State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

The University of North Carolina at Asheville

Asheville, 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

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Raleigh, NC 27699
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of The University of North Carolina at Asheville 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.

Beth A. Wood

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of The University of North Carolina at Asheville (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville, and its discretely presented component unit, 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 consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc. (Foundation), the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The University of North Carolina at Asheville 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 October 25, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 25, 2022

Management's Discussion and Analysis

Introduction

This section of The University of North Carolina at Asheville's (University) financial report provides an overview of the financial position and activities for the year ended June 30, 2022. This discussion has been prepared by management along with the financial statements and related notes to the financial statements, which follow this section and, as such, should be read in conjunction with them. This discussion and analysis only reflects the activity of the University for the fiscal years ended June 30, 2022 and 2021 and not The University of North Carolina at Asheville Foundation, Inc. (Foundation), the University's discretely presented component unit. It is designed to focus on current activities, resulting change, and currently known facts.

These statements have been prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, the *Statement of Cash Flows*, and Notes to the Financial Statements. Comparative information for the prior fiscal year is also presented in the condensed financial statements in this section.

Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Comparative, condensed versions for fiscal years 2022 and 2021 are as follows:

Condensed Statement of Net Position

	Fiscal Year 2022	Fiscal Year 2021	$ Change	% Change
Current Assets	$ 32,321,961.18	$ 23,159,269.55	$ 9,162,691.63	39.56%
Capital Assets, Net	250,078,112.00	250,689,764.08	(611,652.08)	-0.24%
Other Noncurrent Assets	26,876,035.51	23,939,449.71	2,936,585.80	12.27%
Total Assets	309,276,108.69	297,788,483.34	11,487,625.35	3.86%
Total Deferred Outflows of Resources	16,540,550.34	14,612,608.37	1,927,941.97	13.19%
Current Liabilities	9,727,779.92	8,557,742.29	1,170,037.63	13.67%
Long-Term Liabilities, Net	159,069,873.70	162,832,291.93	(3,762,418.23)	-2.31%
Other Noncurrent Liabilities	578,410.89	735,946.11	(157,535.22)	-21.41%
Total Liabilities	169,376,064.51	172,125,980.33	(2,749,915.82)	-1.60%
Total Deferred Inflows of Resources	31,875,225.12	36,123,768.86	(4,248,543.74)	-11.76%
Net Investment in Capital Assets	168,894,978.56	167,901,060.67	993,917.89	0.59%
Restricted - Nonexpendable	8,136,778.74	8,145,128.25	(8,349.51)	-0.10%
Restricted - Expendable	21,790,306.51	17,341,613.84	4,448,692.67	25.65%
Unrestricted	(74,256,694.41)	(89,236,460.24)	14,979,765.83	-16.79%
Total Net Position	$ 124,565,369.40	$ 104,151,342.52	$ 20,414,026.88	19.60%

General Discussion of Changes in Statement of Net Position

The University's total assets increased slightly this year by $11.49 million or 3.86%.

Current assets are comprised of current unrestricted and restricted cash, accounts receivable, inventories, notes receivable, and other assets. The $9.16 million increase in current assets was driven by an additional $6.21 million in unrestricted and current restricted state funds carried forward from fiscal 2022 over that of fiscal 2021. The source of these funds was largely from the $10.00 million additional state appropriation ($7.00 million recurring and $3.00 million nonrecurring) received in fiscal year 2022 further discussed below.

Although capital assets, net, decreased slightly, the University transferred the Owen Hall renovations from construction in progress (nondepreciable) to buildings (depreciable). This renovation was capitalized at $20.59 million with funds from a combination of state general obligation bonds and capital contributions from the Foundation (further mentioned below). For more information on the changes in capital assets, refer to Note 6 of the Notes to the Financial Statements.

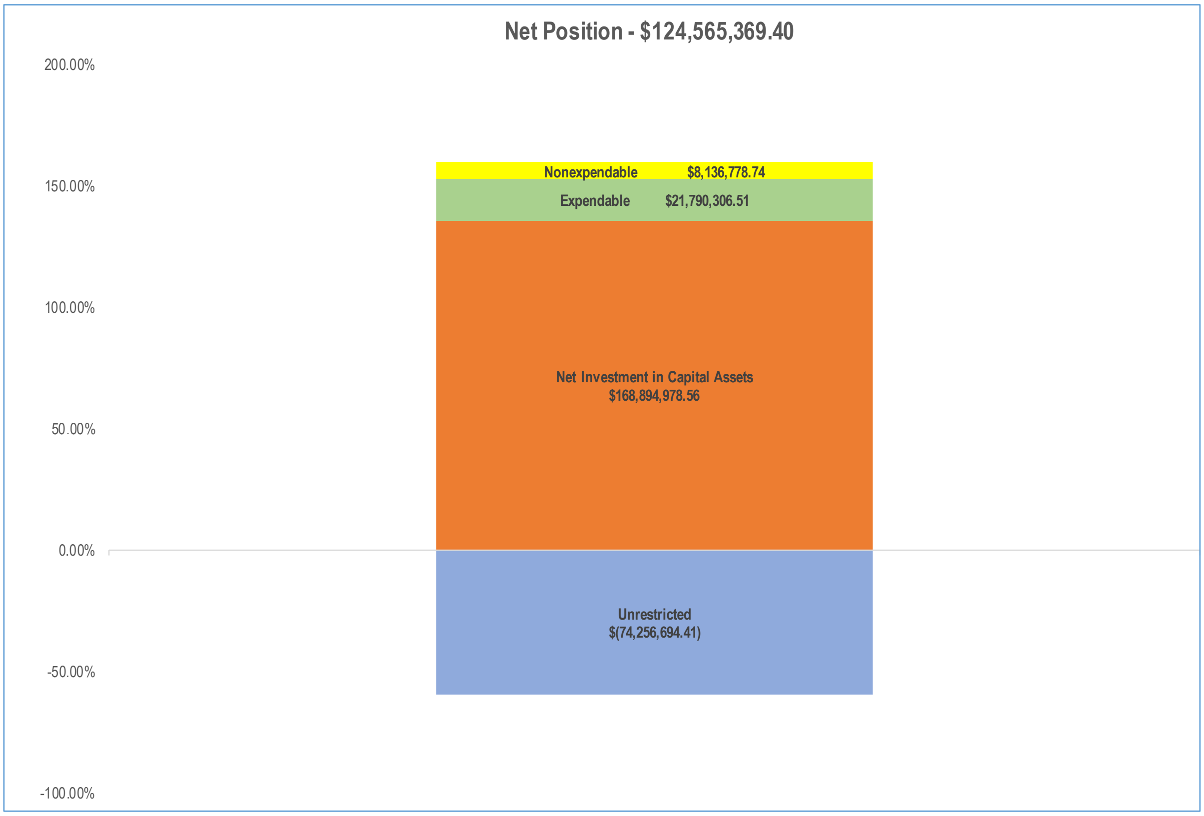
Other noncurrent assets consist primarily of noncurrent restricted cash, endowment investments, net other postemployment benefits (OPEB) asset, leases receivable, and notes receivable. The $2.94 million increase is attributable to $3.00 million in unspent nonrecurring special appropriations from the State received for specific scholarships. The funds from this special appropriation will be used to establish an endowment for need based scholarships to students based on the restrictions as outlined in the appropriation bill and further described below.

Total liabilities declined $2.75 million or 1.60% overall due primarily to $3.09 million in principal satisfaction on the University's debt and a $1.66 million net decline in the University's net pension and net OPEB liabilities. In addition, the recognition of current and long-term liabilities totaling an additional $2.21 million were recorded related to leases in accordance with GASB Statement No. 87, effective July 1, 2021. For additional information on these liabilities, please refer to Notes 8 & 9 of the Notes to the Financial Statements.

The University reports deferred outflows and inflows of resources for pension and OPEB plans. Any increases or decreases to the deferred outflows or inflows of resources for the respective plans are due to changes in actuarial valuations. For more information about the University's deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, refer to Notes 13 & 14 of the Notes to the Financial Statements, respectively.

General Discussion of University's Net Position

The components of net position are shown in the graph below.



Net position represents residual interest in the University's assets and deferred outflows of resources after deduction of all liabilities and deferred inflows of resources. For financial reporting purposes, net position is divided into three major components as discussed below.

Net investment in capital assets represents the University's investment in capital assets such as land, construction in progress, buildings, machinery and equipment, general infrastructure, and arts, literature, and artifacts, net of accumulated depreciation/amortization, deferred outflows of resources, deferred inflows of resources, and outstanding liabilities attributable to the acquisition, construction, or improvement of those assets. No significant change occurred from fiscal 2021 to fiscal 2022 in this category.

Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. Restricted nonexpendable net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. No significant change occurred from fiscal 2021 to fiscal 2022 in this category.

Restricted expendable net position is primarily income from invested endowed funds, grants from others, gifts with specific restrictions on spending, and funds restricted for capital projects as well as the net OPEB asset, related deferred outflows of resources, and deferred inflows of resources for the University's participation in the Disability Income Plan of North Carolina. This net position component increased by $4.45 million. The increase is attributable to the additional $3.00 million of noncurrent restricted cash associated with the nonrecurring special appropriation from the State to establish an endowment for specific scholarships as discussed further above and below.

Unrestricted net position is not subject to externally imposed restrictions. Substantially all of the University's unrestricted net position has been designated for various programs and initiatives. Unrestricted net position has seen a significant decline due to the implementations of GASB Statement No. 68 for pensions and GASB Statement No. 75 for OPEB, both requiring the recognition of significant liabilities, deferred outflows of resources, and deferred inflows of resources for financial reporting. These components are allocations from the State of North Carolina as a whole and are not within University management's control. Given the magnitude of its share of the Retiree Health Benefit Fund's (RHBF) unfunded net OPEB liability component, it appears that the University's unrestricted net position will remain in a deficit from this point forward unless the funding status of RHBF changes dramatically.

The $93.79 million negative impact on unrestricted net position from both the net OPEB liability components and the net pension liability components is from the two aforementioned GASB standards and is disclosed in Note 10. The University's remaining unrestricted net position for fiscal year 2022 reflected an increase of $6.55 million. This increase is attributable primarily to the additional carryforward from the State as discussed above.

Unrestricted Net Position Adjusted for the Impact of Pension and OPEB Related Items

	Fiscal 2022	Fiscal 2021	$ Change	% Change
Total Unrestricted Net Postion	$ (74,256,694.41)	$ (89,236,460.24)	$ 14,979,765.83	-16.79%
Effect of GASB 68 - Pensions (Note 10)	6,956,185.30	8,608,362.51	(1,652,177.21)	-19.19%
Effect of GASB 75 - OPEB (Note 10)	86,830,777.00	93,606,161.60	(6,775,384.60)	-7.24%
Remaining Unrestricted Net Position	$ 19,530,267.89	$ 12,978,063.87	$ 6,552,204.02	50.49%

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, grants, gifts, and investment income, which are prescribed by the GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Therefore, nonoperating revenues and expenses are integral components in determining the increase or decrease in net position and in analyzing the core performance of the University as a whole. The following table is a condensed, comparative review of the Statement of Revenues, Expenses, and Changes in Net Position for fiscal years 2022 and 2021:

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

	Fiscal Year 2022	Fiscal Year 2021	$ Change	% Change
Student Tuition and Fees, Net	$ 18,999,017.14	$ 19,561,396.19	$ (562,379.05)	-2.87%
Sales and Services, Net	12,562,927.00	10,069,765.36	2,493,161.64	24.76%
Grants and Contracts	4,873,410.57	3,800,418.73	1,072,991.84	28.23%
Other Operating Revenues	1,561,123.05	1,805,462.67	(244,339.62)	-13.53%
Total Operating Revenues	37,996,477.76	35,237,042.95	2,759,434.81	7.83%
Salaries and Benefits	54,593,233.99	56,514,365.02	(1,921,131.03)	-3.40%
Supplies and Services	20,379,793.39	17,702,669.42	2,677,123.97	15.12%
Scholarships and Fellowships	7,480,472.49	7,165,285.22	315,187.27	4.40%
Utilities	2,799,585.53	2,353,961.41	445,624.12	18.93%
Depreciation/Amortization	7,644,622.84	6,704,747.45	939,875.39	14.02%
Total Operating Expenses	92,897,708.24	90,441,028.52	2,456,679.72	2.72%
Operating Loss	(54,901,230.48)	(55,203,985.57)	302,755.09	-0.55%
State Appropriations	52,182,648.00	40,619,983.03	11,562,664.97	28.47%
State Aid - Coronavirus	1,106,725.38	2,438,703.24	(1,331,977.86)	-54.62%
Student Financial Aid & Noncapital Contributions	12,683,025.57	14,094,236.10	(1,411,210.53)	-10.01%
Federal Aid - COVID-19	7,432,984.88	4,183,953.97	3,249,030.91	77.65%
Investment Income, Net	654,878.77	6,582,911.97	(5,928,033.20)	-90.05%
Interest and Fees on Debt	(3,064,799.92)	(2,945,266.54)	(119,533.38)	4.06%
Other Nonoperating Expenses	(326,227.85)	(385,433.44)	59,205.59	-15.36%
Net Nonoperating Revenues	70,669,234.83	64,589,088.33	6,080,146.50	9.41%
Income Before Other Revenues	15,768,004.35	9,385,102.76	6,382,901.59	68.01%
Capital Contributions	4,578,891.34	11,280,177.80	(6,701,286.46)	-59.41%
Additions to Endowments	67,131.19	-	67,131.19	
Increase in Net Position	20,414,026.88	20,665,280.56	(251,253.68)	-1.22%
Beginning Net Position	104,151,342.52	83,486,061.96	20,665,280.56	24.75%
Ending Net Position	$ 124,565,369.40	$ 104,151,342.52	$ 20,414,026.88	19.60%
Reconciliation of Change in Net Position				
Total Revenues	$ 116,702,762.89	$ 114,437,009.06	$ 2,265,753.83	1.98%
Less: Total Expenses	96,288,736.01	93,771,728.50	2,517,007.51	2.68%
Increase in Net Position	$ 20,414,026.88	$ 20,665,280.56	$ (251,253.68)	-1.22%

General Discussion of Changes in Statement of Revenues, Expenses, and Changes in Net Position

Total operating revenues increased $2.76 million or 7.83% due to additional housing and dining revenues of $1.42 million or 13.16%. A 3.00% overall rate increase was approved for these auxiliary services and the campus experienced higher occupancies in its housing and additional sales of dining plans as the effects of the pandemic waned and students returned to campus. Grant funding was robust as additional funds were received for health and wellness related programs as well as for the Science, Technology, Engineering, Art, and Math (STEAM) studio totaling $0.78 million.

Operating expenses increased $2.46 million or 2.72% over fiscal year 2021 primarily because supplies and services saw an increase of $2.68 million. This increase consists of an increase in travel and travel related expenses as all travel restrictions were lifted, repairs to the Sherrill parking deck and re-roofing Brown Hall, and an increase in food services expenses.

Salaries and benefits, the largest component of operating expenses, declined as the University recognized the expenses related to its proportionate share of the State's net pension and OPEB liabilities ($3.53 million decline). These effects are offset by the 2.5% increase for salaries as provided in the fiscal 2022 state budget for general fund employees and funded from receipts for institutional trust fund state employees, along with COVID bonus monies received from the State from their American Rescue Plan Act (ARPA) receipts.

Net nonoperating revenues increased by $6.08 million or 9.41% and have contributed the largest shares of the increase in overall net position for the past two fiscal years. Outside of state appropriations, the University also recognized approximately $7.43 million and $4.18 million in fiscal 2022 and 2021, respectively, in federal COVID relief aid that was used to either recover lost revenues, pay down student account balances, or provide direct grants to students in accordance with federal requirements under the Higher Education Emergency Relief Fund (HEERF). Investment returns on the University's endowment were better than relevant benchmarks, but sharply lower at 3.13% in fiscal year 2022 versus 40.75% in fiscal year 2021 leading to a significant decline in net investment income. Student financial aid expenses increased as the University satisfied $1.37 million in student balances with a portion of the HEERF Institutional funds allocation.

State appropriations and aid comprised 45.66% and 37.63% of total revenues for fiscal year 2022 and fiscal year 2021, respectively, which is higher than total operating revenues each year and thus, illustrating the University's dependence on strong state support. This critical support was enhanced in fiscal year 2022 as evidenced by an increase of $11.56 million or 28.47% in appropriations. Included in the legislation for the fiscal 2022 state budget was an additional $10.00 million in appropriations related to student recruitment and retention and scholarships for the University. Its components are summarized as follows:

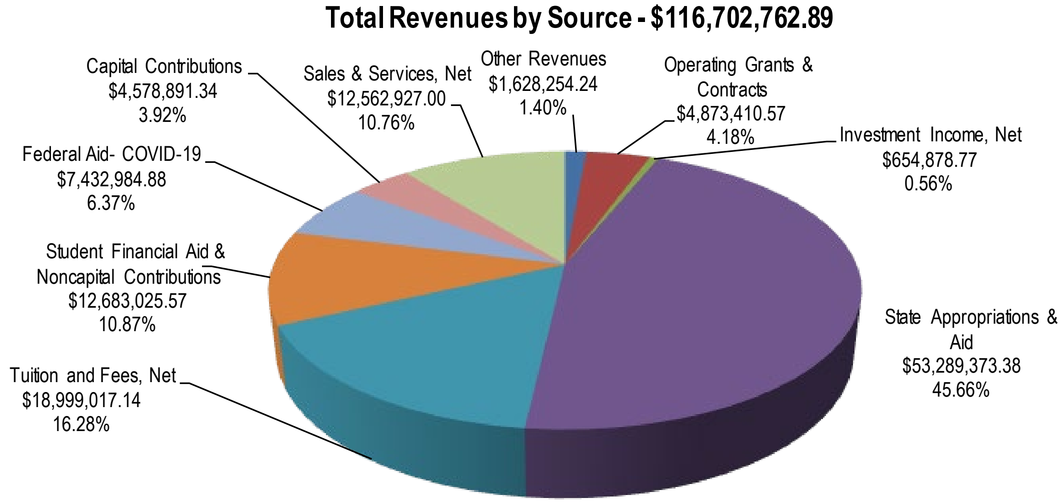
- $5.00 million recurring appropriation provides funds to improve student enrollment and outcomes.
- $2.00 million recurring appropriation provides funds to a merit-based scholarship from rural, first generation, or underrepresented communities who attend UNCA.
- $3.00 million nonrecurring funds to reduce debt for students who are North Carolina residents accepted and entering UNCA with adjusted gross incomes of $65,000 or less.

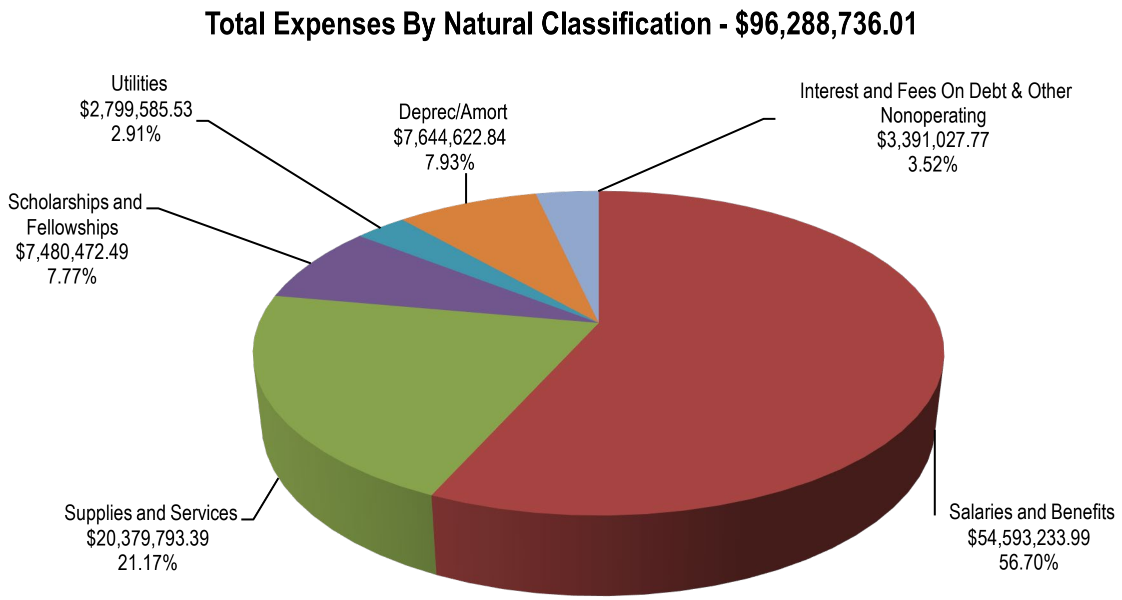
Because the legislation for fiscal 2022 funding did not pass until late November 2021, the University was granted the ability to retain $9.16 million, the unused or encumbered components of these appropriations at fiscal yearend. Each component of these unspent appropriations is classified as either current cash, current restricted cash, or noncurrent restricted cash in accordance with the restrictions as provided for in the legislation.

Capital contributions declined $6.70 million or 59.41% as the final portion of the University's allocation from the Connect NC Bond funds for the Owen and Carmichael renovations were drawn in fiscal year 2022 totaling $0.40 million versus $7.38 million in fiscal year 2021. In addition, the Foundation contributed capital of $2.28 million toward the completion of the Owen Hall renovations and the University received $1.68 million from the State Capital & Infrastructure Fund.

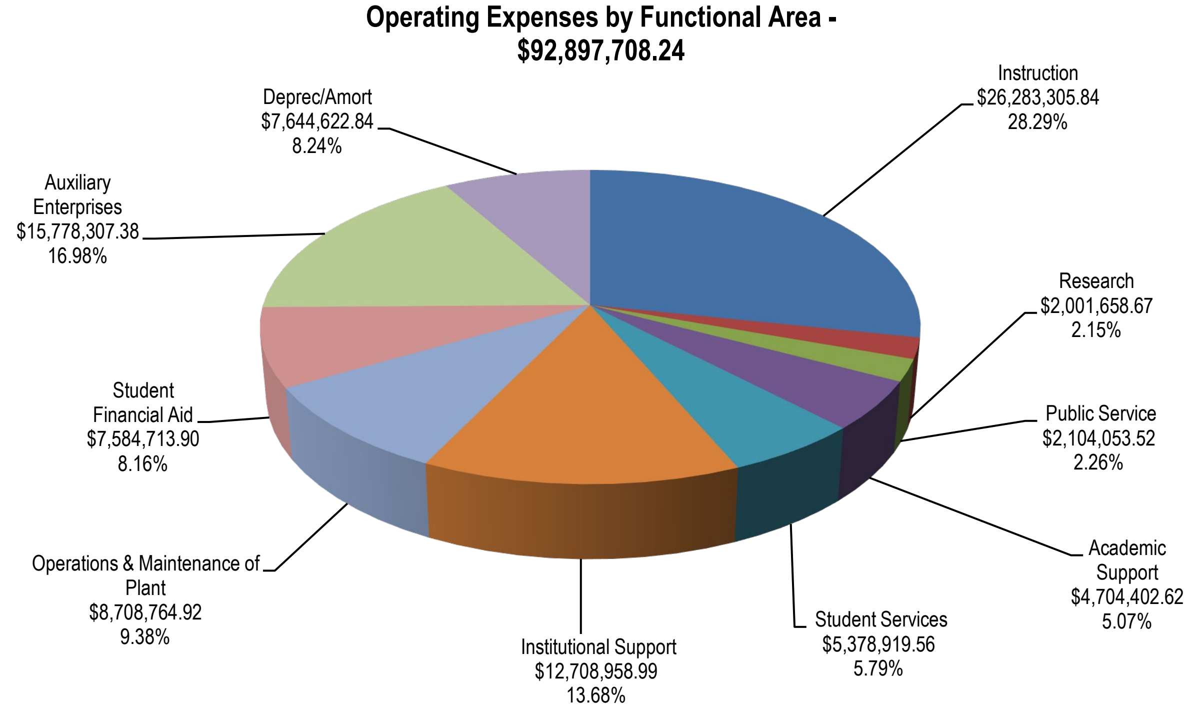
Additional Summary Information

A summary of the University's fiscal year 2022 total of all revenues and expenses by source and natural classification is as follows:





Operating expenses by functional area for fiscal year 2022 are shown in the graph below:



Debt Administration and Debt Rating

On January 20, 2022, Moody's downgraded the University's credit rating on its general revenue and system pool revenue bond ratings to A2 from A1. The outlook was revised to stable from negative. In its rating action, Moody's cited factors such as "declining enrollment and net tuition revenue," and "A nearly 15% reduction in enrollment since fall 2017 combined with the tuition pricing restraints" that "will continue to limit net tuition revenue growth." However, the rating agency acknowledged the University's plans to increase enrollment and retention that will help to improve the University's market position over time. Further, in reference to the $10.00 million special appropriations received in the fiscal year 2022 budget bill, Moody's acknowledged the increased recurring state support as another positive factor that will "partially offset student-related revenue declines."

For additional information concerning capital assets and debt administration, see Notes 6 and 8, respectively.

Economic Outlook

The Coronavirus Pandemic Emergency

The full financial impact of the coronavirus pandemic, also known as COVID-19, on the University's financial position cannot be accurately estimated at this time. The University abides by all UNC System Office and State of North Carolina requirements related to continuing operations under the pandemic. The University has set community expectations for each member of the UNC Asheville community to follow rigorous self-care for all health and safety protocols.

Enrollment Trends

The University maintains strong admission standards for incoming freshman as the institution continues to enhance its national profile. The following table compares fall semester total headcount and full-time-equivalent (FTE) students for the previous five years.

Fall Semester	2017	2018	2019	2020	2021
Undergraduate Headcount	3,826	3,743	3,587	3,358	3,233
Graduate Headcount	26	19	13	5	0
Total Headcount	3,852	3,762	3,600	3,363	3,233
Undergraduate FTE	3,536	3,477	3,288	3,104	3,010
Graduate FTE	17	14	9	3	0
Total FTE	3,553	3,491	3,297	3,107	3,010

In reviewing the five-year horizon using the enrollment metric alone, UNC Asheville's enrollment has declined five consecutive years. Public national peer data obtained from the Institutional Research division indicate that public peers have also seen annual declines in enrollment over the past five years, suggesting an overall market trend.

However, another equally important metric, the one-year retention rate of first-time freshman tells another story. Retention rates are an important indicator of a university's overall success in serving its students. After enrolling a record-high 783 new first-time freshmen in fall 2018, UNC Asheville's enrollment for this portion of the student population was 654, 585, and 605 for fall semesters 2019-2021. The smaller cohort size is a result of an effort initiated by Chancellor Cable to improve UNC Asheville's academic profile and selectivity which enhances retention. Since the enrollment turnaround between 2018-2021 began, there has been a 41% increase in applications and a 13% increase in selectivity. This focus on probability of student success has resulted in a selectivity rate at a healthy average of 81% in the most recent two years. Since fall 2017, first-time freshman applications are up 32%. Lastly, retention rates have recovered from a low of 73% in fall 2017 to 75% in fall 2021.

Management believes that the University is well positioned to continue its level of excellence of service to students, the community, and governmental agencies. As the only designated undergraduate liberal arts university in the University of North Carolina System, UNC Asheville stimulates learning by offering students an intellectually rigorous education that builds critical thinking and workforce skills to last a lifetime. Small class sizes, award-winning faculty, and a nationally acclaimed undergraduate research program foster innovation as well as recognition.

The University is committed to living the core values of diversity and inclusion, innovation, and sustainability, and ensuring that they permeate everything that the University does. Meeting these commitments requires an openness to change, creative and innovative approaches to programmatic growth, and a sustained focus on education including diverse ideas, as well as sufficient operating resources and support systems, incentives, and accountability measures.

Conclusion

Looking ahead, a crucial element to the University's future will continue to be the level of state funding as well as managing enrollment to achieve optimal academic profiles, selectivity, and net tuition revenue. The University has developed a Revitalization Plan to highlight key University initiatives as well as state support and other funding challenges. The additional $10.00 million provided in the fiscal year 2022 budget signals strong state support for its mission and uniqueness in the UNC System.

The University has also led the UNC System in implementing a multi-year budgeting and forecasting software, Anaplan, which will provide greater financial transparency and projection capabilities.

The University will strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will continue to employ its investment strategy to maximize total returns, at an appropriate level of risk in accordance with our strategic plan, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University will also continue to control its spending to be in accordance with available revenue sources.

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

FINANCIAL STATEMENTS

The University of North Carolina at Asheville
Statement of Net Position
June 30, 2022

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 24,987,479.26
Restricted Cash and Cash Equivalents	4,265,737.91
Receivables, Net (Note 5)	1,979,126.21
Inventories	432,141.65
Notes Receivable, Net (Note 5)	294,423.13
Leases Receivable	256,415.02
Other Assets	106,638.00
Total Current Assets	32,321,961.18
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	5,261,225.71
Endowment Investments	21,187,904.44
Notes Receivable, Net (Note 5)	51,015.23
Leases Receivable	337,303.13
Net Other Postemployment Benefits Asset	38,587.00
Capital Assets - Nondepreciable (Note 6)	10,894,013.52
Capital Assets - Depreciable, Net (Note 6)	239,184,098.48
Total Noncurrent Assets	276,954,147.51
Total Assets	309,276,108.69
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	80,256.95
Deferred Outflows Related to Pensions	5,212,926.70
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	11,247,366.69
Total Deferred Outflows of Resources	16,540,550.34
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,887,845.03
Deposits Payable	30,000.00
Funds Held for Others	650.00
Unearned Revenue	3,116,578.99
U.S. Government Grants Refundable	52,984.22
Interest Payable	368,987.61
Long-Term Liabilities - Current Portion - Due to University Component Unit (Note 8)	309,239.00
Long-Term Liabilities - Current Portion (Note 8)	3,961,495.07
Total Current Liabilities	9,727,779.92

Noncurrent Liabilities:	
Deposits Payable	62,911.18
Funds Held for Others	84,149.57
U.S. Government Grants Refundable	431,350.14
Long-Term Liabilities - Due to University Component Unit (Note 8)	217,301.33
Long-Term Liabilities, Net (Note 8)	158,852,572.37
Total Noncurrent Liabilities	159,648,284.59
Total Liabilities	169,376,064.51
DEFERRED INFLOWS OF RESOURCES	
Deferred Gain on Refunding	61,917.47
Deferred Inflows Related to Pensions	6,844,995.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	24,387,074.00
Deferred Inflows for Leases	581,238.65
Total Deferred Inflows of Resources	31,875,225.12
NET POSITION	
Net Investment in Capital Assets	168,894,978.56
Restricted:	
Nonexpendable:	
True Endowments	8,040,054.38
Student Loans and Other	96,724.36
Total Restricted-Nonexpendable Net Position	8,136,778.74
Expendable:	
Scholarships, Research, Instruction, and Other	19,674,764.57
Capital Projects	2,096,263.51
Debt Service	19,278.43
Total Restricted-Expendable Net Position	21,790,306.51
Unrestricted	(74,256,694.41)
Total Net Position	$ 124,565,369.40

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

The University of North Carolina at Asheville
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

Exhibit A-2

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 11)	$ 18,999,017.14
Federal Grants and Contracts	2,018,356.01
State and Local Grants and Contracts	1,075,397.65
Nongovernmental Grants and Contracts	1,779,656.91
Sales and Services, Net (Note 11)	12,562,927.00
Interest Earnings on Loans	32,903.04
Other Operating Revenues	1,528,220.01
Total Operating Revenues	37,996,477.76
OPERATING EXPENSES	
Salaries and Benefits	54,593,233.99
Supplies and Services	20,379,793.39
Scholarships and Fellowships	7,480,472.49
Utilities	2,799,585.53
Depreciation/Amortization	7,644,622.84
Total Operating Expenses	92,897,708.24
Operating Loss	(54,901,230.48)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	52,182,648.00
State Aid - Coronavirus	1,106,725.38
Student Financial Aid	8,239,340.66
Federal Aid - COVID-19	7,432,984.88
Noncapital Contributions	4,443,684.91
Investment Income (Net of Investment Expense of $149,250)	654,878.77
Interest and Fees on Debt	(3,064,799.92)
Other Nonoperating Expenses	(326,227.85)
Net Nonoperating Revenues	70,669,234.83
Income Before Other Revenues	15,768,004.35
Capital Contributions	4,578,891.34
Additions to Endowments	67,131.19
Total Other Revenues	4,646,022.53
Increase in Net Position	20,414,026.88
NET POSITION	
Net Position - July 1, 2021	104,151,342.52
Net Position - June 30, 2022	$ 124,565,369.40

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

The University of North Carolina at Asheville
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2022 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 37,481,207.46
Payments to Employees and Fringe Benefits	(62,720,247.50)
Payments to Vendors and Suppliers	(23,221,350.08)
Payments for Scholarships and Fellowships	(7,480,472.49)
Collection of Loans	75,297.24
Interest Earned on Loans	32,903.04
William D. Ford Direct Lending Receipts	10,247,810.00
William D. Ford Direct Lending Disbursements	(10,247,810.00)
Related Activity Agency Disbursements	(110,175.11)
Other Receipts	1,263,464.09
Net Cash Used by Operating Activities	(54,679,373.35)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	52,182,648.00
State Aid - Coronavirus	1,106,725.38
Student Financial Aid	8,045,170.66
Federal Aid - COVID-19	7,460,578.19
Noncapital Contributions	4,095,933.91
Additions to Endowments	67,131.19
Total Cash Provided by Noncapital Financing Activities	72,958,187.33
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Contributions	2,071,871.36
Proceeds from Lease Arrangements	10,672.72
Acquisition and Construction of Capital Assets	(1,895,570.55)
Principal Paid on Capital Debt and Leases	(3,762,886.47)
Interest and Fees Paid on Capital Debt and Leases	(3,283,202.22)
Net Cash Used by Capital Financing and Related Financing Activities	(6,859,115.16)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	595,407.58
Investment Income	1,130,563.22
Purchase of Investments and Related Fees	(148,787.03)
Net Cash Provided by Investing Activities	1,577,183.77
Net Increase in Cash and Cash Equivalents	12,996,882.59
Cash and Cash Equivalents - July 1, 2021	21,517,560.29
Cash and Cash Equivalents - June 30, 2022	$ 34,514,442.88

The University of North Carolina at Asheville
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2022 — *Page 2 of 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (54,901,230.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	7,644,622.84
Lease Income (Amortized Deferred Inflows of Resources)	(244,796.35)
Allowances	(170,597.90)
Other Nonoperating Expenses	(349,380.07)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	519,608.86
Inventories	(22,024.04)
Notes Receivable, Net	75,297.24
Net Other Postemployment Benefits Asset	82,110.00
Other Assets	329,420.50
Deferred Outflows Related to Pensions	130,197.79
Deferred Outflows Related to Other Postemployment Benefits	(2,109,863.69)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	571,794.02
Funds Held for Others	(110,175.11)
Unearned Revenue	132,381.45
Net Pension Liability	(8,373,243.00)
Net Other Postemployment Benefits Liability	7,155,734.00
Compensated Absences	(278,013.00)
Deposits Payable	29,185.34
Workers' Compensation Liability	26,787.25
Deferred Inflows Related to Pensions	6,590,868.00
Deferred Inflows Related to Other Postemployment Benefits	(11,408,057.00)
Net Cash Used by Operating Activities	$ (54,679,373.35)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 228,611.43
Assets Acquired through a Gift	2,507,019.98
Change in Fair Value of Investments	(488,092.10)
Amortization of Bond Premiums/Discounts	335,415.78
Increase in Receivables Related to Nonoperating/Other Revenues	326,227.85
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(444,836.00)

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

The University of North Carolina at Asheville Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2022 — *Exhibit B-1*

CURRENT ASSETS	
Cash and Cash Equivalents	$ 6,693,377.92
Sales Tax Receivable	26,780.64
Other Receivables	60,975.90
Promises to Give, Net	664,306.33
Due from University	309,239.00
Prepaid Expense	83,412.55
Total Current Assets	7,838,092.34
PROPERTY AND EQUIPMENT, NET	2,519,737.14
OPERATING LEASE RIGHT OF USE ASSETS	714,436.63
OTHER ASSETS	
Investments	49,578,715.94
Promises to Give, Net	434,448.70
Due from University	217,301.33
Beneficial Interests	445,908.40
Prepaid Expense	5,787.50
Total Other Assets	50,682,161.87
Total Assets	$ 61,754,427.98
CURRENT LIABILITIES	
Current Portion of Long-Term Debt	$ 1,936,259.78
Current Portion of Operating Lease Liability	65,660.84
Accounts Payable	320,624.05
Construction Contracts Payable	62,607.00
Annuities Payable	78,699.96
Total Current Liabilities	2,463,851.63
NONCURRENT LIABILITIES	
Annuities Payable	385,143.56
Notes Payable	1,667,766.97
Operating Lease Liability	649,063.20
Total Noncurrent Liabilities	2,701,973.73
Total Liabilities	5,165,825.36
NET ASSETS	
Without Donor Restrictions	2,141,719.55
With Donor Restrictions	54,446,883.07
Total Net Assets	56,588,602.62
Total Net Assets and Liabilities	$ 61,754,427.98

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

The University of North Carolina at Asheville Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2022 *Exhibit B-2*

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES AND PUBLIC SUPPORT			
Contributions	$ 290,238.24	$ 4,950,946.27	$ 5,241,184.51
Contributions-Gifts in Kind	185,171.19	215,905.20	401,076.39
Grant Revenues	-	222,590.00	222,590.00
Net Investment Income	133,950.06	1,149,062.76	1,283,012.82
Loss on Beneficial Interests	-	(99,130.68)	(99,130.68)
Special Events	110,800.00	119,683.00	230,483.00
Rental and Lease Income	206,969.00	-	206,969.00
Other Income	-	17,633.82	17,633.82
Net Assets Released from Restriction	5,266,585.76	(5,266,585.76)	-
Total Operating Revenues and Public Support	6,193,714.25	1,310,104.61	7,503,818.86
OPERATING EXPENSES			
Program Services	5,710,917.83	-	5,710,917.83
Supporting Services:			
Management and General	215,616.70	-	215,616.70
Fundraising	244,543.73	-	244,543.73
Total Operating Expenses	6,171,078.26	-	6,171,078.26
Change in Net Assets from Operations	22,635.99	1,310,104.61	1,332,740.60
OTHER CHANGES			
Transfer of Owen Hall Improvements to University	(2,275,233.68)	-	(2,275,233.68)
Total Other Changes	(2,275,233.68)	-	(2,275,233.68)
Change in Net Assets	(2,252,597.69)	1,310,104.61	(942,493.08)
Net Assets at Beginning of Year	4,394,317.24	53,136,778.46	57,531,095.70
Net Assets at End of Year	$ 2,141,719.55	$ 54,446,883.07	$ 56,588,602.62

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

Notes to the Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The consolidated financial statements of the Foundation contain the financial information of the following wholly owned subsidiaries: UNC Asheville Baseball Stadium, LLC, UNC Asheville Real Estate, LLC, UNC Asheville Foundation Makerspace, LLC, and UNC Asheville Foundation Riverside Property, LLC. Further information on these entities can be obtained from the consolidated financial statements of the Foundation as described below.

During the year ended June 30, 2022, the Foundation distributed $5,411,090.04 to the University for both restricted and unrestricted purposes. The Endowment Fund of the University has a $526,540.33 contractual obligation to repay funds to the Foundation related to the advancement of funds to purchase land and construct a new parking lot. The contractual obligation is recorded in both current and noncurrent liabilities as $309,239.00 and $217,301.33, respectively. Additional disclosures related to this transaction are in Note 8. Complete consolidated financial statements for the Foundation can be obtained from the Associate Vice Chancellor of Advancement, 213 W.T. Weaver Building, CPO 3800, One University Heights, Asheville, North Carolina 28804, or by calling 828-251-6016.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* and GASB Statement No. 84, *Fiduciary Activities,* the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. **Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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, charges for auxiliary enterprises' sales and services, and interest. 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, are valued at cost using the last invoice cost method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. 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 in 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. Lease payables are capitalized as a right-to-use asset when the leased asset has a cost of $100,000 or greater and an estimated useful life of more than one year.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
Art, Literature, and Artifacts	2-25 years
General Infrastructure	10-75 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 the collections considered to be inexhaustible or the general collections for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve. 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, unspent debt proceeds, and endowment investments.

J. **Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

   There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be reported in separate fiduciary fund financial statements.

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

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

   The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

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

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

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

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities.

When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2022, the amount shown on the Statement of Net Position as cash and cash equivalents includes $34,349,107.54, 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 $5,400.00. The carrying amount of the University's deposits not with the State Treasurer, including accumulated income and debt proceeds of $137,747.14 held by the fiscal agent and invested with the State Treasurer, was $159,935.34, and the bank balance was $193,895.68. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2022, the University's bank balance was not exposed to custodial credit.

B. Investments

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

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

general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

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

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each participating fund’s investment balance is determined on the basis of the number of units purchased less sales multiplied by the current market value. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund. At year-end, approximately 90 percent of the pooled investments were held with the UNC Investment Fund, LLC, and the remainder was held with the Boston Trust Walden Company.

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

Long-Term Investment Pool

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
U.S. Treasuries	$ 356,594.49	$ -	$ -	$ 356,594.49
U.S. Agencies	74,419.00	-	74,419.00	-
Money Market Mutual Funds	20,473.65	20,473.65	-	-
Domestic Corporate Bonds	169,252.50	-	120,416.50	48,836.00
Total Debt Securities	620,739.64	$ 20,473.65	$ 194,835.50	$ 405,430.49
Other Securities				
UNC Investment Fund	19,283,376.25			
Domestic Stocks	1,196,615.20			
Foreign Stocks (denominated in U.S. Dollars)	87,173.35			
Total Long-Term Investment Pool	$ 21,187,904.44			

At June 30, 2022, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	A	BBB Baa
U.S. Agencies	$ 74,419.00	$ 74,419.00	$ -	$ -
Money Market Mutual Funds	20,473.65	20,473.65	-	-
Domestic Corporate Bonds	169,252.50	25,009.25	96,479.25	47,764.00
Totals	$ 264,145.15	$ 119,901.90	$ 96,479.25	$ 47,764.00

Rating Agency: Moody's Investors Service, Inc.

UNC Investment Fund, LLC - At June 30, 2022, the University's investments include $19,283,376.25, 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.

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

The Foundation owns a membership interest in the UNC Investment Fund, LLC. The Foundation also has investments held within brokerage firms comprised of debt and equity securities with fair values based upon active markets.

The Foundation's investments stated at fair value at June 30, 2022 are summarized as follows:

	2022		
Investment Type	Cost	Fair Value	Cumulative Unrealized Gains (Losses)
Membership Interest in UNC Investment Fund LLC	$ 12,522,376.61	$ 44,836,619.91	$ 32,314,243.30
U.S. Treasury Notes and Government Securities	1,033,375.60	958,532.49	(74,790.37)
Money Market Mutual Fund	22,870.56	22,870.56	-
Domestic Corporate Bonds	373,021.00	338,505.00	(34,516.00)
Domestic Mutual Funds	599,609.87	612,490.67	12,880.80
Foreign Mutual Funds	97,565.16	76,949.39	(20,615.77)
Domestic Stocks	2,343,032.46	2,495,334.00	152,301.54
Foreign Stocks	158,796.62	180,262.84	21,413.48
Alternative Investments	44,500.00	43,433.77	(1,066.23)
Real Estate Funds	13,776.81	13,717.31	(59.50)
Total Investments	$ 17,208,924.69	$ 49,578,715.94	$ 32,369,791.25

The following schedule summarizes investment return and its classification in the Consolidated Statement of Activities for the year ended June 30, 2022:

	Total
Interest and Dividends	$ 108,298.66
Investment Expenses	(267,412.55)
Realized Gains	1,345,976.21
Unrealized Gains	96,150.50
Net Investment Income	$ 1,283,012.82

NOTE 3 - FAIR VALUE MEASUREMENTS

University - 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.

Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.

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

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2022:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 356,594.49	$ 356,594.49	$ -	$ -
U.S. Agencies	74,419.00	74,419.00	-	-
Money Market Mutual Funds	20,473.65	20,473.65	-	-
Domestic Corporate Bonds	169,252.50	169,252.50	-	-
Total Debt Securities	620,739.64	620,739.64	-	-
Other Securities				
Domestic Stocks	1,196,615.20	1,196,615.20	-	-
Foreign Stocks (denominated in U.S. dollars)	87,173.35	87,173.35	-	-
Total Investments by Fair Value Level	1,904,528.19	$ 1,904,528.19	$ -	$ -
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	34,349,107.54			
UNC Investment Fund	19,283,376.25			
Total Investments as a Position in an External Investment Pool	53,632,483.79			
Total Investments Measured at Fair Value	$ 55,537,011.98			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

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

Component Unit - Because the Foundation reports under the FASB reporting model, the disclosure of fair value measurements differ from the GASB reporting model used by the University.

There were no changes during the year to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level, within the fair value measurements, fair value hierarchy. The Foundation's financial assets and liabilities are classified at their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Fair Value Measurements on a Recurring Basis as of June 30, 2022

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Assets:				
UNC Investment Fund LLC	$ 44,836,619.91	$ -	$ -	$ 44,836,619.91
Short Term Investment Fund	6,079,017.47	-	6,079,017.47	-
U.S. Treasury Notes and Government Securities	958,532.49	958,532.49	-	-
Money Market Mutual Funds	22,870.56	22,870.56	-	-
Domestic Corporate Bonds	338,505.00	338,505.00	-	-
Domestic Mutual Funds	612,490.67	612,490.67	-	-
Foreign Mutual Funds	76,949.39	76,949.39	-	-
Domestic Stocks	2,495,334.00	2,495,334.00	-	-
Foreign Stocks	180,262.84	180,262.84	-	-
Alternative Investments	43,433.77	43,433.77	-	-
Real Estate Funds	13,717.31	13,717.31	-	-
Beneficial Interest in Charitable Remainder Trusts	85,102.01	-	-	85,102.01
Beneficial Interest in Perpetual Trust	195,018.03	-	-	195,018.03
Beneficial Interest in Assets Held by Others	165,788.36	-	-	165,788.36
Total Investments Measured at Fair Value	$ 56,103,641.81	$ 4,742,096.03	$ 6,079,017.47	$ 45,282,528.31

Fair Value Measurements at June 30, 2022 Using Significant Unobservable Inputs (Level 3)

	Level 3		
	UNC Investment Fund	Trusts	Total
Beginning Balance, June 30, 2021	$ 43,879,169.57	$ 560,039.08	$ 44,439,208.65
Change in Value of Beneficial Interests	-	(114,130.68)	(114,130.68)
Unrealized Gains	965,063.37	-	965,063.37
Sales	(397,613.03)	-	(397,613.03)
Purchases	390,000.00	-	390,000.00
Ending Balance, June 30, 2022	$ 44,836,619.91	$ 445,908.40	$ 45,282,528.31

UNC Investment Fund (the Fund) is valued at fair value by the Foundation as determined on a market unit valuation basis each month as provided by the Fund, which is in accordance with the UNC Investment Fund's operating procedures.

Beneficial interest in the perpetual trust and the charitable remainder unitrust is valued at fair value based on management's assumptions about the estimated future cash receipts from the Foundation's share of the fair market value of the trust's assets.

Beneficial interest in assets held by NC Gift Planning LLC (the LLC) is valued at fair value by the Foundation as determined by the LLC. In determining the reasonableness of the fair value, management of the Foundation receives and reviews statements from the LLC reflecting the market value of the assets held.

Disclosure of unobservable inputs to fair value measurement has not been disclosed for the investments because quantitative unobservable inputs are not developed by the Foundation when measuring fair value.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the average of the endowment's principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2022, net appreciation of $9,802,227.54 was available to be spent, of which $9,582,995.09 was classified in net position as restricted for specifics purposes (e.g. scholarships, fellowships, and professorships). 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:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$1,746,014.69	$ 689,653.09	$1,056,361.60
Student Sponsors	246,927.09	-	246,927.09
Accounts	386,658.25	-	386,658.25
Intergovernmental	106,249.77	-	106,249.77
Interest on Loans	181,257.93	-	181,257.93
Other	1,671.57	-	1,671.57
Total Current Receivables	$2,668,779.30	$ 689,653.09	$1,979,126.21
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 655,729.16	$ 361,306.03	$ 294,423.13
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 113,594.38	$ 62,579.15	$ 51,015.23

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	$ 10,275,310.62	$ -	$ -	$ 10,275,310.62
Art, Literature, and Artifacts	226,100.00	-	-	226,100.00
Construction in Progress	18,343,120.97	3,517,278.58	21,467,796.65	392,602.90
Total Capital Assets, Nondepreciable	28,844,531.59	3,517,278.58	21,467,796.65	10,894,013.52
Capital Assets, Depreciable:				
Buildings	301,029,654.99	21,097,576.96	-	322,127,231.95
Machinery and Equipment	10,838,528.75	844,241.06	104,980.34	11,577,789.47
Art, Literature, and Artifacts	201,500.00	-	-	201,500.00
General Infrastructure	22,137,493.63	178,517.50	-	22,316,011.13
Right-to-Use Leased Buildings	1,287,243.42	-	-	1,287,243.42
Right-to-Use Leased Machinery and Equipment	1,485,811.53	90,098.36	-	1,575,909.89
Total Capital Assets, Depreciable	336,980,232.32	22,210,433.88	104,980.34	359,085,685.86
Less Accumulated Depreciation/Amortization for:				
Buildings	93,175,412.67	6,016,425.18	-	99,191,837.85
Machinery and Equipment	5,856,257.10	573,107.41	104,980.34	6,324,384.17
Art, Literature, and Artifacts	194,743.96	1,194.36	-	195,938.32
General Infrastructure	13,135,531.15	333,589.25	-	13,469,120.40
Right-to-Use Leased Buildings	-	185,837.28	-	185,837.28
Right-to-Use Leased Machinery and Equipment	-	534,469.36	-	534,469.36
Total Accumulated Depreciation/Amortization	112,361,944.88	7,644,622.84	104,980.34	119,901,587.38
Total Capital Assets, Depreciable, Net	224,618,287.44	14,565,811.04	-	239,184,098.48
Capital Assets, Net	$ 253,462,819.03	$18,083,089.62	$21,467,796.65	$ 250,078,112.00

At year-end, the total amount of leased assets was $2,863,153.31 and the related accumulated amortization was $720,306.64.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 1,197,775.76
Accounts Payable - Capital Assets	130,163.67
Accrued Payroll	512,470.86
Contract Retainage	8,349.40
Other	39,085.34
Total Current Accounts Payable and Accrued Liabilities	$ 1,887,845.03

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 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	$ 74,360,900.00	$ -	$ 2,257,500.00	$ 72,103,400.00	$ 2,385,700.00
Plus: Unamortized Premium	6,174,294.17	-	336,483.57	5,837,810.60	-
Less: Unamortized Discount	3,470.36	-	1,067.79	2,402.57	-
Total Revenue Bonds Payable, Net	80,531,723.81	-	2,592,915.78	77,938,808.03	2,385,700.00
Note from Direct Borrowing	877,344.57	-	494,522.43	382,822.14	382,822.14
Total Long-Term Debt	81,409,068.38	-	3,087,438.21	78,321,630.17	2,768,522.14
Other Long-Term Liabilities					
Leases Payable	2,773,054.95	90,098.36	649,497.20	2,213,656.11	508,159.41
Employee Benefits					
Compensated Absences	3,629,427.00	2,205,691.00	2,483,704.00	3,351,414.00	653,234.00
Net Pension Liability	13,697,360.00	-	8,373,243.00	5,324,117.00	-
Net Other Postemployment Benefits Liability	66,832,603.00	6,710,898.00	-	73,543,501.00	-
Workers' Compensation	32,961.91	31,447.35	4,660.10	59,749.16	31,579.52
Total Other Long-Term Liabilities	86,965,406.86	9,038,134.71	11,511,104.30	84,492,437.27	1,192,972.93
Total Long-Term Liabilities, Net	$ 168,374,475.24	$ 9,038,134.71	$ 14,598,542.51	$ 162,814,067.44	$ 3,961,495.07
Other Long-Term Debt					
Note from Direct Borrowing					
Due to University Component Unit	$ 887,907.17	$ -	$ 361,366.84	$ 526,540.33	$ 309,239.00

Additional information regarding leases payable is included in Note 9.
Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14.
Additional information regarding workers' compensation is included in Note 15.

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate		Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
Revenue Bonds Payable						
The University of North Carolina System Pool Revenue Bonds						
Refunding of Campus Housing and Dining, Series 2002A	2010C	5.00%	*	10/01/2024	$ 5,815,000.00	$ 1,180,000.00
UNCA General Revenue Bonds						
UNCA Revenue Refunding Bond - Housing, Series 2002A	2012	2.32%		06/01/2027	6,345,400.00	2,139,400.00
UNCA Revenue Bond - Student Health, Counseling, Development Center	2013A	2.14%		04/01/2030	4,987,000.00	2,561,000.00
UNCA Revenue Refunding Bond - Housing, Series 2005A	2013B	2.19%		04/01/2023	2,522,000.00	524,000.00
UNCA Revenue Bond - Athletics, Student Recreation Center	2014	2.89%		06/01/2029	1,039,500.00	549,000.00
UNCA Revenue Bond - Housing, Student Center Renovation	2017	3.00%	*	06/01/2046	46,290,000.00	45,250,000.00
UNCA General Revenue Refunding Bonds - Housing, Series 2010	2019	5.00%	*	06/01/2040	20,875,000.00	19,900,000.00
Total General Revenue Bonds Payable					82,058,900.00	70,923,400.00
Total Revenue Bonds Payable (principal only)					$87,873,900.00	72,103,400.00
Plus: Unamortized Premium						5,837,810.60
Less: Unamortized Discount						2,402.57
Total Revenue Bonds Payable, Net						$ 77,938,808.03

* For variable rate debt, interest rates in effect at June 30, 2022 are included. These issues are traditional fixed rate with periodic changes to the annual rate over the obligation's term.

C. Note from Direct Borrowing - The University was indebted for a note from direct borrowing for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
UNC System Guaranteed Energy Savings Project	Banc of America Capital Corp.	1.84%	02/14/2023	$ 3,175,492.00	$ 382,822.14

D. Due to University Component Unit - The University was indebted for a note from direct borrowing due to the Foundation for the purpose shown in the following table:

Purpose	Interest Rate	Final Maturity Date*	Original Amount of Issue	Principal Outstanding June 30, 2022
Edgewood Parking Lot	0.00%	06/07/2024	$ 1,700,000.00	$ 526,540.33

*It is the intent of the University that repayment of principal will occur within five years after the completion of construction on the Edgewood Parking Lot, but there are no specific annual payment requirements. The final maturity date above represents the University's estimated maturity date as of June 30, 2022.

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

	Annual Requirements				
	Revenue Bonds Payable		Note from Direct Borrowings		Due to University Component Unit
Fiscal Year	Principal	Interest	Principal	Interest	Principal*
2023	$ 2,385,700.00	$ 3,069,565.08	$ 382,822.14	$ 3,531.20	$ 309,239.00
2024	2,852,500.00	2,989,417.11	-	-	217,301.33
2025	3,028,800.00	2,865,131.06	-	-	-
2026	3,234,600.00	2,740,536.72	-	-	-
2027	3,357,800.00	2,608,261.00	-	-	-
2028-2032	13,904,000.00	11,285,782.10	-	-	-
2033-2037	15,785,000.00	8,130,600.00	-	-	-
2038-2042	16,155,000.00	4,447,000.00			
2043-2046	11,400,000.00	1,162,200.00	-	-	-
Total Requirements	$ 72,103,400.00	$ 39,298,493.07	$ 382,822.14	$ 3,531.20	$ 526,540.33

Interest on the variable rate debt is predetermined in each of the bond covenants.

*It is the intent of the University that repayment of principal will occur within five years after the completion of construction on the Edgewood Parking Lot, but there are no specific annual payment requirements. Amounts presented represent the University's estimated principal payments as of June 30, 2022.

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

Revenue Bonds Payable - The University has seven outstanding revenue bonds payable. The total principal outstanding balance at June 30, 2022 is $72,103,400.00. All seven issuances are governed by the General Trust Indenture (Indenture) dated September 1, 2002 between the Board of Governors of the University of North Carolina (Board) and Wachovia Bank, the successor to which is U.S. Bank National Association, as Trustee.

A security interest in the Trust Estate is granted under the Indenture to the Trustee for the benefit of the bondholders (Owners). The Trust Estate is defined as all property rights conveyed by the Board and includes (1) all moneys and securities held by the Trustee, the Board or any other depositories in any and all of the funds and accounts established under the Indenture, and (2) any additional property that may be subjected to a lien by the Board, or on its behalf, and the Trustee is hereby authorized to receive the same as additional security. The Indenture does not convey or create any pledge or lien on property owned by the Board or any revenues of the Board or University. The Trust Estate becomes immediately subject to the lien of the security interest in the event of non-delivery of debt service funds due.

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

On the occurrence and continuance of an event of default, 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. The Trustee is also empowered to take whatever action at law in or in equity may appear necessary or desirable to enforce all rights of the Owners against the Board.

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

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

Due to University Component Unit - The Endowment Fund entered into a Funding and Reimbursement Agreement (Agreement) with the Foundation (the Parties) whereby the Foundation provided funding of $1,700,000.00 to the Endowment Fund for the purpose of purchasing property and constructing a parking lot; $526,540.33 remains due at June 30, 2022. The Agreement shall be effective until the earlier of (1) the funds are reimbursed in full; or (2) the Agreement is terminated pursuant to a written agreement signed by the Parties. It is the intent of the Parties that such reimbursement shall occur in full within five (5) years of the completion of the construction of the parking lot. A negative covenant provides that the Endowment Fund will maintain the property free and clear of all liens of any nature, encumbrances, security interests, attachments and/or claims whatsoever unless the Endowment has received prior written approval from the Foundation. No security or collateral is provided by the Endowment Fund for the repayment of the funds and no credit pledged of the Endowment Fund, the University, or the State of North Carolina with respect to any amounts to be reimbursed to the Foundation.

In the event of any default of any term or condition of the Agreement by the Endowment Fund that is not cured within 30 days after written notice thereof, the Foundation may suspend its obligations to make further advances of funds defined in the Agreement.

NOTE 9 - 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
Lessor:					
Buildings	3	$ 593,718.15	$ 256,415.02	2-6 Years	3.89%
Lessee:					
Right-to-Use Buildings	3	$ (1,259,962.07)	$ (190,109.98)	5-8 Years	3.89%
Right-to-Use Machinery and Equipment	8	(953,694.04)	(318,049.43)	2-4 Years	25.00%
Total	11	$ (2,213,656.11)	$ (508,159.41)		

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

A. Lease Receivable - During the year the University did not recognize any variable payment amounts. For the year ended June 30, 2022, the University recognized $244,796.35 in lease income included in other operating revenues and $23,152.23 in interest earned on leases included as a component of other nonoperating expenses.

B. Lease Liability - During the year the University did not recognize any variable payment amounts.

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

Fiscal Year	Principal	Interest	Total
2023	$ 508,159.41	$ 114,624.75	$ 622,784.16
2024	535,717.63	119,474.96	655,192.59
2025	469,542.12	68,830.59	538,372.71
2026	278,774.68	30,831.37	309,606.05
2027	183,243.19	15,726.82	198,970.01
2028-2030	238,219.08	9,750.92	247,970.00
Total	$ 2,213,656.11	$ 359,239.41	$ 2,572,895.52

NOTE 10 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (6,956,185.30)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(86,830,777.00)
Effect on Unrestricted Net Position	(93,786,962.30)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	19,530,267.89
Total Unrestricted Net Position	$ (74,256,694.41)

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

NOTE 11 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$28,143,975.06	$ 9,075,217.58	$ 69,740.34	$18,999,017.14
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 9,338,491.23	$ 3,010,295.80	$ (94,752.74)	$ 6,422,948.17
Dining	5,131,527.67	1,672,078.71	(52,066.91)	3,511,515.87
Health, Physical Education, and Recreation Services	76,846.45	-	(779.72)	77,626.17
Bookstore	65,002.66	-	-	65,002.66
Parking	995,637.91	95,586.94	(10,102.21)	910,153.18
Athletic	701,857.32	-	(7,121.38)	708,978.70
Other	2,129.75	-	-	2,129.75
Sales and Services of Education and Related Activities	864,572.50	-	-	864,572.50
Total Sales and Services, Net	$17,176,065.49	$ 4,777,961.45	$ (164,822.96)	$12,562,927.00

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$24,264,675.41	$ 2,018,630.43	$ -	$ -	$ -	$26,283,305.84
Research	1,555,716.78	445,941.89	-	-	-	2,001,658.67
Public Service	1,507,645.96	596,407.56	-	-	-	2,104,053.52
Academic Support	3,334,310.88	1,370,091.74	-	-	-	4,704,402.62
Student Services	3,866,836.61	1,512,082.95	-	-	-	5,378,919.56
Institutional Support	8,607,874.18	4,098,433.14	-	2,651.67	-	12,708,958.99
Operations and Maintenance of Plant	5,269,410.17	1,568,936.64	-	1,870,418.11	-	8,708,764.92
Student Financial Aid	42,475.84	61,765.57	7,480,472.49	-	-	7,584,713.90
Auxiliary Enterprises	6,144,288.16	8,707,503.47	-	926,515.75	-	15,778,307.38
Depreciation/Amortization	-	-	-	-	7,644,622.84	7,644,622.84
Total Operating Expenses	$54,593,233.99	$ 20,379,793.39	$7,480,472.49	$2,799,585.53	$7,644,622.84	$92,897,708.24

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of $3,036,135.03 provided by the Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 11.

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. 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 $1,060,503.01, and the University's contributions were $2,895,173.21 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 $5,324,117.00 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 0.11370%, which was an increase of 0.00033 from its proportion measured as of June 30, 2020, which was 0.11337%.

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:

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%.

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%)
$ 17,859,095.50	$ 5,324,117.00	$ (5,095,591.71)

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 $1,311,563.00. 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	$ 299,275.00	$ 120,917.00
Changes of Assumptions	1,997,134.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	6,596,648.00
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	21,344.49	127,430.00
Contributions Subsequent to the Measurement Date	2,895,173.21	-
Total	$ 5,212,926.70	$ 6,844,995.00

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	$ (757,184.00)
2024	(808,830.00)
2025	(938,062.00)
2026	(2,023,165.51)
Total	$ (4,527,241.51)

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 $46,755,829.87, of which $23,161,199.09 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $1,389,671.95 and $1,584,226.02, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 15. 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 $2,568,600.08 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 $444,836.00.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the 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 $36,752.62 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 $73,543,501.00 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 0.23788%, which was a decrease of 0.00304 from its proportion measured as of June 30, 2020, which was 0.24092%.

Net OPEB Asset: At June 30, 2022, the University reported an asset of $38,587.00 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 0.23624%, which was a decrease of 0.00911 from its proportion measured as of June 30, 2020, which was 0.24535%.

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	$ 87,477,156.24	$ 73,543,501.00	$ 62,256,114.79
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC	$ (24,363.43)	$ (38,587.00)	$ (51,746.01)

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	$ 59,556,628.76	$ 73,543,501.00	$ 92,094,913.73
	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	$ (40,614.38)	$ (38,587.00)	$ (36,062.04)

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

OPEB Plan	Amount
RHBF	$ (3,718,799.00)
DIPNC	87,804.00
Total OPEB Expense	$ (3,630,995.00)

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:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 434,190.00	$ 98,387.00	$ 532,577.00
Changes of Assumptions	6,015,225.00	6,775.00	6,022,000.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	3,766.00	3,766.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,067,773.92	15,897.07	2,083,670.99
Contributions Subsequent to the Measurement Date	2,568,600.08	36,752.62	2,605,352.70
Total	$ 11,085,789.00	$ 161,577.69	$ 11,247,366.69

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,368,987.00	$ -	$ 1,368,987.00
Changes of Assumptions	17,872,669.00	14,009.00	17,886,678.00
Net Difference Between Projected and Actual Earnings on Plan Investments	37,620.00	-	37,620.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	5,093,789.00	-	5,093,789.00
Total	$ 24,373,065.00	$ 14,009.00	$ 24,387,074.00

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:

Year Ending June 30:	RHBF	DIPNC
2023	$ (9,697,599.00)	$ 28,204.00
2024	(3,064,300.00)	20,167.00
2025	(1,641,666.00)	25,283.00
2026	(2,087,616.00)	13,623.00
2027	635,304.92	6,824.00
Thereafter	-	16,715.07
Total	$ (15,855,876.08)	$ 110,816.07

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University has chosen a $250,000 deductible. Coverage value for all buildings and contents are based on replacement values. The University has also purchased through the Fund extended coverage for boiler and machinery components with a $5,000 deducible, and fine arts coverage for artwork subject to a $2,5000 deductible.

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year via contract with private insurance companies. The University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $1,830,005.28 and on other purchases were $4,569,095.05 at June 30, 2022.

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

NOTE 17 - 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 18 - NET POSITION RESTATEMENT

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 8 for details on the restated balances related to capital assets and lease liabilities, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Asheville
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 C-1

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net Pension Liability	0.11370%	0.11337%	0.11572%	0.12251%	0.12597%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,324,117.00	$ 13,697,360.00	$ 11,996,643.00	$ 12,197,205.00	$ 9,995,015.00
Covered Payroll	$ 17,654,758.80	$ 17,933,050.35	$ 17,644,706.10	$ 18,683,193.70	$ 17,932,977.86
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	30.16%	76.38%	67.99%	65.28%	55.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.86%	85.98%	87.56%	87.61%	89.51%

	2017	**2016**	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.11896%	0.11814%	0.11854%	0.11120%
Proportionate Share of TSERS Collective Net Pension Liability	$ 10,933,653.00	$ 4,353,693.00	$ 1,389,788.00	$ 6,750,973.00
Covered Payroll	$ 17,682,484.99	$ 17,151,853.98	$ 16,663,714.36	$ 17,355,567.16
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	61.83%	25.38%	8.34%	38.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

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

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

Exhibit C-2

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 2,895,173.21	$ 2,609,373.35	$ 2,325,916.63	$ 2,168,534.38	$ 2,014,048.28
Contributions in Relation to the Contractually Determined Contribution	2,895,173.21	2,609,373.35	2,325,916.63	2,168,534.38	2,014,048.28
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 17,675,050.14	$ 17,654,758.80	$ 17,933,050.35	$ 17,644,706.10	$ 18,683,193.70
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	$ 1,789,711.19	$ 1,617,947.38	$ 1,569,394.64	$ 1,448,076.78	$ 1,445,718.74
Contributions in Relation to the Contractually Determined Contribution	1,789,711.19	1,617,947.38	1,569,394.64	1,448,076.78	1,445,718.74
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 17,932,977.86	$ 17,682,484.99	$ 17,151,853.98	$ 16,663,714.36	$ 17,355,567.16
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.

The University of North Carolina at Asheville
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'	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Retirement System	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 13 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

The University of North Carolina at Asheville
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**

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net OPEB Liability	0.23788%	0.24092%	0.24845%	0.25174%	0.23776%
Proportionate Share of Collective Net OPEB Liability	$ 73,543,501.00	$ 66,832,603.00	$ 78,607,577.00	$ 71,717,146.00	$ 77,954,552.00
Covered Payroll	$ 41,281,937.16	$ 41,629,483.29	$ 42,192,827.71	$ 42,289,926.28	$ 40,958,387.45
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	178.15%	160.54%	186.31%	169.58%	190.33%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.72%	6.92%	4.40%	4.40%	3.52%

	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.25507%
Proportionate Share of Collective Net OPEB Liability	$ 110,964,120.00
Covered Payroll	$ 39,115,679.31
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	283.68%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.41%

The University of North Carolina at Asheville
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**

Disability Income Plan of North Carolina	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net OPEB Asset	0.23624%	0.24535%	0.25030%	0.26073%	0.26195%
Proportionate Share of Collective Net OPEB Asset	$ 38,587.00	$ 120,697.00	$ 108,004.00	$ 79,199.00	$ 160,104.00
Covered Payroll	$ 41,281,937.16	$ 41,629,483.29	$ 42,192,827.71	$ 42,289,926.28	$ 40,958,387.45
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.09%	0.29%	0.26%	0.19%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.18%	115.57%	113.00%	108.47%	116.23%

	2017
Proportionate Share Percentage of Collective Net OPEB Asset	0.24473%
Proportionate Share of Collective Net OPEB Asset	$ 151,977.00
Covered Payroll	$ 39,115,679.31
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.

The University of North Carolina at Asheville
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Exhibit C-4

Last Ten Fiscal Years

Retiree Health Benefit Fund	2022	2021	2020	2019	2018
Contractually Required Contribution	$ 2,568,600.08	$ 2,757,633.40	$ 2,693,427.57	$ 2,645,490.30	$ 2,558,540.54
Contributions in Relation to the Contractually Determined Contribution	2,568,600.08	2,757,633.40	2,693,427.57	2,645,490.30	2,558,540.54
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 40,836,249.23	$ 41,281,937.16	$ 41,629,483.29	$ 42,192,827.71	$ 42,289,926.28
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	$ 2,379,682.31	$ 2,190,478.04	$ 2,041,929.23	$ 1,916,137.70	$ 1,821,471.46
Contributions in Relation to the Contractually Determined Contribution	2,379,682.31	2,190,478.04	2,041,929.23	1,916,137.70	1,821,471.46
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 40,958,387.45	$ 39,115,679.31	$ 37,193,610.81	$ 35,484,031.39	$ 34,367,386.04
Contributions as a Percentage of Covered Payroll	5.81%	5.60%	5.49%	5.40%	5.30%

The University of North Carolina at Asheville
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans ***Exhibit C-4***
Last Ten Fiscal Years

Disability Income Plan of North Carolina	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 36,752.62	$ 37,153.74	$ 41,629.48	$ 59,069.96	$ 59,205.90
Contributions in Relation to the Contractually Determined Contribution	36,752.62	37,153.74	41,629.48	59,069.96	59,205.90
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 40,836,249.23	$ 41,281,937.16	$ 41,629,483.29	$ 42,192,827.71	$ 42,289,926.28
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	$ 155,641.87	$ 160,374.29	$ 152,493.80	$ 156,129.73	$ 151,216.50
Contributions in Relation to the Contractually Determined Contribution	155,641.87	160,374.29	152,493.80	156,129.73	151,216.50
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 40,958,387.45	$ 39,115,679.31	$ 37,193,610.81	$ 35,484,031.39	$ 34,367,386.04
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.

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

Changes of Assumptions: 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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Asheville (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 October 25, 2022. Our report includes a reference to other auditors who audited the consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc. (Foundation), as described in our report on the University's financial statements. The consolidated financial statements of the Foundation 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 the Foundation.

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.

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 25, 2022

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This audit required 553 hours at an approximate cost of $66,360.