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

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

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

Exhibit D-2

Teachers' and State Employees' Retirement System	2022	2021	2020	2019	2018
Contractually Required Contribution	\$ 57,869,845	\$ 50,978,750	\$ 45,868,923	\$ 42,614,693	\$ 35,745,937
Contributions in Relation to the Contractually Determined Contribution	57,869,845	50,978,750	45,868,923	42,614,693	35,745,937
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 353,295,759	\$ 344,917,119	\$ 353,653,996	\$ 346,742,820	\$ 331,594,965
Contributions as a Percentage of Covered Payroll	16.38%	14.78%	12.97%	12.29%	10.78%
	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 32,398,529	\$ 28,562,190	\$ 28,231,407	\$ 26,535,242	\$ 25,503,618
Contributions in Relation to the Contractually Determined Contribution	32,398,529	28,562,190	28,231,407	26,535,242	25,503,618
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 324,634,557	\$ 312,155,082	\$ 308,539,969	\$ 305,353,765	\$ 306,165,883
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

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

North Carolina State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2022

Changes of Benefit Terms:

Cost of Living Increase

Teachers' and State Employees' Retirement System	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA's) in the period of the legislative session of Board of Trustees meeting when it was passed. The COLA is effective July 1 of that period and the fiscal year end 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 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.

Methods 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 18 months following the date of the valuation results. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: In 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 Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality 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 Teachers' and State Employees' Retirement System 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 the most recent available information included in the State of North Carolina's 2021 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

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

Exhibit D-3
Page 1 of 2

Retiree Health Benefit Fund	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate Share Percentage of Collective Net OPEB Liability	3.82676%	3.90378%	3.88356%	3.83759%	3.54230%
Proportionate Share of Collective Net OPEB Liability	\$ 1,183,066,098	\$ 1,082,941,007	\$ 1,228,738,701	\$ 1,093,258,395	\$ 1,161,399,772
Covered Payroll	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	175.30%	158.04%	183.68%	170.67%	186.65%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.72%	6.92%	4.40%	4.40%	3.52%
	<u>2017</u>				
Proportionate Share Percentage of Collective Net OPEB Liability	3.97671%				
Proportionate Share of Collective Net OPEB Liability	\$ 1,730,004,018				
Covered Payroll	\$ 593,161,610				
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	291.66%				
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.41%				

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

Exhibit D-3
Page 2 of 2

Disability Income Plan of North Carolina	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate Share Percentage of Collective Net OPEB Asset	3.74971%	3.95654%	3.92068%	3.89123%	3.85175%
Proportionate Share of Collective Net OPEB Asset	\$ 612,478	\$ 1,946,380	\$ 1,691,773	\$ 1,182,000	\$ 2,354,190
Covered Payroll	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115	\$ 622,217,834
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.09%	0.28%	0.25%	0.18%	0.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.18%	115.57%	113.00%	108.47%	116.23%
	<u>2017</u>				
Proportionate Share Percentage of Collective Net OPEB Asset	3.71882%				
Proportionate Share of Collective Net OPEB Asset	\$ 2,309,387				
Covered Payroll	\$ 593,161,610				
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.39%				
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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.

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

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

Retiree Health Benefit Fund	2022	2021	2020	2019	2018
Contractually Required Contribution	\$ 43,990,528	\$ 45,082,736	\$ 44,335,350	\$ 41,942,484	\$ 38,751,588
Contributions in Relation to the Contractually Determined Contribution	43,990,528	45,082,736	44,335,350	41,942,484	38,751,588
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 699,372,467	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115
Contributions as a Percentage of Covered Payroll	6.29%	6.68%	6.47%	6.27%	6.05%
	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 36,150,856	\$ 33,217,050	\$ 31,585,734	\$ 29,986,156	\$ 28,822,840
Contributions in Relation to the Contractually Determined Contribution	36,150,856	33,217,050	31,585,734	29,986,156	28,822,840
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 622,217,834	\$ 593,161,610	\$ 575,332,134	\$ 555,299,176	\$ 543,827,170
Contributions as a Percentage of Covered Payroll	5.81%	5.60%	5.49%	5.40%	5.30%

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

**Exhibit D-4
 Page 2 of 2**

Disability Income Plan of North Carolina	2022	2021	2020	2019	2018
Contractually Required Contribution	\$ 629,435	\$ 607,402	\$ 685,245	\$ 936,515	\$ 896,731
Contributions in Relation to the Contractually Determined Contribution	629,435	607,402	685,245	936,515	896,731
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 699,372,467	\$ 674,891,261	\$ 685,244,979	\$ 668,939,140	\$ 640,552,115
Contributions as a Percentage of Covered Payroll	0.09%	0.09%	0.10%	0.14%	0.14%
	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 2,364,428	\$ 2,431,963	\$ 2,358,862	\$ 2,443,316	\$ 2,392,840
Contributions in Relation to the Contractually Determined Contribution	2,364,428	2,431,963	2,358,862	2,443,316	2,392,840
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 622,217,834	\$ 593,161,610	\$ 575,332,134	\$ 555,299,176	\$ 543,827,170
Contributions as a Percentage of Covered Payroll	0.38%	0.41%	0.41%	0.44%	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.

North Carolina State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2022

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.

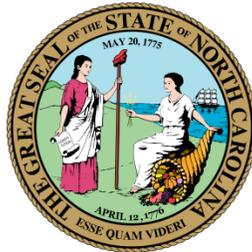
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months 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 15 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: 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 Teachers' and State Employees' Retirement System 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.

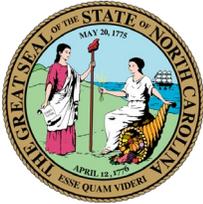
Consistent with the prior year, for the actuarial valuation measured as of June 30, 2021, the discount rate for the RHBF was updated to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. In 2020, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset 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 the most recent available information included in the State of North Carolina's 2021 Annual Comprehensive Financial Report.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of North Carolina State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2022, 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 8, 2022. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc. and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc., a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with this entity.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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 8, 2022

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919-807-7666



This audit required 945 hours at an approximate cost of \$113,400.