

STATE OF NORTH CAROLINA

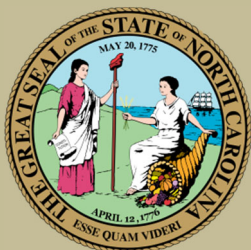
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE

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

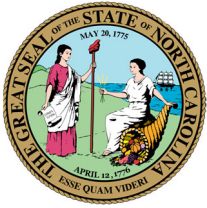
A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699
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AUDITOR'S TRANSMITTAL

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

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

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

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

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

Beth A. Wood, CPA
State Auditor

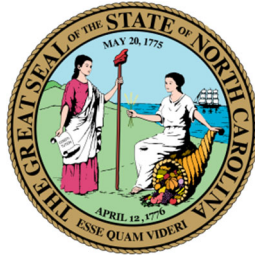


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

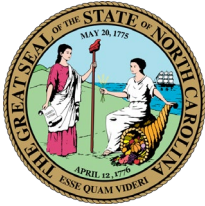
	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
BUSINESS-TYPE ACTIVITIES:	
A-1 STATEMENT OF NET POSITION	16
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	18
A-3 STATEMENT OF CASH FLOWS	19
FIDUCIARY ACTIVITIES:	
B-1 STATEMENT OF FIDUCIARY NET POSITION	21
B-2 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	22
DISCRETELY PRESENTED COMPONENT UNIT:	
C-1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION	23
C-2 CONSOLIDATED STATEMENT OF ACTIVITIES	24
NOTES TO THE FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION	
D-1 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	69
D-2 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	70
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN)	71
D-3 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY OR ASSET (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	72
D-4 SCHEDULE OF UNIVERSITY CONTRIBUTIONS (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	74
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS)	76
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>	77
ORDERING INFORMATION	79

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



INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Charlotte
Charlotte, 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 at Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of The University of North Carolina at Charlotte, and its discretely presented component unit, 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.

We did not audit the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc., which represent 4.89 percent and 0.34 percent, respectively, of the assets and revenues of the University's business-type activities, and 100 percent of the assets and revenues of the University's fiduciary activities; nor the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

Basis for Opinions

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

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

Responsibilities of Management for the Financial Statements

The University's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

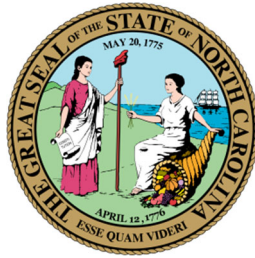
In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 8, 2023



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Charlotte (UNC Charlotte or University) provides the following discussion and analysis as an overview of the University's financial position and activities for the year ended June 30, 2023, and to provide assistance in understanding the accompanying financial statements and notes. Comparative information for the year ended June 30, 2022 is included, emphasizing current year data and material changes between the two fiscal years, as well as information on currently known facts, decisions, and conditions affecting the financial affairs of the University.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic proprietary fund financial statements. Funds held in a fiduciary capacity are reported in separate fiduciary statements.

UNC Charlotte is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*. Note that while The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation) is reported as a discretely presented component unit of the University due to the nature and significance of its relationship to the University, this discussion and analysis excludes it except where specifically noted. For more details on the University's component units, see Note 1 to the Financial Statements.

The University's financial report includes three UNC Charlotte Proprietary Fund financial statements to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows (identifies sources and uses of cash during the fiscal year)

The report includes two financial statements for the Fiduciary Fund, per GASB Statement No. 84, *Fiduciary Activities*:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

The Statement of Fiduciary Net Position includes assets, liabilities, and net position for external pool participants in the University's External Investment Fund that are held in a custodial capacity. The Statement of Changes in Fiduciary Net Position reports the additions and deductions to these custodial funds during the period. See Note 1J for additional information regarding the University's fiduciary activities.

The report also includes two financial statements from the University's Foundation:

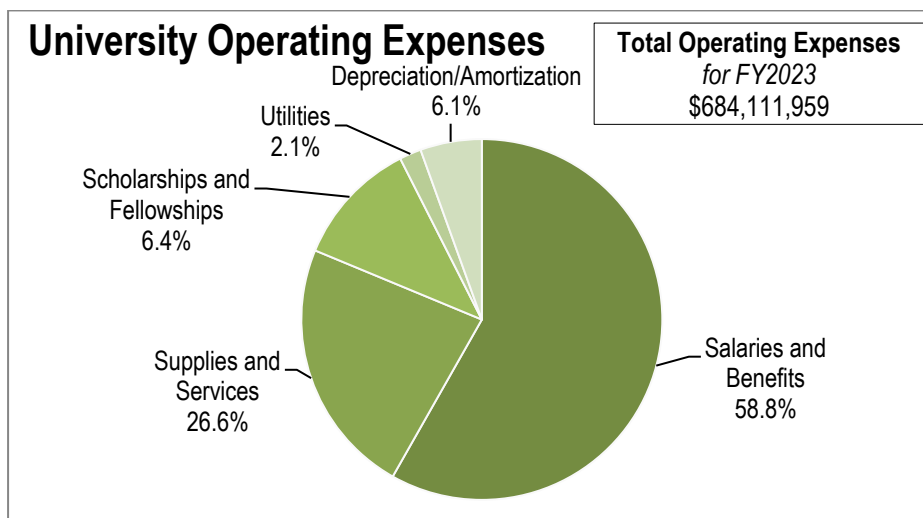
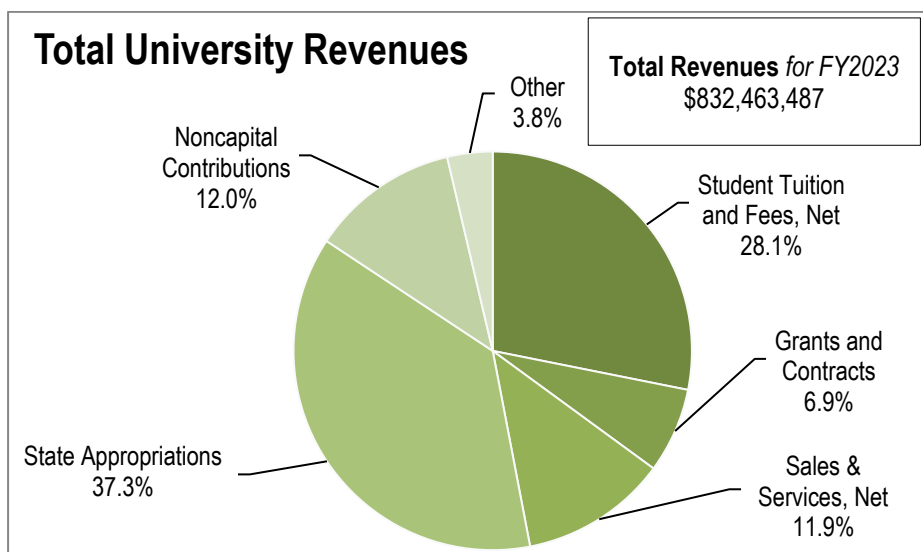
- Consolidated Statement of Financial Position
- Consolidated Statement of Activities

Management's discussion and analysis will concentrate on the University's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position as condensed comparative financial information is not required for fiduciary activities.

The accompanying Notes to the Financial Statements should be read in conjunction with the financial statements to ascertain a full understanding of the data presented in this report. These disclosures provide information to better understand details, risk, and underlying assumptions associated with amounts reported in the financial statements.

Financial Highlights

The University's total assets increased this fiscal year by 2.5%, or \$55.6 million, to \$2.3 billion at June 30, 2023. Net position increased by 13.2%, or \$127.8 million, to \$1.1 billion, reflecting general financial strength. The change in net position is a key measure of the sum effect of the University's fiscal year activities on its financial health. The University recognized \$832.5 million in revenues and incurred \$684.1 million in operating expenses. Revenues and operating expenses as percentages of totals are shown below.

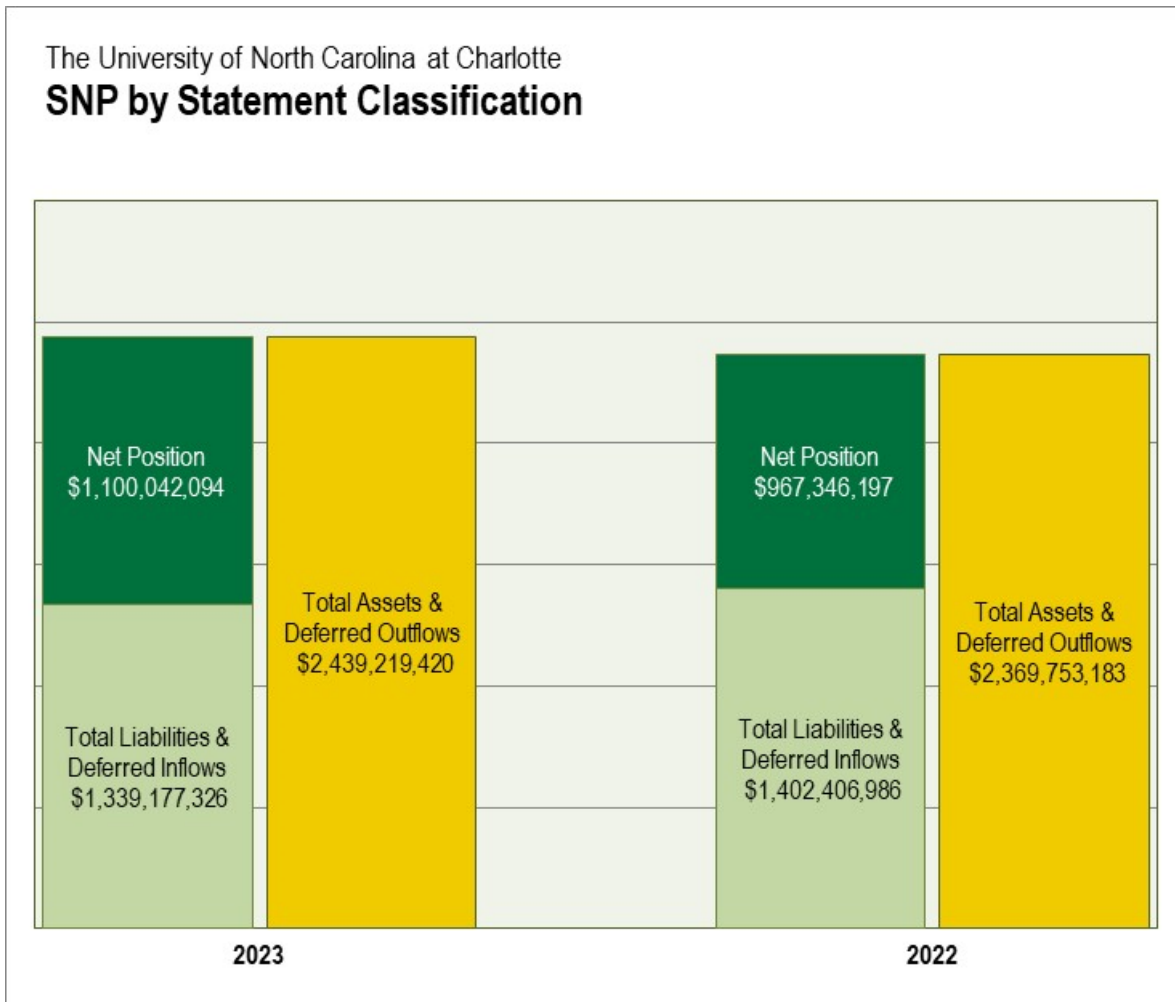


Comparative Condensed Financial Statement Information

Statement of Net Position

The Statement of Net Position (SNP) summarizes the financial position of the University by presenting its assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the fiscal year. The SNP is a point-in-time financial statement and presents a fiscal snapshot of the University.

The following graph presents a comparison of net position and the categories that comprise net position at June 30, 2023 and June 30, 2022:



The SNP presents a summary of all assets available to continue the operations of the University. The statement also presents a summary of all liabilities, or amounts owed to vendors, investors, and lending institutions. Deferred outflows and inflows of resources represent the consumption or acquisition of net position, respectively, that are applicable to future periods but do not meet the definition of assets or liabilities. Finally, the SNP presents a summary of the net position, which represents the residual interest in the University's assets and deferred outflows of resources, net of its liabilities and deferred inflows of resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes and compares condensed balances as reported on the University's SNP as of June 30, 2023 and June 30, 2022. The 2022 amounts presented in the following condensed SNP have not been restated for the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. See Notes 6 and 8 for details on the restated balances related to capital assets and subscription liabilities, respectively.

Condensed Statement of Net Position - Proprietary Fund	2023	2022	Change	
			Amount	Percent
Assets:				
Current Assets	\$ 510,180,073	\$ 497,661,963	\$ 12,518,110	2.5%
Noncurrent Assets:				
Endowment and Other Investments	201,166,533	198,309,279	2,857,254	1.4%
Capital Assets, Net	1,529,524,182	1,487,478,661	42,045,521	2.8%
Other Noncurrent Assets	41,396,259	43,203,829	(1,807,570)	-4.2%
Total Assets	2,282,267,047	2,226,653,732	55,613,315	2.5%
Deferred Outflows of Resources:				
Deferred Loss on Refunding	13,463,343	14,299,365	(836,022)	-5.8%
Deferred Outflows Related to Pensions & OPEB	143,489,030	128,800,086	14,688,944	11.4%
Total Deferred Outflows of Resources	156,952,373	143,099,451	13,852,922	9.7%
Liabilities:				
Current Liabilities	64,196,912	55,019,546	9,177,366	16.7%
Noncurrent Liabilities:				
Long-Term Liabilities, Net	1,079,855,287	1,156,728,382	(76,873,095)	-6.6%
Other Noncurrent Liabilities	11,577,807	11,945,587	(367,780)	-3.1%
Total Liabilities	1,155,630,006	1,223,693,515	(68,063,509)	-5.6%
Deferred Inflows of Resources:				
Deferred Gain on Refunding	22,488	23,962	(1,474)	-6.2%
Deferred Inflows Related to Pensions & OPEB	182,446,077	177,365,159	5,080,918	2.9%
Deferred Inflows for Leases	1,078,755	1,324,350	(245,595)	-18.5%
Total Deferred Inflows of Resources	183,547,320	178,713,471	4,833,849	2.7%
Net Position:				
Net Investment in Capital Assets	979,479,670	953,514,069	25,965,601	2.7%
Restricted:				
Nonexpendable	52,812,844	51,118,167	1,694,677	3.3%
Expendable	98,374,822	91,894,745	6,480,077	7.1%
Unrestricted	(30,625,242)	(129,180,784)	98,555,542	76.3%
Total Net Position Before Restatement	1,100,042,094	967,346,197	132,695,897	13.7%
Restatement	-	4,846,741	(4,846,741)	
Total Net Position	\$ 1,100,042,094	\$ 972,192,938	\$ 127,849,156	13.2%

Net position increased to \$1.1 billion as of June 30, 2023, reflecting the general financial strength of the University. The University's liquidity remains strong with a current ratio of 7.9. This current ratio, defined as current assets divided by current liabilities, indicates that the University, if needed, could satisfy payment of nearly eight times its current liabilities before current assets were exhausted. Total working capital (current assets less current liabilities) increased by \$3.3 million, or 0.8%, to \$446.0 million at June 30, 2023, due to the larger increase in current assets relative to current liabilities, both discussed below. Other highlights of the information presented on the SNP:

- Total assets increased by \$55.6 million, or 2.5%, to \$2.3 billion at June 30, 2023.
 - Current assets are those that are available to pay for current liabilities or current year expenditures. Current assets increased by \$12.5 million in fiscal year 2023, or 2.5%, primarily due to an increase in current cash. This increase was a result of an increase in current unrestricted cash of \$27.6 million, primarily due to an increase in institutional trust funds for future planned projects, offset by a decrease in current restricted cash of \$18.8 million, primarily related to bond proceeds spent during the year on the Residence Hall Phase XVI project. Receivables increased by \$4.8 million, mainly due to growth in federal and private awards.
 - Noncurrent assets increased \$43.1 million during the fiscal year primarily driven by an increase in construction in progress due to the Residence Hall Phase XVI project and Student Union dining hall renovations in progress.
- Total deferred outflows of resources increased by \$13.9 million during the fiscal year. This change is mainly due to the net effect of changes to pension and other postemployment benefits (OPEB) balances. The deferred outflow measures fluctuate each year due to changes in pension and OPEB liability/asset assumptions and calculation inputs, such as differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets.
- Total liabilities decreased by \$68.1 million, or 5.6%, to \$1.2 billion at June 30, 2023 mainly due to the net effect of changes to pension and OPEB balances. See Pension and Other Postemployment Benefits (OPEB) section for further details.
- Total deferred inflows of resources increased by \$4.8 million during the fiscal year, mainly attributable to OPEB and pensions. As with the deferred outflows of resources related to pensions and OPEB, the related deferred inflow measures fluctuate each year due to changes in net OPEB liability/asset assumptions and calculation inputs, such as changes in the discount rate, differences between projected and actual investment earnings, and changes in the University's proportion of the liabilities/assets.
- Net Position is divided into three major categories:
 - Net investment in capital assets: Represents the University's net equity in property, plant, equipment and right-to-use assets owned by the University, which increased by \$26.0 million this fiscal year. Reference the Capital Assets and Debt Administration section for further details.
 - Restricted Net Position
 - Nonexpendable: The corpus of nonexpendable restricted resources (e.g., endowments) that are available for investment purposes. The University's nonexpendable net position did not materially change in fiscal year 2023.
 - Expendable: Restricted resources that must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets. The University's expendable net position did not materially change in fiscal year 2023.

- Unrestricted Net Position: Represents net equity available for any lawful purpose of the University. The University's unrestricted net position increased by \$98.6 million this fiscal year due to the increase in current assets, specifically a \$27.6 million increase in unrestricted cash, and the \$63.6 million decrease in the negative effect of pension and OPEB plan balances on unrestricted net position as discussed below.

Pension and Other Postemployment Benefits (OPEB)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended*, along with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which were effective beginning with fiscal years 2015 and 2018, respectively, have a material effect on the University's reported unrestricted net position. To aid in understanding the continuing impact of GASB Statement Nos. 68 and 75 on available resources, see Note 10 (Net Position) to the Financial Statements, along with the summary below. The net pension and OPEB obligations create a combined \$500.5 million negative impact on the University's unrestricted net position. Without these reported obligations, the University's available resources are \$469.9 million, an increase of \$34.9 million from the prior year. This amount represents available, unrestricted resources held by the University and its blended component units, along with any operating state funds authorized for carryforward.

Effect of GASB Statement Nos. 68 and 75 on Unrestricted Net Position	2023	2022	Change
Available Resources	\$ 469,890,076	\$ 434,980,484	\$ 34,909,592
Pension Net Obligation (GASB Stmt. No. 68)	(41,359,128)	(42,771,331)	1,412,203
OPEB Net Obligation (GASB Stmt. No. 75)	(459,156,190)	(521,389,937)	62,233,747
Total Unrestricted Net Position	\$ (30,625,242)	\$ (129,180,784)	\$ 98,555,542

The net OPEB obligation reported above relates to the Retiree Health Benefit Fund (RHBF) and Disability Income Plan of North Carolina (DIPNC). Two key drivers of the decrease of \$63.6 million in the net pension and OPEB obligations were the change of assumptions used to value the net RHBF and DIPNC liabilities, as well as the change in the proportion of the RHBF and DIPNC liabilities allocated to the University. More information on both of these OPEB plans is included in Note 14 (Other Postemployment Benefits) to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position, as presented in the SNP, are based on activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present revenues and expenses earned and incurred, respectively, by the University during the fiscal year.

GASB accounting principles determine the categorization of revenues and expenses as either operating or nonoperating activities. Because GASB Statement No. 34 requires that revenues from state appropriations, Pell Grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating, the University will nearly always demonstrate an operating loss on its SRECNP.

Other revenues, expenses, gains, and losses recognized by the University, as applicable, and not classified as operating or nonoperating, are presented separately on the statement below the Income Before Other Revenues line.

The following table summarizes and compares the University's results of operations for the fiscal years ended June 30, 2023 and June 30, 2022.

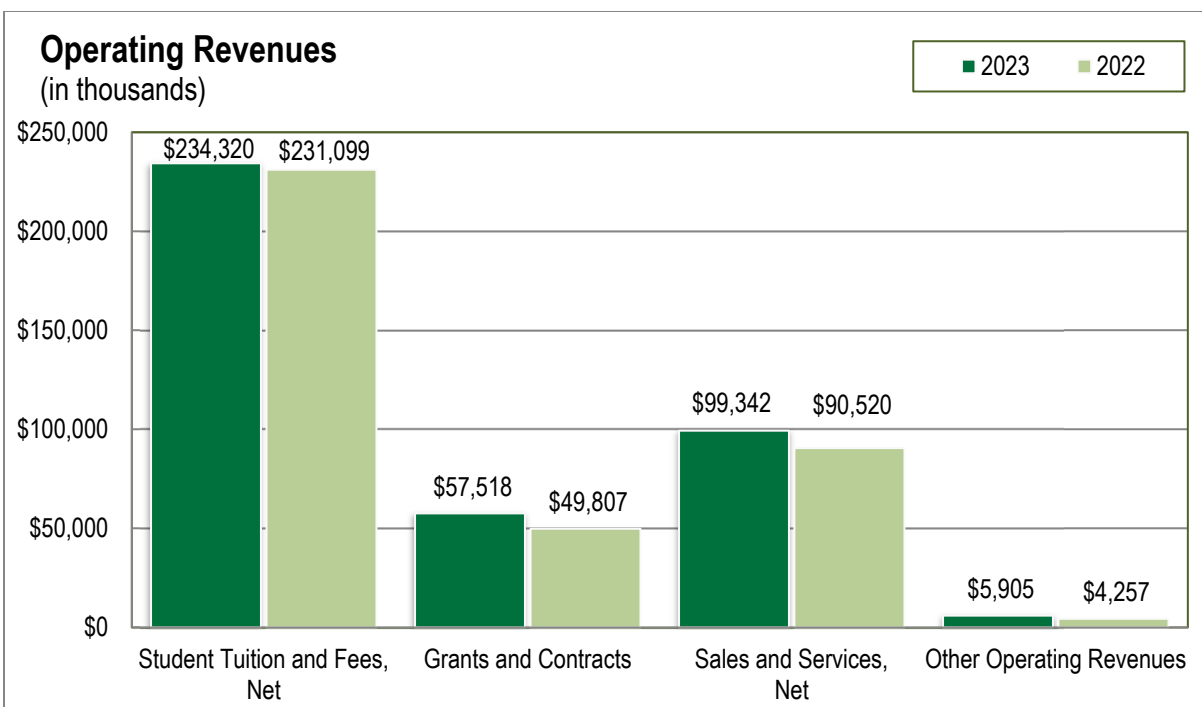
Condensed Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	2023	2022	Change	
			Amount	Percent
Operating Revenues:				
Student Tuition and Fees, Net	\$ 234,320,005	\$ 231,098,621	\$ 3,221,384	1.4%
Grants and Contracts	57,517,716	49,806,881	7,710,835	15.5%
Sales and Services, Net	99,342,496	90,519,683	8,822,813	9.7%
Other Operating Revenues	5,905,294	4,256,767	1,648,527	38.7%
Total Operating Revenues	397,085,511	375,681,952	21,403,559	5.7%
Operating Expenses:				
Salaries and Benefits	402,168,363	389,461,808	12,706,555	3.3%
Supplies and Services	181,708,875	154,146,451	27,562,424	17.9%
Scholarships and Fellowships	43,912,583	75,441,677	(31,529,094)	-41.8%
Utilities	14,310,601	13,025,426	1,285,175	9.9%
Depreciation/Amortization	42,011,537	36,921,035	5,090,502	13.8%
Total Operating Expenses	684,111,959	668,996,397	15,115,562	2.3%
Operating Loss	(287,026,448)	(293,314,445)	6,287,997	-2.1%
Nonoperating Revenues (Expenses):				
State Appropriations	310,557,428	292,421,671	18,135,757	6.2%
State Aid - Coronavirus	-	4,926,924	(4,926,924)	-100.0%
Federal Aid - COVID-19	7,506,098	68,840,374	(61,334,276)	-89.1%
Noncapital Contributions, incl. Student Fin. Aid	92,606,502	83,475,787	9,130,715	10.9%
Investment Income, Net	16,684,850	9,630,735	7,054,115	73.2%
Interest and Fees on Debt, Net of Subsidy	(17,246,307)	(17,101,942)	(144,365)	0.8%
Other Nonoperating Expenses	(2,526,475)	(2,727,610)	201,135	-7.4%
Net Nonoperating Revenues	407,582,096	439,465,939	(31,883,843)	-7.3%
Income Before Other Revenues	120,555,648	146,151,494	(25,595,846)	-17.5%
Capital Contributions	6,102,513	21,331,870	(15,229,357)	-71.4%
Additions to Endowments	1,190,995	3,553,042	(2,362,047)	-66.5%
Increase in Net Position	127,849,156	171,036,406	(43,187,250)	-25.3%
Net Position, Beginning of Year	972,192,938	796,309,791	175,883,147	22.1%
Restatement	-	4,846,741	(4,846,741)	
Net Position, End of Year	\$ 1,100,042,094	\$ 972,192,938	\$ 127,849,156	13.2%

Fiscal year 2022-23 total revenues were \$832,463,487 and total expenses were \$704,614,331

Fiscal year 2021-22 total revenues were \$860,997,000 and total expenses were \$689,960,594

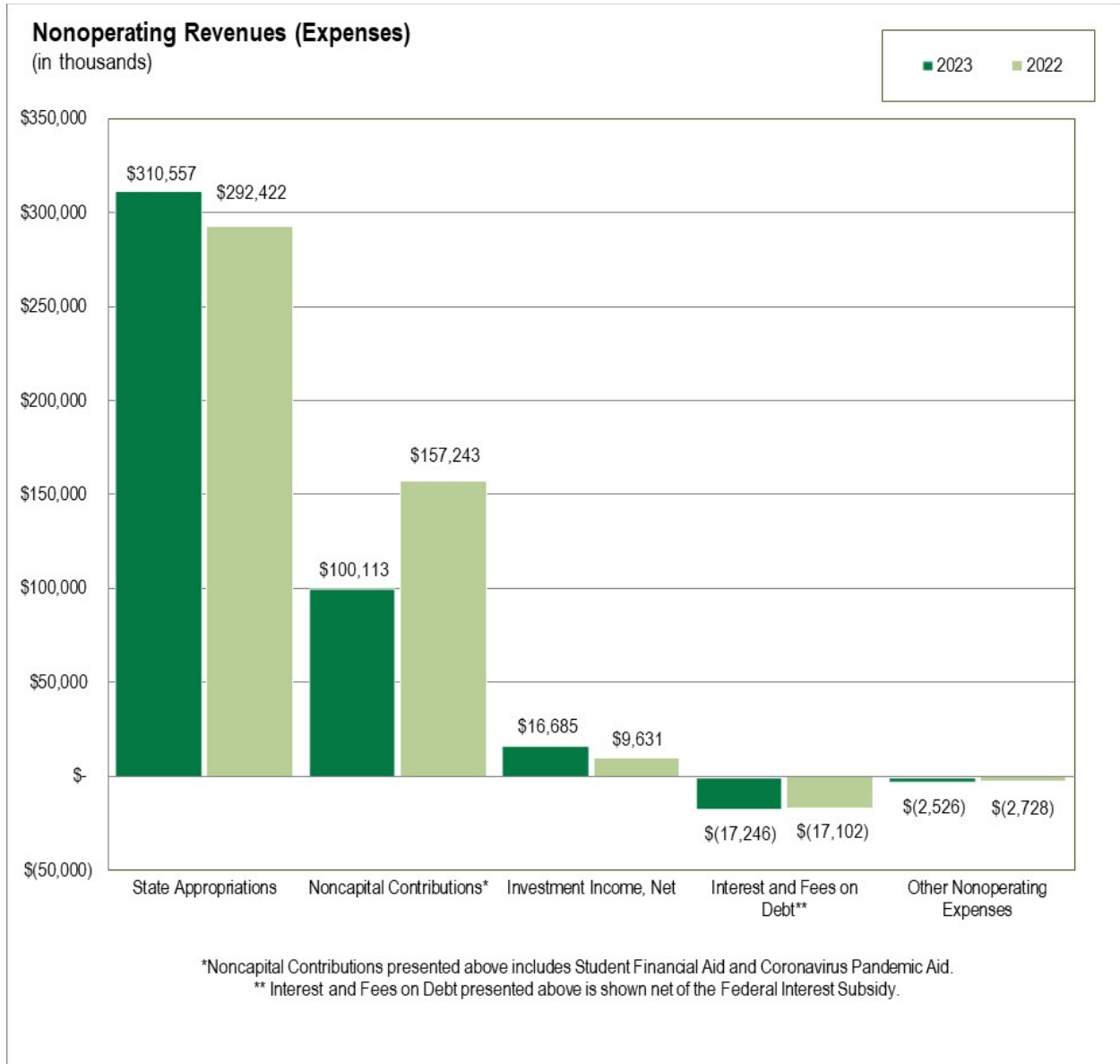
The overall increase in net position of \$127.8 million is composed of the following highlighted changes:

- Total operating revenues increased by \$21.4 million, or 5.7%, as compared to the prior fiscal year.
 - Sales and services (net) revenue increased by \$8.8 million, or 9.7%, primarily driven by a continued increased on-campus presence of students and increasing operating capacity of dining and housing.
 - Grants and contracts revenue increased by \$7.7 million, or 15.5% primarily due to an increase in research activity as part of the University's strategic plan to achieve institutional top-tier research status.



- Operating expenses are those incurred to acquire or produce the goods and services provided to fulfill the mission of the University. Total operating expenses increased by \$15.1 million, or 2.3%, from the prior year, to \$684.1 million.
 - Supplies and services expenses increased by \$27.6 million following two years of reduced expenditures during the COVID-19 pandemic. The largest increases were in spending for auxiliary service expenses such as student meal plan and catering expenses, informal projects, repairs and maintenance across campus and travel/registration costs.
 - Salaries and benefits expenses increased by \$12.7 million, primarily due to a combined \$15.7 million decrease in pension and OPEB expenses recognized related to GASB Statement Nos. 68 and 75. This was offset by a \$22.7 million increase in salaries expense, mainly due to a legislative raise and bonuses.
 - Scholarships and fellowships decreased by \$31.5 million, primarily due to less Higher Education Emergency Relief Fund (HEERF) awards to students in fiscal year 2023.
- Nonoperating revenues are those received for which goods and services are not provided. Certain significant recurring sources of the University's revenues, including state appropriations, are classified as nonoperating because they are provided to the University without the provider directly receiving commensurate goods and services for those revenues. The University's net nonoperating revenues were \$407.6 million in fiscal year 2023, a \$31.9 million, or 7.3% decrease compared to the prior year.
 - State appropriations increased by \$18.1 million due to an allocation from the State for Engineering NC Future and salary and fringe benefits increases.
 - State Aid - Coronavirus decreased by \$4.9 million due to the University no longer receiving Coronavirus funding in the current year as the University has resumed normal operations.

- Federal aid - COVID-19 decreased by \$61.3 million due to the winding down of the federal HEERF program in the current year.
- Noncapital contributions, including student financial aid, increased by \$9.1 million, primarily due to an increase in gifts in the areas of capital campaigns, athletics and environmental health and safety.
- Investment income (net) increased by \$7.1 million primarily due to an increase in Short-Term Investment Fund (STIF) interest rates and realized gains, offset by a decrease in unrealized gains in the current year.



For explanations of the material changes in capital contributions, see the Capital Asset and Debt Administration section below.

Capital Assets and Debt Administration

The University remains committed to providing quality education, research, residential life, and other services to the region as student and community needs evolve. A critical factor in meeting these commitments is the University's ability to strategically enhance its capital assets.

During the fiscal year, the University implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which resulted in the recording of right-to-use subscription assets shown in the table below. Additional information regarding the University's accounting for subscriptions can be found in Note 1 and Note 9.

Total capital assets, by major classification and net of accumulated depreciation and amortization, are presented below for the fiscal years ended June 30, 2023 and June 30, 2022. Information regarding changes in capital assets is also disclosed in Note 6 to the Financial Statements.

Capital Assets, Net of Accumulated Depreciation/Amortization	2023	2022	Change	
			Amount	Percent
Land and Land Improvements	\$ 14,390,891	\$ 14,008,350	\$ 382,541	2.7%
Art, Literature and Artifacts	38,354,167	37,960,262	393,905	1.0%
Construction in Progress	77,584,565	29,757,474	47,827,091	160.7%
Buildings	1,096,460,889	1,117,496,237	(21,035,348)	-1.9%
Machinery and Equipment	75,954,060	69,368,294	6,585,766	9.5%
General Infrastructure	202,095,053	205,079,113	(2,984,060)	-1.5%
Computer Software	7,836,679	8,043,174	(206,495)	-2.6%
Right-to-Use Leased Buildings	4,892,962	4,415,042	477,920	10.8%
Right-to-Use-Leased Machinery and Equipment	910,659	1,350,715	(440,056)	-32.6%
Right-to-Use Subscription Assets	11,044,257	-	11,044,257	
Total Capital Assets, Net	\$ 1,529,524,182	\$ 1,487,478,661	\$ 42,045,521	2.8%

Total construction in progress (CIP) at the end of the year was \$77.6 million, a \$47.8 million net increase from the prior year. CIP increased by \$53.0 million for costs incurred during the fiscal year on various construction projects that were not yet completed as of June 30, 2023, and decreased by \$5.1 million due to the completion of some of those projects during the year. The most notable of those increases are the Residence Hall Phase XVI project (\$36.1 million) and the Student Union dining hall project (\$7.1 million). Completed projects include the Remembrance Memorial (\$1.8 million) and additional work on the Bioinformatics 4th floor build out project (\$1.5 million).

The University also had \$14.0 million in outstanding commitments on construction contracts as of June 30, 2023. The bulk of these commitments are related to the Residence Hall Phase XVI project in progress.

Due to the GASB 96 subscription implementation, there was an increase of \$11.0 million for right-to-use subscription assets.

Capital contributions decreased by \$15.2 million, primarily due to a \$5.5 million decrease in the State's Connect NC bond package funding as the University's Science Building is completed, and a \$11.2 million decrease in State Capital and Infrastructure Funds (SCIF) used for repairs and renovations.

The University's debt portfolio is conservatively structured, with a fixed-rate debt profile and relatively rapid principal amortization. Long-term debt is primarily issued for specific capital needs.

The University's available funds, excluding tuition and state appropriations, are pledged to pay the bonds. The University maintained its credit rating this year from Moody's Investors Service, of 'Aa3' with a stable outlook. Standard & Poor's reaffirmed its rating of 'A+' and revised its outlook to positive from stable, which reflects their opinion of the University's strong enterprise profile, including solid enrollment trends, financial operations, and operating and capital support from AAA-rated State of North Carolina, along with a capable management team. All funding decisions support the University's long-term strategic plan and are made to be as cost effective as possible in the prevailing economic environment. For additional information on the University's debt administration, see Note 8 to the Financial Statements.

Economic Outlook

Management remains prudent, conservative, and strategic in managing the institution's financial affairs to achieve the University's goals of providing educational services to the Charlotte region. The overall outlook for the four-year U.S. higher education sector, per Moody's Investors Service, changed from stable to negative as of December 2022, largely due to high inflation, a tight labor market and the return to more normal operations, resulting in higher operational expenses. As of June 2023, Moody's retained this outlook but indicated that inflation pressures appear to be slowing. UNC Charlotte will continue to rely on enrollment demand and governmental support as two of the most significant drivers of the University's revenue base, along with effective institutional planning and cost containment. The University benefits from its membership in the University of North Carolina (UNC) system through economies of scale and receives stable capital and operating support. Fiscal year 2023-2024 will mark the third year of the University's strategic plan, "Shaping What's Next". In many respects, the goals and metrics of this plan affect the strategic allocation and spending of resources at the University. Information about the Strategic Plan and related metrics can be found at strategicplan.charlotte.edu.

Focus on access, affordability, and student outcomes at the state and national level, coupled with UNC Charlotte's emphasis on value for its students, will constrain tuition increases to those that are necessary to meet operational needs, a trend typical among public universities. UNC Charlotte's tuition and fee rates remain low compared to public peers. There was no increase in fees and a 3% increase in non-resident tuition rates for the 2023-2024 academic year. North Carolina's fixed tuition program, which freezes tuition rates for new resident undergraduate students over a period of continuous enrollment and limits the overall increase in undergraduate student fees to 3% per academic year for all UNC system institutions, was implemented in 2016 and remains in place.

Though tuition and fee rates are constrained, UNC Charlotte continues to realize consistent enrollment as the University enrolled more than 30,200 students for the Fall 2023 semester. UNC Charlotte is the largest university in the continuously growing Charlotte region and remains the only urban research university in the UNC system. UNC Charlotte also enrolls more transfer students than any other university in North Carolina and offers more than 160 degree programs to a culturally diverse student population.

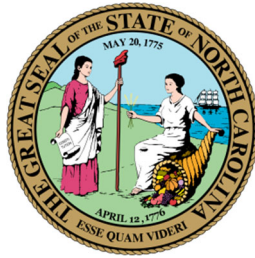
Approximately 66% of UNC Charlotte students receive some form of financial aid, and approximately 37% of undergraduates are Pell Grant recipients. This, in addition to the fact that the majority of the University's research funding is from federal grants, causes the federal budget to remain a key consideration of the financial outlook. Access, affordability, and accountability remain concerns for the higher education industry. Any legislation related to funding for federal student aid programs and federal research organizations will affect our students and faculty; management is prepared to adapt to changes as they arise.

Finally, the University continues its efforts to make an impact through its research initiatives and reached record-breaking heights during fiscal year 2023 with new awards totaling \$73.2 million. The University is consistently in the top five universities nationally for number of startups per million dollars of research funding. The University will continue to strategically target research-rich fields, including advanced manufacturing, biotechnology, data science and business analytics, defense, education, energy production and infrastructure, health, and cybersecurity, which align with UNC Charlotte's professional schools and applied science programs. The University's 10-year goal is to reach a sustainable level of extramurally funded research programs of \$125.0 million annually.

Management is fully committed to making sound fiscal decisions to withstand current and future economic uncertainties, and remains dedicated to UNC's mission to discover, create, transmit, and apply knowledge to address the needs of individuals and society.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability for all funds received. Additional financial information may be obtained by accessing the Financial Services webpage (finance.charlotte.edu) or contacting the Controller (704) 687-5786 or Associate Vice Chancellor for Finance (704) 687-5813.



FINANCIAL STATEMENTS

The University of North Carolina at Charlotte
Statement of Net Position
Proprietary Fund
June 30, 2023

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 451,630,974
Restricted Cash and Cash Equivalents	19,796,669
Restricted Short-Term Investments	1,229,354
Receivables, Net (Note 5)	24,318,895
Inventories	316,935
Notes Receivable, Net (Note 5)	210,937
Leases Receivable (Note 9)	175,901
Prepaid Items	12,500,408
	<hr/>
Total Current Assets	510,180,073
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	39,150,313
Endowment Investments	197,233,389
Restricted Investments	3,933,144
Notes Receivable, Net (Note 5)	1,294,609
Leases Receivable (Note 9)	951,337
Capital Assets - Nondepreciable (Note 6)	130,329,623
Capital Assets - Depreciable, Net (Note 6)	1,399,194,559
	<hr/>
Total Noncurrent Assets	1,772,086,974
	<hr/>
Total Assets	2,282,267,047
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	13,463,343
Deferred Outflows Related to Pensions	66,785,760
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	76,703,270
	<hr/>
Total Deferred Outflows of Resources	156,952,373
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	16,060,084
Deposits Payable	788,649
Unearned Revenue	10,481,071
U.S. Government Grants Refundable	299,180
Interest Payable	4,660,353
Long-Term Liabilities - Due to University Component Unit - Current Portion (Note 8)	675,000
Long-Term Liabilities - Current Portion (Note 8)	31,232,575
	<hr/>
Total Current Liabilities	64,196,912
	<hr/>

The University of North Carolina at Charlotte
Statement of Net Position
Proprietary Fund
June 30, 2023

Exhibit A-1
Page 2 of 2

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	23,421
Funds Held for Others	102,313
Unearned Revenue	9,691,747
U.S. Government Grants Refundable	1,760,326
Long-Term Liabilities - Due to University Component Unit (Note 8)	69,529,731
Long-Term Liabilities, Net (Note 8)	1,010,325,556
Total Noncurrent Liabilities	1,091,433,094
Total Liabilities	1,155,630,006
DEFERRED INFLOWS OF RESOURCES	
Deferred Gain on Refunding	22,488
Deferred Inflows Related to Pensions	4,088,926
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	178,357,151
Deferred Inflows for Leases	1,078,755
Total Deferred Inflows of Resources	183,547,320
NET POSITION	
Net Investment in Capital Assets	979,479,670
Restricted:	
Nonexpendable:	
Scholarships and Fellowships	7,091,164
Endowed Professorships	40,650,204
Departmental Uses	4,120,227
Loans	735,251
Other	215,998
Total Restricted-Nonexpendable Net Position	52,812,844
Expendable:	
Scholarships and Fellowships	11,657,612
Research	5,434,081
Endowed Professorships	32,306,781
Departmental Uses	7,842,265
Capital Projects	34,772,579
Hotel Operations	4,833,955
Debt Service	328,976
Other	1,198,573
Total Restricted-Expendable Net Position	98,374,822
Unrestricted	(30,625,242)
Total Net Position	\$ 1,100,042,094

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

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

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 11)	\$ 234,320,005
Federal Grants and Contracts	46,187,328
State and Local Grants and Contracts	5,236,151
Nongovernmental Grants and Contracts	6,094,237
Sales and Services, Net (Note 11)	99,342,496
Interest Earnings on Loans	159,279
Other Operating Revenues	5,746,015
	<hr/>
Total Operating Revenues	397,085,511

OPERATING EXPENSES

Salaries and Benefits	402,168,363
Supplies and Services	181,708,875
Scholarships and Fellowships	43,912,583
Utilities	14,310,601
Depreciation/Amortization	42,011,537
	<hr/>
Total Operating Expenses	684,111,959
	<hr/>
Operating Loss	(287,026,448)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	310,557,428
Student Financial Aid	75,857,972
Federal Aid - COVID-19	7,506,098
Noncapital Contributions	16,748,530
Investment Income (Net of Investment Expense of \$385,823)	16,684,850
Interest and Fees on Debt	(17,975,897)
Federal Interest Subsidy on Debt	729,590
Other Nonoperating Expenses	(2,526,475)
	<hr/>
Net Nonoperating Revenues	407,582,096

Income Before Other Revenues	<hr/>
	120,555,648

Capital Contributions	6,102,513
Additions to Endowments	1,190,995
	<hr/>
Total Other Revenues	7,293,508

Increase in Net Position	<hr/>
	127,849,156

NET POSITION

Net Position - July 1, 2022, as Restated (Note 20)	<hr/>
	972,192,938
Net Position - June 30, 2023	<hr/>
	\$ 1,100,042,094

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

The University of North Carolina at Charlotte
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	\$ 384,617,744
Payments to Employees and Fringe Benefits	(462,779,209)
Payments to Vendors and Suppliers	(191,935,078)
Payments for Scholarships and Fellowships	(43,912,583)
Loans Issued	(71,130)
Collection of Loans	370,972
Interest Earned on Loans	177,191
Student Deposits Received	121,200
Student Deposits Returned	(1,792,600)
William D. Ford Direct Lending Receipts	109,175,499
William D. Ford Direct Lending Disbursements	(109,175,499)
Related Activity Agency Receipts	20,516,921
Related Activity Agency Disbursements	(20,561,977)
Other Receipts	4,923,108
	<hr/>
Net Cash Used by Operating Activities	(310,325,441)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	310,557,428
Student Financial Aid	75,280,698
Federal Aid - COVID-19	7,496,136
Noncapital Contributions	12,010,889
Additions to Endowments	1,190,995
	<hr/>
Total Cash Provided by Noncapital Financing Activities	406,536,146

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Contributions	3,595,336
Proceeds from Lease Arrangements	259,855
Acquisition and Construction of Capital Assets	(59,878,485)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(27,439,367)
Interest and Fees Paid on Capital Debt and Leases/Subscription Liabilities	(18,455,563)
Federal Interest Subsidy on Debt Received	435,373
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(101,482,851)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,287,609
Investment Income	14,880,784
Purchase of Investments and Related Fees	(6,111,291)
	<hr/>
Net Cash Provided by Investing Activities	13,057,102
	<hr/>
Net Increase in Cash and Cash Equivalents	7,784,956
	<hr/>
Cash and Cash Equivalents - July 1, 2022	502,793,000
	<hr/>
Cash and Cash Equivalents - June 30, 2023	\$ 510,577,956

The University of North Carolina at Charlotte
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	\$ (287,026,448)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	42,011,537
Lease Income (Amortized Deferred Inflows of Resources)	(243,699)
Allowances, Write-Offs, and Amortizations	831,053
Other Nonoperating Income	848,251
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(4,378,682)
Inventories	(87,846)
Notes Receivable, Net	326,194
Prepaid Items	1,706,074
Net Other Postemployment Benefits Asset	248,386
Deferred Outflows Related to Pensions	(30,423,014)
Deferred Outflows Related to Other Postemployment Benefits	15,734,070
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	826,861
Funds Held for Others	16,965
Unearned Revenue	(3,276,098)
Net Pension Liability	69,067,567
Net Other Postemployment Benefits Liability	(119,563,941)
Compensated Absences	73,121
Deposits Payable	(1,573,647)
Workers' Compensation Liability	(523,063)
Deferred Inflows Related to Pensions	(40,056,756)
Deferred Inflows Related to Other Postemployment Benefits	45,137,674
Net Cash Used by Operating Activities	<u>\$ (310,325,441)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 15,431,660
Assets Acquired through a Gift	2,507,177
Change in Fair Value of Investments	1,489,924
Loss on Disposal of Capital Assets	(1,576,531)
Amortization of Bond Premiums/Discounts	(1,970,993)
Amortization of Deferred Gain on Refunding	(1,474)
Amortization of Deferred Loss on Refunding	836,022
Increase in Receivables Related to Nonoperating Revenues	1,254,638
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(2,714,106)

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

The University of North Carolina at Charlotte
Statement of Fiduciary Net Position
Fiduciary Fund - Custodial Funds
June 30, 2023

Exhibit B-1

	<u>External Investment Pool Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 716,064
Investments (Note 2):	
Pooled Investment Funds	<u>20,393,648</u>
Total Assets	<u>21,109,712</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities (Note 7)	<u>10,935</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Restricted for:	
Pool Participants	<u>\$ 21,098,777</u>

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

**The University of North Carolina at Charlotte
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Custodial Funds
For the Fiscal Year Ended June 30, 2023**

Exhibit B-2

	<u>External Investment Pool Funds</u>
ADDITIONS	
Contributions:	
Pool Participants	\$ 719,254
Investment Activity:	
Investment Income	757,784
Investment Expenses	<u>(74,706)</u>
Net Investment Income	<u>683,078</u>
Total Additions	<u>1,402,332</u>
DEDUCTIONS	
Withdrawals and Distributions	<u>821,528</u>
Increase in Fiduciary Net Position	580,804
NET POSITION	
Net Position - July 1, 2022	<u>20,517,973</u>
Net Position - June 30, 2023	<u>\$ 21,098,777</u>

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

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Financial Position
June 30, 2023

Exhibit C-1

ASSETS

Cash and Cash Equivalents	\$ 36,513,674
Restricted Cash Equivalents	5,709,195
Prepaid Expenses and Other Assets	148,951
Contributions Receivable, Net	17,945,953
Beneficial Interests in Lead Trusts	492,697
Beneficial Interests in Assets Held by Others	1,396,414
Investments	189,856,417
Cash Surrender Value of Life Insurance	909,985
Due from University	70,204,731
Construction in Progress	6,884,583
Property Held for Investment	1,685,783

Total Assets	\$ 331,748,383
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LIABILITIES

Accounts Payable and Accrued Expenses	\$ 1,975,029
Liability Under Split-Interest Agreements	2,882,734
Funds Held for Others	79,000
Debt	63,882,483

Total Liabilities	68,819,246
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NET ASSETS

Without Donor Restrictions	29,078,713
With Donor Restrictions	233,850,424

Total Net Assets	262,929,137
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Total Liabilities and Net Assets	\$ 331,748,383
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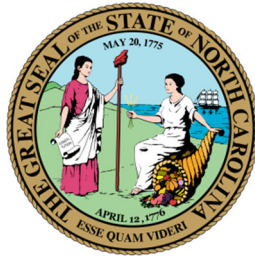
The accompanying notes to the financial statements are an integral part of this statement.

The Foundation of the University of North Carolina at Charlotte, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2023

Exhibit C-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Contributions of Cash and Other Financial Assets	\$ 439,645	\$ 18,664,007	\$ 19,103,652
Contributions of Nonfinancial Assets	-	1,527,370	1,527,370
Support from Affiliate	4,510,985	649,844	5,160,829
Investment Income	1,754,582	5,091,286	6,845,868
Other Revenue and Support	506,190	716,059	1,222,249
	<u>7,211,402</u>	<u>26,648,566</u>	<u>33,859,968</u>
Total Support and Revenue			
Net Assets Released from Restrictions	<u>16,716,997</u>	<u>(16,716,997)</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>23,928,399</u>	<u>9,931,569</u>	<u>33,859,968</u>
EXPENSES			
Program Services:			
Contributions to UNC Charlotte	15,772,845	-	15,772,845
Research and Other Programs	4,074,634	-	4,074,634
	<u>19,847,479</u>	<u>-</u>	<u>19,847,479</u>
Total Program Services			
Support Services:			
General and Administrative	1,300,932	-	1,300,932
Fundraising Support	3,695,065	-	3,695,065
	<u>4,995,997</u>	<u>-</u>	<u>4,995,997</u>
Total Support Services			
Total Expenses	<u>24,843,476</u>	<u>-</u>	<u>24,843,476</u>
Change in Net Assets Before Write-Offs and Transfers	(915,077)	9,931,569	9,016,492
Write-Off of Contributions Receivable	(15,000)	(261,311)	(276,311)
Transfers Between Net Asset Classes	(1,094,690)	1,094,690	-
	<u>(2,024,767)</u>	<u>10,764,948</u>	<u>8,740,181</u>
Change in Net Assets			
NET ASSETS			
Net Assets at Beginning of Year	<u>31,103,480</u>	<u>223,085,476</u>	<u>254,188,956</u>
Net Assets at End of Year	<u>\$ 29,078,713</u>	<u>\$ 233,850,424</u>	<u>\$ 262,929,137</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 at Charlotte (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

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

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

The UNCCIF is governed by a board consisting of three ex officio directors and four elected directors. The UNCCIF's purpose is to support the University by operating an investment fund for nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Its participant investors include the University, The Foundation of the University of North Carolina at Charlotte, Inc. (Foundation), and The Athletic Foundation of the University of North Carolina at Charlotte, Inc. (Athletic Foundation - see Note 18). The UNCCIF is a governmental external investment pool. Because two of the seven elected directors of the UNCCIF are administrators of the University and the elected directors are appointed by the members of the investors' Board of Trustees, and the UNCCIF's primary purpose is to benefit the University, its financial statements have been blended with those of the University, with the exception of the portion belonging to the Foundation, which is discretely presented (as discussed below), and the portion belonging to the Athletic Foundation, which is presented in separate fiduciary statements.

Separate financial statements for the UNCCIF may be obtained from the University Treasury Services Office, at treasuryservices@charlotte.edu, or by calling (704) 687-5432.

Condensed combining information regarding the blended component unit is provided in Note 18.

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 45 officers and directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate consolidated financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2023, the Foundation distributed \$15,772,827 to the University for both restricted and unrestricted purposes. The University provided professional services to the Foundation of \$5,160,829 for the year ended June 30, 2023. The Endowment Fund of the University has an Agreement with the Foundation to make funds generated from the operation of the UNC Charlotte Hotel and Conference Center (Hotel) available to the Foundation to be used by the Foundation in payment of debt service and the Foundation's subordinate obligation related to the Hotel as defined by the Agreement. As of June 30, 2023, the Endowment has recorded \$70,204,731 as a due to component unit liability related to this Agreement. Additional disclosure related to this Agreement are in Note 8.

Complete consolidated financial statements for the Foundation can be obtained from the University Treasury Services Office, at treasuryservices@charlotte.edu or by calling (704) 687-5432.

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

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

Fiduciary Fund - This fund accounts for all of the University's fiduciary activities, which are considered custodial funds. These resources are held by the University in a purely custodial capacity on behalf of individuals, affiliated organizations, and other external parties. Custodial funds include the external portion of an investment pool sponsored by the UNCCIF for the Athletic Foundation of the University of North Carolina at Charlotte, Inc., a related party to the University.

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

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

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

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

Real estate not held by a governmental external investment pool and certain other asset holdings are reported at fair value as determined by appraisal as of June 30, 2023. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, postage, fuel held for consumption, and other merchandise for resale, are valued at cost using the last invoice cost method.

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

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated computer software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	15-75 years
Machinery and Equipment	5-24 years
General Infrastructure	10-75 years
Computer Software	10-20 years

Right-to-use leased and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease liabilities are capitalized as a right-to-use asset when the underlying leased asset has a cost of \$1,100,000 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 \$250,000 or greater and an estimated useful life of more than one year.

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

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

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

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

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

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2022 *Annual Comprehensive Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund and Disability Income Plan of North Carolina. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

Proprietary Fund

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. 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 Fund

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$509,039,618, which represents the University’s equity position in the State Treasurer’s Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 0.7 years as of June 30, 2023. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s STIF) are included in the North Carolina Department of State Treasurer Investment Programs’ separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer’s website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at June 30, 2023 was \$12,970. The carrying amount of the University’s deposits not with the State Treasurer was \$1,525,368, and the bank balance was \$2,057,653. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2023, the University’s bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>\$ 1,452,963</u>
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the deposit. At June 30, 2023, \$27,660 of the total bank balance was denominated in Euros, and was therefore exposed to foreign currency risk. The University does not have a formal policy for foreign currency risk.

B. Investments

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

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

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

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard

to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

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

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

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

External Investment Pool - The External Investment Pool (Pool) sponsored by the University was established in November 2004. The Pool is utilized to manage the investments for endowments that are organized and operated primarily to support the University. University endowment funds and the Foundation, which is a discretely presented component unit included in the University's reporting entity, represent the Pool's internal participants. The Athletic Foundation of the University of North Carolina at Charlotte, Inc., an affiliated organization not included in the University's reporting entity, represents the Pool's external participant. Fund ownership of the Pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on number of units of ownership purchased. Thereafter, the pooled assets are valued quarterly, and a new market value is determined. 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 UNCCIF 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 UNCCIF is the custodian for the Pool and provides the University with quarterly statements defining income and valuation, which is then allocated among the fund's participants. There are no involuntary participants in the Pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Pool's investments.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2023, for the External Investment Pool, including both proprietary and fiduciary funds. See Note 2C below for further details regarding investments by fund type within the External Investment Pool.

External Investment Pool

Investment Type	<u>Amount</u>
Other Securities	
UNC Investment Fund	\$ 108,224,988
Global Endowment Fund II, LP	<u>20,125,160</u>
Total External Investment Pool	<u><u>\$ 128,350,148</u></u>

The UNCCIF invests with two external investment firms, a limited partnership interest, Global Endowment Fund II, LP, and the UNC Investment Fund LLC (UNC Investment Fund), an external investment pool. Global Endowment Management, LP is registered with the SEC, but neither firm has a credit rating, nor are they subject to any regulatory oversight. Investment risks associated with Global Endowment Fund II, LP are included in the audited financial statements of the Global Endowment Fund II, LP, which may be obtained from Global Endowment Management, LP, 224 W. Tremont Avenue, Charlotte, NC 28203. 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.

Separate financial statements for the UNCCIF may be obtained from the University Treasury Services Office at treasuryservices@charlotte.edu, or by calling (704) 687-5432.

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

Non-Pooled Investments

Investment Type	<u>Amount</u>	Investment Maturities (in Years)
		<u>Less Than 1</u>
Debt Securities		
Money Market Mutual Funds	\$ 5,162,498	<u>\$ 5,162,498</u>
Other Securities		
Investments in Real Estate	<u>89,276,889</u>	
Total Non-Pooled Investments	<u><u>\$ 94,439,387</u></u>	

At June 30, 2023, the money market mutual funds with an amortized cost of \$5,162,498 were rated AAAM and Aaa-mf by Standard & Poor's and Moody's, respectively.

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

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 5,162,498
Other Securities	
UNC Investment Fund	108,224,988
Global Endowment Fund II, LP	20,125,160
Investments in Real Estate	89,276,889
Total Investments	\$ 222,789,535

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

Investment Type	Carrying Value
Short-Term Investments	\$ 315,753
Bonds	1,689,121
Mutual Funds	4,212,434
UNCCIF External Investment Pool	183,639,109
Total Investments	\$ 189,856,417

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

	Proprietary Fund	Fiduciary Fund	Total
Cash on Hand	\$ 12,970	\$ -	\$ 12,970
Amount of Deposits with Private Financial Institutions	1,525,368	14,592	1,539,960
Deposits in the Short-Term Investment Fund	509,039,618	701,472	509,741,090
External Investment Pool	107,956,500	20,393,648	128,350,148
Non-Pooled Investments	94,439,387	-	94,439,387
Total Deposits and Investments	\$ 712,973,843	\$ 21,109,712	\$ 734,083,555
Deposits			
Current			
Cash and Cash Equivalents	\$ 451,630,974	\$ -	\$ 451,630,974
Restricted Cash and Cash Equivalents	19,796,669	716,064	20,512,733
Noncurrent			
Restricted Cash and Cash Equivalents	39,150,313	-	39,150,313
Total Deposits	510,577,956	716,064	511,294,020
Investments			
Current			
Restricted Short-Term Investments	1,229,354	-	1,229,354
Noncurrent			
Endowment Investments	197,233,389	-	197,233,389
Restricted Investments	3,933,144	-	3,933,144
Pooled Investment Funds	-	20,393,648	20,393,648
Total Investments	202,395,887	20,393,648	222,789,535
Total Deposits and Investments	\$ 712,973,843	\$ 21,109,712	\$ 734,083,555

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2023. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the University's 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
Investments by Fair Value Level				
Investments in Real Estate	\$ 89,276,889	\$ -	\$ 89,276,889	\$ -
Investments Measured at the Net Asset Value (NAV)				
Global Endowment Fund II, LP	20,125,160			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	509,741,090			
UNC Investment Fund	108,224,988			
Total Investments as a Position in an External Investment Pool	617,966,078			
Total Investments Measured at Fair Value	\$ 727,368,127			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University's position

in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

UNC Investment Fund - The fair value of the University’s proprietary and fiduciary fund balance in the UNC Investment Fund is \$108,224,988. An additional \$148,510,753 is held by the discretely presented Foundation, for a total of \$256,735,741 invested by the UNCCIF. Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund’s operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University’s position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

Investments in Real Estate - The fair value of the University investments in real estate is \$89,276,889. These investments are classified as Level 2 of the fair value hierarchy and are valued using market multiples that consider current appraisals.

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

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Endowment Fund II, LP	<u>\$ 20,125,160</u>	N/A	Quarterly	N/A

Global Endowment Fund II, LP - The net asset value (NAV) of the University’s proprietary and fiduciary fund balance in the private equity limited partnership, Global Endowment Fund II, LP, is \$20,125,160. An additional \$27,530,438 is held by the discretely presented Foundation, for a total of \$47,655,598 invested by the UNCCIF. The private investment partnership offers an endowment-style investment program to institutional investors, family offices, qualified individuals, and other sophisticated investors. The Partnership invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for its investors. The Management Company’s Valuation Committee is responsible for valuing the Fund’s assets. The Committee will ensure that positions are valued in accordance with the requirements of the governing documents of the managed funds and applicable accounting standards. The funds are valued based on the investments’ NAV or its equivalent in accordance with FASB Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This ASU amends FASB ASC 820 *Fair Value Measurements*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value and that calculate a NAV to be valued based on the NAV per share or its equivalent of the underlying investment when it is probable that the investment will not be sold in the short-term.

Component Unit - The Foundation’s investments are reported using FASB ASC 820, *Fair Value Measurement*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority

to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining fair value, the Foundation uses valuation approaches within the FASB ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy.

Short-term investments: Short-term investments are traded in active markets and are classified within Level 1 of the hierarchy.

Bonds, mutual funds, equity securities and other investments (including assets held under split-interest agreements): Bonds, mutual funds, equity securities and other investments are traded in active markets and are classified within Level 1 of the hierarchy.

The following table summarizes financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2023:

	Assets at Fair Value As of June 30, 2023	
	Level 1	Total
Short-Term Investments	\$ 315,753	\$ 315,753
Bonds	1,689,121	1,689,121
Mutual Funds	4,212,434	4,212,434
	<u>\$ 6,217,308</u>	6,217,308
Pooled Investments (a)		183,639,109
		<u>\$ 189,856,417</u>

(a) In accordance with FASB ASU 2015-07 certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following table presents the valuation of the Foundation’s investments, which are reported at Net Asset Value (NAV) or its equivalent, and unfunded commitments at June 30, 2023:

Investment	Net Asset Value 2023	Redemption Frequency	Redemption Notice	Unfunded Commitments
UNCCIF External Investment Pool	\$ 183,639,109	Quarterly	30-90 days	None

The UNCCIF seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to Fund participants.

The UNCCIF investment in another external investment pool is subject to an operating agreement. Ownership in the external investment pool is based on the per unit market value method, whereby the total market value of the underlying assets is divided by the number of units to determine the market value per unit. The number of units times the rate per unit determines the ownership. Routine withdrawals of up to \$25 million during any given fiscal quarter may be made with at least 30 days' notice, and capital withdrawals of up to \$75 million during any fiscal quarter (inclusive of any routine withdrawals) may be made with at least 90 days' notice.

The UNCCIF invests in the limited partnership that is subject to the terms and conditions of the limited partnership agreement. During 2022, the UNCCIF Board initiated a transition plan to withdraw its assets from the limited partnership. The liquid portion of UNCCIF's assets under management was returned to UNCCIF in January 2022. The remaining assets managed by the limited partnership are held in a side pocket account that will be distributed to UNCCIF as the underlying investments are realized throughout the transition period.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University’s endowment funds are real property held for investment of \$89,276,889 and pooled funds (cash and investments) invested with UNCCIF of \$132,483,739 which includes \$21,109,712 of fiduciary funds related to the Athletic Foundation. Non-real property investments of the University’s endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University’s endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are based on an adopted spending policy, which limits spending to the prior year’s spending adjusted to inflation, weighted at 80%, plus 4.5% of the average of the prior three years’ market values as

of December 31 each year, weighted at 20%. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2023, accumulated income and net appreciation of \$59,307,369 was available to be spent, of which \$41,659,818 was classified as restricted expendable net position as it is restricted for specific purposes. The remaining \$17,647,551 of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2023, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 7,238,298	\$ 1,547,469	\$ 5,690,829
Accounts	3,077,137	-	3,077,137
Intergovernmental	14,845,728	-	14,845,728
Interest on Loans	55,313	-	55,313
Federal Interest Subsidy on Debt	474,607	-	474,607
Other	175,281	-	175,281
Total Current Receivables	\$ 25,866,364	\$ 1,547,469	\$ 24,318,895
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 224,363	\$ 33,785	\$ 190,578
Institutional Student Loan Programs	48,427	28,068	20,359
Total Notes Receivable - Current	\$ 272,790	\$ 61,853	\$ 210,937
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,280,619	\$ 192,838	\$ 1,087,781
Institutional Student Loan Programs	598,151	391,323	206,828
Total Notes Receivable - Noncurrent	\$ 1,878,770	\$ 584,161	\$ 1,294,609

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2022 (as Restated)	Increases	Decreases	Balance June 30, 2023
Capital Assets, Nondepreciable:				
Land and Land Improvements	\$ 14,008,350	\$ 382,541	\$ -	\$ 14,390,891
Art, Literature, and Artifacts	37,960,262	393,905	-	38,354,167
Construction in Progress	29,757,474	52,964,384	5,137,293	77,584,565
Total Capital Assets, Nondepreciable	81,726,086	53,740,830	5,137,293	130,329,623
Capital Assets, Depreciable:				
Buildings	1,403,811,823	2,995,678	2,626,716	1,404,180,785
Machinery and Equipment	145,103,971	15,343,708	4,782,791	155,664,888
General Infrastructure	273,897,813	1,866,051	-	275,763,864
Computer Software	13,643,949	444,500	-	14,088,449
Right-to-Use Leased Buildings	4,980,919	1,172,827	10,868	6,142,878
Right-to-Use Leased Machinery and Equipment	1,788,785	-	3,894	1,784,891
Right-to-Use Subscription Assets	10,798,313	4,421,605	-	15,219,918
Total Capital Assets, Depreciable	1,854,025,573	26,244,369	7,424,269	1,872,845,673
Less Accumulated Depreciation/Amortization for:				
Buildings	286,315,586	23,843,404	2,439,094	307,719,896
Machinery and Equipment	75,735,677	7,369,033	3,393,882	79,710,828
General Infrastructure	68,818,700	4,850,111	-	73,668,811
Computer Software	5,600,775	650,995	-	6,251,770
Right-to-Use Leased Buildings	565,877	685,217	1,178	1,249,916
Right-to-Use Leased Machinery and Equipment	438,070	437,116	954	874,232
Right-to-Use Subscription Assets	-	4,175,661	-	4,175,661
Total Accumulated Depreciation/Amortization	437,474,685	42,011,537	5,835,108	473,651,114
Total Capital Assets, Depreciable, Net	1,416,550,888	(15,767,168)	1,589,161	1,399,194,559
Capital Assets, Net	\$1,498,276,974	\$ 37,973,662	\$ 6,726,454	\$1,529,524,182

The July 1, 2022 balance of depreciable capital assets was restated to account for right-to-use subscription assets with the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Total net position was restated for the net amount of these assets and related liabilities, as detailed in Note 20.

As of June 30, 2023, the total amount of right-to-use leased and subscription assets was \$7,927,769 and \$15,219,918, and the related accumulated amortization was \$2,124,148 and \$4,175,661, respectively.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Proprietary Fund	Fiduciary Fund
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	\$ 5,034,856	\$ 10,935
Accounts Payable - Capital Assets	7,555,233	-
Accrued Payroll	806,727	-
Contract Retainage	2,636,206	-
Other	27,062	-
Total Current Accounts Payable and Accrued Liabilities	\$ 16,060,084	\$ 10,935
Noncurrent Accounts Payable and Accrued Liabilities		
Contract Retainage	\$ 23,421	\$ -

NOTE 8 - LONG-TERM LIABILITIES

University

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

	Balance July 1, 2022 (as Restated)	Additions	Reductions	Balance June 30, 2023	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 530,925,000	\$ -	\$ 21,180,000	\$ 509,745,000	\$ 22,030,000
Plus: Unamortized Premium	31,971,573	-	1,982,601	29,988,972	-
Less: Unamortized Discount	20,314	-	11,608	8,706	-
Total Revenue Bonds Payable, Net	562,876,259	-	23,150,993	539,725,266	22,030,000
Notes from Direct Borrowings	4,848,380	32,973	1,059,388	3,821,965	715,767
Total Long-Term Debt	567,724,639	32,973	24,210,381	543,547,231	22,745,767
Other Long-Term Liabilities					
Lease Liabilities	5,765,385	1,172,827	994,151	5,944,061	1,044,190
Subscription (SBITA) Liabilities	5,810,291	4,011,000	3,530,828	6,290,463	1,922,897
Employee Benefits					
Compensated Absences	21,527,572	19,898,037	19,824,916	21,600,693	4,805,323
Net Pension Liability	34,988,395	69,067,567	-	104,055,962	-
Net Other Postemployment Benefits Liability	479,780,356	-	122,278,047	357,502,309	-
Workers' Compensation	3,140,475	345,286	868,349	2,617,412	714,398
Total Other Long-Term Liabilities	551,012,474	94,494,717	147,496,291	498,010,900	8,486,808
Total Long-Term Liabilities, Net	\$ 1,118,737,113	\$ 94,527,690	\$ 171,706,672	\$ 1,041,558,131	\$ 31,232,575
Other Long-Term Liabilities					
Due to University Component Unit	\$ 70,879,731	\$ -	\$ 675,000	\$ 70,204,731	\$ 675,000

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

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

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

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023
Revenue Bonds Payable					
Football Stadium BABs	2010	5.63%-6.52% *	04/01/2040	\$ 40,895,000	\$ 28,635,000
Residence Hall Phase 13	2014	5.00%	04/01/2024	34,220,000	830,000
Oak Hall Renovations	2014	5.00%	04/01/2024	8,765,000	210,000
Holshouser Hall Renovations	2014	5.00%	04/01/2024	15,760,000	380,000
Residence Hall Phase 14	2015	4.00%-5.00%	04/01/2025	39,045,000	1,970,000
Campus Infrastructure Phase 2	2015	4.00%-5.00%	04/01/2025	32,075,000	1,560,000
Refi-2006 Parking Bonds	2015	4.00%-5.00%	04/01/2025	7,970,000	745,000
Refi-2007-B Student Union Bonds	2015	4.00%-5.00%	04/01/2025	37,060,000	3,905,000
Health & Wellness Center	2017	4.00%-5.00%	10/01/2047	43,990,000	40,300,000
Scott Hall Renovation	2017	4.00%-5.00%	10/01/2047	15,585,000	14,495,000
Elm, Maple, Pine Renovation	2017	4.00%-5.00%	10/01/2047	16,805,000	15,395,000
2017 Refi Multiple Projects (Tax-Exempt)	2017-A	4.00%-5.00%	10/01/2040	77,865,000	73,005,000
2017 Refi Multiple Projects (Taxable)	2017-B	2.78%-3.63%	10/01/2040	26,140,000	12,835,000
Phase 16 & 2020 Refi Multiple Projects (Tax-Exempt)	2020-A	3.00%-5.00%	10/01/2049	71,425,000	63,635,000
2020 Refi Multiple Projects (Taxable)	2020-B	2.00%-3.40%	04/01/2041	23,275,000	21,315,000
2021 Refi 2013B	2021	0.63%-3.18%	04/01/2043	28,945,000	28,475,000
2021 Refi 2014 Bonds	2021	0.63%-3.18%	04/01/2044	54,405,000	53,190,000
2021 Refi 2015 LOBs	2021	0.63%-3.18%	04/01/2035	11,900,000	10,330,000
2021 B Refi 2013A & 2015	2021-B	0.97%-2.80%	04/01/2045	141,210,000	138,535,000
Total Revenue Bonds Payable (principal only)				\$ 727,335,000	509,745,000
Plus: Unamortized Premium					29,988,972
Less: Unamortized Discount					8,706
Total Revenue Bonds Payable, Net					\$ 539,725,266

* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 33% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023
UNC Charlotte Energy Savings Project	PNC Equipment Finance, LLC	4.41%	01/23/2029	\$ 8,443,099	\$ 3,590,003
Motorola Dispatch Consoles	Motorola Solutions Credit Company LLC	3.49%	08/01/2024	585,000	231,962
Total Notes from Direct Borrowings				\$ 9,028,099	\$ 3,821,965

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Notes from Direct Borrowings		Due to University Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 22,030,000	\$ 18,030,510	\$ 715,767	\$ 156,484	\$ 675,000	\$ 554,354
2025	21,870,000	17,234,495	729,392	125,527	675,000	2,568,550
2026	21,135,000	16,497,724	620,719	94,580	675,000	2,568,550
2027	21,885,000	15,893,845	630,229	67,051	675,000	2,568,550
2028	21,995,000	15,228,853	639,810	39,101	1,500,000	2,547,925
2029-2033	119,580,000	64,507,338	486,048	10,728	9,420,000	11,962,000
2034-2038	133,980,000	41,603,504	-	-	11,180,000	10,504,900
2039-2043	103,825,000	18,401,665	-	-	10,023,731	11,626,169
2044-2048	39,975,000	4,679,535	-	-	11,545,000	10,058,100
2049-2053	3,470,000	140,201	-	-	14,055,000	7,505,500
2054-2057	-	-	-	-	9,781,000	3,727,700
Total Requirements	\$ 509,745,000	\$ 212,217,670	\$ 3,821,965	\$ 493,471	\$ 70,204,731	\$ 66,192,298

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

Revenue Bonds Payable - The indenture agreements for the University's outstanding revenue bonds of \$509,745,000 contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to pay the principal, interest, or premium on any bonds when due and payable, (2) fails to pay the purchase price of any bonds when due and payable, or (3) fails to observe and perform any other covenant, condition, agreement, or provision contained in the bonds or in the general indenture within thirty days after written notice has been given to the Board of Governors by the trustee of the bonds.

Upon the occurrence of any event of default, the trustee may, or if required by a majority of the owners of the bonds, must either declare the unpaid principal amount plus any accrued and unpaid interest be due and payable immediately, or enforce all rights of the owners, and require the Board of Governors to carry out agreements with or for the benefit of the owners and to perform its duties under the general indenture. The trustee may also take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the Board of Governors.

In addition to the above, the University's outstanding revenue bonds of \$138,535,000 for 2021B was insured by Assured Guaranty Municipal Corp. In the event of a default, the 2021B Bond Insurer shall be entitled to pay principal or interest on the 2021B Insured Bonds that shall become due for payment but shall be unpaid by reason of nonpayment by the Board (as such terms are defined in the 2021B Insurance Policy) and any amounts due on the 2021B Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the 2021B Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the 2021B Insurance Policy) or a claim upon the 2021B Insurance Policy.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the Energy Services Agreement dated May 23, 2013. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to perform or meet any of its duties or obligations and cure such failure within thirty business days after written notice is delivered by the energy savings company (ESCO) or financing assignee, (2) the University fails to pay when due any amount to be paid under the agreement, or (3) any statement, representation, or warranty is made by the University in writing and in connection with this agreement that is knowingly false, misleading, or erroneous in any material respect as of the time when made.

Upon the occurrence of any event of default, the ESCO may, without waiver of other remedies that exist at law or in equity, 1) exercise all remedies available at law or in equity, or other appropriate proceedings, including bringing an action or actions from time to time for recovery of amounts due and unpaid by the University, and/or for damages which shall include all costs and expenses reasonably incurred, including reasonable attorney fees, and/or 2) terminate the agreement.

The University also has a financed purchase agreement (Motorola) which contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when the University: (1) fails to make any payment as it becomes due in accordance with the terms of the agreement, (2) fails to perform or observe any other covenant condition or agreement to be performed or observed by it hereunder and such failure is not cured within twenty days after written notice thereof by the vendor, (3) discovery by the vendor that written statements or representations made by the University were false, misleading or erroneous in any material respect, (4) proceedings under any bankruptcy, insolvency, reorganization, or similar legislation is instituted against or by the University, or (5) an attachment, levy, or execution is threatened or levied upon or against the equipment.

Upon the occurrence of any event of default, the vendor may, at its option exercise any one of the following remedies: (1) by written notice to the University, request, at the University's expense, the University promptly discontinue use of the equipment, remove the equipment from the University's computers and electronic devices, return the equipment to the vendor, or vendor, at its option may enter upon the premises where the equipment is located and take immediate possession of and remove the same, (2) promptly return the equipment to the vendor in manner set forth in the agreement (3) exercise any right, remedy, or privilege which may be available to it, or (4) if awarded by a court of competent jurisdiction, University will remain liable for all covenants and indemnities under the agreement and for all legal fees and other costs and expenses, including court costs, incurred by the vendor with respect to the enforcement of any remedies listed above.

- F. Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2023, the outstanding balance of prior year defeased bonds was \$151,700,000.

For certain prior year defeasances, the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. At June 30, 2023, the outstanding balance of prior year defeased bonds for which substitution is not prohibited was \$151,700,000.

G. Due to University Component Unit - The Foundation constructed a 226-room Hotel and Conference Center (Hotel) and transferred the hotel and land to the University Endowment during fiscal year 2021. The University's Endowment has entered into an Assignment Agreement (Agreement) with the Foundation to make funds generated from the operation of the Hotel available to the Foundation. The funds are to be used for payment of debt service under the Foundation's bond financing, as well as the Foundation's subordinate obligations related to the Hotel. The annual requirements to the Foundation are equal to that of the Foundation's annual debt service and subordinate obligations related to the Hotel as defined in the Agreement. The University's Endowment recorded a total liability of \$70,879,731 for its obligation according to the terms of the Agreement with the Foundation. In the event of any default of any term or condition of the Agreement by that is not cured in accordance with the Agreement, the other party may exercise any rights and remedies available at law and in equity, including termination of the Agreement. No credit is pledged of the University Endowment, the University, or the State of North Carolina with respect to any amounts to be paid to the Foundation under the terms of the Agreement. As of June 30, 2023, \$70,204,731 was due to the Foundation related to this Agreement, \$675,000 which is current and \$69,529,731 which is noncurrent.

Component Unit

The Foundation has a line of credit agreement allowing it to borrow up to \$5,000,000. The line of credit carries a variable rate of interest equal to the Daily Simple Secured Overnight Financing Rate (SOFR) plus 1.15% (6.24% as of June 30, 2023). There were no borrowings outstanding on the line of credit as of June 30, 2023. The loan agreement contains a liquidity covenant and also requires that the Foundation maintain a minimum average deposit account balance of \$400,000 with the lender. The line of credit expires on September 5, 2024. There was no interest expense during 2023.

During the fiscal year ended June 30, 2022, the Foundation issued \$59.0 million in tax-exempt Facilities Revenue Bonds, Series 2021A, and \$4.2 million in taxable Facilities Revenue Bonds, Series 2021B to provide permanent financing for the University's Hotel and Conference Center (Hotel). Interest on the bonds is payable semiannually on each March 1 and September 1, commencing March 1, 2022. The bonds consist of term bonds that will mature from 2027 to 2056, with interest rates ranging from 4% to 5%. The outstanding bonds are secured by available revenues from the Hotel and required reserve accounts held with a trustee subject to a Cash Management Agreement and Trust Agreement. In fiscal year 2023, interest incurred on all debt totaled \$2,521,428 and includes amortization of premium on the tax-exempt bonds and finance costs incurred related to the issuance of the bonds.

NOTE 9 - LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

A. Lessor Arrangements - The University leases land and equipment to external 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 University's estimated incremental borrowing rate if there is no stated contractual interest rate.

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

During the year ended June 30, 2023, the University recognized operating revenues related to lessor arrangements totaling \$243,699, and nonoperating lease interest income totaling \$34,244.

The University'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	Interest Rate
Lessor:					
Land	4	\$ 305,090	\$ 60,340	7/1/2021 - 5/14/2035	2.71%
Machinery and Equipment	3	822,148	115,561	7/1/2021 - 5/14/2035	2.71%
Total	7	\$ 1,127,238	\$ 175,901		

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

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

The University had commitments under leases before the lease term as follows: a nine-year lease agreement for the right-to-use additional building space at the NC Research Campus beginning July 1, 2023 with total payments over the period of \$445,016.

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

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2023	Current Portion	Lease Terms	Interest Rate
Lessee:					
Right-to-Use Leased Buildings	5	\$ 5,008,767	\$ 601,829	7/1/2021 - 6/30/2031	2.71%
Right-to-Use Leased Machinery and Equipment	1	935,294	442,361	7/1/2021 - 7/31/2025	2.71%
Total	6	\$ 5,944,061	\$1,044,190		

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

NOTES TO THE FINANCIAL STATEMENTS

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

The University had commitments under SBITAs before the SBITA term as follows:

Commitments:	Number of SBITA Contracts	SBITA Commitments June 30, 2023	SBITA Terms	Interest Rate Range
Subscription-Based Information Technology Arrangements (SBITAs)	5	\$ 7,735,159	07/01/2023 - 03/08/2032	2.69% - 2.90%

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

SBITA	Number of SBITAs	Subscription (SBITA) Liabilities June 30, 2023	Current Portion	SBITA Terms	Interest Rate Ranges
Right-to-Use Subscription Assets	31	\$ 6,290,463	\$ 1,922,897	7/1/2022 - 6/30/2031	1.71%-2.84%

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	\$ 1,044,190	\$ 149,578	\$ 1,922,897	\$ 86,937
2025	1,090,591	120,565	2,010,220	105,006
2026	710,025	95,080	910,829	58,831
2027	708,712	76,172	827,621	36,650
2028	747,206	56,313	323,354	16,412
2029-2033	1,643,337	52,796	295,542	11,529
Total Requirements	\$ 5,944,061	\$ 550,504	\$ 6,290,463	\$ 315,365

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	\$ (41,359,128)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(459,156,190)</u>
Effect on Unrestricted Net Position	(500,515,318)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>469,890,076</u>
Total Unrestricted Net Position	<u><u>\$ (30,625,242)</u></u>

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

NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts and Allowances</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 294,011,965</u>	<u>\$ 58,963,625</u>	<u>\$ 728,335</u>	<u>\$ 234,320,005</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 56,663,110	\$ 11,907,520	\$ 56,655	\$ 44,698,935
Dining	32,180,566	5,183,550	34,792	26,962,224
Student Union Services	3,379,776	-	-	3,379,776
Health Services	1,743,510	-	3,251	1,740,259
Parking	10,681,306	-	7,565	10,673,741
Athletics	7,302,788	-	-	7,302,788
Facilities	748,704	-	-	748,704
Other	2,959,652	-	-	2,959,652
Sales and Services of Education and Related Activities	<u>876,417</u>	<u>-</u>	<u>-</u>	<u>876,417</u>
Total Sales and Services, Net	<u><u>\$ 116,535,829</u></u>	<u><u>\$ 17,091,070</u></u>	<u><u>\$ 102,263</u></u>	<u><u>\$ 99,342,496</u></u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 212,122,185	\$ 30,514,527	\$ -	\$ -	\$ -	\$ 242,636,712
Research	19,445,105	9,584,771	-	-	-	29,029,876
Public Service	2,266,516	745,165	-	-	-	3,011,681
Academic Support	46,541,749	20,976,765	-	75,351	-	67,593,865
Student Services	16,848,588	7,361,967	-	-	-	24,210,555
Institutional Support	32,463,161	14,558,626	-	3,880	-	47,025,667
Operations and Maintenance of Plant	26,400,863	20,646,165	-	8,857,118	-	55,904,146
Student Financial Aid	-	-	43,912,583	-	-	43,912,583
Auxiliary Enterprises	46,080,196	77,320,889	-	5,374,252	-	128,775,337
Depreciation/Amortization	-	-	-	-	42,011,537	42,011,537
Total Operating Expenses	\$ 402,168,363	\$ 181,708,875	\$ 43,912,583	\$ 14,310,601	\$ 42,011,537	\$ 684,111,959

NOTE 13 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The University's contractually-required contribution rate for the year ended June 30, 2023 was 17.38% of covered payroll. Plan members' contributions to the pension plan were \$8,066,632, and the University's contributions were \$23,366,345 for the year ended June 30, 2023.

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

TSERS Basis of Accounting: The financial statements of the TSERS plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

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

Net Pension Liability: At June 30, 2023, the University reported a liability of \$104,055,962 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. The University's proportion of the net pension liability was based on a projection of the present value of future salaries for the University relative to the projected present value of

future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University's proportion was 0.70108%, which was a decrease of 0.04612 from its proportion measured as of June 30, 2021, which was 0.74720%.

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:

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
\$ 183,976,243	\$ 104,055,962	\$ 38,088,162

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2023, the University recognized pension expense of \$21,945,824. At June 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 453,066	\$ 1,418,299
Changes of Assumptions	8,209,619	-
Net Difference Between Projected and Actual Earnings on Plan Investments	34,176,150	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	580,580	2,670,627
Contributions Subsequent to the Measurement Date	23,366,345	-
Total	\$ 66,785,760	\$ 4,088,926

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:**

Year Ending June 30:	Amount
2024	\$ 10,775,728
2025	9,460,824
2026	2,710,853
2027	16,383,084
Total	\$ 39,330,489

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

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

Participants contribute 6% of compensation and the University contributes 6.84%. For the current fiscal year, the University had a total payroll of \$354,193,884, of which \$164,787,325 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$9,887,240 and \$11,271,453, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. At the end of the reporting period, the University had a liability of \$77,573. The amount of forfeitures reflected in pension expense recognized during the reporting period was \$1,255,814.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2022 *Annual Comprehensive Financial Report*.

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled

employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Act. The University's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The University's contributions to the RHBF were \$20,617,029 for the year ended June 30, 2023.

In fiscal year 2021, the Plan transferred \$187.0 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the

transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2023, the University recognized noncapital contributions for RHBF of \$2,714,106.

2. Disability Income

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

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

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

unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2023 was 0.10% of covered payroll. The University's contributions to DIPNC were \$299,231 for the year ended June 30, 2023.

C. Net OPEB Liability

Retiree Health Benefit Fund: At June 30, 2023, the University reported a liability of \$357,060,159 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The University's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University's proportion was 1.50361%, which was a decrease of 0.04829 from its proportion measured as of June 30, 2021, which was 1.55190%.

Disability Income Plan of North Carolina: At June 30, 2023, the University reported a liability of \$442,150 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The University's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the University's proportion was 1.48632%, which was a decrease of 0.03435 from its proportion measured as of June 30, 2021, which was 1.52067%.

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

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

* Salary increases include 3.25% inflation and productivity factor.

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

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

N/A - Not Applicable

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

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

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

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

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

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

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

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

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

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

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.54% at June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above

assumptions, the plan’s fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

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

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

		Net OPEB Liability		
		<u>1% Decrease (2.54%)</u>	<u>Current Discount Rate (3.54%)</u>	<u>1% Increase (4.54%)</u>
RHBF	\$	420,575,723	\$ 357,060,159	\$ 305,185,179
		<u>1% Decrease (2.08%)</u>	<u>Current Discount Rate (3.08%)</u>	<u>1% Increase (4.08%)</u>
DIPNC	\$	544,454	\$ 442,150	\$ 339,594

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

		Net OPEB Liability		
		<u>1% Decrease</u>	<u>Current Healthcare</u>	<u>1% Increase</u>
		<u>(Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 0% - 4%, Administrative - 2%)</u>	<u>Cost Trend Rates</u>	<u>(Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 0% - 6%, Administrative - 4%)</u>
		<u>(Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 0% - 5%, Administrative - 3%)</u>		
RHBF	\$	293,917,633	\$ 357,060,159	\$ 438,680,908

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.

NOTES TO THE FINANCIAL STATEMENTS

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

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ (38,140,400)
DIPNC	619,707
Total OPEB Expense	<u>\$ (37,520,693)</u>

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

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 3,466,582	\$ 495,613	\$ 3,962,195
Changes of Assumptions	28,587,305	28,418	28,615,723
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	3,091,986	467,656	3,559,642
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	19,592,691	56,759	19,649,450
Contributions Subsequent to the Measurement Date	<u>20,617,029</u>	<u>299,231</u>	<u>20,916,260</u>
Total	<u>\$ 75,355,593</u>	<u>\$ 1,347,677</u>	<u>\$ 76,703,270</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 988,022	\$ -	\$ 988,022
Changes of Assumptions	162,506,486	81,911	162,588,397
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>14,712,572</u>	<u>68,160</u>	<u>14,780,732</u>
Total	<u>\$ 178,207,080</u>	<u>\$ 150,071</u>	<u>\$ 178,357,151</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:

Year Ending June 30:	RHBF	DIPNC
2024	\$ (36,086,007)	\$ 224,584
2025	(27,005,603)	256,775
2026	(36,901,666)	185,386
2027	(23,475,240)	142,594
2028	-	27,461
Thereafter	-	61,575
Total	\$ (123,468,516)	\$ 898,375

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the

DIPNC to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a \$10,000 per occurrence deductible.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University mitigated additional risks with the following insurance programs as of June 30, 2023:

A separate professional liability policy underwritten by Medical Mutual Insurance is provided to healthcare professionals. The limit of liability is \$1,000,000 per claim and \$3,000,000 aggregate annually.

The University is protected for losses from the risk of a cyber breach for first party cyber claims and Payment Card Industry (PCI) fines with a \$5,000,000 annual policy aggregate limit and a \$250,000 deductible per claim. Sublimits apply as described in the current policy. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$13,976,923 at June 30, 2023.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - RELATED PARTY

The Athletic Foundation of the University of North Carolina at Charlotte, Inc. (Athletic Foundation) is a separately incorporated nonprofit foundation associated with the University.

The Athletic Foundation serves as the primary fundraising arm of the University's Athletic Department through which individuals, corporations, and other organizations support the University's student athletic programs through donor contributions. Donations are used to provide the University with funds to distribute as athletic scholarships and to provide other support to the athletic programs. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Athletic Foundation, except for amounts reported within the fiduciary statements and support from the organization to the University. This support approximated \$6,132,564 for the year ended June 30, 2023.

The University contributed services valued at \$986,100 for Athletic Foundation financial and administrative support for the year ended June 30, 2023.

NOTE 18 - BLENDED COMPONENT UNIT

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

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

	University	UNCCIF*	Eliminations	Total
ASSETS				
Current Assets	\$ 510,180,073	\$ 11,894,756	\$ (11,894,756)	\$ 510,180,073
Capital Assets, Net	1,529,524,182	-	-	1,529,524,182
Other Noncurrent Assets	242,562,792	304,391,339	(304,391,339)	242,562,792
Total Assets	2,282,267,047	316,286,095	(316,286,095)	2,282,267,047
TOTAL DEFERRED OUTFLOWS OF RESOURCES	156,952,373	-	-	156,952,373
LIABILITIES				
Current Liabilities	64,196,912	163,247	(163,247)	64,196,912
Long-Term Liabilities, Net	1,079,855,287	-	-	1,079,855,287
Other Noncurrent Liabilities	11,577,807	-	-	11,577,807
Total Liabilities	1,155,630,006	163,247	(163,247)	1,155,630,006
TOTAL DEFERRED INFLOWS OF RESOURCES	183,547,320	-	-	183,547,320
NET POSITION				
Net Investment in Capital Assets	979,479,670	-	-	979,479,670
Restricted - Nonexpendable	52,812,844	316,122,848	(316,122,848)	52,812,844
Restricted - Expendable	98,374,822	-	-	98,374,822
Unrestricted	(30,625,242)	-	-	(30,625,242)
Total Net Position	\$ 1,100,042,094	\$ 316,122,848	\$ (316,122,848)	\$ 1,100,042,094

*UNCCIF amounts include the portion that is attributable to The Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit C-1 of the financial statements. UNCCIF amounts also include the Fiduciary Fund attributable to the Athletic Foundation of the University of North Carolina at Charlotte, Inc. presented in Exhibit B-1 of the financial statements. The discretely presented and the fiduciary portions are removed via eliminations.

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

	University	UNCCIF*	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 234,320,005	\$ -	\$ -	\$ 234,320,005
Grants & Contracts	57,517,716	-	-	57,517,716
Sales and Services, Net	99,342,496	-	-	99,342,496
Other Operating Revenues	5,905,294	-	-	5,905,294
Total Operating Revenues	397,085,511	-	-	397,085,511
OPERATING EXPENSES				
Operating Expenses	642,100,422	-	-	642,100,422
Depreciation/Amortization	42,011,537	-	-	42,011,537
Total Operating Expenses	684,111,959	-	-	684,111,959
Operating Loss	(287,026,448)	-	-	(287,026,448)
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	310,557,428	-	-	310,557,428
Contributions and Aid	100,112,600	-	-	100,112,600
Investment Income (Net of Investment Expense)	16,684,850	9,894,601	(9,894,601)	16,684,850
Interest and Fees on Debt	(17,975,897)	-	-	(17,975,897)
Allocation to Owners	-	(9,894,601)	9,894,601	-
Other	(1,796,885)	-	-	(1,796,885)
Net Nonoperating Revenues	407,582,096	-	-	407,582,096
Capital Contributions	6,102,513	-	-	6,102,513
Additions to Endowments	1,190,995	-	-	1,190,995
Total Other Revenues	7,293,508	-	-	7,293,508
Increase in Net Position	127,849,156	-	-	127,849,156
NET POSITION				
Net Position, July 1, 2022 (as Restated)	972,192,938	-	-	972,192,938
Net Position, June 30, 2023	\$ 1,100,042,094	\$ -	\$ -	\$ 1,100,042,094

*UNCCIF amounts include the portion that is attributable to The Foundation of the University of North Carolina at Charlotte, Inc., which is discretely presented in Exhibit C-2 of the financial statements. UNCCIF amounts also include the Fiduciary Fund attributable to the Athletic Foundation of the University of North Carolina at Charlotte, Inc. presented in Exhibit B-2 of the financial statements. The discretely presented and the fiduciary portions are removed via eliminations.

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

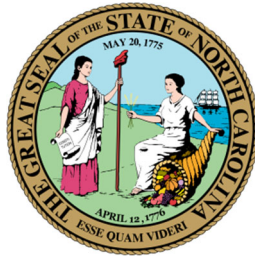
GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement

(1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITAs.

NOTE 20 - NET POSITION RESTATEMENTS

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

	<u>Amount</u>
July 1, 2022 Net Position as Previously Reported	\$ 967,346,197
Restatements:	
Record the University's Right-to-Use Subscription Assets and Subscription Liabilities Pursuant to GASB 96 Requirements	4,988,022
Correction to Exclude Student Legal Services (a Related Party)	
Net Position Balance at July 1, 2022	<u>(141,281)</u>
July 1, 2022 Net Position as Restated	<u><u>\$ 972,192,938</u></u>



REQUIRED SUPPLEMENTARY INFORMATION

The University of North Carolina at Charlotte
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 D-1

Teachers' and State Employees' Retirement System	2023	2022	2021	2020	2019
Proportionate Share Percentage of Collective Net Pension Liability	0.70108%	0.74720%	0.74530%	0.73612%	0.71481%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 104,055,962	\$ 34,988,395	\$ 90,047,124	\$ 76,313,244	\$ 71,167,120
Covered Payroll	\$ 119,846,893	\$ 121,341,364	\$ 123,102,780	\$ 120,175,366	\$ 114,333,290
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	86.82%	28.83%	73.15%	63.50%	62.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.14%	94.86%	85.98%	87.56%	87.61%
	2018	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.70204%	0.66102%	0.67044%	0.67809%	0.66110%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 55,702,950	\$ 60,757,566	\$ 24,707,041	\$ 7,950,070	\$ 40,135,507
Covered Payroll	\$ 109,431,980	\$ 101,985,427	\$ 98,002,228	\$ 96,704,555	\$ 95,240,521
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	50.90%	59.57%	25.21%	8.22%	42.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

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

Exhibit D-2

Teachers' and State Employees' Retirement System	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 23,366,345	\$ 19,630,921	\$ 17,934,254	\$ 15,966,431	\$ 14,769,553
Contributions in Relation to the Contractually Determined Contribution	23,366,345	19,630,921	17,934,254	15,966,431	14,769,553
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 134,443,872	\$ 119,846,893	\$ 121,341,364	\$ 123,102,780	\$ 120,175,366
Contributions as a Percentage of Covered Payroll	17.38%	16.38%	14.78%	12.97%	12.29%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 12,325,129	\$ 10,921,312	\$ 9,331,667	\$ 8,967,204	\$ 8,403,626
Contributions in Relation to the Contractually Determined Contribution	12,325,129	10,921,312	9,331,667	8,967,204	8,403,626
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 114,333,290	\$ 109,431,980	\$ 101,985,427	\$ 98,002,228	\$ 96,704,555
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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

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

Changes of Benefit Terms:

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

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

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

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

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

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

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 13 for more information on the specific assumptions for the plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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

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

N/A - Not Applicable

The University of North Carolina at Charlotte
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 D-3
Page 1 of 2

Retiree Health Benefit Fund	2023	2022	2021	2020	2019
Proportionate Share Percentage of Collective Net OPEB Liability	1.50361%	1.55190%	1.54797%	1.54029%	1.46220%
Proportionate Share of Collective Net OPEB Liability	\$ 357,060,159	\$ 479,780,356	\$ 429,421,307	\$ 487,339,827	\$ 416,554,876
Covered Payroll	\$ 273,021,319	\$ 272,879,289	\$ 273,878,099	\$ 267,338,387	\$ 255,356,381
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	130.78%	175.82%	156.79%	182.29%	163.13%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	10.58%	7.72%	6.92%	4.40%	4.40%
	2018	2017			
Proportionate Share Percentage of Collective Net OPEB Liability	1.37590%	1.47880%			
Proportionate Share of Collective Net OPEB Liability	\$ 451,110,687	\$ 643,328,264			
Covered Payroll	\$ 243,798,332	\$ 226,082,790			
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	185.03%	284.55%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%			

**The University of North Carolina at Charlotte
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 D-3
Page 2 of 2**

Disability Income Plan of North Carolina	2023	2022	2021	2020	2019
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	1.48632%	1.52067%	1.60072%	1.58951%	1.52036%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ 442,150	\$ (248,386)	\$ (787,458)	\$ (685,874)	\$ (461,825)
Covered Payroll	\$ 273,021,319	\$ 272,879,289	\$ 273,878,099	\$ 267,338,387	\$ 255,356,381
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.16%	0.09%	0.29%	0.26%	0.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%
	2018	2017			
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	1.50392%	1.35886%			
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (919,196)	\$ (843,852)			
Covered Payroll	\$ 243,798,332	\$ 226,082,790			
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.38%	0.37%			
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.23%	116.06%			

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

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

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

Exhibit D-4
Page 1 of 2

Retiree Health Benefit Fund	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 20,617,029	\$ 17,173,041	\$ 18,228,337	\$ 17,719,913	\$ 16,762,117
Contributions in Relation to the Contractually Determined Contribution	20,617,029	17,173,041	18,228,337	17,719,913	16,762,117
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 299,231,197	\$ 273,021,319	\$ 272,879,289	\$ 273,878,099	\$ 267,338,387
Contributions as a Percentage of Covered Payroll	6.89%	6.29%	6.68%	6.47%	6.27%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 15,449,061	\$ 14,168,417	\$ 12,660,636	\$ 11,738,557	\$ 10,996,246
Contributions in Relation to the Contractually Determined Contribution	15,449,061	14,168,417	12,660,636	11,738,557	10,996,246
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790	\$ 213,817,074	\$ 203,634,194
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

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

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

Disability Income Plan of North Carolina	2023	2022	2021	2020	2019
Contractually Required Contribution	\$ 299,231	\$ 245,719	\$ 245,591	\$ 273,878	\$ 374,274
Contributions in Relation to the Contractually Determined Contribution	299,231	245,719	245,591	273,878	374,274
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 299,231,197	\$ 273,021,319	\$ 272,879,289	\$ 273,878,099	\$ 267,338,387
Contributions as a Percentage of Covered Payroll	0.10%	0.09%	0.09%	0.10%	0.14%
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 357,499	\$ 926,434	\$ 926,939	\$ 876,650	\$ 895,990
Contributions in Relation to the Contractually Determined Contribution	357,499	926,434	926,939	876,650	895,990
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 255,356,381	\$ 243,798,332	\$ 226,082,790	\$ 213,817,074	\$ 203,634,194
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 at Charlotte
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2023

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

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

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

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

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

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

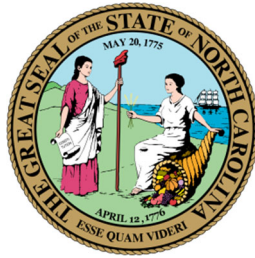
Changes of Assumptions: Consistent with prior years, for the actuarial valuation measured as of June 30, 2022 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.54%, from 2.16% as of June 30, 2021. This update was to reflect the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

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

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

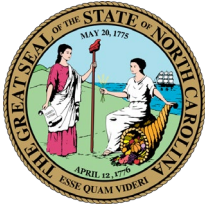
For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability.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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
The University of North Carolina at Charlotte
Charlotte, 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 at Charlotte (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 8, 2023. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Charlotte Investment Fund, Inc. and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc., as described in our report on the University's financial statements. The financial statements of The University of North Carolina at Charlotte Investment Fund, Inc. and the consolidated financial statements of The Foundation of the University of North Carolina at Charlotte, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with those entities.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 8, 2023

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This audit required 568 hours at an approximate cost of \$77,248.