

# The University of North Carolina System Office

Raleigh, North Carolina

## Financial Statement Audit Report

For the Year Ended June 30, 2023

*Administrative Body of the University of North Carolina System and a Component Unit of the  
State of North Carolina*

**UNBIASED. IMPACTFUL. IRREFUTABLE.**



A Department of the  
State of North Carolina





## North Carolina Office of the State Auditor

Jessica N. Holmes, State Auditor

[www.auditor.nc.gov](http://www.auditor.nc.gov)

# Auditor's Transmittal

---

The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
Board of Governors, University of North Carolina System

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

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

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

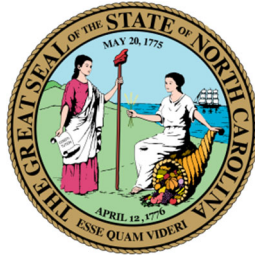
A handwritten signature in cursive script that reads "Jessica N. Holmes".

Jessica N. Holmes  
State Auditor

# Table of Contents

	Page
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis .....	4
Basic Financial Statements	
Exhibits	
Business-Type Activities:	
A-1 Statement of Net Position .....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Position .....	13
A-3 Statement of Cash Flows.....	14
Fiduciary Activities:	
B-1 Statement of Fiduciary Net Position.....	16
B-2 Statement of Changes in Fiduciary Net Position .....	17
Notes to the Financial Statements .....	18
Required Supplementary Information	
C-1 Schedule of the Proportionate Share of the Net Pension Liability (Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan).....	55
C-2 Schedule of UNC System Office Contributions (Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan).....	56
Notes to Required Supplementary Information (Cost-Sharing, Multiple- Employer, Defined Benefit Pension Plan).....	57
C-3 Schedule of the Proportionate Share of the Net OPEB Liability or Asset (Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans).....	58
C-4 Schedule of UNC System Office Contributions (Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans).....	60
Notes to Required Supplementary Information (Cost-Sharing, Multiple- Employer, Defined Benefit OPEB Plans) .....	62
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	63
Ordering Information .....	65

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



# Independent Auditor's Report



## North Carolina Office of the State Auditor

Jessica N. Holmes, State Auditor

[www.auditor.nc.gov](http://www.auditor.nc.gov)

# Independent Auditor's Report

---

Board of Governors  
University of North Carolina System  
Raleigh, North Carolina

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

### *Opinions*

We have audited the financial statements of the business-type activities and fiduciary activities of The University of North Carolina System Office (UNC System Office), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the UNC System Office's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of The University of North Carolina System Office, as of June 30, 2023, 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.

### *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 System Office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the financial statements of The University of North Carolina System Office are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of The University of North Carolina System Office. They do not purport to, and do not, present fairly the financial position of the University of North Carolina System as of June 30, 2023, the changes in its

financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

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

The UNC System Office'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 UNC System Office'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 UNC System Office'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 UNC System Office's ability to continue as a going concern for a reasonable period of time.

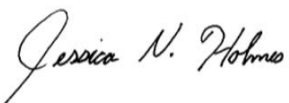
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*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**

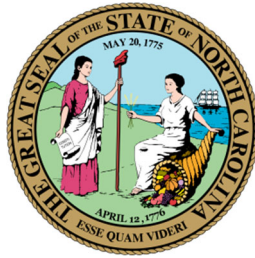
In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2024 on our consideration of the UNC System Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 UNC System Office's internal control over financial reporting and compliance.



Jessica N. Holmes  
State Auditor

Raleigh, North Carolina

March 18, 2024



# Management's Discussion and Analysis



## Introduction

The University of North Carolina System Office (UNC System Office) provides this overview and management's discussion and analysis to assist in understanding the financial statements and notes to the financial statements presented herewith for the year ended June 30, 2023, and includes comparative data for the year ended June 30, 2022. This discussion describes important trends and events that have impacted the fiscal health of the UNC System Office and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the UNC System Office's management along with the financial statements and the notes thereto. The report should be read and considered in its entirety.

## Using the Annual Report

This annual report consists of a series of financial statements, notes to the financial statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for the UNC System Office as a whole. These standards were used in the preparation of this document. The UNC System Office presents two sets of fund financial statements: 1) proprietary fund financial statements, which account for the primary activities and 2) fiduciary fund statements, which account for the investment trust fund and custodial funds. See Note 1 for additional information regarding the UNC System Office's fiduciary activities. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis. Condensed comparative financial information is not required for fiduciary activities.

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

The notes to the financial statements should be read in conjunction with the financial statements. The notes to the financial statements provide information regarding the significant accounting principles applied in the financial statements, adoption of GASB accounting pronouncements in the fiscal period, authority for and associated risk of deposits and investments, detailed information on deposits and investments, accounts receivable, capital assets, accounts payable, long-term liabilities, lease obligations, revenues, expenses, insurance against losses, commitments and contingencies, blended component unit, and required information on pension plans and other postemployment benefits, including the net position impact from the adoption of GASB Statements No. 68 and 75. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

### Reporting Entity

The financial statements report information about the UNC System Office as a whole using accounting methods similar to those used in the private-sector. The UNC System Office's supporting organization, The University of North Carolina Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation and is reported as a blended component unit based on the nature and significance of its relationship to the UNC System Office. Therefore, the results of its operations are blended with the UNC System Office's financial statements and are included in this discussion and analysis. The reporting entity also includes the Public Broadcasting Service North Carolina (PBSNC) and UNC Association of Student Government, divisions within the UNC System Office. Although the Foundation, PBSNC, and the UNC Association of Student Government organizations are all included in the UNC System Office reporting entity, each organization is subject to an independent outside audit due to organizational requirements or source of funding.

### Financial Highlights

The UNC System Office's financial position, as a whole, increased during the fiscal year ended June 30, 2023. The condensed net position for the UNC System Office increased by \$11.38 million or 6.22% compared to the prior year net position. The UNC System Office's endowment performance return in the UNC Investment Fund, LLC decreased to -0.40% from 4.40% from last fiscal year.

### Summary of Net Position

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

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

Condensed Statement of Net Position

	2023	2022	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current Assets	\$ 247,847,273.48	\$ 185,239,792.35	\$ 62,607,481.13	33.80%
Noncurrent Assets:				
Other	132,207,392.31	127,664,583.40	4,542,808.91	3.56%
Capital Assets, Net	67,842,147.44	56,632,751.05	11,209,396.39	19.79%
<b>Total Assets</b>	<u>447,896,813.23</u>	<u>369,537,126.80</u>	<u>78,359,686.43</u>	21.20%
<b>Total Deferred Outflows of Resources</b>	<u>27,689,521.00</u>	<u>21,786,484.00</u>	<u>5,903,037.00</u>	27.09%
<b>Liabilities:</b>				
Current				
Long-Term Liabilities - Current Portion	2,620,719.13	446,190.49	2,174,528.64	487.35%
Other Current Liabilities	13,576,709.42	10,682,955.48	2,893,753.94	27.09%
Noncurrent				
Long-Term Liabilities	82,491,494.58	68,707,555.66	13,783,938.92	20.06%
<b>Total Liabilities</b>	<u>98,688,923.13</u>	<u>79,836,701.63</u>	<u>18,852,221.50</u>	23.61%
<b>Total Deferred Inflows of Resources</b>	<u>182,599,267.51</u>	<u>128,570,038.00</u>	<u>54,029,229.51</u>	42.02%
<b>Net Position:</b>				
Net Investment in Capital Assets	51,952,559.18	55,308,658.64	(3,356,099.46)	(6.07%)
Restricted:				
Nonexpendable	14,638,603.89	14,623,190.89	15,413.00	0.11%
Expendable	131,322,545.49	123,751,076.05	7,571,469.44	6.12%
Unrestricted	(3,615,564.97)	(10,766,054.41)	7,150,489.44	66.42%
<b>Total Net Position</b>	<u>\$ 194,298,143.59</u>	<u>\$ 182,916,871.17</u>	<u>\$ 11,381,272.42</u>	6.22%

Net position categories are defined in Note 1.O of the notes to the financial statements.

As of June 30, 2023, total net position for the UNC System Office was \$194.30 million. The UNC System Office's net investment in capital assets of \$51.95 million, which represents 26.74% of total net position, decreased due to current year depreciation/amortization – see below for details. The increase in unrestricted net position of \$7.15 million or 66.42% is primarily related to changes in the required recognition of amounts related to the Retiree Health Benefit Fund, an other postemployment benefit (see Note 13). The increase in restricted expendable net position is primarily related to the increase in funding for the Opportunity Scholarship Grant Fund Reserve and capital contributions, as discussed below.

Total assets increased by \$78.36 million or 21.20%. This increase was due to an increase in current assets and capital assets. Current assets increased by \$62.61 million or 33.80% primarily due to increases in cash held for the Opportunity Scholarship Grant Fund Reserve. See capital assets section below for more information on capital asset changes.

Total deferred outflows of resources increased by \$5.90 million or 27.09% as a result of the required recognition of amounts related to the pension plan and other postemployment benefits (see Notes 12 and 13).

Total liabilities, which were \$98.69 million at June 30, 2023, increased significantly during the year ended June 30, 2023. Noncurrent long-term liabilities increased \$13.78 million or 20.06% and current long-term liabilities increased \$2.17 million or 487.35% primarily due to a new lease being acquired for the Dillon building in downtown Raleigh. The increase in noncurrent long-term

liabilities was also due to an increase in the required recognition of amounts related to the pension plan (see Note 12). Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Note 8.

Total deferred inflows of resources increased \$54.03 million or 42.02% primarily due to the increase in deferred inflows for state aid, which increased not only due to the receipt of additional funds for the Opportunity Scholarship Grant Fund Reserve received each year (established by General Statute 115C-562.8), but the additional amounts allotted to this reserve on a nonrecurring basis. These amounts are forward funded and cannot be used until the subsequent fiscal year.

The UNC System Office's current assets of \$247.85 million covered the current liabilities of \$16.20 million, at a ratio of 15.30 (\$15.30 in current assets for every \$1.00 in current liabilities).

### **Summary of Revenues, Expenses, and Changes in Net Position**

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

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

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of the UNC System Office. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the UNC System Office. Nonoperating revenues are revenues earned for which goods and services are not provided. Capital contributions are considered neither operating nor nonoperating revenues and are reported after "Income Before Other Revenues."

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

	2023	2022	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Sales and Services	\$ 14,316,526.93	\$ 13,906,228.12	\$ 410,298.81	2.95%
Other	297,937.17	46,967.39	250,969.78	534.35%
<b>Total Operating Revenues</b>	<u>14,614,464.10</u>	<u>13,953,195.51</u>	<u>661,268.59</u>	4.74%
<b>Operating Expenses:</b>				
Salaries and Benefits	43,941,596.36	43,184,064.27	757,532.09	1.75%
Supplies and Services	40,849,403.63	44,472,776.30	(3,623,372.67)	(8.15%)
Utilities	1,811,225.78	1,758,121.80	53,103.98	3.02%
Depreciation/ Amortization	8,059,674.44	4,878,529.85	3,181,144.59	65.21%
<b>Total Operating Expenses</b>	<u>94,661,900.21</u>	<u>94,293,492.22</u>	<u>368,407.99</u>	0.39%
<b>Operating Loss</b>	<u>(80,047,436.11)</u>	<u>(80,340,296.71)</u>	<u>(292,860.60)</u>	(0.36%)
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	475,709,696.39	389,547,871.36	86,161,825.03	22.12%
State Aid - Coronavirus	59,082,261.00	6,438,952.96	52,643,308.04	817.58%
Noncapital Contributions	79,276,592.40	101,575,815.59	(22,299,223.19)	(21.95%)
Investment Income, Net	3,808,108.55	5,521,894.58	(1,713,786.03)	(31.04%)
Interest and Fees on Debt	(1,687,170.70)	(67,749.35)	1,619,421.35	2390.31%
Grants, Aid, and Subsidies	(532,418,499.75)	(414,541,113.26)	117,877,386.49	28.44%
Other Nonoperating Expenses	(79,192.36)	(786,614.59)	(707,422.23)	(89.93%)
<b>Net Nonoperating Revenues</b>	<u>83,691,795.53</u>	<u>87,689,057.29</u>	<u>(3,997,261.76)</u>	(4.56%)
<b>Income Before Other Revenues</b>	<u>3,644,359.42</u>	<u>7,348,760.58</u>	<u>(3,704,401.16)</u>	(50.41%)
Capital Contributions	7,721,500.00	1,723,268.49	5,998,231.51	348.07%
Additions to Endowments	15,413.00	20,466.00	(5,053.00)	(24.69%)
<b>Increase in Net Position</b>	11,381,272.42	9,092,495.07	2,288,777.35	25.17%
<b>Net Position</b>				
Net Position - July 1	182,916,871.17	173,824,376.10	9,092,495.07	5.23%
Net Position - June 30	<u>\$ 194,298,143.59</u>	<u>\$ 182,916,871.17</u>	<u>\$ 11,381,272.42</u>	6.22%
Total Revenues	\$ 640,228,035.44	\$ 518,833,144.97	\$ 121,394,890.47	23.40%
Total Expenses	\$ 628,846,763.02	\$ 509,740,649.90	\$ 119,106,113.12	23.37%

The Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$11.38 million for the fiscal year. The total operating loss for fiscal year 2023 was \$80.05 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB, the UNC System Office shows a significant operating loss.

The state appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. For the fiscal year ended June 30, 2023, the appropriations from the State for the UNC System Office increased by \$86.16 million or 22.12% for operations. The increase is primarily due to increases for UNC Need Based Financial Aid and Opportunity Scholars, including funds received for UNC Cancer Research. Previously, the UNC Cancer Research funds were received from the North Carolina Department of Revenue and classified as noncapital contributions hence the decrease in noncapital contributions for the current fiscal year.

State aid - coronavirus revenue increased \$52.64 million or 817.58% due to the significant amount of State Fiscal Recovery Funds (SFRF) money received for Project Kitty Hawk. Grants, aid, and subsidies increased by \$117.88 million or 28.44% primarily due to Opportunity Scholars, Project Kitty Hawk, and SFRF Scholarships. Investment income decreased \$1.62 million or 2390.31% due to a drop in market investment performance to -0.40% from 4.40% during the prior fiscal year.

Operating revenues include sales and services (including shared services, PBSNC royalties, lease revenue, and academic affairs private college licensure fees, etc.) and other operating revenues. For fiscal year 2023, sales and services increased slightly by \$410 thousand or 2.95%.

Operating expenses, including depreciation/ amortization of \$8.06 million, totaled \$94.66 million. Of this total, \$43.94 million was used for salaries and benefits and \$40.85 million was for supplies and services. Services consisted of contractual agreements, data processing services, travel, and communication expenses. Supplies and services decreased \$3.62 million or 8.15% due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* as expenses related to these subscriptions are now amortized instead of being recognized as services. Depreciation/ amortization expense increased \$3.18 million or 65.21% due to the implementation of GASB 96 and the acquisition of the new lease of the Dillon building.

Capital contributions increased by \$6.00 million to a total of \$7.72 million due to the receipt of State Capital Infrastructure Fund (SCIF) grant money used to pay the lease for the Dillon building.

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

### **Capital Assets**

The increase in capital assets was related to the leasing of the Dillon building in downtown Raleigh as required by Session Law 2021-180 section 40.1.(h1), which housed UNC System Office operations starting in January 2023. The construction commitments identified in Note 15 are primarily related to the STEM Capital Planning study and the Bryan Center HVAC Replacement. Total capital assets, net of accumulated depreciation, at June 30, 2023 were \$67.84 million. For more detailed information about capital asset holdings, see Note 6 of the notes to the financial statements.

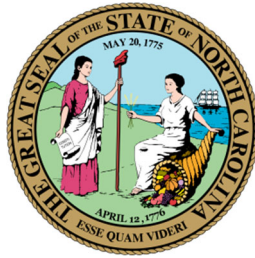
### **Factors Impacting Future Periods**

Management believes that the UNC System Office is well positioned to continue its level of excellence in service to UNC constituent institutions, students, the community, and governmental agencies. The UNC System Office's ongoing efforts toward maximizing the state's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence.

A crucial element to the UNC System Office's future will continue to be its relationship with the State of North Carolina. Private gifts are an important supplement to the fundamental support from the State and other revenue sources. Fluctuations in market conditions will continue to affect future level of donor funding the UNC System Office receives from corporate and individual giving,

including the support received through The University of North Carolina Center for Public Television.

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



# Financial Statements



**The University of North Carolina System Office**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2023**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 14,812,747.05
Restricted Cash and Cash Equivalents	220,183,937.07
Receivables (Note 5)	6,694,930.12
Due from UNC System Office Fiduciary Fund	2,297,894.08
Inventories	888.99
Leases Receivable (Note 9)	376,429.32
Prepaid Items	3,480,446.85
	<hr/>
Total Current Assets	247,847,273.48

Noncurrent Assets:

Restricted Cash and Cash Equivalents	7,046,386.66
Endowment Investments	119,621,464.97
Restricted Investments	3,773,832.08
Leases Receivable (Note 9)	1,611,424.09
Beneficial Interest in Assets Held by Others	154,284.51
Capital Assets - Nondepreciable (Note 6)	1,779,433.50
Capital Assets - Depreciable, Net (Note 6)	66,062,713.94
	<hr/>
Total Noncurrent Assets	200,049,539.75

Total Assets	<hr/> 447,896,813.23
--------------	----------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions (Note 12)	13,350,042.00
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	14,339,479.00
	<hr/>
Total Deferred Outflows of Resources	27,689,521.00

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	3,747,586.46
Unearned Revenue	9,648,873.21
Interest Payable	180,249.75
Long-Term Liabilities - Current Portion (Note 8)	2,620,719.13
	<hr/>
Total Current Liabilities	16,197,428.55

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	82,491,494.58
	<hr/>
Total Liabilities	98,688,923.13

**The University of North Carolina System Office**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2023**

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

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows State Aid	150,840,000.00
Deferred Inflows for Irrevocable Split-Interest Agreements	154,284.51
Deferred Inflows Related to Pensions (Note 12)	256,580.00
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	21,251,098.00
Deferred Inflows for Leases	10,097,305.00
	<u>182,599,267.51</u>
Total Deferred Inflows of Resources	<u>182,599,267.51</u>

**NET POSITION**

Net Investment in Capital Assets	<u>51,952,559.18</u>
Restricted:	
Nonexpendable:	
True Endowments	<u>14,638,603.89</u>
Expendable:	
Scholarships, Research, Instruction, and Other	124,276,158.83
Capital Projects	<u>7,046,386.66</u>
Total Restricted-Expendable Net Position	<u>131,322,545.49</u>
Unrestricted	<u>(3,615,564.97)</u>
Total Net Position	<u>\$ 194,298,143.59</u>

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

**The University of North Carolina System Office  
Statement of Revenues, Expenses, and  
Changes in Net Position  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2023**

**Exhibit A-2**

**OPERATING REVENUES**

Sales and Services	\$ 14,316,526.93
Other Operating Revenues	297,937.17
	<u>14,614,464.10</u>
Total Operating Revenues	<u>14,614,464.10</u>

**OPERATING EXPENSES**

Salaries and Benefits	43,941,596.36
Supplies and Services	40,849,403.63
Utilities	1,811,225.78
Depreciation/Amortization	8,059,674.44
	<u>94,661,900.21</u>
Total Operating Expenses	<u>94,661,900.21</u>
Operating Loss	<u>(80,047,436.11)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	475,709,696.39
State Aid - Coronavirus	59,082,261.00
Grants, Aid, and Subsidies	(532,418,499.75)
Noncapital Contributions	79,276,592.40
Investment Income (Net of Investment Expense of \$290,987.49)	3,808,108.55
Interest and Fees on Debt	(1,687,170.70)
Loss on Sale of Capital Assets	(39,192.36)
Other Nonoperating Expenses	(40,000.00)
	<u>83,691,795.53</u>
Net Nonoperating Revenues	<u>83,691,795.53</u>
Income Before Other Revenues	<u>3,644,359.42</u>
Capital Contributions	7,721,500.00
Additions to Endowments	15,413.00
	<u>7,736,913.00</u>
Total Other Revenues	<u>7,736,913.00</u>
Increase in Net Position	11,381,272.42

**NET POSITION**

Net Position - July 1, 2022	<u>182,916,871.17</u>
Net Position - June 30, 2023	<u>\$ 194,298,143.59</u>

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

**The University of North Carolina System Office**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2023**

**Exhibit A-3**

**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 19,330,427.48
Payments to Employees and Fringe Benefits	(50,990,241.98)
Payments to Vendors and Suppliers	(44,539,405.21)
Other Receipts	297,937.17
	<hr/>
Net Cash Used by Operating Activities	(75,901,282.54)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	522,709,696.39
State Aid - Coronavirus	59,082,261.00
Noncapital Contributions	76,758,331.46
Grants, Aid, and Subsidies	(532,418,499.75)
Additions to Endowments	15,413.00
Advances to Fiduciary Activity	117,207.02
	<hr/>
Net Cash Provided by Noncapital Financing Activities	126,264,409.12

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

Capital Contributions	7,721,500.00
Proceeds from Sale of Capital Assets	33,209.57
Proceeds from Lease Arrangements	8,500,000.00
Acquisition and Construction of Capital Assets	(3,173,019.63)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(1,780,298.55)
Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities	(1,509,829.43)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	9,791,561.96

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,799,720.00
Investment Income	4,246,674.95
Purchase of Investments and Related Fees	(5,227,980.00)
	<hr/>
Net Cash Provided by Investing Activities	2,818,414.95

Net Increase in Cash and Cash Equivalents	62,973,103.49
Cash and Cash Equivalents - July 1, 2022	179,069,967.29
	<hr/>
Cash and Cash Equivalents - June 30, 2023	\$ 242,043,070.78

**The University of North Carolina System Office**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2023**

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

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

Operating Loss	\$ (80,047,436.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	8,059,674.44
Lease Income (Amortized Deferred Inflows of Resources)	(362,072.76)
Changes in Assets and Deferred Outflows of Resources:	
Receivables	1,645,464.16
Inventories	21,031.03
Prepaid Items	(1,629,117.06)
Net Other Postemployment Benefits Asset	30,156.00
Deferred Outflows Related to Pensions	(6,012,630.00)
Deferred Outflows Related to Other Postemployment Benefits	109,593.00
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(993,880.37)
Unearned Revenue	3,730,509.15
Net Pension Liability	13,274,591.00
Net Other Postemployment Benefits Liability	(11,238,615.00)
Compensated Absences	7,841.42
Workers' Compensation Liability	(132,438.44)
Deferred Inflows Related to Pensions	(6,823,372.00)
Deferred Inflows Related to Other Postemployment Benefits	4,459,419.00
Net Cash Used by Operating Activities	<u>\$ (75,901,282.54)</u>

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

Assets Acquired through the Assumption of a Liability	\$ 11,636,175.91
Change in Fair Value of Investments	(147,578.91)
Loss on Disposal of Capital Assets	(72,401.93)
Decrease in Receivables Related to Nonoperating/Other Revenues	(2,137,194.94)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(341,066.00)

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

**The University of North Carolina System Office**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2023**

**Exhibit B-1**

	<b>Custodial Funds</b>			<b>Total Custodial Funds</b>
	<b>Investment Trust Fund</b>	<b>External Investment Pool Funds</b>	<b>Other Funds</b>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 107,428.13	\$ -	\$ 554,834,276.45	\$ 554,834,276.45
Accounts Receivable	-	-	10,589,564.84	10,589,564.84
Investments (Note 2):				
Restricted Investments	6,070,581.95	-	-	-
Pooled Investment Funds	-	75,734,511.38	-	75,734,511.38
Total Assets	<u>6,178,010.08</u>	<u>75,734,511.38</u>	<u>565,423,841.29</u>	<u>641,158,352.67</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities (Note 7)	-	45,011.98	52,241,593.30	52,286,605.28
Due to UNC System Office Proprietary Fund	-	-	2,297,894.08	2,297,894.08
Annuities Payable	3,298,354.24	-	-	-
Total Liabilities	<u>3,298,354.24</u>	<u>45,011.98</u>	<u>54,539,487.38</u>	<u>54,584,499.36</u>
<b>NET POSITION</b>				
Restricted for:				
State Education Assistance Authority	-	75,689,499.40	501,466,858.80	577,156,358.20
UNC Institutions	2,879,655.84	-	9,417,495.11	9,417,495.11
Total Fiduciary Net Position	<u>\$ 2,879,655.84</u>	<u>\$ 75,689,499.40</u>	<u>\$ 510,884,353.91</u>	<u>\$ 586,573,853.31</u>

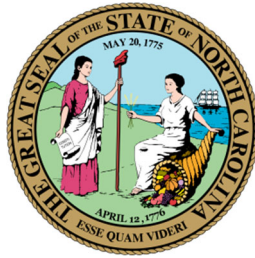
The accompanying notes to the financial statements are an integral part of this statement.

**The University of North Carolina System Office  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2023**

**Exhibit B-2**

	<b>Custodial Funds</b>			
	<b>Investment Trust Fund</b>	<b>External Investment Pool Funds</b>	<b>Other Funds</b>	<b>Total Custodial Funds</b>
<b>ADDITIONS</b>				
Contributions:				
Pool Participants	\$ 261,111.00	\$ -	\$ -	\$ -
Individuals/Affiliated Organizations	-	-	835,846,997.34	835,846,997.34
Total Contributions	<u>261,111.00</u>	<u>-</u>	<u>835,846,997.34</u>	<u>835,846,997.34</u>
Investment Activity:				
Investment Income (Loss)	346,583.21	(128,933.50)	-	(128,933.50)
Investment Expenses	-	(177,540.87)	-	(177,540.87)
Net Investment Income (Loss)	<u>346,583.21</u>	<u>(306,474.37)</u>	<u>-</u>	<u>(306,474.37)</u>
Total Additions	<u>607,694.21</u>	<u>(306,474.37)</u>	<u>835,846,997.34</u>	<u>835,540,522.97</u>
<b>DEDUCTIONS</b>				
Withdrawals and Distributions	<u>386,771.88</u>	<u>-</u>	<u>728,639,519.15</u>	<u>728,639,519.15</u>
Increase (Decrease) in Fiduciary Net Position	220,922.33	(306,474.37)	107,207,478.19	106,901,003.82
<b>NET POSITION</b>				
Net Position - July 1, 2022	<u>2,658,733.51</u>	<u>75,995,973.77</u>	<u>403,676,875.72</u>	<u>479,672,849.49</u>
Net Position - June 30, 2023	<u>\$ 2,879,655.84</u>	<u>\$ 75,689,499.40</u>	<u>\$ 510,884,353.91</u>	<u>\$ 586,573,853.31</u>

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 System Office (UNC System Office) is the administrative body 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 UNC System Office and its component unit. The UNC System Office is the organizational structure established, pursuant to North Carolina General Statutes 116-3 through 116-22, to support and assist the President of the University System in fulfilling responsibilities for administering the University System. The President, as chief administrative and executive officer, is responsible for (1) communication between the Board and persons inside and outside the University System, (2) preparation, presentation, and execution of the budget for the University System, and (3) establishment and supervision of administrative divisions to comply with policies of the Board. These responsibilities are accomplished through offices which address academic affairs, financial administration, long-range planning, student services and special programs, research, communications, and public affairs. The UNC System Office's component unit is blended in the UNC System Office's financial statements. See below for further discussion of the UNC System Office's component unit. Other related foundations and similar nonprofit corporations for which the UNC System Office is not financially accountable are not part of the accompanying financial statements.

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

The Foundation is governed by a board consisting of ten voting ex-officio directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the multi-campus University System. The ten ex-officio directors are the Chair of the Board of Governors of the University System, the President of the University System, the Senior Vice President for Finance and Chief Financial Officer of the University System, the Senior Vice President for Academic Affairs and Chief Academic Officer of the University System, the Chief Operating Officer of the University System, the Senior Vice President for Strategy and Policy of the University System, the Chief of Staff of the University System, the Senior Vice President for Legal Affairs and General Counsel of the University System, the Chair of the Committee on University Governance of the Board of Governors of the University System, and the Chair of the Committee on Budget and Finance of the Board of Governors of the University System. Because the Foundation's sole purpose is to benefit the University System, its financial statements have been blended with those of the UNC System Office.

Separate financial statements for the Foundation may be obtained from the UNC System Office, 223 S West St Suite 1800, Raleigh, NC 27603, or by calling 919-962-4243.

Condensed combining information regarding blended component unit is provided in Note 16.

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

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

**Fiduciary Funds** - This fund accounts for all of the UNC System Office's fiduciary activities, which include an Investment Trust Fund and custodial funds. These resources are held by the UNC System Office in a purely custodial capacity on behalf of the State Education Assistance Authority and the UNC System constituent institutions. Custodial funds include the external portion of an investment pool sponsored by the UNC System Office, as well as resources held on behalf of the State Education Assistance Authority for investment.

- C. Basis of Accounting** - The financial statements of the UNC System Office 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 UNC System Office receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized 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, 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 UNC System Office for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. Receivables** - Receivables consist of amounts due from the federal government, state and local governments, constituent universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF) as the trustees of the Optional Retirement Program (ORP) in connection with reimbursement of expenses related to the administration of the ORP. Receivables are considered fully collectible, therefore, no allowance for amounts is recorded.
- G. Inventories** - Inventories, consisting of postage, are valued at cost using the last invoice cost method.
- H. Beneficial Interest in Assets Held by Others** - Resources held by a trustee in an irrevocable trust that will benefit the UNC System Office upon the end of the predetermined period are reported as Beneficial Interest in Assets Held by Others.
- I. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	15-100 years
Machinery and Equipment	5-25 years
General Infrastructure	5-50 years

The UNC System Office does not capitalize its art and historical treasures. These collections adhere to the UNC System Office's policy to maintain for public exhibition or education; protect, keep unencumbered, care for, and preserve; and are required not to be sold. 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.

Right-to-use leased and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease liabilities are capitalized as a right-to-use asset when the underlying leased asset has a cost of \$100,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-to-use asset when the underlying subscription asset has a cost of \$100,000 or greater and an estimated useful life of more than one year.

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

- J. 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, endowment other restricted investments, and resources whose use is limited by external parties or statute.
- K. Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, all trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.
- L. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include amounts that will not be paid within the next fiscal year. Long-term liabilities include: lease liabilities, subscription liabilities, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

The net pension liability represents the UNC System Office's proportionate share of the collective net pension liability reported in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*. This liability represents the UNC System Office's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the UNC System Office's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the UNC System Office's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*. This liability represents the UNC System Office's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund and Disability Income Plan of North Carolina. See Note 13 for further information regarding the UNC System Office's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- M. Compensated Absences** - The UNC System Office'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 UNC System Office 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.

**N. 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.

**O. Net Position** - The UNC System Office's net position is classified as follows:

#### **Proprietary Fund**

**Net Investment in Capital Assets** - This represents the UNC System Office's total investment in capital assets, net of outstanding liabilities related to those capital assets.

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

**Restricted Net Position - Expendable** - Expendable restricted net position includes resources for which the UNC System Office 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 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 UNC System Office. 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.

#### **Fiduciary Funds**

**Restricted Net Position** - Fiduciary net position includes resources held in a trust capacity for UNC System constituent institutions or in a custodial capacity for the State Education

Assistance Authority or UNC System constituent institutions that are not available for alternative use by the UNC System Office.

- P. Revenue and Expense Recognition** - The UNC System Office 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 UNC System Office's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as sales and services related to shared services. 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 UNC System Office, 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.

### Note 2 - Deposits and Investments

- A. Deposits** - Unless specifically exempt, the UNC System Office 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 UNC System Office 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 UNC System Office may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. Special funds consist of moneys for agency funds held directly by the UNC System Office.

At June 30, 2023, the amount shown on the Statement of Net Position and the Statement of Fiduciary Net Position as cash and cash equivalents includes \$233,968,785.81 for the proprietary fund and \$554,834,276.45 for the fiduciary funds, which represents the UNC System Office's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 0.7 years as of June 30, 2023. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

The carrying amount of the UNC System Office's deposits not with the State Treasurer was \$8,074,284.97 for the proprietary fund and \$107,428.13 for the fiduciary funds. The bank balance was \$8,064,558.46. Custodial credit risk is the risk that in the event of a bank failure, the UNC System Office's deposits may not be returned to it. The UNC System Office does not have a deposit policy for custodial credit risk. As of June 30, 2023, \$7,824,284.97 of the UNC System Office's bank balance was exposed to custodial credit risk because it is uninsured and uncollateralized.

**B. Investments** - The UNC System Office 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 in the same manner as the State Treasurer is required to invest, as discussed below.

Additionally, the UNC System Office has also been delegated authority by the President of the University of North Carolina pursuant to G.S. 116-36.1 and Section 600.2.4.1 of the Policy Manual of the University of North Carolina to invest its trust funds in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments from various donors or other sources may be pooled unless prohibited by statute or by terms of the gift or contract. The UNC System Office 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 UNC System Office may face should interest rate variances affect the value of investments. The UNC System Office 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 UNC System Office does not have a formal policy that addresses credit risk.

**External Investment Pool** - The External Investment Pool (Pool) sponsored by the UNC System Office was established in December 2019. The Pool is utilized to manage the investments for endowments and funds that are organized and operated primarily to support the UNC System Office and student loan funds identified for investment by the State Education Assistance Authority (SEAA). Endowment funds and the University of North Carolina Center for Public Media’s operational funds represent the Pool’s internal participants. SEAA, an organization not included in the UNC System Office’s reporting entity represents the Pool’s external participant. Fund ownership of the Pool is measured using the pro rata share method. Under this method, each participating fund’s investment balance is determined based on its pro rata share of the market value of the investment pool at the beginning of each month. The external portion of the Pool is presented in the accompanying fiduciary fund financial statements.

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board’s primary role is to oversee the allocation of the Pool’s portfolio among the asset classes, investment vehicles, and investment managers.

The Bank of New York Mellon is the custodian for the Pool and provides the UNC System Office with monthly statements defining income and valuation, which is then allocated among the fund’s participants. There are no involuntary participants in the Pool. The UNC System Office has not provided or obtained any legally binding guarantees during the period to support the value for the Pool’s investments. At June 30, 2023, the UNC System Office’s investments include \$199,102,758.43, which represents the UNC System Office’s equity position in the 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.

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

The following table presents investments by type at June 30, 2023, for the External Investment Pool. The Pool did not hold any investments subject to interest rate risk as of June 30, 2023.

**External Investment Pool**

Investment Type	Amount
Other Securities	
UNC Investment Fund	\$ 199,102,758.43



Since a separate annual financial report on the External Investment Pool has not been, and is not planned to be, issued, the following additional disclosures are being provided in the UNC System Office's financial statements.

The External Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2023, are as follows:

Statement of Net Position  
June 30, 2023

	<u>Amount</u>
<b>Assets:</b>	
Investments	\$ 199,102,758.43
<b>Total Assets</b>	<u>\$ 199,102,758.43</u>
<b>Liabilities:</b>	
Accounts Payable	\$ 118,304.50
<b>Total Liabilities</b>	<u>118,304.50</u>
<b>Net Position As Held in Trust for All Pool Participants:</b>	
Internal Portion	123,294,954.53
External Portion	<u>75,689,499.40</u>
<b>Total Net Position</b>	<u>198,984,453.93</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 199,102,758.43</u>

Statement of Operations and Changes in Net Position  
For the Fiscal Year Ended June 30, 2023

	<u>Amount</u>
<b>Decrease in Net Position from Operations:</b>	
Revenues:	
Investment Loss	\$ (276,512.36)
Expenditures:	
Investment Management	<u>(468,528.33)</u>
<b>Decrease in Net Position Resulting from Operations</b>	(745,040.69)
<b>Distributions to Participants:</b>	
Distributions Paid and Payable	(3,799,720.00)
<b>Share Transactions:</b>	
Net Share Purchases	<u>5,227,980.00</u>
<b>Total Increase in Net Position</b>	683,219.31
<b>Net Position:</b>	
Beginning of Year	<u>198,301,234.67</u>
End of Year	<u>\$ 198,984,453.98</u>

**Investment Trust Fund Investments** - This fund reflects the holdings of NC Gift Planning, LLC. These investments are not pooled and are maintained to pay annuities to donors. Upon termination of the annuity, the balance pays to the constituent institution named as the beneficiary.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2023, for the UNC System Office’s Investment Trust Fund investments.

**Investment Trust Fund Investments**

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 8,750.00	\$ -	\$ 8,750.00	\$ -
Debt Mutual Funds	2,041,308.18	-	707,418.35	1,333,889.83
Money Market Mutual Funds	68,435.38	68,435.38	-	-
<b>Total Debt Securities</b>	<b>2,118,493.56</b>	<b>\$ 68,435.38</b>	<b>\$ 716,168.35</b>	<b>\$ 1,333,889.83</b>
Other Securities				
Equity Mutual Funds	3,952,088.39			
<b>Total Investment Trust Fund Investments</b>	<b>\$ 6,070,581.95</b>			

At June 30, 2023, the UNC System Office’s Investment Trust Fund investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BB/Ba and below
Debt Mutual Funds	\$ 2,041,308.18	\$ 602,466.68	\$ 970,415.56	\$ 331,755.88	\$ 136,670.06
Money Market Mutual Funds	68,435.38	68,435.38	-	-	-
<b>Totals</b>	<b>\$ 2,109,743.56</b>	<b>\$ 670,902.06</b>	<b>\$ 970,415.56</b>	<b>\$ 331,755.88</b>	<b>\$ 136,670.06</b>

Rating Agency: TIAA Kaspick

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

**Non-Pooled Investments**

Investment Type	Amount
Other Securities	
Investments in Real Estate	\$ 27,050.00

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

Investment Type	Amount
<b>Debt Securities</b>	
U.S. Treasuries	\$ 8,750.00
Debt Mutual Funds	2,041,308.18
Money Market Mutual Funds	68,435.38
<b>Other Securities</b>	
UNC Investment Fund	199,102,758.43
Equity Mutual Funds	3,952,088.39
Investments in Real Estate	27,050.00
<b>Total Investments</b>	<b>\$ 205,200,390.38</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the UNC System Office as of June 30, 2023, is as follows:

	Proprietary Fund	Fiduciary Fund	Total
Amount of Deposits with Private Financial Institutions	\$ 8,074,284.97	\$ 107,428.13	\$ 8,181,713.10
Deposits in the Short-Term Investment Fund	233,968,785.81	554,834,276.45	788,803,062.26
External Investment Pool	123,368,247.05	75,734,511.38	199,102,758.43
Investment Trust Fund	-	6,070,581.95	6,070,581.95
Non-Pooled Investments	27,050.00	-	27,050.00
<b>Total Deposits and Investments</b>	<b>\$ 365,438,367.83</b>	<b>\$ 636,746,797.91</b>	<b>\$1,002,185,165.74</b>
<b>Deposits</b>			
<b>Current</b>			
Cash and Cash Equivalents	\$ 14,812,747.05	\$ -	\$ 14,812,747.05
Restricted Cash and Cash Equivalents	220,183,937.07	554,941,704.58	775,125,641.65
<b>Noncurrent</b>			
Restricted Cash and Cash Equivalents	7,046,386.66	-	7,046,386.66
<b>Total Deposits</b>	<b>242,043,070.78</b>	<b>554,941,704.58</b>	<b>796,984,775.36</b>
<b>Investments</b>			
<b>Noncurrent</b>			
Endowment Investments	119,621,464.97	-	119,621,464.97
Restricted Investments	3,773,832.08	6,070,581.95	9,844,414.03
Pooled Investment Funds	-	75,734,511.38	75,734,511.38
<b>Total Investments</b>	<b>123,395,297.05</b>	<b>81,805,093.33</b>	<b>205,200,390.38</b>
<b>Total Deposits and Investments</b>	<b>\$ 365,438,367.83</b>	<b>\$ 636,746,797.91</b>	<b>\$1,002,185,165.74</b>

**Note 3 - Fair Value Measurements**

To the extent available, the UNC System Office's investments are recorded at fair value as of June 30, 2023. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement

establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the UNC System Office's proprietary and fiduciary fund investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2023:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Investments by Fair Value Level</b>				
Debt Securities				
U.S. Treasuries	\$ 8,750.00	\$ 8,750.00	\$ -	\$ -
Debt Mutual Funds	2,041,308.18	2,041,308.18	-	-
Money Market Mutual Funds	68,435.38	68,435.38	-	-
<b>Total Debt Securities</b>	<b>2,118,493.56</b>	<b>2,118,493.56</b>	<b>-</b>	<b>-</b>
Other Securities				
Equity Mutual Funds	3,952,088.39	3,952,088.39	-	-
Investments in Real Estate	27,050.00	-	-	27,050.00
<b>Total Investments by Fair Value Level</b>	<b>6,097,631.95</b>	<b>\$ 6,070,581.95</b>	<b>\$ -</b>	<b>\$ 27,050.00</b>
<b>Investments as a Position in an External Investment Pool</b>				
Short-Term Investment Fund	788,803,062.26			
UNC Investment Fund	199,102,758.43			
<b>Total Investments as a Position in an External Investment Pool</b>	<b>987,905,820.69</b>			
<b>Total Investments Measured at Fair Value</b>	<b>\$ 994,003,452.64</b>			

**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 UNC System Office'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 UNC System Office'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.

**Investments in Real Estate** - These investments of donated real estate held for profit are valued at fair market value. The fair market values were estimated using recent appraisals, tax values, and purchase price.

#### **Note 4 - Endowment Investments**

Investments of the UNC System Office'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, several of the UNC System Office'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 UNC System Office's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the UNC System Office's endowment funds are based on an adopted spending policy which limits spending to 5% of the endowment funds market value at the end of the previous fiscal year. Under this policy, annual distributions are calculated by comparing cash associated with the endowment fund to projected expenses for programs associated with the fund. To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not meet the distribution requirements, the UNC System Office uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2023, net appreciation of \$39,551,382.64 was available to be spent, of which \$36,243,636.10 was classified in net position as restricted: expendable: scholarships, research, and other as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**Note 5 - Receivables**

Receivables for the proprietary fund at June 30, 2023, were as follows:

	<u>Amount</u>
<b>Receivables:</b>	
Accounts	\$ 2,299,173.44
Intergovernmental	4,382,758.06
Interest on Leases	<u>12,998.62</u>
<b>Total Receivables</b>	<u><u>\$ 6,694,930.12</u></u>

**Note 6 - Capital Assets**

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

	Balance July 1, 2022 (as Restated)	Increases	Decreases	Balance June 30, 2023
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 802,658.00	\$ -	\$ -	\$ 802,658.00
Construction in Progress	-	<u>976,775.50</u>	-	<u>976,775.50</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>802,658.00</u>	<u>976,775.50</u>	<u>-</u>	<u>1,779,433.50</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	81,800,717.54	-	801,984.43	80,998,733.11
Machinery and Equipment	34,313,595.62	2,196,244.13	584,274.77	35,925,564.98
General Infrastructure	24,896,992.76	-	287,371.58	24,609,621.18
Right-to-Use Leased Land	267,111.15	-	-	267,111.15
Right-to-Use Leased Buildings	-	11,636,175.91	-	11,636,175.91
Right-to-Use Leased General Infrastructure	980,833.86	-	-	980,833.86
Right-to-Use Subscription Assets	<u>4,532,277.22</u>	<u>-</u>	<u>-</u>	<u>4,532,277.22</u>
<b>Total Capital Assets, Depreciable</b>	<u>146,791,528.15</u>	<u>13,832,420.04</u>	<u>1,673,630.78</u>	<u>158,950,317.41</u>
<b>Less Accumulated Depreciation/Amortization for:</b>				
Buildings	60,064,261.09	1,151,237.08	801,984.43	60,413,513.74
Machinery and Equipment	15,187,160.03	2,926,159.27	584,274.77	17,529,044.53
General Infrastructure	11,136,238.45	657,721.47	214,969.65	11,578,990.27
Right-to-Use Leased Land	9,210.73	9,210.73	-	18,421.46
Right-to-Use Leased Buildings	-	1,382,515.95	-	1,382,515.95
Right-to-Use Leased General Infrastructure	32,287.58	32,287.58	-	64,575.16
Right-to-Use Subscription Assets	<u>-</u>	<u>1,900,542.36</u>	<u>-</u>	<u>1,900,542.36</u>
<b>Total Accumulated Depreciation/Amortization</b>	<u>86,429,157.88</u>	<u>8,059,674.44</u>	<u>1,601,228.85</u>	<u>92,887,603.47</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>60,362,370.27</u>	<u>5,772,745.60</u>	<u>72,401.93</u>	<u>66,062,713.94</u>
<b>Capital Assets, Net</b>	<u><u>\$ 61,165,028.27</u></u>	<u><u>\$ 6,749,521.10</u></u>	<u><u>\$ 72,401.93</u></u>	<u><u>\$ 67,842,147.44</u></u>

As of June 30, 2023, the total amount of right-to-use leased and subscription assets was \$12,884,120.92 and \$4,532,277.22, and the related accumulated amortization was \$1,465,512.57 and \$1,900,542.36, respectively.

**Note 7 - Accounts Payable and Accrued Liabilities**

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

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>
<b>Accounts Payable and Accrued Liabilities</b>		
Accounts Payable	\$ 3,066,608.57	\$ 52,170,970.20
Accrued Payroll	680,977.89	115,635.08
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 3,747,586.46</u>	<u>\$ 52,286,605.28</u>

**Note 8 - Long-Term Liabilities**

A summary of changes in the long-term liabilities for the year ended June 30, 2023, is presented as follows:

	Balance July 1, 2022 (as Restated)	Additions	Reductions	Balance June 30, 2023	Current Portion
Long-Term Debt					
Notes from Direct Borrowings	\$ 73,238.92	\$ -	\$ 73,238.92	\$ -	\$ -
Other Long-Term Liabilities					
Lease Liabilities	1,247,945.01	11,636,175.91	-	12,884,120.92	764,085.75
Subscription (SBITA) Liabilities	4,532,277.22	-	1,707,059.63	2,825,217.59	1,614,876.85
Employee Benefits					
Compensated Absences	5,303,105.83	3,250,650.90	3,242,809.48	5,310,947.25	166,832.30
Net Pension Liability	5,549,819.00	13,274,591.00	-	18,824,410.00	-
Net Other Postemployment Benefits Liability	56,506,304.00	56,358.00	11,636,039.00	44,926,623.00	-
Workers' Compensation	473,333.39	10,800.00	143,238.44	340,894.95	74,924.23
Total Other Long-Term Liabilities	<u>73,612,784.45</u>	<u>28,228,575.81</u>	<u>16,729,146.55</u>	<u>85,112,213.71</u>	<u>2,620,719.13</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 73,686,023.37</u>	<u>\$ 28,228,575.81</u>	<u>\$ 16,802,385.47</u>	<u>\$ 85,112,213.71</u>	<u>\$ 2,620,719.13</u>

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

Additional information regarding the net pension liability is included in Note 12.

Additional information regarding the net other postemployment benefits liability is included in Note 13.

Additional information regarding workers' compensation is included in Note 14.

**Note 9 - Leases and Subscription-Based Information Technology Arrangements**

**A. Lessor Arrangements** - The UNC System Office's leases buildings to external and related parties. The leases expire at various dates, and some have renewal options. Lease receivables and related deferred inflows of resources are recorded based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate stated per the lease contract, or the UNC System Office's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the UNC System Office did not recognize any variable payment amounts.

## Notes to the Financial Statements

During the year ended June 30, 2023, the UNC System Office recognized operating revenues related to lessor arrangements totaling \$57,278.31, and nonoperating lease interest income totaling \$341,501.59.

The UNC System Office's lessor arrangements at June 30, 2023, are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Receivable June 30, 2023	Current Portion	Lease Terms <sup>(1)</sup>	Interest Rates
Lessor:					
Buildings	2	\$1,987,853.41	\$ 376,429.32	99 and 29 years	9.5% & 5.25%

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

**B. Lessee Arrangements** - The UNC System Office has lease agreements for the right to use land, office space, and space on towers from external parties. The leases expire at various dates, and some have renewal options. Lease liabilities and right-to-use leased assets are recorded based on the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. The expected payments are discounted using the interest rate stated per the lease contract, or the UNC System Office's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the UNC System Office did not recognize any variable payment amounts.

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

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2023	Current Portion	Lease Terms <sup>(1)</sup>	Interest Rate
Lessee:					
Right-to-Use Leased Land	1	\$ 267,111.15	\$ -	28 years	5.25%
Right-to-Use Leased Buildings	1	11,636,175.91	764,085.75	9 years	5.25%
Right-to-Use Leased General Infrastructure	2	980,833.86	-	29 & 49 years	5.25%
<b>Total</b>	<b>4</b>	<b>\$12,884,120.92</b>	<b>\$764,085.75</b>		

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

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

During the year the UNC System Office did not recognize any variable payment amounts.



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

SBITA	Number of SBITAs	Subscription (SBITA) Liabilities June 30, 2023	Current Portion	SBITA Terms and Conditions	Interest Rate
Right-to-Use Subscription Assets	5	\$ 2,825,217.59	\$ 1,614,876.85	2-9 years	9.76%

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

Fiscal Year	Annual Requirements			
	Lease Liabilities		Subscription (SBITA) Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 764,085.75	\$ 1,211,395.38	\$ 1,614,876.85	\$ 250,265.10
2025	1,104,367.90	1,109,512.92	959,589.09	103,933.27
2026	1,288,150.96	990,162.95	28,584.27	25,161.24
2027	1,498,892.72	851,207.73	33,127.83	22,230.05
2028	1,729,378.45	690,484.80	38,183.99	18,834.63
2029-2033	5,339,859.90	1,013,333.69	150,855.56	30,670.52
2034-2038	157,508.74	288,327.69	-	-
2039-2043	272,981.08	233,292.69	-	-
2044-2048	432,918.12	142,530.88	-	-
2049-2053	152,834.94	45,726.79	-	-
2054-2058	24,604.76	35,271.49	-	-
2059-2063	37,350.59	27,555.26	-	-
2064-2068	54,280.54	16,077.42	-	-
2069-2073	26,906.47	2,136.95	-	-
<b>Total Requirements</b>	<b>\$ 12,884,120.92</b>	<b>\$ 6,657,016.64</b>	<b>\$ 2,825,217.59</b>	<b>\$ 451,094.81</b>

**Note 10 - Net Position**

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

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (5,730,948.00)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(51,838,242.00)</u>
Effect on Unrestricted Net Position	(57,569,190.00)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>53,953,625.03</u>
<b>Total Unrestricted Net Position</b>	<b><u><u>\$ (3,615,564.97)</u></u></b>

See Notes 12 and 13 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 - Operating Expenses by Function**

The UNC System Office's operating expenses by functional classification are presented as follows:

	<u>Salaries and Benefits</u>	<u>Supplies and Services</u>	<u>Utilities</u>	<u>Depreciation/ Amortization</u>	<u>Total</u>
Public Service	\$ 14,311,619.95	\$ 24,468,157.18	\$ 1,519,147.15	\$ -	\$ 40,298,924.28
Institutional Support	29,629,976.41	15,610,541.85	292,078.63	-	45,532,596.89
Operations and Maintenance of Plant	-	770,704.60	-	-	770,704.60
Depreciation/Amortization	-	-	-	8,059,674.44	8,059,674.44
<b>Total Operating Expenses</b>	<b><u><u>\$ 43,941,596.36</u></u></b>	<b><u><u>\$ 40,849,403.63</u></u></b>	<b><u><u>\$ 1,811,225.78</u></u></b>	<b><u><u>\$ 8,059,674.44</u></u></b>	<b><u><u>\$ 94,661,900.21</u></u></b>

**Note 12 - Pension Plans**

**A. Defined Benefit Plan**

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

employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

**Contributions:** Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The UNC System Office's contractually-required contribution rate for the year ended June 30, 2023 was 17.38% of covered payroll. Plan members' contributions to the pension plan were \$1,368,436.87, and the UNC System Office's contributions were \$3,963,905.46 for the year ended June 30, 2023.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2022 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

**TSERS Basis of Accounting:** The financial statements of the TSERS plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about

the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investment:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2022 *Annual Comprehensive Financial Report*.

*Net Pension Liability:* At June 30, 2023, the UNC System Office reported a liability of \$18,824,410.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. The UNC System Office's proportion of the net pension liability was based on a projection of the present value of future salaries for the UNC System Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the UNC System Office's proportion was 0.12683%, which was an increase of 0.00831 from its proportion measured as of June 30, 2021, which was 0.11852%.

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

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

\* Salary increases include 3.25% inflation and productivity factor.

\*\* Investment rate of return includes inflation assumption and is 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, 2021 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (the measurement date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2022 is 0.78%.

*Discount Rate:* The discount rate used to measure the total pension liability was 6.5% for the December 31, 2021 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan at June 30, 2022 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a

discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

<b>Net Pension Liability</b>		
<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
\$ 33,282,517.00	\$ 18,824,410.00	\$ 6,890,400.00

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2023, the UNC System Office recognized pension expense of \$4,639,132.00. At June 30, 2023, the UNC System Office 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:**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 81,963.00	\$ 256,580.00
Changes of Assumptions	1,485,174.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	6,182,691.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,636,309.00	-
Contributions Subsequent to the Measurement Date	<u>3,963,905.00</u>	<u>-</u>
<b>Total</b>	<u>\$ 13,350,042.00</u>	<u>\$ 256,580.00</u>

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

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2024	\$ 2,793,901.00
2025	2,487,759.00
2026	884,089.00
2027	<u>2,963,808.00</u>
<b>Total</b>	<u>\$ 9,129,557.00</u>

**B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the UNC System Office 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 UNC System Office's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the UNC System Office contributes 6.84%. For the current fiscal year, the UNC System Office had a total payroll of \$36,667,816.73, of which \$12,575,204.99 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$754,512.30 and \$860,144.02, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. The UNC System Office had forfeitures reflected in pension expense for the current fiscal year of \$77,195.67.

### Note 13 - Other Postemployment Benefits

The UNC System Office participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2022 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

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

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

*Methods Used to Value Plan Investments:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-Term Investment Portfolio of the

External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the *2022 Annual Comprehensive Financial Report*.

### **B. Plan Descriptions**

#### **1. Health Benefits**

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

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

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

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and



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

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

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Act. The UNC System Office's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The UNC System Office's contributions to the RHBF were \$2,437,853.29 for the year ended June 30, 2023.

In fiscal year 2021, the Plan transferred \$187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2023, the UNC System Office recognized noncapital contributions for RHBF of \$341,066.00.

## 2. Disability Income

*Plan Administration:* As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System,

community colleges, certain participating component units and LEAs which are not part of the State's reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable

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

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

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The UNC System Office's contractually-required contribution rate for the year ended June 30, 2023 was 0.10% of covered payroll. The UNC System Office's contributions to DIPNC were \$35,382.49 for the year ended June 30, 2023.

### C. Net OPEB Liability

*Retiree Health Benefit Fund:* At June 30, 2023, the UNC System Office reported a liability of \$44,870,265.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The UNC System Office's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the UNC System Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the UNC System Office's proportion was 0.18895%, which was an increase of 0.00617 from its proportion measured as of June 30, 2021, which was 0.18278%.

*Disability Income Plan of North Carolina:* At June 30, 2023, the UNC System Office reported a liability of \$56,358.00 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The UNC System Office's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the UNC System Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the UNC System Office's proportion was 0.18945%, which was an increase of 0.00483 from its proportion measured as of June 30, 2021, which was 0.18462%.

*Actuarial Assumptions:* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

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

\* Salary increases include 3.25% inflation and productivity factor.

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

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

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

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

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

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2022 is 0.78%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described above, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

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

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.54% at June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan’s fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

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

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

	Net OPEB Liability		
	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF	\$ 52,852,001.00	\$ 44,870,265.00	\$ 38,351,352.00
	1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC	\$ 69,398.00	\$ 56,358.00	\$ 43,285.00

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

<b>Net OPEB Liability</b>		
1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBFBF	\$ 36,935,406.00	\$ 44,870,265.00
		\$ 55,127,204.00

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

**OPEB Expense:** For the fiscal year ended June 30, 2023, the UNC System Office recognized OPEB expense as follows:

OPEB Plan	Amount
RHBFBF	\$ (4,296,244.00)
DIPNC	79,276.00
<b>Total OPEB Expense</b>	<b>\$ (4,216,968.00)</b>

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

<b>Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:</b>			
	RHBFBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 435,631.00	\$ 63,172.00	\$ 498,803.00
Changes of Assumptions	3,592,448.00	3,622.00	3,596,070.00
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	388,557.00	59,609.00	448,166.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	7,310,537.00	12,668.00	7,323,205.00
Contributions Subsequent to the Measurement Date	2,437,853.00	35,382.00	2,473,235.00
<b>Total</b>	<b>\$ 14,165,026.00</b>	<b>\$ 174,453.00</b>	<b>\$ 14,339,479.00</b>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 124,161.00	\$ -	\$ 124,161.00
Changes of Assumptions	20,421,514.00	10,441.00	20,431,955.00
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>670,292.00</u>	<u>24,690.00</u>	<u>694,982.00</u>
<b>Total</b>	<u>\$ 21,215,967.00</u>	<u>\$ 35,131.00</u>	<u>\$ 21,251,098.00</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities related to RHBF and DIPNC in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2024	\$ (4,349,919.00)	\$ 28,913.00
2025	(1,728,407.00)	33,015.00
2026	(2,421,482.00)	21,767.00
2027	(988,985.00)	16,313.00
2028	(1.00)	1,640.00
Thereafter	<u>-</u>	<u>2,292.00</u>
<b>Total</b>	<u>\$ (9,488,794.00)</u>	<u>\$ 103,940.00</u>

**Note 14 - Risk Management**

The UNC System Office 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

UNC System Office 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 13, 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 UNC System Office 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 UNC System Office 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 13, 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 UNC System Office 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 UNC System Office 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 UNC System Office. 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.

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 UNC System Office 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 UNC System Office pays the premium, based on a composite rate, directly to the private insurer.

**3. Employee Dishonesty and Computer Fraud**

The UNC System Office 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 UNC System Office's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The UNC System Office is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The UNC System Office retains the risk for workers' compensation.

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

**5. Other Insurance Held by the UNC System Office**

The UNC System Office purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These purchased coverages include: boiler, auto comprehensive and collision, leased computer equipment, and fine art.

**Note 15 - Commitments and Contingencies**

**A. Commitments** - The UNC System Office has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$837,849.33 at June 30, 2023.

**B. Pending Litigation and Claims** - The UNC System Office 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. UNC System Office 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 UNC System Office.

**Note 16 - Blended Component Unit**

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

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

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Eliminations	Total
<b>ASSETS</b>				
Current Assets	\$ 234,990,294.34	\$ 15,634,062.81	\$ (2,777,083.67)	\$ 247,847,273.48
Capital Assets, Net	57,581,071.62	10,261,075.82	-	67,842,147.44
Other Noncurrent Assets	131,338,746.70	8,288,730.34	(7,420,084.73)	132,207,392.31
Total Assets	423,910,112.66	34,183,868.97	(10,197,168.40)	447,896,813.23
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	27,689,521.00	-	-	27,689,521.00
<b>LIABILITIES</b>				
Current Liabilities	15,172,485.98	1,024,942.57	-	16,197,428.55
Long-Term Liabilities	71,619,404.42	10,872,090.16	-	82,491,494.58
Total Liabilities	86,791,890.40	11,897,032.73	-	98,688,923.13
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	173,188,620.93	19,239,786.62	(9,829,140.04)	182,599,267.51
<b>NET POSITION</b>				
Net Investment in Capital Assets	53,503,505.05	(1,550,945.87)	-	51,952,559.18
Restricted - Nonexpendable	14,638,603.89	-	-	14,638,603.89
Restricted - Expendable	127,092,578.36	4,597,995.49	(368,028.36)	131,322,545.49
Unrestricted	(3,615,564.97)	-	-	(3,615,564.97)
Total Net Position	\$ 191,619,122.33	\$ 3,047,049.62	\$ (368,028.36)	\$ 194,298,143.59

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

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Sales and Services	\$ 9,698,512.94	\$ 4,986,042.35	\$ (368,028.36)	\$ 14,316,526.93
Other	297,937.17	-	-	297,937.17
Total Operating Revenues	9,996,450.11	4,986,042.35	(368,028.36)	14,614,464.10
<b>OPERATING EXPENSES</b>				
Operating Expenses	85,860,520.90	741,704.87	-	86,602,225.77
Depreciation/Amortization	6,676,768.18	1,382,906.26	-	8,059,674.44
Total Operating Expenses	92,537,289.08	2,124,611.13	-	94,661,900.21
Operating Income (Loss)	(82,540,838.97)	2,861,431.22	(368,028.36)	(80,047,436.11)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Appropriations	475,709,696.39	-	-	475,709,696.39
State Aid - Coronavirus	59,082,261.00	-	-	59,082,261.00
Noncapital Contributions	78,816,572.40	460,020.00	-	79,276,592.40
Investment Income, Net	3,808,031.13	77.42	-	3,808,108.55
Grants, Aid, and Subsidies	(531,675,682.04)	(742,817.71)	-	(532,418,499.75)
Other Nonoperating Expenses	(563,277.26)	(1,203,085.80)	-	(1,766,363.06)
Net Nonoperating Revenues (Expenses)	85,177,601.62	(1,485,806.09)	-	83,691,795.53
Capital Contributions	7,721,500.00	-	-	7,721,500.00
Additions to Endowments	15,413.00	-	-	15,413.00
Total Other Revenues	7,736,913.00	-	-	7,736,913.00
Increase in Net Position	10,373,675.65	1,375,625.13	(368,028.36)	11,381,272.42
<b>NET POSITION</b>				
Net Position, July 1, 2022	181,245,446.68	1,671,424.49	-	182,916,871.17
Net Position, June 30, 2023	\$ 191,619,122.33	\$ 3,047,049.62	\$ (368,028.36)	\$ 194,298,143.59

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

	The University of North Carolina System Office	The University of North Carolina Foundation, Inc.	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	\$ (78,924,319.43)	\$ 210,536.89	\$ 2,812,500.00	\$ (75,901,282.54)
Net Cash Provided (Used) by Noncapital Financing Activities	126,552,574.56	(288,165.44)	-	126,264,409.12
Net Cash Provided (Used) by Capital Financing and Related Financing Activities	2,326,608.15	10,277,453.81	(2,812,500.00)	9,791,561.96
Net Cash Provided by Investing Activities	2,818,337.53	77.42	-	2,818,414.95
Net Increase in Cash and Cash Equivalents	52,773,200.81	10,199,902.68	-	62,973,103.49
Cash and Cash Equivalents, July 1, 2022	177,308,894.81	1,761,072.48	-	179,069,967.29
Cash and Cash Equivalents, June 30, 2023	\$ 230,082,095.62	\$ 11,960,975.16	\$ -	\$ 242,043,070.78

**Note 17 - Changes in Financial Accounting and Reporting**

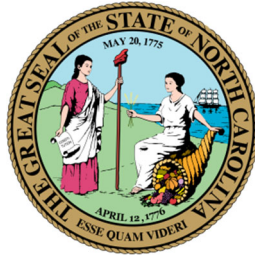
For the fiscal year ended June 30, 2023, the UNC System Office implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

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

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

**Note 18 - Net Position Restatements**

As of July 1, 2022, the UNC System Office implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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 subscription (SBITA) liabilities, respectively.



# Required Supplementary Information

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

**Exhibit C-1**

<b>Teachers' and State Employees' Retirement System</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Proportionate Share Percentage of Collective Net Pension Liability	0.12683%	0.11852%	0.10453%	0.10115%	0.10955%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 18,824,410.00	\$ 5,549,819.00	\$ 12,629,311.00	\$ 10,486,177.00	\$ 10,906,895.00
Covered Payroll	\$ 21,172,353.17	\$ 20,701,768.82	\$ 18,651,921.68	\$ 17,398,953.00	\$ 19,074,221.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	88.91%	26.81%	67.71%	60.27%	57.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.14%	94.86%	85.98%	87.56%	87.61%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Proportionate Share Percentage of Collective Net Pension Liability	0.11898%	0.12384%	0.11855%	0.12394%	0.12468
Proportionate Share of TSERS Collective Net Pension Liability	\$ 9,440,398.00	\$ 11,382,175.00	\$ 4,368,986.00	\$ 1,453,102.00	\$ 7,569,190.00
Covered Payroll	\$ 21,022,422.00	\$ 19,582,919.00	\$ 19,305,120.00	\$ 19,638,164.00	\$ 19,499,999.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	44.91%	58.12%	22.63%	7.40%	38.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

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

**Exhibit C-2**

<b>Teachers' and State Employees' Retirement System</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Contractually Required Contribution	\$ 3,963,905.46	\$ 3,468,031.45	\$ 3,059,721.43	\$ 2,419,154.24	\$ 2,138,331.34
Contributions in Relation to the Contractually Determined Contribution	3,963,905.46	3,468,031.45	3,059,721.43	2,419,154.24	2,138,331.34
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 22,807,281.14	\$ 21,172,353.17	\$ 20,701,768.82	\$ 18,651,921.68	\$ 17,398,953.00
Contributions as a Percentage of Covered Payroll	17.38%	16.38%	14.78%	12.97%	12.29%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 2,056,201.02	\$ 2,098,037.72	\$ 1,791,837.09	\$ 1,766,418.48	\$ 1,706,556.45
Contributions in Relation to the Contractually Determined Contribution	2,056,201.02	2,098,037.72	1,791,837.09	1,766,418.48	1,706,556.45
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 19,074,221.00	\$ 21,022,422.00	\$ 19,582,919.00	\$ 19,305,120.00	\$ 19,638,164.00
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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



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

*Changes of Benefit Terms:*

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

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

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

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

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

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

*Methods and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of UNC System Office 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 12 for more information on the specific assumptions for the plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* In January 2021, the actuarial assumptions for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of the TSERS actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

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

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

N/A - Not Applicable

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

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

<b>Retiree Health Benefit Fund</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Proportionate Share Percentage of Collective Net OPEB Liability	0.18895%	0.18278%	0.16589%	0.15966%	0.15767%
Proportionate Share of Collective Net OPEB Liability	\$ 44,870,265.00	\$ 56,506,304.00	\$ 46,018,292.00	\$ 50,516,020.00	\$ 44,915,965.00
Covered Payroll	\$ 35,410,157.78	\$ 32,838,676.02	\$ 31,178,952.48	\$ 28,953,864.00	\$ 30,934,718.00
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	126.72%	172.07%	147.59%	174.47%	145.20%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	10.58%	7.72%	6.92%	4.40%	4.40%
	<b>2018</b>	<b>2017</b>			
Proportionate Share Percentage of Collective Net OPEB Liability	0.16703%	0.17553%			
Proportionate Share of Collective Net OPEB Liability	\$ 54,765,104.00	\$ 76,361,516.00			
Covered Payroll	\$ 31,691,990.00	\$ 28,657,706.00			
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	172.80%	266.46%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%			

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

**Exhibit C-3**  
**Page 2 of 2**

Disability Income Plan of North Carolina	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.18945%	0.18462%	0.17688%	0.15208%	0.16352%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ 56,358.00	\$ (30,156.00)	\$ (87,014.00)	\$ (65,623.00)	\$ (49,671.00)
Covered Payroll	\$ 35,410,157.78	\$ 32,838,676.02	\$ 31,178,952.48	\$ 28,953,864.00	\$ 30,934,718.00
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.16%	0.09%	0.28%	0.23%	0.16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%
	<u>2018</u>	<u>2017</u>			
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.17636%	0.16638%			
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (107,791.00)	\$ (103,322.00)			
Covered Payroll	\$ 31,691,990.00	\$ 28,657,706.00			
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.34%	0.36%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.23%	116.06%			

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

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

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

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

<b>Retiree Health Benefit Fund</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Contractually Required Contribution	\$ 2,437,853.29	\$ 2,227,298.92	\$ 2,193,623.56	\$ 2,017,278.23	\$ 1,815,407.29
Contributions in Relation to the Contractually Determined Contribution	<u>2,437,853.29</u>	<u>2,227,298.92</u>	<u>2,193,623.56</u>	<u>2,017,278.23</u>	<u>1,815,407.29</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 35,382,486.13	\$ 35,410,157.78	\$ 32,838,676.02	\$ 31,178,952.48	\$ 28,953,864.00
Contributions as a Percentage of Covered Payroll	6.89%	6.29%	6.68%	6.47%	6.27%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 1,871,550.44	\$ 1,841,304.62	\$ 1,604,831.54	\$ 1,484,191.03	\$ 1,414,713.01
Contributions in Relation to the Contractually Determined Contribution	<u>1,871,550.44</u>	<u>1,841,304.62</u>	<u>1,604,831.54</u>	<u>1,484,191.03</u>	<u>1,414,713.01</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 30,934,718.00	\$ 31,691,990.00	\$ 28,657,706.00	\$ 27,034,445.00	\$ 26,198,389.00
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

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

**Exhibit C-4  
Page 2 of 2**

<b>Disability Income Plan of North Carolina</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Contractually Required Contribution	\$ 35,382.49	\$ 31,869.14	\$ 29,554.81	\$ 31,178.95	\$ 40,535.41
Contributions in Relation to the Contractually Determined Contribution	<u>35,382.49</u>	<u>31,869.14</u>	<u>29,554.81</u>	<u>31,178.95</u>	<u>40,535.41</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 35,382,486.13	\$ 35,410,157.78	\$ 32,838,676.02	\$ 31,178,952.48	\$ 28,953,864.00
Contributions as a Percentage of Covered Payroll	0.10%	0.09%	0.09%	0.10%	0.14%
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 43,308.61	\$ 120,429.56	\$ 117,496.59	\$ 110,841.22	\$ 115,272.91
Contributions in Relation to the Contractually Determined Contribution	<u>43,308.61</u>	<u>120,429.56</u>	<u>117,496.59</u>	<u>110,841.22</u>	<u>115,272.91</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 30,934,718.00	\$ 31,691,990.00	\$ 28,657,706.00	\$ 27,034,445.00	\$ 26,198,389.00
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

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

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

---

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

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

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

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

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

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

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

*Method and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of UNC System Office 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 UNC System Office 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 13 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

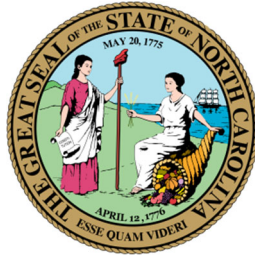
*Changes of Assumptions:* Consistent with prior years, for the actuarial valuation measured as of June 30, 2022 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.54%, from 2.16% as of June 30, 2021. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next five years. The terms of the Pharmacy Benefits Management contract effective January 1, 2023 were incorporated in the valuation.

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

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS and the Committee on Actuarial Valuation of Retired Employees' Health Benefits adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the TSERS actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

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



# Independent Auditor's Report



## North Carolina Office of the State Auditor

Jessica N. Holmes, State Auditor

[www.auditor.nc.gov](http://www.auditor.nc.gov)

### Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other matters based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

---

Board of Governors  
University of North Carolina System  
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of The University of North Carolina System Office (UNC System Office), the administrative body of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the UNC System Office's basic financial statements, and have issued our report thereon dated March 18, 2024.

As discussed in Note 1 to the financial statements, the financial statements of The University of North Carolina System Office are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of The University of North Carolina System Office. They do not purport to, and do not, present fairly the financial position of the University of North Carolina System as of June 30, 2023, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the UNC System Office'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 UNC System Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the UNC System Office'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 UNC System Office's financial statements will not be prevented, or detected and corrected on a timely basis.



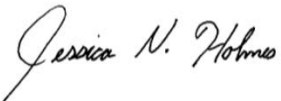
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in 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 UNC System Office'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 UNC System Office'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 UNC System Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jessica N. Holmes  
State Auditor

Raleigh, North Carolina

March 18, 2024

# Ordering Information

---

Copies of this report may be obtained by contacting:

Office of the State Auditor  
State of North Carolina  
20601 Mail Service Center  
Raleigh, North Carolina 27699

Telephone: 919-807-7500  
Fax: 919-807-7647  
Internet: [www.auditor.nc.gov](http://www.auditor.nc.gov)



To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor's Tipline:

**Telephone:** 1-800-730-8477

**Internet:** [www.auditor.nc.gov/about-us/state-auditors-tipline](http://www.auditor.nc.gov/about-us/state-auditors-tipline)

For additional information contact the North Carolina Office of the State Auditor at:

**919-807-7666**



---

This audit required 520 hours at an approximate cost of \$70,720.