STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

APPALACHIAN STATE UNIVERSITY

BOONE, 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

THE GREAT SEAL OF THE STATE OF NORTH CAROLINA

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Office of the State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699
Telephone: (919) 807-7500
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Appalachian State University 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 financial position of Appalachian State University, as of June 30, 2023, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Appalachian State University Foundation, Inc., which represent 15.27 percent and 6.25 percent, respectively, of the assets and revenues of the University; nor the financial statements of Appalachian Student Housing Corporation, which represent 6.60 percent and 1.54 percent, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Appalachian State University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 8, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Appalachian State University (University) presents the following management discussion and analysis as a comparative overview of significant changes that have occurred during the fiscal year ended June 30, 2023. The discussion and analysis, prepared by management, is to be read in combination with the financial statements and notes to the financial statements.

Financial information for the Appalachian State University Foundation, Inc. (Foundation) and the Appalachian Student Housing Corporation (Corporation) is blended with the University for reporting purposes. Blending means that financial information will be presented as if the Foundation and the Corporation are part of the University's operations. As a result, balances from the Foundation's and Corporation's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position are included in the comparative statements for the purposes of management's discussion and analysis.

The statements and accompanying notes that follow the discussion and analysis are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for financial reporting for public colleges and universities. The statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to understanding the financial statements.

Financial Highlights

The University continued to expand services both on its main campus and the newly established campus in Hickory, North Carolina. Looking ahead for the fall of 2023, the University opened its newest residence hall to meet the demand for on-campus housing. Moreover, construction activities began on much needed renovations of academic buildings. Simultaneously, groundbreaking commenced on the first academic building within Appalachian's Innovation District, which will be home to the Conservatory for Biodiversity Education and Research, as well as a faculty and staff housing project. The financial discussion that follows will provide a narrative of the activities that occurred in the past fiscal year that position the University to better serve students and the residents of North Carolina.

Adoption of New Accounting Standards

In fiscal year 2023, two new accounting standards from the GASB were implemented. The first, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* replaces GASB Statement No. 60, *Accounting and Reporting for Service Concession Arrangements.* A service concession arrangement is type of public-private partnership. The University entered a service concession arrangement with a private entity to provide and operate student housing facilities in fiscal year 2019. In fiscal years 2021 and 2022, the University recognized assets, liabilities, and deferred inflows under this arrangement. As of June 30, 2022, the carrying value of assets amounted to $101.1 million, liabilities to $27.1 million, and deferred inflows to $73.6 million. Under GASB 60, the University recorded a liability for its contractual service obligations defined in the agreement. However, GASB 94 no longer considers the University's service obligation a component of a public-private partnership, thus eliminating the requirement to recognize these liabilities as a reduction to deferred inflows. Consequently, the University restated beginning balances, resulting in a $27.0 million decrease in liabilities and a $26.0 million increase in deferred inflows under public-private partnerships.

The second accounting standard that was issued is GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs).* Under the new standard, a SBITA that meets certain requirements will be recorded as a right-to-use asset and associated liability. GASB 96 defines a SBITA as a contract that allows the use of a vendor's software for a specific length of time. An example of a SBITA for the University is Adobe's Creative and Document cloud software. Beginning balances for fiscal year 2023 were restated to recognize a $6.7 million increase in SBITA assets, a $3.7 million increase in SBITA liabilities, and a $333.4 thousand decrease in prepaid assets. The difference in the beginning asset and liability balances is primarily related to a prepayment made for the University's cyber security tool, which means there is no liability associated with the right-to-use assets recognized.

Additional information regarding these new standards and associated restatements can be found in the accompanying notes to the financial statements (Notes 19 and 20).

Statement of Net Position

The Condensed Statement of Net Position represents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period(s) (Deferred Outflows of Resources);
- What the University owes or has received before services have been provided (Liabilities);
- The acquisition of net position related to a future reporting period(s) (Deferred Inflows of Resources); and
- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is like a balance sheet and shows the University's financial position at a single point in time. Account balances for fiscal year 2022 associated with the implementation of GASB 94 and GASB 96 have been restated for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year 2023	Fiscal Year 2022 (as Restated)	$ Change	Percent Change
Assets				
Current Assets	$ 233,189,296	$ 223,130,709	$ 10,058,587	4.5%
Capital Assets, Net	906,664,720	905,866,592	798,128	0.1%
Other Noncurrent Assets	274,898,114	253,143,683	21,754,431	8.6%
Total Assets	1,414,752,130	1,382,140,984	32,611,146	2.4%
Deferred Outflows of Resources	118,409,961	95,155,506	23,254,455	24.4%
Liabilities				
Current Liabilities	64,838,512	59,465,433	5,373,079	9.0%
Long-Term Liabilities, Net	702,075,530	707,396,347	(5,320,817)	-0.8%
Other Noncurrent Liabilities	4,323,884	4,190,611	133,273	3.2%
Total Liabilities	771,237,926	771,052,391	185,535	0.0%
Deferred Inflows of Resources	220,628,659	239,568,412	(18,939,753)	-7.9%
Net Position				
Net Investment in Capital Assets	470,713,508	465,816,878	4,896,630	1.1%
Restricted - Nonexpendable	113,807,357	105,469,257	8,338,100	7.9%
Restricted - Expendable	156,111,627	140,174,176	15,937,451	11.4%
Unrestricted	(199,336,986)	(244,784,624)	45,447,638	-18.6%
Total Net Position	$ 541,295,506	$ 466,675,687	$ 74,619,819	16.0%

Total Assets

Assets represent financial resources that have a positive effect on net position. They represent resources needed to meet obligations and make payments as they become due. For the year ended June 30, 2023, total assets increased by $32.6 million representing a 2.4% change. The largest increase is in other noncurrent assets totaling $21.8 million followed by a 4.5% increase in current assets totaling $10.1 million.

The $10.1 million increase in current assets is mostly related to increases in cash and cash equivalents of $6.4 million, restricted cash and cash equivalents of $3.0 million, and other current assets totaling $4.8 million. The increase in cash and cash equivalents was primarily from increased Dining Services revenues and related reserves, which will fund improvements to dining facilities, as well as strong investment earnings. Restricted cash and cash equivalents increased due to COVID-19 related expense reimbursements received from the Federal Emergency Management Agency (FEMA) and an increase in restricted scholarship funds. Increases in other current assets totaling $4.8 million are associated with prepayments made on software subscriptions prior to the subscription term, and as a result are not yet capitalized as assets.

Overall increases were offset by an 18.7% decrease in current receivables of $5.3 million. The decrease in current receivables can be mostly attributed to two factors. One is a $2.9 million decrease in funds due from FEMA for expenses incurred during the COVID-19 pandemic. The other significant reduction in current receivables is related to a prior year credit owed to the University from its optional retirement program provider. At the end of 2022 the balance of forfeited contributions to the plan totaled $2.2 million. These balances were applied to offset expenses in fiscal year 2023 which also represents a savings of cash.

Noncurrent assets increased during the fiscal year by $22.6 million. Most of this increase occurred in other noncurrent assets, which saw an 8.6% increase over the prior year. Most of the increase is associated with a $19.7 million increase in restricted cash from the issuance of bonds totaling $20.5 million for a new parking deck and the receipt of capital grants from the State for capital improvements totaling $16.0 million. This significant increase was offset by a reduction of restricted cash balances for the Appalachian Student Housing Corporation totaling $15.9 million expended for the construction of New River Residence Hall.

Deferred Outflows of Resources

Deferred outflows of resources relate to the consumption of assets by the University applicable to a future reporting period. While deferred outflows of resources do have a positive effect on net position, they are not presently available to satisfy the University's obligations.

Deferred outflows increased by $23.3 million, which is mostly related to changes to balances in the State's pension plan and other postemployment benefits (OPEB) plans. The most significant change is a $30.6 million increase in deferred outflows related to pensions due to differences between projected and actual investment earnings on the State's pension plan investments. This increase was offset by a $6.6 million decrease in deferred inflows related to OPEB.

Total Liabilities

Liabilities are obligations of financial resources (assets) that the University has no ability to avoid paying when they become due. Liabilities have a negative effect on net position. For the fiscal year ended June 30, 2023, total liability balances remained relatively flat in comparison with the prior year.

Long-term liabilities decreased by 0.8% or $5.3 million, while the most significant change was in current liabilities totaling $5.4 million, a 9.0% increase. This increase was driven primarily by a $3.4 million increase in accounts payable due to a significant increase in noncapital repair and renovation projects as compared to the prior year.

Deferred Inflows of Resources

Deferred inflows of resources represent inflows of resources that have already occurred and are applicable to future periods. Like a liability, they have a negative effect on net position, but do not represent obligations of the University's financial resources.

Total deferred inflows decreased by $18.9 million. The change in deferred inflows for pensions represents the most significant portion of the decrease totaling $38.2 million. Like the change discussed in the deferred outflows section above, this decrease is related to the difference between the projected earnings and actual earnings on plan investments.

In contrast, deferred inflows related to the University's participation in the State's OPEB plans increased by $22.0 million and is a result of changes of assumptions made by actuaries about demographic and economic projections for employees who are covered by the plan relative to their remaining time of employment to retirement.

Net Position

Net position consists of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position. It represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources that equates to an ending fund balance for the fiscal year. These fund balances represent resources, net of claims or obligations, such as cash and cash equivalents, receivables, inventories, and investments in addition to other fund balances with little to no liquidity, meaning they are not easily convertible to cash, such as capital assets and permanent endowment gifts.

Net investment in capital assets represents the University's investment in assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets.

Net position is reported as restricted when fund balances are limited for use by external entities such as creditors, grantors, contributors, laws, regulations, or other governments. These restrictions cannot be removed without the consent of the entity imposing the restrictions. Restricted net position can be expendable or nonexpendable.

Restricted nonexpendable net position consists of loan funds and endowment gifts with specific restrictions on spending the principal balance. Restricted expendable net position is the net amount of assets, deferred outflows, liabilities, and deferred inflows that are restricted for use for a specific purpose.

Unrestricted net position is the remaining balance of assets plus deferred outflows less liabilities and deferred inflows that are not classified as net investment in capital assets or restricted. Unrestricted net position is presented as a deficit balance due to the University's proportionate share in the State's pension and OPEB plans. See notes 14 and 15 for additional information regarding the State's pension and OPEB plans, respectively.

The most significant change in net position is a $45.4 million increase in unrestricted net position. It is primarily related to the cumulative effect of changes in deferred outflows, liabilities, and deferred inflows associated with the University's proportionate share of the State's pension and OPEB balances as discussed previously, as well as increased sales and services revenues. Further analysis of revenues, expenses, and other changes will provide additional context for changes in net position balances.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's revenues and expenses incurred throughout the fiscal year. The change in net position from year-to-year is an indicator of the financial condition of the institution.

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

	Fiscal Year 2023	Fiscal Year 2022	$ Change	Percent Change
Operating Revenues				
Tuition and Fees, Net	$ 140,837,897	$ 140,323,407	$ 514,490	0.4%
Grants and Contracts	15,182,238	10,822,157	4,360,081	40.3%
Sales and Services, Net	122,089,345	104,782,780	17,306,565	16.5%
Other Operating Revenues	3,435,100	2,941,669	493,431	16.8%
Total Operating Revenues	281,544,580	258,870,013	22,674,567	8.8%
Operating Expenses				
Salaries and Benefits	285,229,903	262,678,458	22,551,445	8.6%
Supplies, Services, and Utilities	152,213,389	133,092,616	19,120,773	14.4%
Scholarships and Fellowships	26,871,337	40,406,522	(13,535,185)	-33.5%
Depreciation / Amortization	33,871,849	28,989,535	4,882,314	16.8%
Total Operating Expenses	498,186,478	465,167,131	33,019,347	7.1%
Operating Loss	(216,641,898)	(206,297,118)	(10,344,780)	5.0%
Nonoperating Revenues (Expenses)				
State Appropriations	187,163,788	167,255,437	19,908,351	11.9%
State Aid - Coronavirus	-	4,236,407	(4,236,407)	-100.0%
Student Financial Aid	43,449,802	40,853,808	2,595,994	6.4%
Federal Aid - COVID-19	1,013,346	36,404,274	(35,390,928)	-97.2%
Noncapital Contributions	37,181,810	32,963,541	4,218,269	12.8%
Investment Income, Net	4,465,018	8,209,099	(3,744,081)	-45.6%
Interst and Fees on Debt	(10,649,509)	(11,804,247)	1,154,738	-9.8%
Other Nonoperating Revenues (Expenses)	627,094	(487,977)	1,115,071	-228.5%
Net Nonoperating Revenues	263,251,349	277,630,342	(14,378,993)	-5.2%
Income Before Other Revenues	46,609,451	71,333,224	(24,723,773)	-34.7%
Capital Contributions	20,485,647	3,293,430	17,192,217	522.0%
Additions to Endowments	7,524,721	10,530,173	(3,005,452)	-28.5%
Total Other Revenues	28,010,368	13,823,603	14,186,765	102.6%
Increase in Net Position	74,619,819	85,156,827	(10,537,008)	-12.4%
Net Position				
Net Position at Beginning of Year	466,675,687	377,408,368	89,267,319	23.7%
Restatements		4,110,492	(4,110,492)	
Net Position at End of Year	$ 541,295,506	$ 466,675,687	$ 74,619,819	16.0%
Reconciliation of Increase in Net Position				
Total Revenues	$ 583,455,806	$ 562,683,223	$ 20,772,583	3.7%
Less: Total Expenses	508,835,987	477,526,396	31,309,591	6.6%
Increase in Net Position	$ 74,619,819	$ 85,156,827	$ (10,537,008)	-12.4%

Total Revenues

During fiscal year 2023 total revenues increased by 3.7% representing a $20.8 million increase. Notable increases occurred in grants and contracts, sales and services, state appropriations, and capital contributions. These increases were offset by decreases in state coronaviruus aid, federal COVID-19 aid, investment income, and additions to endowments.

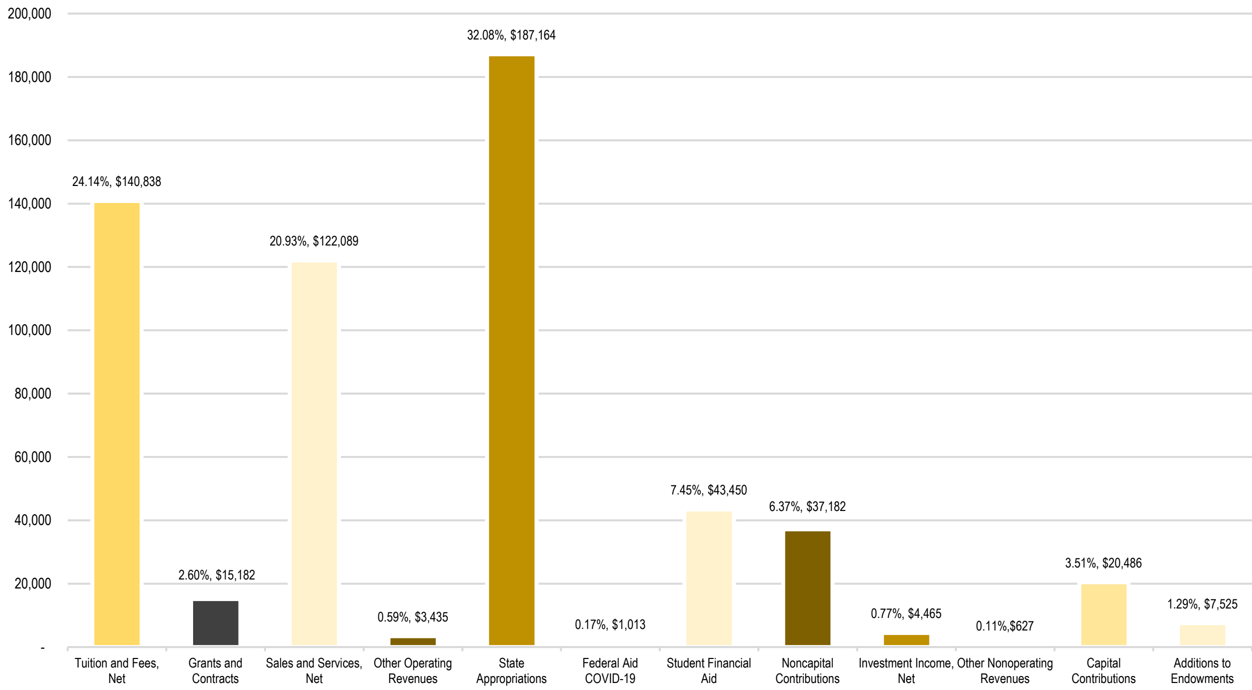
Increases in contracts and grants totaling $4.4 million were mostly related to federal awards for the University's GEAR UP program for $2.8 million. This program strives to increase the number of high school students ready to continue their education in postsecondary institutions. Other increases that contributed to the overall increase in contracts and grants came from numerous other awards across the University. Next, sales and services make up a significant amount of the increase in total revenues by contributing $17.3 million to the bottom line. Dining services recognized a $7.4 million increase resulting from the implementation of new "all you care to eat" meal plans that are designed to address food insecurity among the student population. Other notable increases in sales and services came from Athletics ticket sales, game guarantees, and concession activities, and New River Light and Power rate adjustments approved by the Utilities Comimission totaling $2.9 million and $2.5 million, respectively. Also, a $19.9 million increase in state appropriations reflects the strong commitment that North Carolina has in supporting public higher education. During the fiscal year, funds were provided from the State to support enrollment growth, legislative salary increases, and labor market salary adjustments for state employees. Similar to appropriations, the State is also making investments in capital infrastructure. In 2023 the University recognized revenues for funds received from the State Capital and Infrastructure Fund (SCIF). Funds are appropriated by the General Assembly and awarded through the Office of State Budget and Management for approved projects. The University received $17.8 million in SCIF funds for various projects including renovations to Hickory Campus, Edwin Duncan Hall, Wey Hall, and Peacock Hall, and new construction for the Innovation District.

Decreases in revenues are mostly related to the ending of emergency funding programs related to the COVID-19 pandemic and decreases in investment returns. In the prior year the University received $36.4 million directly from the federal government for student aid and institutional support. An additional $4.2 million in federal funds flowed through the State to assist with expenses during the pandemic. Investment income fell by $3.7 million due primarily to losses related to private equities, however these losses were countered by interest income received from funds held in the State Treasurer's Investment Fund, which benefited from a higher interest rate environment. Additions to endowments decreased from the prior year by $3.0 million. The University received two new professorship funds above normal levels of giving towards endowments in the prior year, which totaled $2.3 million.

Chart 1.0 on the following page provides additional context for the major revenue sources and their proportion to total revenues for the University.

Chart 1.0

Total Revenues $583,456 (dollars in Thousands)



Total Expenses

Overall, total expenses increased by $31.3 million over the prior year. A $22.6 million increase in salaries and benefits resulting from legislative and labor market increases combined with an $19.1 million increase in supplies, services, and utilities comprised most of the change. Supplies and noncapital equipment purchases decreased by $4.7 million while services related to repairs and renovations increased $17.2 million. Utilities expense increased as well by $4.7 million from higher steam costs and a spike in natural gas prices.

Scholarships and fellowships expenses decreased by 33.5%, a $13.5 million change. This is due to the reduction of one time awards to students paid from Federal Higher Education Emergency Relief Funds (HEERF) totaling $15.2 million.

Lastly, depreciation/amortization expense increased by $4.9 million, a 16.8% difference. The University recognized $2.4 million in additional expenses associated with right-to-use subscription assets while the Appalachian Student Housing Corporation added $1.6 million in depreciation expenses for assets capitalized during the year.

The chart on the following page shows expenses by natural classification. Viewing expenses in this manner shows what types of expenses the University dedicates most of its resources towards. Universities rely heavily on salaries and benefits. For the University, salaries and benefits comprise 56.1% of total expenses.

Chart 2.0

Total Expenses by Natural Classification
508,836 (dollars in thousands)

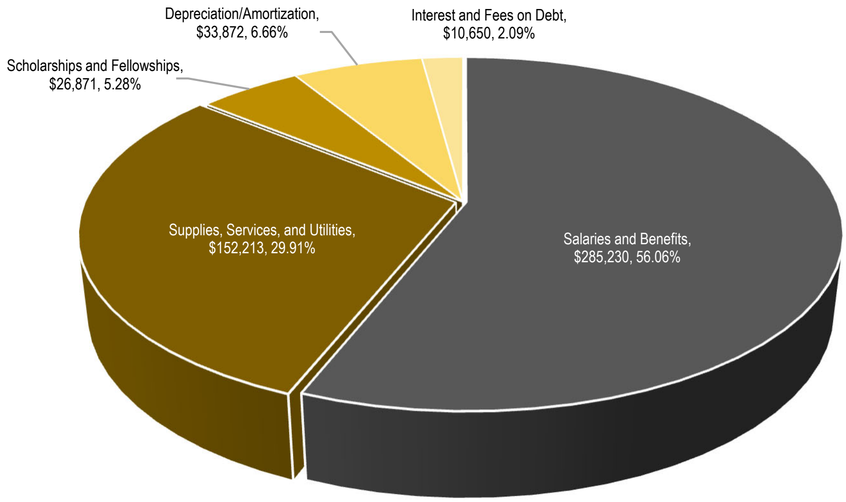
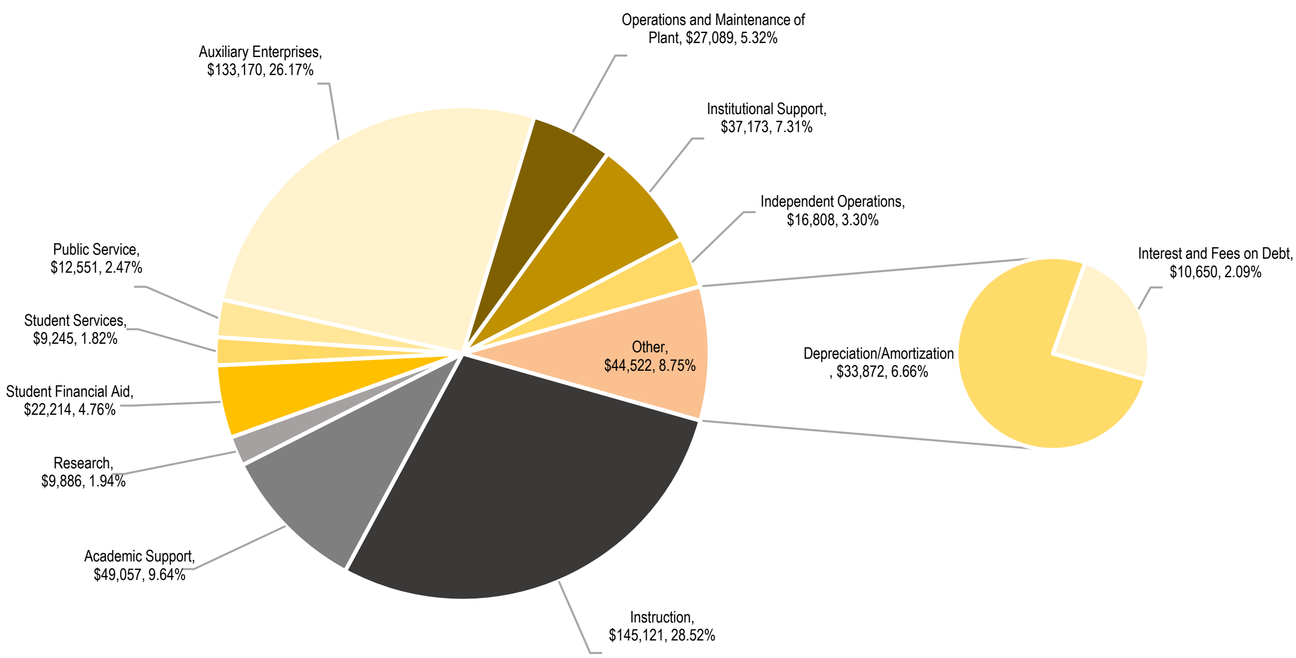


Chart 2.1 shows the amount and percent of expenses by function. Reviewing expenses by these classifications shows the expenses by major program or purpose. Most of the expenses, 68.0%, are dedicated to the teaching, academic, and student support functions of the University including auxiliary enterprises that are primarily focused on providing services to students and campus.

Chart 2.1

Total Expenses by Functional Classification
$508,836 (dollars in thousands)



Capital Assets Debt Administration

During fiscal year 2023, $86.4 million was capitalized from construction in progress to capital assets. The Appalachian Student Housing Corporation placed $69.2 million in buildings, infrastructure and parking associated with New River Residence Hall. The University placed a $4.9 million HVAC upgrade into service for App Heights Residence Hall and added $5.9 million in infrastructure assets for Athletic track facilities.

In October of 2022, the University issued Series 2022B General Revenue bonds for the construction of a parking deck adjacent to the George M. Holmes Convocation Center that will provide spaces for approximately 600 vehicles. The bonds were issued with a par amount of $20.5 million with proceeds available for construction and issuance costs totaling $20.9 million. The bonds have an average interest rate of 4.26% and will reach final maturity in October of 2052. Debt service for this issuance will be paid from the University's parking-related revenues and reserves.

Economic Outlook

The University has adhered to a strategy of slow and steady growth and continues to benefit from consistent student demand and strong operating and capital support from the State. While total enrollment declined slightly from 20,641 to 20,436, the University had anticipated and planned for this demographic shift in high school graduating classes. It continues to explore innovative solutions to attract students through the expansion of programs through new offerings such as the online Bachelor of Science in Veterinary Technology launched in the fall of 2022, a Bachelor of Science in professional studies designed for adult learners planned for the fall of 2023, and a Master's in Occupational Therapy for the fall of 2024. However, the most significant step the University has taken to foster growth and long-term sustainability is the expansion into the Hickory metropolitan area with the opening of the App State Hickory Campus, which began offering classes in the fall of 2023. Until now, Hickory was the largest metropolitan area in the State without a public university. The State and local government have been key partners in the launch of the Hickory Campus. To date, the General Assembly has allocated $9.0 million towards phase I upgrades for the campus. It is initiatives such as these and careful planning that will position the University for the future. As an early indicator of success, fall 2023 enrollment reached 21,253 students and the fall 2023 first-time freshman cohort was the largest in University history totaling 4,227 students.

This success does not come without strong state operating support. In the upcoming year the University anticipates additional appropriations for the Hickory campus, legislative salary increases, and labor market adjustments totaling $14.2 million, as well as $9.7 million in unspent carry forward funds on top of the $184.2 million base budget. The slight decline in enrollment growth is related to a downward enrollment change in 2021-2022. The funding for the growth in enrollment for 2023-2024 will be provided in the fiscal year 2025 budget.

Table 2.0 on the following page provides information about the projected 2023-2024 budget.

Table 2.0

2023-24 General Fund Budget

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget	$ 184,193,982	$ 124,922,064	$ 309,116,046
FY24 Employee Benefit Adjustments	2,100,487	-	2,100,487
FY24 Legislative Salary Increase	9,009,797	-	9,009,797
UNC Enrollment Growth Allocation	(1,189,804)	-	(1,189,804)
FY24 Appropriation - Hickory Campus Funding (Recurring)	3,096,291	-	3,096,291
FY24 Appropriation - Hickory Campus Funding (Non-Recurring)	-	2,416,888	2,416,888
FY24 Appropriation - Appalachian Energy Center	200,000	-	200,000
FY24 Appropriation - BCHS Equipment Funding	-	225,000	225,000
Nursing Faculty Salary Funding	261,092	-	261,092
Tuition Receipts Increase	-	4,281,172	4,281,172
Lab School Funding	-	5,043,497	5,043,497
Federal Work Study Match Allocation	105,000	-	
UNC Campus Scholarship Funding	77,760	-	77,760
SBTDC Allocation (from NCSU)	72,545	-	72,545
UNC Teacher Recruitment Funding	67,386	-	67,386
Future Teachers of N.C. Funding	139,250		
UNC New Teacher Support Program	144,000	-	144,000
Other Appropriations/Receipts	9,721,246	1,250,000	10,971,246
Total Additions	**23,805,050**	**13,216,557**	**36,777,357**
Total Projected Budget	**$ 207,999,032**	**$ 138,138,621**	**$ 345,893,403**

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position
June 30, 2023

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 156,100,917
Restricted Cash and Cash Equivalents	39,956,022
Receivables, Net (Note 5)	23,152,274
Inventories	6,184,439
Notes Receivable (Note 5)	629,584
Leases Receivable	301,455
Other Assets	6,864,605
Total Current Assets	233,189,296
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	54,240,014
Receivables (Note 5)	18,358,287
Endowment Investments	166,881,192
Restricted Investments	20,860,649
Other Investments	8,530,850
Notes Receivable, Net (Note 5)	32,207
Leases Receivable	3,074,677
Beneficial Interest in Assets Held by Others	1,730,398
Other Noncurrent Assets	1,189,840
Capital Assets - Nondepreciable (Note 6)	80,962,819
Capital Assets - Depreciable, Net (Note 6)	825,701,901
Total Noncurrent Assets	1,181,562,834
Total Assets	1,414,752,130
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	7,131,220
Deferred Outflows Related to Pensions	63,126,550
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	48,152,191
Total Deferred Outflows of Resources	118,409,961
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	16,740,603
Deposits Payable	221,495
Funds Held for Others	898,171
Unearned Revenue	18,525,503
Interest Payable	2,419,897
Long-Term Liabilities - Current Portion (Note 9)	26,032,843
Total Current Liabilities	64,838,512

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	57,388
Deposits Payable	266,424
Funds Held for Others	2,746,088
U.S. Government Grants Refundable	1,253,984
Long-Term Liabilities, Net (Note 9)	702,075,530
Total Noncurrent Liabilities	706,399,414
Total Liabilities	771,237,926
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Under Public-Private Partnerships (Note 7)	96,880,732
Deferred Inflows for Irrevocable Split-Interest Agreements	725,133
Deferred Inflows for Trusts Held by Others	3,155,998
Deferred Inflows Related to Pensions	2,190,380
Deferred Inflows Related to Other Postemployment Benefits (Note15)	114,391,770
Deferred Inflows for Leases	3,284,646
Total Deferred Inflows of Resources	220,628,659
NET POSITION	
Net Investment in Capital Assets	470,713,508
Restricted:	
Nonexpendable:	
True Endowments	113,523,642
Student Loans and Other	283,715
Total Restricted-Nonexpendable Net Position	113,807,357
Expendable:	
Scholarships, Research, Instruction, and Other	130,358,286
Capital Projects	25,753,341
Total Restricted-Expendable Net Position	156,111,627
Unrestricted	(199,336,986)
Total Net Position	$ 541,295,506

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

Appalachian State University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2023 ***Exhibit A-2***

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 12)	$ 140,837,897
Federal Grants and Contracts	9,089,309
State and Local Grants and Contracts	3,942,626
Nongovernmental Grants and Contracts	2,150,303
Sales and Services, Net (Note 12)	122,089,345
Interest Earnings on Loans	38,287
Other Operating Revenues	3,396,813
Total Operating Revenues	281,544,580
OPERATING EXPENSES	
Salaries and Benefits	285,229,903
Supplies and Services	136,031,454
Scholarships and Fellowships	26,871,337
Utilities	16,181,935
Depreciation/Amortization	33,871,849
Total Operating Expenses	498,186,478
Operating Loss	(216,641,898)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	187,163,788
Student Financial Aid	43,449,802
Federal Aid - COVID-19	1,013,346
Noncapital Contributions	37,181,810
Investment Income (Net of Investment Expense of $530,326)	4,465,018
Interest and Fees on Debt	(10,649,509)
Other Nonoperating Revenues	627,094
Net Nonoperating Revenues	263,251,349
Income Before Other Revenues	46,609,451
Capital Contributions	20,485,647
Additions to Endowments	7,524,721
Total Other Revenues	28,010,368
Increase in Net Position	74,619,819
NET POSITION	
Net Position - July 1, 2022, as Restated (Note 20)	466,675,687
Net Position - June 30, 2023	$ 541,295,506

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 280,004,130
Payments to Employees and Fringe Benefits	(329,299,116)
Payments to Vendors and Suppliers	(153,948,170)
Payments for Scholarships and Fellowships	(26,904,337)
Collection of Loans	348,137
Interest Earned on Loans	50,866
Student Deposits Received	5,289,267
Student Deposits Returned	(5,005,167)
William D. Ford Direct Lending Receipts	71,045,612
William D. Ford Direct Lending Disbursements	(71,121,128)
Related Activity Agency Receipts	8,086,187
Related Activity Agency Disbursements	(8,094,631)
Other Receipts	887,823
Net Cash Used by Operating Activities	(228,660,527)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	187,163,788
Student Financial Aid	43,449,802
Federal Aid - COVID-19	1,013,346
Noncapital Contributions	33,158,483
Additions to Endowments	7,524,721
Proceeds from Noncapital Debt	3,500,000
Total Cash Provided by Noncapital Financing Activities	275,810,140
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	20,641,131
Capital Contributions	19,909,284
Proceeds from Lease Arrangements	451,103
Acquisition and Construction of Capital Assets	(31,174,827)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(23,794,313)
Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities	(10,401,047)
Net Cash Used by Capital Financing and Related Financing Activities	(24,368,669)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,557,224
Investment Income	2,246,693
Purchase of Investments and Related Fees	(532,974)
Net Cash Provided by Investing Activities	6,270,943
Net Increase in Cash and Cash Equivalents	29,051,887
Cash and Cash Equivalents - July 1, 2022	221,245,066
Cash and Cash Equivalents - June 30, 2023	$ 250,296,953

Appalachian State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2023 — *Page 2 of 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (216,641,898)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	33,871,849
Lease Income (Amortized Deferred Inflows of Resources)	(543,487)
Allowances, Write-Offs, and Amortizations	322,532
Other Nonoperating Income	1,093,900
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	1,907,186
Inventories	(912,313)
Notes Receivable, Net	348,137
Other Assets	(5,084,252)
Net Other Postemployment Benefits Asset	172,387
Deferred Outflows Related to Pensions	(30,610,654)
Deferred Outflows Related to Other Postemployment Benefits	6,602,675
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	5,070,508
Funds Held for Others	275,656
Unearned Revenue	(558,594)
Net Pension Liability	67,941,220
Net Other Postemployment Benefits Liability	(74,534,869)
Compensated Absences	1,427,519
Deposits Payable	7,965
Workers' Compensation Liability	53,246
Deferred Inflows Under Public-Private Partnerships	(2,648,987)
Deferred Inflows Related to Pensions	(38,206,968)
Deferred Inflows Related to Other Postemployment Benefits	21,986,715
Net Cash Used by Operating Activities	$ (228,660,527)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 5,819,249
Assets Acquired through a Gift	470,185
Change in Fair Value of Investments	(2,574,803)
Reinvested Distributions	(2,632,914)
Loss on Disposal of Capital Assets	(353,753)
Bond Issuance Cost Withheld	265,915
Lease Terminations	(213,497)
Amortization of Deferred Loss on Refunding	(753,524)
Amortization of Bond Premiums/Discounts	(1,000,314)
Increase in Receivables Related to Nonoperating/Other Revenues	1,601,378
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(1,853,490)
UNC Management Company Investment Management Fees	(530,326)

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

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

Blended Component Units - Although legally separate, the Appalachian State University Foundation, Inc. (Foundation) and the Appalachian State University Housing Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Foundation is governed by a 20-member board consisting of 7 ex officio directors and 13 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the University's Board of Trustees and the Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Corporation is governed by a board of directors consisting of no less than 3 and no more than 10 directors, of which 3 members are administrative officers of the University. The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. Because the majority of the Corporation's debt is expected to be paid using resources of the University, and the Corporation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the Vice Chancellor for University Advancement, Dougherty Administration Building, 438 Academy Street, Boone, NC 28608, or by calling the Foundation Office at 828-262-2341.

Separate financial statements for the Corporation may be obtained from the Vice Chancellor for Student Affairs, Dougherty Administration Building, 438 Academy Street, Boone, NC 28608, or by calling the Office of Student Affairs at 828-262-2060.

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

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

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

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

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

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

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

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

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 computer software which is capitalized when the value or cost is $100,000 or greater. Electric utility assets are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 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 $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 $75,000 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, unspent debt proceeds, and endowment and other restricted investments.

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

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

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

Revenue bonds payable 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 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 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

Q. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, steam plant, electric utility, 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 $235,193,015, 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 $55,167. The carrying amount of the University's deposits not with the State Treasurer was $15,048,771, and the bank balance was $15,658,309. 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, $13,907,640 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

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

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

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

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

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

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

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the percentage method. Under this method, each participating fund's investment balance is determined on percentage of the original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Board of Trustees of the Endowment Fund and the Foundation's Board of Directors.

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

Long-Term Investment Pool

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 194,328,265
Real Assets Limited Partnerships	246,033
Alternative Income Fund	51,440
Total Long-Term Investment Pool	$ 194,625,738

UNC Investment Fund, LLC - At June 30, 2023, the University's investments include $194,328,265, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Debt Mutual Funds	$ 364,964	$ -	$ 57,988	$ 306,976
Money Market Mutual Funds	22,329	22,329	-	-
Total Debt Securities	387,293	$ 22,329	$ 57,988	$ 306,976
Other Securities				
Equity Mutual Funds	581,110			
Investments in Real Estate	239,025			
Domestic Stocks	309,869			
Cash Surrender Value of Life Insurance	129,656			
Total Non-Pooled Investments	$ 1,646,953			

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

	Amount	AAA Aaa	A	BB/Ba and below
Debt Mutual Funds	$ 364,964	$ -	$ 265,470	$ 99,494
Money Market Mutual Funds	22,329	22,329	-	-
Totals	$ 387,293	$ 22,329	$ 265,470	$ 99,494

Rating Agency: Moody's/S&P/Fitch

At June 30, 2023, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 309,869

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

	Amount
Investment Type	
Debt Securities	
Debt Mutual Funds	$ 364,964
Money Market Mutual Funds	22,329
Other Securities	
UNC Investment Fund	194,328,265
Equity Mutual Funds	581,110
Investments in Real Estate	239,025
Alternative Income Fund	51,440
Domestic Stocks	309,869
Real Assets Limited Partnerships	246,033
Cash Surrender Value of Life Insurance	129,656
Total Investments	$ 196,272,691

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and certain other assets and liabilities 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 or liabilities 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 or liability, either directly or indirectly.

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

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, and certain other assets and liabilities within the fair value hierarchy at June 30, 2023:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 364,964	$ 364,964	$ -	$ -
Money Market Mutual Funds	22,329	22,329	-	-
Total Debt Securities	387,293	387,293	-	-
Other Securities				
Equity Mutual Funds	581,110	581,110	-	-
Investments in Real Estate	239,025	9,025	-	230,000
Domestic Stocks	309,869	309,869	-	-
Cash Surrender Value of Life Insurance	129,656	129,656	-	-
Total Investments by Fair Value Level	1,646,953	$ 1,416,953	$ -	$ 230,000
Investments Measured at the Net Asset Value (NAV)				
Alternative Income Fund	51,440			
Real Assets Limited Partnerships	246,033			
Total Investments Measured at the NAV	297,473			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	235,193,015			
UNC Investment Fund	194,328,265			
Total Investments as a Position in an External Investment Pool	429,521,280			
Total Investments Measured at Fair Value	$ 431,465,706			
Other Assets (Liabilities) Measured at Fair Value				
Beneficial Interests in Assets Held by Others	$ 1,730,398	$ -	$ -	$ 1,730,398
Pledges Receivable from Trusts	$ 1,998,617	$ -	$ -	$ 1,998,617
Split-Interest Obligations	$ (1,420,536)	$ -	$ -	$ (1,420,536)

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

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

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

Investments in Real Estate - The Foundation holds interest in donated and acquired real estate with an estimated fair value of $239,025. These investments are classified in Level 1 and 3 of the fair value hierarchy. The amounts reported in the accompanying Statement of Net Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

Net Asset Value - 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)	Other Redemption Restrictions	Redemption Notice Period
Alternative Income Fund[A]	$ 51,440	$ -	Not Applicable	Investor withdrawal requests on hold as fund is winding down	Not Applicable
Real Assets Limited Partnerships[B]	246,033	501,304	Quarterly	Initial lock-up after 10 years	Written notice at least 45 days
Total Investments Measured at the NAV	$ 297,473				

A. **Alternative Income Fund** - Feeder fund invests in master fund. Originally offered as a multi-asset investment with an emphasis on capital preservation, investable universe included equipment, real estate, loans, asset-backed securities, and intangible assets such as royalty and intellectual property payments and insurance opportunities. In April 2015, the investment manager decided to commence wind down of the portfolio and return capital to all investors.

B. **Private Equity Limited Partnerships** - Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

Other Assets and Liabilities Measured at Fair Value

Beneficial Interests in Assets Held by Others - Beneficial interests in assets held by others classified in Level 3 of the fair value hierarchy are valued based on the fair value of the assets held in trust.

Pledges Receivable from Trusts - Pledges receivable from trusts classified in Level 3 of the fair value hierarchy are valued using the present value techniques mortality tables and the value of the underlying securities as reported by the third-party trustees.

Split-Interest Agreement Obligations - Split-interest obligations classified in Level 3 of the fair value hierarchy are valued using the present value techniques based on the IRS mortality tables and the value of the split-interest gifts.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the of the previous year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2023, net appreciation of $18,531,712 was available to be spent which was classified in net position as restricted expendable.

The Foundation has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior three years through the fiscal year-end. In establishing this policy, the Foundation considered the long-term expected return on the endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment to grow at an average of 8% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The amount of net appreciation on investments of donor restricted endowments available for authorization for expenditure by the Board of Directors was $58,350,925 at June 30, 2023. This amount is included in net position as restricted expendable in the accompanying Statement of 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	$ 6,364,759	$ 1,021,682	$ 5,343,077
Accounts	5,148,482	113,268	5,035,214
Intergovernmental	7,751,030	-	7,751,030
Pledges	6,613,246	1,692,318	4,920,928
Interest on Loans	16,394	-	16,394
Other	85,631	-	85,631
Total Current Receivables	$ 25,979,542	$ 2,827,268	$ 23,152,274
Noncurrent Receivables:			
Pledges	$ 18,358,287	$ -	$ 18,358,287
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 629,309	$ -	$ 629,309
Institutional Student Loan Programs	275	-	275
Total Notes Receivable - Current	$ 629,584	$ -	$ 629,584
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 121,164	$ 88,957	$ 32,207

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	$ 67,639,643	$ -	$ -	$ 67,639,643
Art, Literature, and Artifacts	4,271,264	103,475	10,000	4,364,739
Construction in Progress	70,806,048	24,572,827	86,420,438	8,958,437
Total Capital Assets, Nondepreciable	142,716,955	24,676,302	86,430,438	80,962,819
Capital Assets, Depreciable:				
Buildings	973,612,956	67,830,177	-	1,041,443,133
Machinery and Equipment	64,119,699	7,419,771	2,120,920	69,418,550
General Infrastructure	95,133,079	17,907,446	297,652	112,742,873
Computer Software	918,617	-	-	918,617
Right-to-Use Leased Buildings	6,051,555	1,893,360	355,913	7,589,002
Right-to-Use Leased Machinery and Equipment	766,858	-	649,908	116,950
Right-to-Use Leased General Infrastructure	5,591,719	-	-	5,591,719
Right-to-Use Subscription Assets	6,664,679	2,053,552	-	8,718,231
Total Capital Assets, Depreciable	1,152,859,162	97,104,306	3,424,393	1,246,539,075
Less Accumulated Depreciation/Amortization for:				
Buildings	308,771,340	22,553,412	-	331,324,752
Machinery and Equipment	37,145,241	2,897,832	1,777,167	38,265,906
General Infrastructure	40,833,367	3,595,832	168,063	44,261,136
Computer Software	496,406	45,931	-	542,337
Right-to-Use Leased Buildings	1,318,641	1,314,178	149,062	2,483,757
Right-to-Use Leased Machinery and Equipment	410,655	334,752	649,908	95,499
Right-to-Use Leased General Infrastructure	733,875	733,875	-	1,467,750
Right-to-Use Subscription Assets	-	2,396,037	-	2,396,037
Total Accumulated Depreciation/Amortization	389,709,525	33,871,849	2,744,200	420,837,174
Total Capital Assets, Depreciable, Net	763,149,637	63,232,457	680,193	825,701,901
Capital Assets, Net	$ 905,866,592	$ 87,908,759	$ 87,110,631	$ 906,664,720

The July 1, 2022 balances of certain depreciable capital assets and corresponding accumulated depreciation/amortization were restated due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as well as the correction of prior year errors (see Note 20).

As of June 30, 2023, the total amount of right-to-use leased and subscription assets was $13,297,671 and $8,718,231 and the related accumulated amortization was $4,047,006 and $2,396,037, respectively.

NOTE 7 - PUBLIC-PRIVATE PARTNERSHIP FOR STUDENT HOUSING & PARKING DECK

The University entered into a public-private partnership with Beyond Boone, LLC (Operator), the sole member of which is Beyond Owners Group, Inc., on February 13, 2019. The project replaced 1,485 existing beds with 1,545 new beds of student housing. The University entered into this agreement to address the demand for updated on-campus housing, additional beds to meet on-campus housing demand, and to replace parking infrastructure that was displaced by the construction of the residence halls.

The project is located on the campus of the University on land leased to the Operator for 50 years. Upon final payment of all indebtedness owed under the agreement, the Operator will transfer all its interest in the facilities for no cost to the University.

Residence life programming is managed by the University under the terms of the management agreement and operating agreement in conjunction with the ground lease and asset management agreement with the Operator. All housing revenues generated by the residence halls during the terms of the agreement are transferred directly to the operator.

Phase I of the project was completed in the fall of 2020 and resulted in the construction of Thunder Hill Hall (587-beds), Raven Rocks Hall, (318-beds), and a 475-space parking deck that replaced two existing residence halls with 674 beds and a surface parking lot. Raven Rocks Hall was purchased by the University in fiscal year 2021 and is no longer a part of the arrangement. Laurel Creek Hall (640-beds) was completed in the fall of 2021 as part of phase II.

The University reports the facilities as a capital asset with a book value of $98,795,585 and a related deferred inflow of resources of $96,880,732 that is amortized using the straight-line method over the term of the agreement.

The use and operation of the parking deck facility is governed by a separate facility lease agreement. Under the terms of this agreement the University entered a lease for the facility from the Operator for a 10-year term with an option to renew in 10-year increments. The University will operate the parking facility through its Parking and Transportation department. The facility lease is accounted for separately from the public-private partnership in accordance with GASB Statement No. 87, *Leases*, and is reported as a right-to-use leased asset and lease liability.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 9,178,033
Accounts Payable - Capital Assets	1,599,348
Accrued Payroll	5,109,395
Contract Retainage	652,907
Intergovernmental Payables	151,090
Other	49,830
Total Current Accounts Payable and Accrued Liabilities	$ 16,740,603
Noncurrent Accounts Payable and Accrued Liabilities	
Other	$ 57,388

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 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	$ 205,100,000	$ 20,455,000	$ 8,835,000	$ 216,720,000	$ 9,320,000
Bonds from Direct Placements	32,115,000	-	6,014,000	26,101,000	6,191,000
Plus: Unamortized Premium	13,170,706	452,046	1,006,349	12,616,403	-
Less: Unamortized Discount	36,208	-	6,035	30,173	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	250,349,498	20,907,046	15,849,314	255,407,230	15,511,000
Notes from Direct Borrowings	97,971,727	3,500,000	4,789,836	96,681,891	3,111,346
Total Long-Term Debt	348,321,225	24,407,046	20,639,150	352,089,121	18,622,346
Other Long-Term Liabilities					
Lease Liabilities	10,179,170	1,893,360	2,376,217	9,696,313	1,857,597
Subscription (SBITA) Liabilities	3,708,082	2,040,556	1,992,757	3,755,881	1,534,329
Employee Benefits					
Compensated Absences	16,679,273	14,191,128	12,763,609	18,106,792	3,708,125
Net Pension Liability	31,702,145	67,941,220	-	99,643,365	-
Net Other Postemployment Benefits Liability	320,543,877	315,156	76,703,515	244,155,518	-
Workers' Compensation	608,137	401,451	348,205	661,383	310,446
Total Other Long-Term Liabilities	383,420,684	86,782,871	94,184,303	376,019,252	7,410,497
Total Long-Term Liabilities, Net	$ 731,741,909	$ 111,189,917	$ 114,823,453	$ 728,108,373	$ 26,032,843

Additional information regarding lease and subscription (SBITA) liabilities is included in Note 10.
Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.
Additional information regarding workers' compensation is included in Note 16.

The July 1, 2022 balances of lease and subscription (SBITA) liabilities were restated due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as well as the correction of prior year errors in the calculation of lease liabilities (see Note 20).

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023	See Table Below
Revenue Bonds Payable						
Millennial Campus						
Millenial Campus Revenue Bonds - End Zone Facility	2018	4.14%	05/01/2049	$ 39,865,000	$ 38,960,000	(1)
ASU General Revenue Bonds						
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	17,025,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	4,715,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	13,325,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000	18,905,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	925,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000	24,835,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000	9,295,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics, Student Union, and Steam Plant Utility System	2017A	2.82%	10/01/2036	56,390,000	52,915,000	
ASU General Revenue Bonds - Academic Building	2019	3.16%	10/01/2048	16,640,000	15,365,000	
ASU General Revenue Bonds - Parking Deck	2022B	4.00 - 5.00%	10/01/2052	20,455,000	20,455,000	
Total ASU General Revenue Bonds				218,605,000	177,760,000	
Bonds from Direct Placements						
ASU Utility System Revenue Bonds - Utility System	2016	2.33%	05/05/2026	3,650,000	1,095,000	(2)
ASU General Revenue Refunding Bonds - Steam Utility System	2018A	2.99%	10/01/2023	9,270,000	1,960,000	
Millennial Campus Revenue Bonds - Athletic Turf Field	2020	1.68%	05/01/2030	2,552,000	1,831,000	
ASU General Revenue Refunding Bonds - Housing, Bookstore, Athletics	2020	1.56%	10/01/2025	2,259,000	1,025,000	
ASU Utility System Revenue Bonds - Utility System	2020	1.73%	05/05/2040	6,500,000	6,070,000	(2)
ASU General Revenue Refunding Bonds - Housing, Bookstore, and Student Recreation Center	2022	1.42%	05/01/2028	16,897,000	14,120,000	
Total Bonds from Direct Placements				41,128,000	26,101,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$ 299,598,000	242,821,000	
Plus: Unamortized Premium					12,616,403	
Less: Unamortized Discount					30,173	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					$ 255,407,230	

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

			For the Year Ended June 30, 2023			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	University Charges to Athletics and Auxiliaries	$ 70,125,150	$ 2,220,803	$ 130,000	$ 1,716,500	100%
(2)	Electric Utility Revenue	8,196,214	655,200	670,000	149,066	44%
(3)	Electric Utility Revenue	4,843,865	352,035	-	-	49%

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	See Table Above
Energy Savings Project	T.D. Bank	1.98%	07/01/2027	$ 16,499,917	$ 5,963,361	
Former Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000	14,675,000	
Renovation of Schaefer Center	First Citizens Bank	4.10%	01/15/2027	5,362,147	1,593,530	
Student Housing	PNC Bank	2.08%	04/01/2028	72,800,000	70,950,000	
ASU Utility System	Truist Financial Corp.	5.81%	10/01/2034	3,500,000	3,500,000	(3)
Total Notes from Direct Borrowings				$ 113,637,064	$ 96,681,891	

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

	Annual Requirements					
	Revenue Bonds Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 9,320,000	$ 8,298,956	$ 6,191,000	$ 404,609	$ 3,111,346	$ 1,735,582
2025	9,845,000	7,863,447	4,273,000	309,861	4,879,387	1,790,572
2026	11,005,000	7,386,306	3,713,000	243,732	4,988,792	1,686,623
2027	10,175,000	6,909,800	3,435,000	187,835	4,905,215	1,579,758
2028	9,870,000	6,478,200	3,474,000	137,473	4,732,151	1,478,052
2029-2033	57,585,000	25,754,185	2,295,000	337,833	66,820,000	3,498,062
2034-2038	41,865,000	16,577,469	1,910,000	164,507	4,570,000	27,889
2039-2043	25,750,000	10,892,622	810,000	17,886	2,675,000	-
2044-2048	30,705,000	5,407,459	-	-	-	-
2049-2053	10,600,000	813,797	-	-	-	-
Total Requirements	$ 216,720,000	$ 96,382,241	$ 26,101,000	$ 1,803,736	$ 96,681,891	$ 11,796,538

Interest on the variable rate note from direct borrowing in the amount of $3,500,000 is calculated at 5.81% at June 30, 2023.

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 University has outstanding General Revenue bonds totaling $177,760,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Millennial Campus Revenue bonds totaling $38,960,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for Revenue Bonds, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Bonds from Direct Placements - The University has outstanding direct placements for Series 2016 Utility System Bonds totaling $1,095,000 and Series 2020 Utility System Bonds totaling $6,070,000. These bonds are subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011. An event of default occurs when there is a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

For the 2016 and the 2020 Utility System Bonds, the Second and Third Series Indenture defines additional events of default as (1) any petition or action for relief under any bankruptcy, reorganization, insolvency, or other laws and such petition results in an entry of an order of relief or continues as pending for a period of 60 days, (2) one or more judgements, orders, decrees, or arbitration awards is entered against the University as a result of ownership, control, or operation of any portion of the project funded by the note as to any single or series of transactions, incidents, or conditions of $1,000,000 or more that remain unsatisfied pending appeal for 60 days after entry,to (3) any representation or warranty made or deemed to be made by the University that proves to be untrue or incomplete in any material respect, or (4) any material provision of the General Indenture or Second Series Indenture ceases to be binding on the University, or is declared null and void, or the validity is contested by the University, or if any proceeding is undertaken by any governmental agency or authority with jurisdiction over the University seeks to invalidate the enforceability of the indentures, or if the University denies that it has further obligation under the Second Series Indenture or on the 2016 Bonds.

The University has outstanding direct placements for Series 2018A General Revenue Refunding Bonds totaling $1,960,000, Series 2020 Millennial Campus Revenue Bonds of $1,831,000, Series 2020 Revenue Refunding Bonds of $1,025,000, and Series 2022 Revenue Refunding Bonds of $14,120,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. An event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

Under all the agreements for direct placements, if an event of default occurs the provisions allow, or if required by a majority of owners of bonds, require the Trustee to declare the bonds to be immediately due and payable.

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase II dated June 6, 2013 with an outstanding amount of $5,963,361. This agreement contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when within 30 days following the due date, (2) any representation or Warranty furnished by the University in the Agreement proves to be false or misleading in any material respect when made, or (3) any other material failure by the University to perform or comply with the terms and conditions of the Agreement, unless corrected within 30 days after written notice to the University.

Upon the occurrence of any event of default related to the Phase II agreement, each party agrees to exercise good faith efforts to resolve the matter fairly, amicably and in a timely manner. The parties shall consider litigation as a last resort, to be employed only when alternative dispute resolution procedures fail.

The carrying value of the energy savings improvement assets associated with the Phase II of the Energy Savings and Performance Contracting is $9,688,559 and is subject to security provisions in the agreements to ensure timely debt service payments.

The University has outstanding notes from direct borrowings of $14,675,000 through a long-term note agreement with Watauga County dated September 28, 2017. The University has pledged a land asset with a book value of $18,390,209, which is subject to security provisions in the agreement to ensure timely debt service payments. This agreement contains provisions related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 15 days from the due date, or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to maker.

Upon the occurrence of any default, the County may without further notice, declare the remainder of the principal sum, together with all the interest accrued due and payable. The unpaid principal, accrued interest, and all other sums due under the note will be subject to interest at the rate of 5% per annum after default until paid.

The University entered into a note from direct borrowing of $3,500,000 through a long-term note agreement with a financial institution dated October 12, 2022. The outstanding balance as of June 30, 2023, was $3,500,000. The loan carries a variable interest rate which was 5.81% on June 30, 2023. The interest payment is due on the first day of each calendar month, beginning November 1, 2022. The principal is payable in twenty installments of substantially equal payments beginning October 1, 2024. The note is subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011 as referenced in Bonds for Direct Placement above and includes additional provisions that constitute default to include any petition or action relief for bankruptcy, any representation or warranty deemed to be untrue or incomplete in any material respect, and any material provision of the General Indenture or Series Indenture that becomes invalid and ceases to be binding.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2023, was $1,593,530.

The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Corporation entered into a loan agreement with a financial institution on December 18, 2020, to finance the construction of New River Residence Hall and associated site improvements. The Corporation assigned to the bank, right, title and interest in lease and use agreements established between the University and the Corporation, and upon default, the Base Rentals, which includes all rental revenue from the facility, and payments received or receivable by the Corporation under these agreements, and a continuing security interest in the Base Rentals, as well as the lease and use agreements after the commencement of any proceeding under the Bankruptcy Code involving the Corporation. The bank has the right, power and authority to: (1) settle, compromise, release, extend the time of payment of, and make allowances, adjustments and discounts of any Base Rentals or other obligations; (2) enforce payment of Base Rentals; (3) enter on, take possession of and operate the residence hall if a default occurs; and, (4) perform any and all obligations of the Corporation. The outstanding balance as of June 30, 2023, was $70,950,000. The note is payable in semi-annual installments of principal due and quarterly installments of interest due each year with all remaining principal and interest due April 1, 2028. The loan carries an interest rate of 2.08%.

NOTE 10 - LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

A. Lessor Arrangements - The University leases buildings to both external and related parties. The leases expire at various dates, and some have renewal options. Lease receivables and related deferred inflows of resources are recorded based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate stated per the lease contract, or the 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 $441,608, and nonoperating lease interest income totaling $101,878.

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 (1)	Interest Rate Ranges
Lessor:					
Buildings	3	$ 1,243,822	$ 207,004	7 Years	2.39% - 3.00%
Machinery and Equipment	3	2,132,310	94,451	15 Years	2.69% - 3.18%
Total	6	$ 3,376,132	$ 301,455		

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

B. Lessee Arrangements - The University has lease agreements for the right to use office space, equipment, and infrastructure from both external and related 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.

Measurement of the lease liability excluded the following variable payment amounts: 1) the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index) and 2) payments based on future performance or usage of the underlying assets. During the fiscal year, the University recognized expenses of $108,595 for these changes in variable payments not previously included in the measurement of the lease liability.

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

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2023	Current Portion	Lease Terms (1)	Interest Rate/ Ranges
Lessee:					
Right-to-Use Leased Buildings	9	$ 5,225,585	$ 1,080,253	5 Years	2.31% - 8.50%
Right-to-Use Leased Machinery and Equipment	8	21,527	19,386	1 Years	3.98%
Right-to-Use Leased General Infrastructure	1	4,449,201	757,958	6 Years	2.69%
Total	18	$ 9,696,313	$ 1,857,597		

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

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 both external and related parties. The SBITAs expire at various dates, and some have renewal options. Subscription liabilities and the related right-to-use subscription assets are recorded based on the present value of expected payments over the term of the respective SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract, or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

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

The University had commitments under SBITAs before the SBITA term for new components and increases of service to current right-to-use information technology based software beginning July 1, 2023 with total payments over the period of $586,727.

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 and Conditions	Interest Rate Ranges
Right-to-Use Subscription Assets	26	$ 3,755,881	$ 1,534,329	1.25 - 20 years	1.71% - 3.48%

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

	Annual Requirements							
	Lease Liabilities				Subscription (SBITA) Liabilities			
Fiscal Year	Principal		Interest		Principal		Interest	
2024	$	1,857,597	$	281,207	$	1,534,329	$	80,794
2025		1,757,226		228,051		1,125,756		54,092
2026		1,686,734		174,442		678,248		27,765
2027		1,743,572		119,804		211,096		11,950
2028		1,797,242		62,934		137,287		5,903
2029-2033		853,942		13,490		21,002		10,623
2034-2038		-		-		24,920		6,705
2039-2043		-		-		23,243		2,057
Total Requirements	$	9,696,313	$	879,928	$	3,755,881	$	199,889

NOTE 11 - NET POSITION

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

	Amount	
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$	(38,707,195)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources		(310,395,097)
Effect on Unrestricted Net Position		(349,102,292)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities		149,765,306
Total Unrestricted Net Position	$	(199,336,986)

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 173,802,643	$ 32,710,328	$ 254,418	$ 140,837,897
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 38,675,106	$ 5,439,126	$ 37,438	$ 33,198,542
Dining	28,056,852	5,094,745	19,526	22,942,581
Student Union Services	1,592,603	-	-	1,592,603
Health, Physical Education, and Recreation Services	1,601,174	-	77,449	1,523,725
Bookstore	14,483,082	1,851,945	19,219	12,611,918
Parking	5,876,483	528,036	3,407	5,345,040
Athletic	15,710,845	-	-	15,710,845
Other	3,424,951	-	152,285	3,272,666
Sales and Services of Education and Related Activities	8,112,211	-	109,351	8,002,860
Independent Operations	17,914,796	-	26,231	17,888,565
Total Sales and Services, Net	$ 135,448,103	$ 12,913,852	$ 444,906	$ 122,089,345

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 133,957,655	$ 11,117,734	$ 45,066	$ -	$ -	$ 145,120,455
Research	6,169,588	3,694,078	22,596	-	-	9,886,262
Public Service	5,765,053	6,425,481	360,429	-	-	12,550,963
Academic Support	32,628,951	16,289,177	135,501	3,729	-	49,057,358
Student Services	8,414,872	830,504	-	-	-	9,245,376
Institutional Support	27,101,276	10,071,608	-	-	-	37,172,884
Operations and Maintenance of Plant	17,967,365	3,055,911	-	6,066,101	-	27,089,377
Student Financial Aid	812,731	198,331	23,202,839	-	-	24,213,901
Auxiliary Enterprises	49,714,622	70,238,600	3,104,906	10,112,105	-	133,170,233
Independent Operations	2,697,790	14,110,030	-	-	-	16,807,820
Depreciation/Amortization	-	-	-	-	33,871,849	33,871,849
Total Operating Expenses	$ 285,229,903	$ 136,031,454	$ 26,871,337	$ 16,181,935	$ 33,871,849	$ 498,186,478

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life 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 $7,598,712, and the University's contributions were $22,010,937 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 $99,643,365 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 0.67135%, which was a decrease of 0.00567 from its proportion measured as of June 30, 2021, which was 0.67702%.

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:

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%.

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%)
$ 176,174,546	$ 99,643,365	$ 36,472,995

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 $21,332,797. 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	$ 433,853	$ 1,358,154
Changes of Assumptions	7,861,482	-
Net Difference Between Projected and Actual Earnings on Plan Investments	32,726,876	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	93,402	832,226
Contributions Subsequent to the Measurement Date	22,010,937	-
Total	$ 63,126,550	$ 2,190,380

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	$ 10,485,718
2025	9,491,780
2026	3,259,393
2027	15,688,342
Total	$ 38,925,233

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 $248,685,207, of which $97,064,299 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,823,858 and $6,639,198, respectively. The amount of plan forfeitures reflected in pension expense was $576,581

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 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 16. 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 $15,413,585 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 $1,853,490.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the 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 $223,710 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 $243,840,361 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 1.02683%, which was a decrease of 0.01001 from its proportion measured as of June 30, 2021, which was 1.03684%.

Disability Income Plan of North Carolina: At June 30, 2023, the University reported a liability of $315,157 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 1.05942%, which was an increase of 0.00403 from its proportion measured as of June 30, 2021, which was 1.05539%.

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

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

* Salary increases include 3.25% inflation and productivity factor.

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

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

N/A - Not Applicable

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

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

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

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

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

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

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

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

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

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

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

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

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

	Net OPEB Liability		
	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF	$ 287,215,184	$ 243,840,361	$ 208,413,878
	1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC	$ 388,076	$ 315,157	$ 242,056

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

	Net OPEB Liability		
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF	$ 200,719,163	$ 243,840,361	$ 299,579,388

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

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

OPEB Plan	Amount
RHBF	$ (30,536,357)
DIPNC	445,484
Total OPEB Expense	$ (30,090,873)

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:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 2,367,367	$ 353,264	$ 2,720,631
Changes of Assumptions	19,522,589	20,256	19,542,845
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	2,102,553	333,336	2,435,889
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	7,794,649	20,882	7,815,531
Contributions Subsequent to the Measurement Date	15,413,585	223,710	15,637,295
Total	$ 47,200,743	$ 951,448	$ 48,152,191

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 674,731	-	$ 674,731
Changes of Assumptions	110,977,490	58,385	111,035,875
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,659,009	22,155	2,681,164
Total	$ 114,311,230	$ 80,540	$ 114,391,770

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	$ (25,945,872)	$ 163,848
2025	(18,513,894)	186,793
2026	(23,783,410)	133,076
2027	(14,280,895)	102,576
2028	(1)	20,515
Thereafter	-	40,390
Total	$ (82,524,072)	$ 647,198

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

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

3. **Disability Income Plan**

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. **Automobile, Fire, and Other Property Losses**

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. The University also purchased flood insurance for some buildings and contents and all risk coverage on all state-owned buildings and contents through the Fund. Losses are subject to a $100,000 per occurrence deductible.

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

2. **Public Officers' and Employees' Liability Insurance**

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

3. **Employee Dishonesty and Computer Fraud**

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

4. **Statewide Workers' Compensation Program**

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

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

5. **Other Insurance Held by the University**

   The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These coverages provide insurance for participants in international educational and study abroad programs, participants in the University camp programs, boiler and machinery, drone liability, business travel, fine art coverage, student blanket professional liability, business travel insurance, professional liability for specific athletic trainers, athletic accident insurance, medical malpractice coverage, volunteer liability policy, inland marine policy for equipment as needed, a leased computerized business equipment policy, cyber insurance, and excess liability on certain policies.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $25,277,634 and on other purchases were $12,881,690 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 18 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position
June 30, 2023

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
ASSETS					
Current Assets	$ 188,778,947	$ 38,488,748	$ 6,051,604	$ (130,003)	$ 233,189,296
Capital Assets, Net	819,441,560	2,121,234	85,158,895	(56,969)	906,664,720
Other Noncurrent Assets	97,091,683	175,574,755	2,276,157	(44,481)	274,898,114
Total Assets	1,105,312,190	216,184,737	93,486,656	(231,453.00)	1,414,752,130
TOTAL DEFERRED OUTFLOWS OF RESOURCES	118,409,961	-	-	-	118,409,961
LIABILITIES					
Current Liabilities	61,686,707	851,617	2,430,191	(130,003)	64,838,512
Long-Term Liabilities, Net	631,854,160	1,205,851	69,060,000	(44,481)	702,075,530
Other Noncurrent Liabilities	3,053,086	1,270,798	-	-	4,323,884
Total Liabilities	696,593,953	3,328,266	71,490,191	(174,484)	771,237,926
TOTAL DEFERRED INFLOWS OF RESOURCES	216,747,528	3,938,100	-	(56,969)	220,628,659
NET POSITION					
Net Investment in Capital Assets	456,267,379	237,234	14,208,895	-	470,713,508
Restricted - Nonexpendable	21,199,351	92,608,006	-	-	113,807,357
Restricted - Expendable	50,599,696	105,511,931	-	-	156,111,627
Unrestricted	(217,685,756)	10,561,200	7,787,570	-	(199,336,986)
Total Net Position	$ 310,380,670	$ 208,918,371	$ 21,996,465	$ -	$ 541,295,506

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

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
OPERATING REVENUES					
Student Tuiton and Fees, Net	$ 140,837,897	$ -	$ -	$ -	$ 140,837,897
Grants and Contracts	15,182,238	-	-	-	15,182,238
Sales and Services, Net	116,041,035	980,391	8,572,521	(3,504,602)	122,089,345
Other	3,324,167	79,152	124,888	(93,107)	3,435,100
Total Operating Revenues	275,385,337	1,059,543	8,697,409	(3,597,709)	281,544,580
OPERATING EXPENSES					
Operating Expenses	460,637,530	31,136,930	6,808,577	(34,268,408)	464,314,629
Depreciation/Amortization	31,480,599	216,390	2,174,860	-	33,871,849
Total Operating Expenses	492,118,129	31,353,320	8,983,437	(34,268,408)	498,186,478
Operating Loss	(216,732,792)	(30,293,777)	(286,028)	30,670,699	(216,641,898)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	187,163,788	-	-	-	187,163,788
Student Financial Aid	43,449,802	-	-	-	43,449,802
Noncapital Contributions	36,106,514	27,542,275	-	(25,453,633)	38,195,156
Investment Income, Net	3,788,308	455,219	221,491	-	4,465,018
Interest and Fees on Debt	(9,068,856)	(80,771)	(1,501,588)	1,706	(10,649,509)
Other Nonoperating Revenes (Expenses)	652,497	14,950	(40,353)	-	627,094
Net Nonoperating Revenues (Expenses)	262,092,053	27,931,673	(1,320,450)	(25,451,927)	263,251,349
Capital Contributions	24,249,441	694,172	94,706	(4,552,672)	20,485,647
Additions to Endowments	1,500,100	6,690,721	-	(666,100)	7,524,721
Total Other Revenues	25,749,541	7,384,893	94,706	(5,218,772)	28,010,368
Increase (Decrease) in Net Position	71,108,802	5,022,789	(1,511,772)	-	74,619,819
NET POSITION					
Net Position, July 1, 2022 (as Restated)	239,271,868	203,895,582	23,508,237	-	466,675,687
Net Position, June 30, 2023	$ 310,380,670	$ 208,918,371	$ 21,996,465	$ -	$ 541,295,506

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

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	$ (230,921,035)	$ (24,704,061)	$ 1,934,197	$ 25,030,372	$ (228,660,527)
Total Cash Provided by Noncapital Financing Activities	271,207,680	25,763,042	-	(21,160,582)	275,810,140
Net Cash Used by Capital Financing and Related Financing Activities	(2,365,785)	(20,230)	(18,112,864)	(3,869,790)	(24,368,669)
Net Cash Provided (Used) by Investing Activities	6,812,117	(722,312)	181,138	-	6,270,943
Net Increase (Decrease) in Cash and Cash Equivalents	44,732,977	316,439	(15,997,529)	-	29,051,887
Cash and Cash Equivalents, July 1, 2022	159,227,822	38,104,821	23,912,423	-	221,245,066
Cash and Cash Equivalents, June 30, 2023	$ 203,960,799	$ 38,421,260	$ 7,914,894	$ -	$ 250,296,953

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

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

GASB Statement No. 94 improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and providing guidance for accounting and financial reporting for availability payment arrangements (APAs). It improves financial reporting by establishing the definitions of PPPs and APAs (including those that meet the definition of a service concession arrangement) and providing guidance on accounting and financial reporting for transactions that meet those definitions. This guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. It also enhances the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will also allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

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:

	Amount
July 1, 2022 Net Position as Previously Reported	$ 462,565,195
Restatements:	
Correct Prior Period Errors in Depreciation/Amortization and RTU Leased Assets/Liabilities	433,588
Restate Accounts Payable and Deferred Inflows for GASB 94 Implementation	1,053,702
Restate Beginning Balances for GASB 96 Implementation	2,623,202
July 1, 2022 Net Position as Restated	$ 466,675,687

NOTE 21 - SUBSEQUENT EVENT

On September 28, 2023, the University issued tax exempt Series 2023 General Revenue Bonds for the construction of Athletic Tennis Facilities. The par amount for the bonds totaled $10,105,000 with an interest rate of 4.1068%. The bonds have an average coupon of 4.01% with the first coupon scheduled for April 1, 2024. The bond's last maturity is October 1, 2048.

REQUIRED SUPPLEMENTARY INFORMATION

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years* ***Exhibit B-1***

Teachers' and State Employees' Retirement System	**2023**	**2022**	**2021**	**2020**	**2019**
Proportionate Share Percentage of Collective Net Pension Liability	0.67135%	0.67702%	0.68133%	0.67358%	0.62781%
Proportionate Share of TSERS Collective Net Pension Liability	$ 99,643,365	$ 31,702,145	$ 82,318,270	$ 69,829,749	$ 62,505,322
Covered Payroll	$ 109,807,013	$ 105,783,295	$ 105,255,412	$ 101,764,996	$ 94,335,041
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	90.74%	29.97%	78.21%	68.62%	66.26%
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	0.62049%	0.59985%	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 49,232,413	$ 55,132,411	$ 21,345,035	$ 6,607,765	$ 33,791,262
Covered Payroll	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	54.86%	64.58%	25.68%	8.30%	42.73%
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.

Appalachian State University
Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years ***Exhibit B-2***

Teachers' and State Employees' Retirement System	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 22,010,937	$ 17,986,389	$ 15,634,771	$ 13,651,627	$ 12,506,918
Contributions in Relation to the Contractually Determined Contribution	22,010,937	17,986,389	15,634,771	13,651,627	12,506,918
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 126,645,205	$ 109,807,013	$ 105,783,295	$ 105,255,412	$ 101,764,996
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	$ 10,169,317	$ 8,955,776	$ 7,811,944	$ 7,605,144	$ 6,916,329
Contributions in Relation to the Contractually Determined Contribution	10,169,317	8,955,776	7,811,944	7,605,144	6,916,329
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 94,335,041	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512
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.

Changes of Benefit Terms:

Cost of Living Increase

Teachers' and State Employees'	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
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 14 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

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

Retiree Health Benefit Fund	**2023**	**2022**	**2021**	**2020**	**2019**
Proportionate Share Percentage of Collective Net OPEB Liability	1.02683%	1.03684%	1.03789%	1.03909%	1.00750%
Proportionate Share of Collective Net OPEB Liability	$ 243,840,361	$ 320,543,877	$ 287,920,246	$ 328,761,498	$ 287,017,119
Covered Payroll	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	120.97%	166.21%	148.54%	174.12%	160.29%
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	0.96582%	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 316,660,087	$ 469,945,468
Covered Payroll	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	183.51%	285.74%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%

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

Disability Income Plan of North Carolina	**2023**	**2022**	**2021**	**2020**	**2019**
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	1.05942%	1.05539%	1.08263%	1.07350%	1.04545%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ 315,157	$ (172,387)	$ (532,589)	$ (463,215)	$ (317,566)
Covered Payroll	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.16%	0.09%	0.27%	0.25%	0.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%

	2018	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	1.05029%	1.01711%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ (641,937)	$ (631,625)
Covered Payroll	$ 172,557,711	$ 164,465,182
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.37%	0.38%
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.

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

Retiree Health Benefit Fund	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 15,413,585	$ 12,678,433	$ 12,882,383	$ 12,540,749	$ 11,838,264
Contributions in Relation to the Contractually Determined Contribution	15,413,585	12,678,433	12,882,383	12,540,749	11,838,264
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 223,709,504	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035
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	$ 10,832,891	$ 10,025,603	$ 9,210,050	$ 8,743,687	$ 8,201,682
Contributions in Relation to the Contractually Determined Contribution	10,832,891	10,025,603	9,210,050	8,743,687	8,201,682
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

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

Disability Income Plan of North Carolina	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 223,710	$ 181,408	$ 173,565	$ 193,829	$ 264,331
Contributions in Relation to the Contractually Determined Contribution	223,710	181,408	173,565	193,829	264,331
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 223,709,504	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035
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	$ 250,678	$ 655,719	$ 674,307	$ 652,989	$ 668,285
Contributions in Relation to the Contractually Determined Contribution	250,678	655,719	674,307	652,989	668,285
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 179,056,042	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994
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.

Appalachian State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 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 15 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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

Board of Trustees
Appalachian State University
Boone, 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 Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 December 8, 2023. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately for the Appalachian Student Housing Corporation by those auditors. The financial statements of Appalachian State University Foundation, 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 Appalachian State University Foundation, Inc.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 8, 2023

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This audit required 620 hours at an approximate cost of $84,320.