

Fayetteville State University

Fayetteville, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2023

A Constituent Institution of the University of North Carolina System

UNBIASED. IMPACTFUL. IRREFUTABLE.



A Department of the
State of North Carolina





North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

Auditor's Transmittal

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

We have completed a financial statement audit of Fayetteville 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Finding, Recommendation, and Response section of this report. The University's response is included following the finding.

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

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

Jessica N. Holmes, J.D.
State Auditor

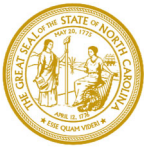
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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The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



Independent Auditor's Report



North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

Independent Auditor's Report

Board of Trustees
Fayetteville State University
Fayetteville, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fayetteville 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 respective financial position of Fayetteville 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 Fayetteville State University Foundation, Inc., and Subsidiary, which represent 6.6 percent and 2.0 percent, respectively, of the assets and revenues of the University; nor the financial statements of Fayetteville State University Student Housing Corporation, which represent less than one percent of the respective 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 Fayetteville 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.

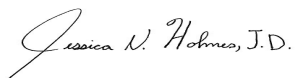
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 May 17, 2024 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.



Jessica N. Holmes, J.D.
State Auditor

Raleigh, North Carolina

May 17, 2024



Management's Discussion and Analysis

Introduction

Fayetteville State University (University) provides this Management's Discussion and Analysis to assist in understanding the financial statements and the related Notes to the Financial Statements presented herewith for the year ended June 30, 2023, and includes comparative data for the year ended June 30, 2022. The discussion describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. This discussion, along with the financial statements and Notes to the Financial Statements, has been prepared by and is the responsibility of the University's management. The report, including this discussion and analysis, should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, Notes to the Financial Statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that the University's financial statements be presented on a consolidated basis. These standards were used in the preparation of this document. The statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

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

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

Reporting Entity

The financial statements report information about the University using accounting methods similar to those used in the private sector. Although legally separate, the Fayetteville State University Student Housing Corporation (Corporation) and the Fayetteville State University Foundation, Inc.,

and Subsidiary (Foundation) are component units of the University and are reported as if they were part of the University. The Foundation includes, as a subsidiary, the Fayetteville State University Housing Foundation, LLC (Housing Foundation), which owns University Place Apartments (UPA). Operations of the Corporation and Foundation are blended with the University's financial statements and are included in this Management's Discussion and Analysis.

Financial Highlights

Net position for the University increased \$34.74 million during the fiscal year ended June 30, 2023. The increase in net position was due to an increase in net investment in capital assets of \$10.34 million, restricted net position of \$16.74 million, and unrestricted net position of \$7.66 million.

Net investment in capital assets increased due to an increase in net capital assets of \$11.99 million due primarily to an increase in construction in progress. Restricted expendable net position increased due to an increase in capital contributions of \$14.46 million related to the ongoing capital projects. See the Capital Assets section further below for details on these increases.

Unrestricted net position increased \$7.66 million primarily due to the decrease in deferred inflows for pensions of \$11.18 million and an increase in deferred inflows for other postemployment benefits of \$3.79 million. See the Statement of Net Position section below for further details on this change.

Statement of Net Position

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

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

Condensed Statement of Net Position (in millions)

| | 2023 | 2022 (as Restated) | \$ Change |
|---|-----------|-----------------------|-----------|
| Assets: | | | |
| Current Assets | \$ 35.42 | \$ 34.20 | \$ 1.22 |
| Noncurrent Assets: | | | |
| Capital Assets, Net | 198.73 | 186.74 | 11.99 |
| Other | 54.80 | 44.98 | 9.82 |
| Total Assets | 288.95 | 265.92 | 23.03 |
| Deferred Outflows of Resources: | | | |
| Deferred Loss on Refunding | 0.58 | - | 0.58 |
| Deferred Outflows for Pensions | 18.99 | 9.52 | 9.47 |
| Deferred Outflows for Other Postemployment Benefits | 13.22 | 16.01 | (2.79) |
| Total Deferred Outflows of Resources | 32.79 | 25.53 | 7.26 |
| Liabilities: | | | |
| Current Liabilities | | | |
| Long-Term Liabilities - Current Portion | 4.75 | 4.62 | 0.13 |
| Other Current Liabilities | 12.99 | 11.87 | 1.12 |
| Noncurrent Liabilities | | | |
| Long-Term Liabilities, Net | 144.09 | 144.87 | (0.78) |
| Other Noncurrent Liabilities | 3.59 | 1.79 | 1.80 |
| Total Liabilities | 165.42 | 163.15 | 2.27 |
| Deferred Inflows of Resources: | | | |
| Deferred Inflows for Pensions | 0.77 | 11.95 | (11.18) |
| Deferred Inflows for Other Postemployment Benefits | 36.05 | 32.26 | 3.79 |
| Deferred Inflows for Leases | 2.09 | 1.42 | 0.67 |
| Total Deferred Inflows of Resources | 38.91 | 45.63 | (6.72) |
| Net Position: | | | |
| Net Investment in Capital Assets | 140.23 | 129.89 | 10.34 |
| Restricted: | | | |
| Nonexpendable | 15.20 | 13.60 | 1.60 |
| Expendable | 48.63 | 33.49 | 15.14 |
| Unrestricted | (86.65) | (94.31) | 7.66 |
| Total Net Position | \$ 117.41 | \$ 82.67 | \$ 34.74 |

Net Position categories are defined in Note 1N of the Notes to the Financial Statements.

At June 30, 2023, the University's total net position was \$117.41 million. The University's largest asset category was capital assets, net of \$198.73 million, representing 68.8% of total assets. Capital assets, net increased by \$11.99 million. The increase in capital assets, net can primarily be attributed to an increase of \$9.37 million in construction in progress. See the Capital Assets section further below for details on this increase. Readers interested in more detailed information on capital assets can also refer to Note 6 - Capital Assets in the Notes to the Financial Statements.

Other noncurrent assets increased \$9.82 million primarily due to an \$8.24 million increase in noncurrent restricted cash and cash equivalents which was a result of an increase in capital contributions as discussed in the Financial Highlights section above.

Deferred outflow of resources saw a \$7.26 million increase. Of this, deferred outflows for pensions increased by \$9.47 million. This was driven by changes in actuarial assumptions about future

economic or demographic factors as well as investment earnings being less than the expected earnings during the reporting period. Deferred outflows of resources for other postemployment benefits (OPEB) decreased by \$2.79 million and was primarily due to the change in proportion of the University's share of the State's OPEB liability and differences between the University's contributions and the University's proportionate share of contributions to the State Health Plan.

More information regarding the University's liabilities related to both pension plans and other postemployment benefits plans can be located in Notes 13 and 14 to the Financial Statements.

The University's liabilities totaled \$165.42 million at June 30, 2023. Current liabilities of \$17.74 million include accounts payable and accrued liabilities, unearned revenue, interest payable, and current portion of long-term liabilities. Other current liabilities saw an increase of \$1.12 million which can primarily be attributed to increases in accounts payable - related to capital assets and contract retainage. See the Capital Assets section further below for details on capital projects related to this increase.

Noncurrent liabilities of \$147.68 million consist mainly of \$48.05 million in bonds and notes from direct borrowings, \$28.11 million in net pension liability, \$60.12 million in net OPEB liability, \$4.17 million in compensated absences, \$2.46 million in subscription-based information technology arrangement (SBITA) liabilities, and \$0.82 million in workers compensation.

Total noncurrent liabilities increased \$1.02 million primarily due to a \$1.49 million decrease in bonds payable, a \$1.17 million increase in SBITA liabilities, and a \$1.12 million increase in compensated absences. The decrease in bonds payable is due to a current year refunding of the Fayetteville State University General Revenue Bonds, Series 2013A. See Note 8 of the Notes to the Financial Statements for more details.

The University's current assets of \$35.42 million covered the current liabilities of \$17.74 million, at a ratio of 2.00 (\$2.00 in current assets for every \$1.00 in current liabilities).

Deferred inflows of resources decreased by \$6.72 million and was driven by the \$11.18 million decrease in deferred inflows for pensions and \$3.79 million increase in deferred inflows for OPEB. This was driven by changes of actuarial assumptions about future economic or demographic factors.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. Capital contributions are considered neither operating nor nonoperating revenues and are reported after "Income Before Other Revenues."

Condensed Statement of Revenues, Expenses, and Changes in Net Position (in millions)

| | 2023 | 2022 | \$ Change |
|---|------------------|-----------------|------------------|
| Operating Revenues: | | | |
| Student Tuition and Fees, Net | \$ 14.39 | \$ 18.37 | \$ (3.98) |
| Grants and Contracts | 0.33 | 0.01 | 0.32 |
| Sales and Services, Net | 14.27 | 9.40 | 4.87 |
| Lease Income | 0.08 | 0.08 | - |
| Other Operating Revenues | 0.76 | 0.52 | 0.24 |
| Total Operating Revenues | <u>29.83</u> | <u>28.38</u> | <u>1.45</u> |
| Operating Expenses: | | | |
| Salaries and Benefits | 76.46 | 69.57 | 6.89 |
| Supplies and Services | 52.69 | 40.79 | 11.90 |
| Scholarships and Fellowships | 13.64 | 23.31 | (9.67) |
| Utilities | 3.21 | 3.15 | 0.06 |
| Depreciation/Amortization | 6.60 | 5.35 | 1.25 |
| Total Operating Expenses | <u>152.60</u> | <u>142.17</u> | <u>10.43</u> |
| Operating Loss | <u>(122.77)</u> | <u>(113.79)</u> | <u>(8.98)</u> |
| Nonoperating Revenues (Expenses): | | | |
| State Appropriations | 82.68 | 63.94 | 18.74 |
| Noncapital Contributions and Aid | 59.01 | 65.43 | (6.42) |
| Interest and Fees on Debt | (2.02) | (2.08) | 0.06 |
| Investment Income, Net | 0.31 | 1.23 | (0.92) |
| Other Nonoperating Revenue (Expense) | 0.16 | (0.06) | 0.22 |
| Net Nonoperating Revenues | <u>140.14</u> | <u>128.46</u> | <u>11.68</u> |
| Income Before Other Revenues | <u>17.37</u> | <u>14.67</u> | <u>2.70</u> |
| Capital Contributions | 15.97 | 1.51 | 14.46 |
| Additions to Endowments | 1.40 | 0.54 | 0.86 |
| Increase in Net Position | <u>34.74</u> | <u>16.72</u> | <u>18.02</u> |
| Net Position: | | | |
| Beginning of Year | 82.67 | 65.95 | 16.72 |
| End of Year | <u>\$ 117.41</u> | <u>\$ 82.67</u> | <u>\$ 34.74</u> |
| Reconciliation of Change in Net Position | | | |
| Total Revenues | \$ 189.36 | \$ 161.18 | \$ 28.18 |
| Less: Total Expenses | 154.62 | 144.46 | 10.16 |
| Increase in Net Position | <u>\$ 34.74</u> | <u>\$ 16.72</u> | <u>\$ 18.02</u> |

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$34.74 million for the fiscal year. The total operating loss for fiscal year 2023 was \$122.77 million. Since the State of North Carolina's appropriations and significant student financial aid revenue are not included within operating revenue per GASB, the University shows a significant operating loss.

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including the national economy and any material increase in tuition and/or other mandatory charges. Changes in funding from the State of North Carolina may influence costs to students and the ability to continue normal operations. State appropriations remain a critical source of funding for the University.

State appropriations are received through an allotment and requisition system from the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. There is some connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. For the fiscal year beginning July 1, 2022, and ending June 30, 2023, the appropriations from the State to the University were \$82.68 million for operations.

Noncapital contributions and aid decreased \$6.42 million. This was primarily due to a decrease of \$13.26 million in federal aid -COVID-19 funds, offset by an increase in noncapital contributions of \$5.77 million related to various new donations and an increase in student financial aid of \$1.59 million because of increased enrollment. Federal aid - COVID-19 decreased \$13.26 million primarily due to the ending of the pandemic and the expiration of Higher Education Emergency Relief Funds (HEERF).

Operating revenues include tuition and fees, operating grants and contracts, and sales and services (primarily from student housing, dining, bookstore, health, and other services). Operating revenue increased when compared to the previous year by \$1.45 million. This was primarily due to an increase in sales and services, net of \$4.87 million offset by a decrease in tuition and fees, net of \$3.98 million. The increase in sales and services, net is primarily due to an increase in revenues related to residential life of \$1.06 million, dining of \$2.92 million, and bookstore of \$0.43 million. These increases are due to an increase of on-campus students and due to an increase in summer enrollment. Tuition and fees, net decreased due to funding being provided through state appropriations for the NC Promise Tuition Plan.

Operating expenses, including depreciation/amortization of \$6.60 million, totaled \$152.60 million. Of this total, \$48.86 million, or 32.02%, was used for instruction and academic support; \$27.95 million, or 18.32%, was used for institutional support; \$17.87 million, or 11.71%, was used for operations and maintenance of plant; \$26.95 million, or 17.66%, was used for auxiliary enterprises. Other operating expenses included research of \$1.94 million, or 1.27%, public service of \$4.24 million, or 2.78%, student services of \$4.55 million, or 2.98%, and student financial aid of \$13.64 million, or 8.94%.

The increase in salaries and benefits of \$6.89 million, is primarily due to a \$3.44 million increase in the pension expense that is recognized immediately in the financial statements and a \$2.10 million increase in salaries and benefits due to legislative increases. Scholarships and fellowships decreased \$9.67 million due to a decrease in HEERF for students to help pay tuition, room and board, and any outstanding balances during the COVID-19 pandemic. Supplies and services increased \$11.90 million mainly due to increases of \$4.09 million in dining services because more meal plans were purchased for the year, an increase of \$3.68 million in marketing expenses related to an updated University website, an increase of \$2.18 million for student housing expenses, and an increase of \$1.24 million in travel expenses due to the easing of COVID-19 restrictions. Housing expenses increased due to the University entering into a rental agreement to provide temporary student housing at a hotel due to McLeod Hall being offline for extensive renovations.

State appropriations increased \$18.74 million primarily due to the University receiving \$12.10 million in funds related to the NC Promise Tuition Plan. Additionally, \$2.10 million of the increase was due to reoccurring legislative salary increases and benefits.

Capital contributions increased \$14.46 million due to the University receiving State Capital Infrastructure Funds used for the construction of a new residence hall and education building and funding for multiple repairs and renovation projects.

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

Capital Assets

Capital projects for the fiscal year 2023 include expenditures related to the initial stages of a new residence hall (\$1.31 million) and College of Education building (\$1.31 million), the completion of renovations to several dorm buildings (\$0.37 million), the library (\$0.12 million), and Capel Pool (\$0.60 million). In addition, the following HEERF funded projects for McLeod Hall (\$3.14 million), IT Infrastructure (\$2.1 million), and a Classroom Modernization Project (\$1.02 million) were included in construction in progress at year end.

For the fiscal year ended June 30, 2023 the University implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Right-to-use subscription assets increased \$3.22 million before amortization for new arrangements entered into during the fiscal year.

Total capital assets, net of accumulated depreciation/amortization, at June 30, 2023 were \$198.73 million. For more detailed information about capital asset holdings, see Note 6 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$14.22 million for the year ended June 30, 2023, which is an increase of \$10.73 million from the previous fiscal year. The construction commitments increase is due to commitments related to building design contracts for the College of Education and the new residence hall.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects. Other long-term liability obligations are incurred to fund the net pension liability, to fund the net OPEB liability, to fund workers compensation claims, to provide for accumulated unused vacation benefits for employees, and to acquire leases and subscriptions.

| (In Millions) | 2022 | | |
|--|------------------|------------------|------------------|
| | 2023 | (as Restated) | \$ Change |
| Bonds Payable | \$ 37.22 | \$ 42.79 | \$ (5.57) |
| Add: Unamortized Premium | 6.29 | 3.23 | 3.06 |
| Less: Unamortized Discount | - | (0.61) | 0.61 |
| Notes from Direct Borrowings | 6.62 | 7.58 | (0.96) |
| Pollution Remediation Payable | 0.03 | 0.04 | (0.01) |
| Lease Liabilities | 0.44 | - | 0.44 |
| Subscription (SBITA) Liabilities | 3.78 | 1.92 | 1.86 |
| Compensated Absences | 5.05 | 4.32 | 0.73 |
| Workers Compensation | 1.18 | 1.69 | (0.51) |
| Net Pension Liability | 28.11 | 8.90 | 19.21 |
| Net Other Postemployment Benefit Liability | 60.12 | 79.63 | (19.51) |
| Total Long-Term Liabilities | <u>\$ 148.84</u> | <u>\$ 149.49</u> | <u>\$ (0.65)</u> |

Long-term liabilities decreased by \$0.65 million, primarily due to a decrease of \$5.57 million in bonds payable offset by an increase in unamortized premium of \$3.06 million and an increase in SBITA liabilities of \$1.86 million. The change in bonds payable and unamortized premium is due to a current year refunding of the Fayetteville State University General Revenue Bonds, Series 2013A. For detailed information about long-term debt, see Note 8 of the Notes to the Financial Statements. Net pension liability increased \$19.21 million offset by a decrease in net OPEB liability of \$19.51 million. These changes were a result of differences between the University's contributions and the University's proportionate share of contributions to the State Health Plan.

Factors Impacting Future Periods

Management believes that the University is positioned to continue its level of excellence in service to students, the community, and governmental agencies. The University's ongoing efforts toward revenue diversification and cost containment will enable the University to provide the necessary resources to support this level of excellence. The University's management team continues to abide by the strategic priorities for the University.

A crucial element to the University's future will continue to be its relationship with the State of North Carolina as well as working to manage tuition and fees while staying competitive and providing an outstanding college education for its students. In fall 2022, the University began to participate in the NC Promise Tuition Plan. This program offers discounted annual residence and non-residence tuition of \$1,000 and \$5,000, respectively. Management anticipates that this program will allow the University to strategically grow its enrollment, and consequently increase the University's financial resources to use in furthering its mission.

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction and renovations to older facilities. This strategy addresses the University's planned growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State, student tuition and fees, and other revenue sources. Gifts are a significant factor in the growth and support of academic units and support for student scholarships. Economic pressures affecting donors may affect the future level of support the University receives from corporate and individual giving, including the support received through the Fayetteville State University Foundation, Inc., and Subsidiary.

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

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



Financial Statements

Fayetteville State University
Statement of Net Position
June 30, 2023

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

| | |
|--------------------------------------|----------------------|
| Cash and Cash Equivalents | \$ 6,157,715.21 |
| Restricted Cash and Cash Equivalents | 17,207,968.57 |
| Receivables, Net (Note 5) | 11,014,969.40 |
| Due from Primary Government | 622,483.19 |
| Inventories | 113,706.59 |
| Notes Receivable, Net (Note 5) | 100,226.98 |
| Leases Receivable (Note 9) | 204,785.30 |
| Total Current Assets | <u>35,421,855.24</u> |

Noncurrent Assets:

| | |
|--|-----------------------|
| Restricted Cash and Cash Equivalents | 18,296,088.08 |
| Receivables, Net (Note 5) | 190,951.00 |
| Prepaid Bond Insurance | 253,671.27 |
| Endowment Investments | 30,933,351.47 |
| Restricted Investments | 2,758,640.79 |
| Notes Receivable, Net (Note 5) | 486,501.02 |
| Leases Receivable (Note 9) | 1,880,597.65 |
| Capital Assets - Nondepreciable (Note 6) | 14,570,225.48 |
| Capital Assets - Depreciable, Net (Note 6) | 184,154,103.30 |
| Total Noncurrent Assets | <u>253,524,130.06</u> |

| | |
|--------------|-----------------------|
| Total Assets | <u>288,945,985.30</u> |
|--------------|-----------------------|

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|----------------------|
| Deferred Loss on Refunding | 583,870.31 |
| Deferred Outflows Related to Pensions | 18,986,663.25 |
| Deferred Outflows Related to Other Postemployment Benefits (Note 14) | 13,219,678.02 |
| Total Deferred Outflows of Resources | <u>32,790,211.58</u> |

LIABILITIES

Current Liabilities:

| | |
|---|----------------------|
| Accounts Payable and Accrued Liabilities (Note 7) | 8,701,427.52 |
| Unearned Revenue | 3,788,467.20 |
| Interest Payable | 504,743.18 |
| Long-Term Liabilities - Current Portion (Note 8) | 4,747,397.67 |
| Total Current Liabilities | <u>17,742,035.57</u> |

Noncurrent Liabilities:

| | |
|-------------------------------------|-----------------------|
| Funds Held for Others | 1,855,363.13 |
| U.S. Government Grants Refundable | 1,731,451.23 |
| Long-Term Liabilities, Net (Note 8) | 144,091,542.12 |
| Total Noncurrent Liabilities | <u>147,678,356.48</u> |
| Total Liabilities | <u>165,420,392.05</u> |

Fayetteville State University
Statement of Net Position
June 30, 2023

Exhibit A-1
Page 2 of 2

DEFERRED INFLOWS OF RESOURCES

| | |
|---|----------------------|
| Deferred Inflows Related to Pensions | 773,923.98 |
| Deferred Inflows Related to Other Postemployment Benefits (Note 14) | 36,048,632.01 |
| Deferred Inflows for Leases | <u>2,085,382.95</u> |
| Total Deferred Inflows of Resources | <u>38,907,938.94</u> |

NET POSITION

| | |
|--|---------------------------------|
| Net Investment in Capital Assets | 140,224,387.43 |
| Restricted: | |
| Nonexpendable: | |
| True Endowments | 14,900,023.99 |
| Student Loans and Other | <u>303,641.84</u> |
| Total Restricted-Nonexpendable Net Position | <u>15,203,665.83</u> |
| Expendable: | |
| Scholarships, Research, Instruction, and Other | 25,765,630.19 |
| Capital Projects | 21,321,164.92 |
| Debt Service | <u>1,545,066.87</u> |
| Total Restricted-Expendable Net Position | <u>48,631,861.98</u> |
| Unrestricted | <u>(86,652,049.35)</u> |
| Total Net Position | <u><u>\$ 117,407,865.89</u></u> |

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

Fayetteville 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 11) | \$ 14,386,207.79 |
| Federal Grants and Contracts | 332,179.07 |
| Sales and Services, Net (Note 11) | 14,269,454.80 |
| Interest Earnings on Loans | 2,843.70 |
| Lease Income | 83,947.23 |
| Other Operating Revenues | 759,335.58 |
| | <hr/> |
| Total Operating Revenues | 29,833,968.17 |

OPERATING EXPENSES

| | |
|------------------------------|------------------|
| Salaries and Benefits | 76,459,973.01 |
| Supplies and Services | 52,690,567.50 |
| Scholarships and Fellowships | 13,638,460.73 |
| Utilities | 3,215,281.99 |
| Depreciation/Amortization | 6,598,259.34 |
| | <hr/> |
| Total Operating Expenses | 152,602,542.57 |
| | <hr/> |
| Operating Loss | (122,768,574.40) |

NONOPERATING REVENUES (EXPENSES)

| | |
|---|----------------|
| State Appropriations | 82,685,092.92 |
| State Aid - Coronavirus | 596,675.62 |
| Student Financial Aid | 19,263,897.89 |
| Federal Aid - COVID-19 | 11,785,329.07 |
| Noncapital Contributions, Net (Note 11) | 27,361,095.55 |
| Investment Income (Net of Investment Expense of \$104,407.89) | 309,609.67 |
| Interest and Fees on Debt | (2,021,003.93) |
| Other Nonoperating Revenues | 158,279.60 |
| | <hr/> |
| Net Nonoperating Revenues | 140,138,976.39 |
| | <hr/> |
| Income Before Other Revenues | 17,370,401.99 |
| | <hr/> |
| Capital Contributions | 15,971,778.38 |
| Additions to Endowments | 1,399,545.91 |
| | <hr/> |
| Total Other Revenues | 17,371,324.29 |
| | <hr/> |
| Increase in Net Position | 34,741,726.28 |

NET POSITION

| | |
|------------------------------|-------------------|
| Net Position - July 1, 2022 | 82,666,139.61 |
| | <hr/> |
| Net Position - June 30, 2023 | \$ 117,407,865.89 |
| | <hr/> |

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

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Received from Customers | \$ 27,377,943.10 |
| Payments to Employees and Fringe Benefits | (90,113,417.81) |
| Payments to Vendors and Suppliers | (56,730,534.98) |
| Payments for Scholarships and Fellowships | (13,638,460.73) |
| Loans Issued | (39,093.87) |
| Collection of Loans | 133,790.89 |
| Interest Earned on Loans | 2,843.70 |
| William D. Ford Direct Lending Receipts | 27,838,766.00 |
| William D. Ford Direct Lending Disbursements | (27,821,595.00) |
| Related Activity Agency Disbursements | 672,855.37 |
| Other Receipts | 1,018,555.79 |
| | <hr/> |
| Net Cash Used by Operating Activities | (131,298,347.54) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|----------------|
| State Appropriations | 82,685,092.92 |
| State Aid - Coronavirus | 596,675.62 |
| Student Financial Aid | 20,371,514.86 |
| Federal Aid - COVID-19 | 11,785,329.07 |
| Noncapital Contributions | 28,612,254.23 |
| Additions to Endowments | 1,399,545.91 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 145,450,412.61 |

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

| | |
|---|-----------------|
| Capital Contributions | 15,971,778.38 |
| Proceeds from Lease Arrangements | 83,947.23 |
| Acquisition and Construction of Capital Assets | (12,668,637.54) |
| Principal Paid on Capital Debt and Lease/Subscription Liabilities | (3,923,270.59) |
| Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities | (2,920,327.99) |
| | <hr/> |
| Net Cash Used by Capital Financing and Related Financing Activities | (3,456,510.51) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------------|
| Proceeds from Sales and Maturities of Investments | 114,959.69 |
| Investment Income | 323,951.58 |
| Purchase of Investments and Related Fees | (1,006,372.02) |
| | <hr/> |
| Net Cash Used by Investing Activities | (567,460.75) |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 10,128,093.81 |
| Cash and Cash Equivalents - July 1, 2022 | 31,533,678.05 |
| | <hr/> |
| Cash and Cash Equivalents - June 30, 2023 | \$ 41,661,771.86 |

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

Exhibit A-3
Page 2 of 2

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

| | |
|---|----------------------------|
| Operating Loss | \$ (122,768,574.40) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation/Amortization Expense | 6,598,259.34 |
| Lease Income (Amortized Deferred Inflows of Resources) | (83,947.23) |
| Allowances, Write-Offs, and Amortizations | 103,599.52 |
| Other Nonoperating Income | 158,279.60 |
| Changes in Assets and Deferred Outflows of Resources: | |
| Receivables, Net | (1,505,104.83) |
| Inventories | 95,306.62 |
| Prepaid Items | 20,101.86 |
| Notes Receivable, Net | 164,273.38 |
| Net Other Postemployment Benefits Asset | 42,180.99 |
| Deferred Outflows Related to Pensions | (9,468,693.00) |
| Deferred Outflows Related to Other Postemployment Benefits | 2,788,579.00 |
| Changes in Liabilities and Deferred Inflows of Resources: | |
| Accounts Payable and Accrued Liabilities | (650,762.70) |
| Funds Held for Others | 690,026.37 |
| Unearned Revenue | (461,112.28) |
| Net Pension Liability | 19,211,677.00 |
| Net Other Postemployment Benefits Liability | (19,057,359.00) |
| Compensated Absences | 723,368.00 |
| Workers' Compensation Liability | (502,819.78) |
| Deferred Inflows Related to Pensions | (11,180,227.00) |
| Deferred Inflows Related to Other Postemployment Benefits | 3,784,601.00 |
| Net Cash Used by Operating Activities | <u>\$ (131,298,347.54)</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|---|-----------------|
| Assets Acquired through the Assumption of a Liability | \$ 7,855,780.31 |
| Change in Fair Value of Investments | (77,183.71) |
| Amortization of Loss on Refunding | (583,870.31) |
| Change in Nonoperating Payables | 784,858.10 |
| Amortization of Bond Premiums/Discounts | (256,686.51) |
| Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions | (456,409.00) |
| Change in Receivables Related to Nonoperating Income | 1,709,219.18 |
| Funds Escrowed to Defease Debt | 15,720,000.00 |

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. Fayetteville 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, Fayetteville State University Student Housing Corporation (Corporation) and Fayetteville State University Foundation, Inc., and Subsidiary (Foundation), component units of the University, are reported as if they were part of the University.

The Corporation is governed by a board consisting of eight appointed directors. The Corporation's purpose is to develop, finance, prepare, and provide residential housing facilities for the students of the University. Because the directors of the Corporation are appointed by the University and the Corporation's sole purpose is to benefit Fayetteville State University, its financial statements have been blended with those of the University.

The Foundation is governed by a 25-member board consisting of five ex officio directors and 20 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 Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries, have been included with those of the University.

Separate financial statements for the Corporation and Foundation may be obtained from the University Controller's Office, 1200 Murchison Road, Fayetteville, NC 28301, or by calling 910-672-1151.

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, 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 and merchandise for resale, are valued at cost using the first-in, first-out method, except for fuel oil which is valued

using the last invoice cost method and medical supplies which are valued using the average cost method.

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

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

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

| <u>Asset Class</u> | <u>Estimated Useful Life</u> |
|-------------------------|------------------------------|
| Buildings | 10-100 years |
| Machinery and Equipment | 2-30 years |
| General Infrastructure | 10-75 years |

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

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

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

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

activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

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, limited obligation bonds payable, and notes from direct borrowings. Other long-term liabilities include: pollution remediation payable, lease liabilities, subscription liabilities, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

Revenue bonds payable and limited obligation 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.

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

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

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by

employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

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

- Q. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, and postal services. 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 \$40,125,553.98, 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 \$3,075.86. The carrying amount of the University's deposits not with the State Treasurer was \$1,533,142.02, and the bank balance was \$1,533,142.02. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2023, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$1,271,759.08.

- 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, Fayetteville State University Foundation, Inc., and Subsidiary, 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.

UNC Investment Fund, LLC - At June 30, 2023, the University and the Foundation had \$18,759,847.79 and \$12,173,503.68, respectively, for a total of \$30,933,351.47 invested 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 Type | Amount |
|----------------------------|------------------------|
| Other Securities | |
| Investments in Real Estate | <u>\$ 2,758,640.79</u> |

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

| Investment Type | Amount |
|----------------------------|-------------------------|
| Other Securities | |
| UNC Investment Fund | \$ 30,933,351.47 |
| Investments in Real Estate | <u>2,758,640.79</u> |
| Total Investments | <u>\$ 33,691,992.26</u> |

Note 3 - Fair Value Measurements

To the extent available, the University's investments are recorded at fair value as of June 30, 2023. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair

value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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

| | Fair Value | Fair Value Measurements Using | | |
|---|-------------------------|-------------------------------|----------------|------------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Investments by Fair Value Level | | | | |
| Other Securities | | | | |
| Investments in Real Estate | \$ 2,758,640.79 | \$ - | \$ - | \$ 2,758,640.79 |
| Total Investments by Fair Value Level | <u>2,758,640.79</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,758,640.79</u> |
| Investments as a Position in an External Investment Pool | | | | |
| Short-Term Investment Fund | 40,125,553.98 | | | |
| UNC Investment Fund | <u>30,933,351.47</u> | | | |
| Total Investments as a Position in an External Investment Pool | <u>71,058,905.45</u> | | | |
| Total Investments Measured at Fair Value | <u>\$ 73,817,546.24</u> | | | |

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.

Investments in Real Estate - The Foundation currently holds 10 parcels of land that were gifted to the Foundation. These parcels were appraised at the time of gift and recorded at a value of \$434,040.42. This investment is classified at Level 3. These properties will be held as investments until a sale can be realized at the discretion of the Foundation.

The University Endowment Board purchased \$2,200,000.00 of membership interest (50% membership interest) from an outside unaffiliated company in Bronco Development, LLC whose principal asset is a three building, multi-tenant retail and commercial strip mall roughly 32,240 square feet adjacent to Fayetteville State University at 1015, 1047, and 1073 Murchison Road. At June 30, 2023 the University has an unrealized gain related to this investment in the amount of \$31,608.00.

The University Endowment Board also purchased \$92,992.37 in investment real estate at 1103 Murchison Road, adjacent to Fayetteville State University.

Note 4 - Endowment Investments

Investments of the University's endowment funds including the Foundation'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. 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). The University's endowment spending policy governs the rate at which funds are released to the operating budget from the endowment. The University uses a disciplined spending rate with a long-term spending rule. The target rate for spending is set up to 5.00% and 4.50%, respectively, of the University's and Foundation's endowment's trailing three-year average year end market value. In order to preserve the purchasing power of the endowment, the portfolio is invested with the expectation of generating a long-term rate of return at least equal to the payout plus the rate of inflation.

At June 30, 2023, net appreciation of \$16,157,056.16 was available to be spent, of which all \$16,157,056.16 was classified in net position as restricted expendable for scholarships, research, instructions, and other, as it is restricted for specific purposes.

Note 5 - Receivables

Receivables at June 30, 2023, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---------------------------------------|-------------------------|---|-------------------------|
| Current Receivables: | | | |
| Students | \$ 2,741,243.93 | \$ 559,750.76 | \$ 2,181,493.17 |
| Student Sponsors | 1,948,747.00 | - | 1,948,747.00 |
| Intergovernmental | 6,719,074.34 | 61,002.67 | 6,658,071.67 |
| Pledges | 80,170.00 | 3,046.00 | 77,124.00 |
| Interest on Loans | 72,405.59 | 31,810.10 | 40,595.49 |
| Other | 108,938.07 | - | 108,938.07 |
| Total Current Receivables | \$ 11,670,578.93 | \$ 655,609.53 | \$ 11,014,969.40 |
| Noncurrent Receivables: | | | |
| Pledges | \$ 235,775.00 | \$ 44,824.00 | \$ 190,951.00 |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Federal Loan Programs | \$ 147,273.32 | \$ 47,046.34 | \$ 100,226.98 |
| Notes Receivable - Noncurrent: | | | |
| Federal Loan Programs | \$ 697,607.16 | \$ 211,106.14 | \$ 486,501.02 |

Note 6 - Capital Assets

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

| | Balance July 1, 2022 (as Restated) | Increases | Decreases | Balance June 30, 2023 |
|--|--|-------------------------|------------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land and Permanent Easements | \$ 1,766,577.98 | \$ - | \$ - | \$ 1,766,577.98 |
| Construction in Progress | 3,434,689.20 | 13,572,846.19 | 4,203,887.89 | 12,803,647.50 |
| Total Capital Assets, Nondepreciable | 5,201,267.18 | 13,572,846.19 | 4,203,887.89 | 14,570,225.48 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 217,610,476.46 | 3,741,273.89 | - | 221,351,750.35 |
| Machinery and Equipment | 24,230,849.34 | 1,308,517.77 | - | 25,539,367.11 |
| General Infrastructure | 21,502,231.16 | 462,614.00 | - | 21,964,845.16 |
| Right-to-Use Leased Buildings | - | 470,485.00 | - | 470,485.00 |
| Right-to-Use Subscription Assets | 1,921,089.00 | 3,224,807.00 | - | 5,145,896.00 |
| Total Capital Assets, Depreciable | 265,264,645.96 | 9,207,697.66 | - | 274,472,343.62 |
| Less Accumulated Depreciation/Amortization for: | | | | |
| Buildings | 63,360,073.14 | 3,499,525.25 | - | 66,859,598.39 |
| Machinery and Equipment | 12,471,082.53 | 1,273,972.89 | - | 13,745,055.42 |
| General Infrastructure | 7,888,825.31 | 800,532.40 | - | 8,689,357.71 |
| Right-to-Use Leased Buildings | - | 47,048.50 | - | 47,048.50 |
| Right-to-Use Subscription Assets | - | 977,180.30 | - | 977,180.30 |
| Total Accumulated Depreciation/Amortization | 83,719,980.98 | 6,598,259.34 | - | 90,318,240.32 |
| Total Capital Assets, Depreciable, Net | 181,544,664.98 | 2,609,438.32 | - | 184,154,103.30 |
| Capital Assets, Net | \$ 186,745,932.16 | \$ 16,182,284.51 | \$ 4,203,887.89 | \$ 198,724,328.78 |

Notes to the Financial Statements

As of June 30, 2023, the total amount of right-to-use leased and subscription assets was \$470,785.00 and \$5,145,896.00, and the related accumulated amortization was \$47,048.50 and \$977,180.30, respectively.

Note 7 - Accounts Payable and Accrued Liabilities

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

| | Amount |
|---|------------------------|
| Accounts Payable and Accrued Liabilities | |
| Accounts Payable | \$ 3,390,668.40 |
| Accounts Payable - Capital Assets | 4,018,801.53 |
| Accrued Payroll | 1,150,270.81 |
| Contract Retainage | 141,686.78 |
| Total Accounts Payable and Accrued Liabilities | \$ 8,701,427.52 |

Note 8 - Long-Term Liabilities

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 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 | \$ 28,337,000.00 | \$15,720,000.00 | \$20,883,000.00 | \$ 23,174,000.00 | \$ 726,000.00 |
| Limited Obligation Bonds Payable | 14,450,000.00 | - | 405,000.00 | 14,045,000.00 | 425,000.00 |
| Plus: Unamortized Premium | 3,232,877.04 | 3,311,744.00 | 256,686.51 | 6,287,934.53 | - |
| Less: Unamortized Discount | (613,433.36) | - | (613,433.36) | - | - |
| Total Revenue Bonds and Limited Obligation Bonds Payable, Net | 45,406,443.68 | 19,031,744.00 | 20,931,253.15 | 43,506,934.53 | 1,151,000.00 |
| Notes from Direct Borrowings | 7,586,088.19 | - | 965,365.58 | 6,620,722.61 | 931,503.82 |
| Total Long-Term Debt | 52,992,531.87 | 19,031,744.00 | 21,896,618.73 | 50,127,657.14 | 2,082,503.82 |
| Other Long-Term Liabilities | | | | | |
| Pollution Remediation Payable | 37,139.07 | - | 7,139.07 | 30,000.00 | - |
| Lease Liabilities | - | 470,485.00 | 30,504.01 | 439,980.99 | 90,098.00 |
| Subscription (SBITA) Liabilities | 1,921,089.00 | 3,224,807.00 | 1,364,401.00 | 3,781,495.00 | 1,326,475.00 |
| Employee Benefits | | | | | |
| Compensated Absences | 4,325,095.00 | 3,592,364.00 | 2,868,996.00 | 5,048,463.00 | 882,567.03 |
| Net Pension Liability | 8,895,069.00 | 19,211,677.00 | - | 28,106,746.00 | - |
| Net Other Postemployment Benefits Liability | 79,633,137.00 | 74,709.00 | 19,588,477.00 | 60,119,369.00 | - |
| Workers' Compensation | 1,688,048.44 | 122,779.97 | 625,599.75 | 1,185,228.66 | 365,753.82 |
| Total Other Long-Term Liabilities | 96,499,577.51 | 26,696,821.97 | 24,485,116.83 | 98,711,282.65 | 2,664,893.85 |
| Total Long-Term Liabilities, Net | \$149,492,109.38 | \$45,728,565.97 | \$46,381,735.56 | \$148,838,939.79 | \$4,747,397.67 |

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

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

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

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

B. Revenue Bonds Payable and Limited Obligation Bonds Payable - The University was indebted for revenue bonds payable and limited obligation bonds payables for the purposes shown in the following table:

| Purpose | Series | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Outstanding June 30, 2023 |
|---|--------|--------------------------|---------------------|--------------------------|-------------------------------------|
| Revenue Bonds Payable | | | | | |
| Fayetteville State University Series 2023 General Revenue Refunding Bond | | | | | |
| Student Center Renovation | 2023 | 4.00%-5.00% | 04/01/2043 | \$ 15,720,000.00 | \$ 15,720,000.00 |
| Fayetteville State University Housing Fdn. LLC Facilities Revenue Refunding Bond | | | | | |
| University Place Apartments | 2017 | 2.82% | 11/01/2033 | 10,150,000.00 | 7,454,000.00 |
| Total Revenue Bonds Payable | | | | <u>25,870,000.00</u> | <u>23,174,000.00</u> |
| Limited Obligation Bonds Payable | | | | | |
| Fayetteville State University Housing LLC Refunding Limited Obligation Bond | | | | | |
| Student Housing Project | 2021 | 5.00% | 04/01/2043 | 14,975,000.00 | 14,045,000.00 |
| Total Revenue Bonds Payable and Limited Obligation Bonds Payable (principal only) | | | | <u>\$ 40,845,000.00</u> | 37,219,000.00 |
| Plus: Unamortized Premium | | | | | <u>6,287,934.53</u> |
| Total Revenue Bonds Payable and Limited Obligation Bonds Payable, Net | | | | | <u>\$ 43,506,934.53</u> |

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 |
|--|-------------------------|---------------|---------------------|--------------------------|-------------------------------------|
| Energy Savings Loan - University Project | Bank of America | 3.60% | 02/15/2032 | \$ 10,400,044.00 | \$ 6,318,724.49 |
| Network Switches | Dell Financial Services | 1.80% | 12/01/2023 | 1,515,735.45 | 301,998.12 |
| Total Notes from Direct Borrowings | | | | <u>\$ 11,915,779.45</u> | <u>\$ 6,620,722.61</u> |

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

| Fiscal Year | Annual Requirements | | | | | |
|--------------------|-------------------------|-------------------------|----------------------------------|------------------------|------------------------------|------------------------|
| | Revenue Bonds Payable | | Limited Obligation Bonds Payable | | Notes from Direct Borrowings | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2024 | \$ 726,000.00 | \$ 1,179,672.83 | \$ 425,000.00 | \$ 702,250.00 | \$ 931,503.82 | \$ 218,302.91 |
| 2025 | 938,000.00 | 985,778.00 | 445,000.00 | 681,000.00 | 652,367.03 | 194,116.97 |
| 2026 | 995,000.00 | 952,810.00 | 470,000.00 | 658,750.00 | 678,956.99 | 170,230.33 |
| 2027 | 1,053,000.00 | 913,932.00 | 495,000.00 | 635,250.00 | 709,517.54 | 145,252.42 |
| 2028 | 1,111,000.00 | 872,478.00 | 520,000.00 | 610,500.00 | 735,302.24 | 119,287.08 |
| 2029-2033 | 6,584,000.00 | 3,642,236.00 | 2,985,000.00 | 2,639,000.00 | 2,913,074.99 | 199,927.72 |
| 2034-2038 | 5,292,000.00 | 2,342,932.00 | 3,825,000.00 | 1,812,250.00 | - | - |
| 2039-2043 | 6,475,000.00 | 1,016,000.00 | 4,880,000.00 | 755,000.00 | - | - |
| Total Requirements | <u>\$ 23,174,000.00</u> | <u>\$ 11,905,838.83</u> | <u>\$ 14,045,000.00</u> | <u>\$ 8,494,000.00</u> | <u>\$ 6,620,722.61</u> | <u>\$ 1,047,117.43</u> |

- 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's outstanding revenue bonds payable of \$7,454,000.00 has pledged all buildings and other improvements and additions for the Series 2017 bonds, dated February 17, 2017. All machinery, devices, fixtures, apparatus, interior improvements, appurtenances, buildings materials, and equipment of every kind and nature attached to or placed in or upon the buildings.

The indentures of the University's outstanding revenue bonds payable of \$23,174,000.00 contain provisions that an event of default will occur if (1) the University fails to make a payment of principal or installment of interest, (2) failure by the University to observe and perform any covenant or provision in the agreement, for which failure continues for a period of 30 days after written notice, (3) the Issuer Credit Rating of the University falls below investment grade.

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

Limited Obligation Bonds Payable - The indentures of the University's outstanding limited obligation bonds of \$14,045,000.00 contains provisions that an event of default will occur if (1) the University fails to make a payment of principal or installment of interest, (2) failure by the University to observe and perform any covenant or provision in the agreement, for which failure continues for a period of 30 days after written notice.

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

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

The University has pledged machinery and equipment with a carrying value of \$7,110,219.00 as security for the Energy Savings Loan - University Project (University Project Agreement) dated February 7, 2014. The University Project Agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to make an installment payment when due, (2) the University fails to perform or observe any term, condition, or covenant of the agreement and failure continues for a period of 30 days after written notice is given, or (3) an attachment, levy, or execution of a security interest of lien is levied on or against the equipment financed.

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

The University has one property schedule outstanding with Dell Financial Services for the financing of IT Networking Equipment. The Dell Financial Services property schedule is pursuant to the Master Lease Agreement (Dell Master Agreement) dated as of June 4, 2019, between Dell Financial Services (Lessor) and The University of North Carolina, General Administration. The Dell Master Agreement describes an event of default as failure to pay any rental payment.

F. Bond Defeasance - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On January 13, 2023, the University issued \$15,720,000.00 in Fayetteville State University General Revenue Refunding Bonds, Series 2023 with an average interest rate of 4.99%. The bonds were issued for a current refunding of \$19,725,000.00 of outstanding Fayetteville State University General Revenue Bonds, Series 2013A with an average interest rate of 5.11%. The refunding was undertaken to reduce total debt service payments by \$6,968,776.19 over the next 21 years and resulted in an economic gain of \$4,413,516.38.

G. Pollution Remediation Payable - The University has recognized a pollution remediation liability for underground tank removal at the Lily Building. The amount of the estimated liability is \$15,000.00. The University has also recognized a pollution remediation liability for underground tank removal at the Lyons Science Building. The amount of the estimated liability is \$15,000.00.

Note 9 - Leases and Subscription-Based Information Technology Arrangements

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

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

During the year ended June 30, 2023, the University recognized operating revenues related to lessor arrangements totaling \$83,947.23.

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 |
|-----------------|---------------------------------|--------------------------------------|--------------------|----------------------------|---------------|
| Lessor: | | | | | |
| Land | 3 | \$ 2,085,382.95 | \$ 204,785.30 | 10-18 Years | 4.38% |

(1) The lease terms represent the range of the life of the lease.

- B. Lessee Arrangements** - The University has lease agreements for the right to use office space from a related party. The leases expire February 29, 2028, and any holding over after the expiration shall be construed to be a tenancy from month to month. Lease liabilities and right-to-use leased assets are recorded based on the present value of expected receipts over the term of the respective lease. The expected payments are discounted using the interest rate stated per the lease contract, or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

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

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

| Classification: | Number of Lease Contracts | Lease Liabilities June 30, 2023 | Current Portion | Lease Terms | Interest Rate |
|-------------------------------|---------------------------------|---------------------------------------|--------------------|-------------|---------------|
| Lessee: | | | | | |
| Right-to-Use Leased Buildings | 1 | \$ 439,980.99 | \$ 90,098.00 | 5 Years | 2.45% |

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

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

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 | 15 | \$ 3,781,495.00 | \$ 1,326,475.00 | 2-4 Years | 1.55% - 3.45% |

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

| Fiscal Year | Annual Requirements | | | |
|---------------------------|----------------------|---------------------|----------------------------------|----------------------|
| | Lease Liabilities | | Subscription (SBITA) Liabilities | |
| | Principal | Interest | Principal | Interest |
| 2024 | \$ 90,098.00 | \$ 9,722.00 | \$ 1,326,475.00 | \$ 94,851.00 |
| 2025 | 92,330.00 | 7,540.00 | 1,328,132.00 | 61,996.00 |
| 2026 | 94,618.00 | 5,252.00 | 696,694.00 | 28,893.00 |
| 2027 | 96,962.00 | 2,908.00 | 430,194.00 | 11,205.00 |
| 2028 | 65,972.99 | 608.00 | - | - |
| Total Requirements | \$ 439,980.99 | \$ 26,030.00 | \$ 3,781,495.00 | \$ 196,945.00 |

Note 10 - Net Position

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

| | Amount |
|---|---------------------------|
| Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources | \$ (9,894,006.73) |
| Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources | (82,948,322.99) |
| Effect on Unrestricted Net Position | (92,842,329.72) |
| Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities | 6,190,280.37 |
| Total Unrestricted Net Position | \$ (86,652,049.35) |

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

Note 11 - Revenues

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

| | Gross Revenues | Less Scholarship Discounts and Allowances | Less Allowance for Uncollectibles | Net Revenues |
|---|------------------------|--|---|------------------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees, Net | <u>\$24,200,988.30</u> | <u>\$ 9,617,187.42</u> | <u>\$ 197,593.09</u> | <u>\$14,386,207.79</u> |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Residential Life | \$ 8,923,875.62 | \$ 3,421,276.43 | \$ 42,811.67 | \$ 5,459,787.52 |
| Dining | 9,318,309.32 | 3,572,496.24 | 59,537.65 | 5,686,275.43 |
| Copy Center | 13,514.77 | - | - | 13,514.77 |
| Bookstore | 957,369.88 | - | 43,503.05 | 913,866.83 |
| Parking | 353,440.92 | - | - | 353,440.92 |
| Athletic | 231,177.21 | - | - | 231,177.21 |
| Other | 584,836.03 | - | - | 584,836.03 |
| Sales and Services of Education and Related Activities | <u>1,026,556.09</u> | <u>-</u> | <u>-</u> | <u>1,026,556.09</u> |
| Total Sales and Services, Net | <u>\$21,409,079.84</u> | <u>\$ 6,993,772.67</u> | <u>\$ 145,852.37</u> | <u>\$14,269,454.80</u> |
| Nonoperating Revenues: | | | | |
| Noncapital Contributions, Net | <u>\$27,408,965.55</u> | <u>\$ -</u> | <u>\$ 47,870.00</u> | <u>\$27,361,095.55</u> |

Note 12 - Operating Expenses by Function

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

| | Salaries and Benefits | Supplies and Services | Scholarships and Fellowships | Utilities | Depreciation/ Amortization | Total |
|-------------------------------------|-----------------------------|-----------------------------|------------------------------------|-----------------------|-------------------------------|--------------------------|
| Instruction | \$36,314,921.94 | \$ 3,268,575.34 | \$ - | \$ - | \$ - | \$ 39,583,497.28 |
| Research | 876,974.84 | 1,066,808.65 | - | - | - | 1,943,783.49 |
| Public Service | 2,259,654.96 | 1,976,049.27 | - | - | - | 4,235,704.23 |
| Academic Support | 4,573,143.70 | 4,700,296.59 | - | 4,492.26 | - | 9,277,932.55 |
| Student Services | 3,423,413.28 | 1,129,139.42 | - | - | - | 4,552,552.70 |
| Institutional Support | 15,285,706.27 | 12,656,535.57 | - | 7,550.52 | - | 27,949,792.36 |
| Operations and Maintenance of Plant | 7,079,282.41 | 8,815,030.87 | - | 1,981,298.65 | - | 17,875,611.93 |
| Student Financial Aid | - | - | 13,638,460.73 | - | - | 13,638,460.73 |
| Auxiliary Enterprises | 6,646,875.61 | 19,078,131.79 | - | 1,221,940.56 | - | 26,946,947.96 |
| Depreciation/Amortization | - | - | - | - | 6,598,259.34 | 6,598,259.34 |
| Total Operating Expenses | <u>\$76,459,973.01</u> | <u>\$52,690,567.50</u> | <u>\$13,638,460.73</u> | <u>\$3,215,281.99</u> | <u>\$6,598,259.34</u> | <u>\$ 152,602,542.57</u> |

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$361,861.11 provided by the Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 11.

Note 13 - Pension Plans

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life 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 \$2,423,521.24, and the University's contributions were \$7,020,133.19 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 \$28,106,746.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. The 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 0.18937%, which was a decrease of 0.00059 from its proportion measured as of June 30, 2021, which was 0.18996%.

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

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

* Salary increases include 3.25% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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

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

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

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

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2021 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension

payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2022 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

| Net Pension Liability | | |
|-----------------------|------------------------------|--------------------|
| 1% Decrease (5.5%) | Current Discount Rate (6.5%) | 1% Increase (7.5%) |
| \$ 49,694,159.15 | \$ 28,106,746.00 | \$ 10,288,063.06 |

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 \$5,684,961.00. 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 | \$ 122,378.00 | \$ 383,099.00 |
| Changes of Assumptions | 2,216,630.06 | - |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 9,231,382.00 | - |
| Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 396,140.00 | 390,824.98 |
| Contributions Subsequent to the Measurement Date | 7,020,133.19 | - |
| Total | \$ 18,986,663.25 | \$ 773,923.98 |

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

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

| <u>Year Ending June 30:</u> | <u>Amount</u> |
|-----------------------------|-------------------------|
| 2024 | \$ 2,845,602.08 |
| 2025 | 2,817,005.00 |
| 2026 | 1,104,736.00 |
| 2027 | 4,425,263.00 |
| Total | \$ 11,192,606.08 |

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 \$66,465,680.30, of which \$18,404,073.50 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$1,104,244.41 and \$1,258,838.63, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures of \$71,078.43.

Note 14 - Other Postemployment Benefits

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are

recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

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

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when the former employees become

eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Act. The University's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The University's contributions to the RHBF were \$4,051,050.89 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 \$456,409.00.

2. Disability Income

Plan Administration: As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the 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 \$58,796.09 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 \$60,044,660.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The 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 0.25285%, which was a decrease of 0.00473 from its proportion measured as of June 30, 2021, which was 0.25758%.

Disability Income Plan of North Carolina: At June 30, 2023, the University reported a liability of \$74,709.00 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The 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 0.25114%,

which was a decrease of 0.0071 from its proportion measured as of June 30, 2021, which was 0.25824%.

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

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

* Salary increases include 3.25% inflation and productivity factor.

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

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

N/A - Not Applicable

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

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

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

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

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

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

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

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

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the

elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

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

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

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

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

| | | Net OPEB Liability | | |
|-------|----|----------------------------|--------------------------------------|----------------------------|
| | | <u>1% Decrease (2.54%)</u> | <u>Current Discount Rate (3.54%)</u> | <u>1% Increase (4.54%)</u> |
| RHBF | \$ | 70,724,812.57 | \$ 60,044,660.00 | \$ 51,320,519.48 |
| | | <u>1% Decrease (2.08%)</u> | <u>Current Discount Rate (3.08%)</u> | <u>1% Increase (4.08%)</u> |
| DIPNC | \$ | 91,955.09 | \$ 74,709.00 | \$ 57,380.47 |

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 | \$ 49,425,747.55 | \$ | 60,044,660.00 | \$ 73,769,414.82 |

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 | \$ (8,422,267.00) |
| DIPNC | 111,427.00 |
| Total OPEB Expense | \$ (8,310,840.00) |

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 | \$ 582,954.00 | \$ 83,743.00 | \$ 666,697.00 |
| Changes of Assumptions | 4,807,355.00 | 4,802.00 | 4,812,157.00 |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | 519,961.00 | 79,019.00 | 598,980.00 |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 2,990,352.11 | 41,644.93 | 3,031,997.04 |
| Contributions Subsequent to the Measurement Date | 4,051,050.89 | 58,796.09 | 4,109,846.98 |
| Total | \$ 12,951,673.00 | \$ 268,005.02 | \$ 13,219,678.02 |

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

| | RHBF | DIPNC | Total |
|---|-------------------------|---------------------|-------------------------|
| Differences Between Actual and Expected Experience | \$ 166,150.00 | \$ - | \$ 166,150.00 |
| Changes of Assumptions | 27,327,739.00 | 13,840.00 | 27,341,579.00 |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | - | - | - |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 8,538,167.00 | 2,736.01 | 8,540,903.01 |
| Total | \$ 36,032,056.00 | \$ 16,576.01 | \$ 36,048,632.01 |

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 | \$ (7,601,951.00) | \$ 44,663.00 |
| 2025 | (6,933,519.00) | 50,104.00 |
| 2026 | (8,187,044.00) | 39,093.00 |
| 2027 | (4,408,919.89) | 31,862.00 |
| 2028 | - | 12,415.00 |
| Thereafter | - | 14,495.92 |
| Total | \$ (27,131,433.89) | \$ 192,632.92 |

Note 15 - Risk Management

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

A. Employee Benefit Plans

1. State Health Plan

University employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely

presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

The University purchased intercollegiate Sports Accident Insurance from a private insurance company through the North Carolina Department of Insurance. This policy covers medical expenses incurred for the treatment of injuries to covered persons. Covered persons include all student athletes, student managers, and student trainers whose names are on the official team roster of FSU's sponsored and supervised sports teams including basketball, bowling, cheerleading, cross country, football, tennis, track and field, softball and volleyball. This coverage is effective during play, practice, and team related travel. There is a \$3,000 deductible for all sports (disappearing deductible).

The University purchased Camper's Accidental Insurance policies for the Upward Bound Residential Institute and the 21st Century Learning Center camps from a private insurance company through the North Carolina Department of Insurance. This policy includes a \$7,500 accidental death benefit, \$15,000 maximum accidental dismemberment benefit, and a \$25,000 maximum accident medical expense benefit. Covered persons include each camp attendee. This coverage is effective for the period the attendee is scheduled to be at the camp including while on the camp's premises during the day, not on camp premises but traveling to and from and attending or participating in camp activity supervised by camp authorities, and traveling between camp and home. There is not a deductible for this policy.

Note 16 - Commitments and Contingencies

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$14,215,678.00 and on other purchases were \$10,067,317.85 at June 30, 2023.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

Note 17 - Related Parties

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the:

Fayetteville State University Alumni Association, Incorporated

Fayetteville State University Development Corporation

Fayetteville State University Research Corporation

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the foundations, except for support from each organization to the University. The University had no financial support for the year ended June 30, 2023.

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

| | Fayetteville State University | Fayetteville State University Foundation, Inc., and Subsidiary | Fayetteville State University Student Housing Corporation | Eliminations | Total |
|---|-------------------------------------|---|---|-----------------|-------------------|
| ASSETS | | | | | |
| Current Assets | \$ 27,992,223.24 | \$ 6,287,958.00 | \$ 1,141,674.00 | \$ - | \$ 35,421,855.24 |
| Capital Assets, Net | 198,724,328.78 | - | - | - | 198,724,328.78 |
| Other Noncurrent Assets | 41,767,232.28 | 12,798,495.00 | 234,074.00 | - | 54,799,801.28 |
| Component Unit Receivable from Primary Government | - | 7,493,755.00 | 14,220,563.00 | (21,714,318.00) | - |
| Total Assets | 268,483,784.30 | 26,580,208.00 | 15,596,311.00 | (21,714,318.00) | 288,945,985.30 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 32,790,211.58 | - | 2,500,170.00 | (2,500,170.00) | 32,790,211.58 |
| LIABILITIES | | | | | |
| Current Liabilities | 14,438,086.57 | 2,703,386.00 | 600,563.00 | - | 17,742,035.57 |
| Long-Term Liabilities, Net | 120,627,351.12 | 6,868,000.00 | 16,596,191.00 | - | 144,091,542.12 |
| Other Noncurrent Liabilities | 3,586,814.36 | - | - | - | 3,586,814.36 |
| Primary Government Payable to Component Unit | 21,714,318.00 | - | - | (21,714,318.00) | - |
| Total Liabilities | 160,366,570.05 | 9,571,386.00 | 17,196,754.00 | (21,714,318.00) | 165,420,392.05 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 41,408,108.94 | - | - | (2,500,170.00) | 38,907,938.94 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 140,224,387.43 | - | - | - | 140,224,387.43 |
| Restricted - Nonexpendable | 9,268,396.83 | 5,935,269.00 | - | - | 15,203,665.83 |
| Restricted - Expendable | 41,019,464.98 | 7,787,960.00 | (175,563.00) | - | 48,631,861.98 |
| Unrestricted | (91,012,932.35) | 3,285,593.00 | 1,075,290.00 | - | (86,652,049.35) |
| Total Net Position | \$ 99,499,316.89 | \$ 17,008,822.00 | \$ 899,727.00 | \$ - | \$ 117,407,865.89 |

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

| | Fayetteville State University | Fayetteville State University Foundation Inc., and Subsidiary | Fayetteville State University Student Housing Corporation | Eliminations | Total |
|---|-------------------------------------|--|---|----------------|-------------------|
| OPERATING REVENUES | | | | | |
| Student Tuition and Fees, Net | \$ 14,386,207.79 | \$ - | \$ - | \$ - | \$ 14,386,207.79 |
| Federal Grants and Contracts | 332,179.07 | - | - | - | 332,179.07 |
| Sales and Services, Net | 14,269,454.80 | - | - | - | 14,269,454.80 |
| Interest Earnings on Loans | 2,843.70 | - | - | - | 2,843.70 |
| Other Operating Revenues | 792,610.81 | 1,301,380.00 | - | (1,250,708.00) | 843,282.81 |
| Total Operating Revenues | 29,783,296.17 | 1,301,380.00 | - | (1,250,708.00) | 29,833,968.17 |
| OPERATING EXPENSES | | | | | |
| Operating Expenses | 147,075,737.23 | 1,102,549.00 | 30,263.00 | (2,204,266.00) | 146,004,283.23 |
| Depreciation/Amortization | 6,598,259.34 | - | - | - | 6,598,259.34 |
| Total Operating Expenses | 153,673,996.57 | 1,102,549.00 | 30,263.00 | (2,204,266.00) | 152,602,542.57 |
| Operating Loss | (123,890,700.40) | 198,831.00 | (30,263.00) | 953,558.00 | (122,768,574.40) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State Appropriations | 82,685,092.92 | - | - | - | 82,685,092.92 |
| State Aid - Coronavirus | 596,675.62 | - | - | - | 596,675.62 |
| Student Financial Aid | 19,263,897.89 | - | - | - | 19,263,897.89 |
| Federal Aid - COVID-19 | 11,785,329.07 | - | - | - | 11,785,329.07 |
| Noncapital Contributions, Net | 28,348,847.55 | 2,758,296.00 | - | (3,746,048.00) | 27,361,095.55 |
| Investment Income (Net of Expenses) | 319,934.67 | 225,795.00 | 717,438.00 | (953,558.00) | 309,609.67 |
| Interest and Fees on Debt | (1,195,563.93) | (236,120.00) | (589,320.00) | - | (2,021,003.93) |
| University Support | - | (3,832,876.00) | - | 3,832,876.00 | - |
| Other Nonoperating Revenues | 158,279.60 | - | - | - | 158,279.60 |
| Net Nonoperating Revenues (Expenses) | 141,962,493.39 | (1,084,905.00) | 128,118.00 | (866,730.00) | 140,138,976.39 |
| Capital Contributions | 16,058,606.38 | - | - | (86,828.00) | 15,971,778.38 |
| Additions to Endowments | 259,035.91 | 1,140,510.00 | - | - | 1,399,545.91 |
| Total Other Revenues | 16,317,642.29 | 1,140,510.00 | - | (86,828.00) | 17,371,324.29 |
| Increase in Net Position | 34,389,435.28 | 254,436.00 | 97,855.00 | - | 34,741,726.28 |
| NET POSITION | | | | | |
| Net Position, July 1, 2022 | 65,109,881.61 | 16,754,386.00 | 801,872.00 | - | 82,666,139.61 |
| Net Position, June 30, 2023 | \$ 99,499,316.89 | \$ 17,008,822.00 | \$ 899,727.00 | \$ - | \$ 117,407,865.89 |

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

| | Fayetteville State University | Fayetteville State University Foundation, Inc., and Subsidiary | Fayetteville State University Student Housing Corporation | Total |
|---|-------------------------------------|---|---|-------------------------|
| Net Cash Provided (Used) by Operating Activities | \$ (131,436,918.54) | \$ 148,732.00 | \$ (10,161.00) | \$ (131,298,347.54) |
| Cash Provided (Used) by Noncapital Financing Activities | 145,629,943.61 | (179,531.00) | - | 145,450,412.61 |
| Net Cash Used by Capital Financing and Related Financing Activities | (2,497,117.51) | (234,916.00) | (724,477.00) | (3,456,510.51) |
| Net Cash Provided (Used) by Investing Activities | (712,515.75) | (577,445.00) | 722,500.00 | (567,460.75) |
| Net Increase in Cash and Cash Equivalents | 10,983,391.81 | (843,160.00) | (12,138.00) | 10,128,093.81 |
| Cash and Cash Equivalents, July 1, 2022 | 25,294,216.05 | 5,105,247.00 | 1,134,215.00 | 31,533,678.05 |
| Cash and Cash Equivalents, June 30, 2023 | <u>\$ 36,277,607.86</u> | <u>\$ 4,262,087.00</u> | <u>\$ 1,122,077.00</u> | <u>\$ 41,661,771.86</u> |

Note 19 - Changes in Financial Accounting and Reporting

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

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

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

Note 20 - Net Position Restatement

As of July 1, 2022, the University implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 6 and Note 8 for details on the restated balances related to capital assets and subscription (SBITA) liabilities, respectively.



Required Supplementary Information

Fayetteville 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 | 0.18937% | 0.18996% | 0.19695% | 0.21137% | 0.21589% |
| Proportionate Share of TSERS Collective Net Pension Liability | \$ 28,106,746.00 | \$ 8,895,069.00 | \$ 23,795,493.00 | \$ 21,912,637.00 | \$ 21,494,201.00 |
| Covered Payroll | \$ 34,705,747.76 | \$ 32,409,906.95 | \$ 33,206,388.62 | \$ 33,891,806.35 | \$ 33,622,655.13 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 80.99% | 27.45% | 71.66% | 64.65% | 63.93% |
| 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 | 0.20533% | 0.19053% | 0.19931% | 0.21146% | 0.21480% |
| Proportionate Share of TSERS Collective Net Pension Liability | \$ 16,291,788.00 | \$ 17,511,675.00 | \$ 7,344,968.00 | \$ 2,479,201.00 | \$ 12,924,556.81 |
| Covered Payroll | \$ 35,015,412.22 | \$ 29,708,166.27 | \$ 30,607,328.10 | \$ 30,894,777.52 | \$ 31,862,338.89 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 46.53% | 58.95% | 24.00% | 8.02% | 40.56% |
| 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.

Fayetteville 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 | \$ 7,020,133.19 | \$ 5,684,801.48 | \$ 4,790,184.25 | \$ 4,306,868.60 | \$ 4,165,303.00 |
| Contributions in Relation to the Contractually Determined Contribution | 7,020,133.19 | 5,684,801.48 | 4,790,184.25 | 4,306,868.60 | 4,165,303.00 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 40,392,020.68 | \$ 34,705,747.76 | \$ 32,409,906.95 | \$ 33,206,388.62 | \$ 33,891,806.35 |
| 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 | \$ 3,624,522.56 | \$ 3,494,538.14 | \$ 2,718,297.21 | \$ 2,800,570.52 | \$ 2,684,756.17 |
| Contributions in Relation to the Contractually Determined Contribution | 3,624,522.56 | 3,494,538.14 | 2,718,297.21 | 2,800,570.52 | 2,684,756.17 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 33,622,655.13 | \$ 35,015,412.22 | \$ 29,708,166.27 | \$ 30,607,328.10 | \$ 30,894,777.52 |
| 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.

Fayetteville State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2023

Changes of Benefit Terms:

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

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

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

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

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

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

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

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

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

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

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

N/A - Not Applicable

Fayetteville 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*

Exhibit B-3
Page 1 of 2

| Retiree Health Benefit Fund | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|------------------|-------------------|------------------|------------------|------------------|
| Proportionate Share Percentage of Collective Net OPEB Liability | 0.25285% | 0.25758% | 0.27051% | 0.29205% | 0.28502% |
| Proportionate Share of Collective Net OPEB Liability | \$ 60,044,660.00 | \$ 79,633,137.00 | \$ 75,040,414.00 | \$ 92,401,935.00 | \$ 81,198,354.00 |
| Covered Payroll | \$ 53,459,675.20 | \$ 51,624,357.55 | \$ 52,270,054.34 | \$ 53,634,704.94 | \$ 52,957,703.05 |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 112.32% | 154.25% | 143.56% | 172.28% | 153.33% |
| 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 | 0.25932% | 0.28368% | | | |
| Proportionate Share of Collective Net OPEB Liability | \$ 85,022,391.00 | \$ 123,410,442.00 | | | |
| Covered Payroll | \$ 52,433,341.48 | \$ 46,320,282.18 | | | |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 162.15% | 266.43% | | | |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 3.52% | 2.41% | | | |

Fayetteville 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*

Exhibit B-3
Page 2 of 2

| Disability Income Plan of North Carolina | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|------------------|------------------|------------------|------------------|------------------|
| Proportionate Share Percentage of Collective Net OPEB Liability (Asset) | 0.25114% | 0.25824% | 0.27027% | 0.29296% | 0.29911% |
| Proportionate Share of Collective Net OPEB Liability (Asset) | \$ 74,709.00 | \$ (42,180.99) | \$ (132,957.00) | \$ (126,412.00) | \$ (90,858.00) |
| Covered Payroll | \$ 53,459,675.20 | \$ 51,624,357.55 | \$ 52,270,054.34 | \$ 53,634,704.94 | \$ 52,957,703.05 |
| Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll | 0.14% | 0.08% | 0.25% | 0.24% | 0.17% |
| 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) | 0.28403% | 0.26253% | | | |
| Proportionate Share of Collective Net OPEB Liability (Asset) | \$ (173,599.00) | \$ (163,031.00) | | | |
| Covered Payroll | \$ 52,433,341.48 | \$ 46,320,282.18 | | | |
| Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll | 0.33% | 0.35% | | | |
| 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.

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

Exhibit B-4
Page 1 of 2

| Retiree Health Benefit Fund | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contractually Required Contribution | \$ 4,051,050.89 | \$ 3,362,613.57 | \$ 3,448,507.08 | \$ 3,381,872.52 | \$ 3,362,896.00 |
| Contributions in Relation to the Contractually Determined Contribution | <u>4,051,050.89</u> | <u>3,362,613.57</u> | <u>3,448,507.08</u> | <u>3,381,872.52</u> | <u>3,362,896.00</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | \$ 58,796,094.18 | \$ 53,459,675.20 | \$ 51,624,357.55 | \$ 52,270,054.34 | \$ 53,634,704.94 |
| 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 | \$ 3,203,941.03 | \$ 3,046,377.14 | \$ 2,593,935.80 | \$ 2,607,671.71 | \$ 2,588,428.64 |
| Contributions in Relation to the Contractually Determined Contribution | <u>3,203,941.03</u> | <u>3,046,377.14</u> | <u>2,593,935.80</u> | <u>2,607,671.71</u> | <u>2,588,428.64</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | \$ 52,957,703.05 | \$ 52,433,341.48 | \$ 46,320,282.18 | \$ 47,498,574.02 | \$ 47,933,853.69 |
| Contributions as a Percentage of Covered Payroll | 6.05% | 5.81% | 5.60% | 5.49% | 5.40% |

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

Exhibit B-4
Page 2 of 2

| Disability Income Plan of North Carolina | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|------------------|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$ 58,796.09 | \$ 48,113.71 | \$ 46,461.92 | \$ 52,270.05 | \$ 75,088.59 |
| Contributions in Relation to the Contractually Determined Contribution | 58,796.09 | 48,113.71 | 46,461.92 | 52,270.05 | 75,088.59 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 58,796,094.18 | \$ 53,459,675.20 | \$ 51,624,357.55 | \$ 52,270,054.34 | \$ 53,634,704.94 |
| 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 | \$ 74,140.78 | \$ 199,246.69 | \$ 189,913.16 | \$ 194,744.15 | \$ 210,909.00 |
| Contributions in Relation to the Contractually Determined Contribution | 74,140.78 | 199,246.69 | 189,913.16 | 194,744.15 | 210,909.00 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 52,957,703.05 | \$ 52,433,341.48 | \$ 46,320,282.18 | \$ 47,498,574.02 | \$ 47,933,853.69 |
| 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.

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

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

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

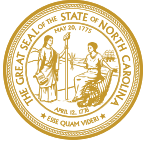
In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and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

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

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



Independent Auditor's Report



North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

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
Fayetteville State University
Fayetteville, 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 Fayetteville 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 May 17, 2024. Our report includes a reference to other auditors who audited the financial statements of Fayetteville State University Foundation, Inc., and Subsidiary and Fayetteville State University 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 by those auditors.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Independent Auditor's Report

we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Finding, Recommendation, and Response section, that we consider to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University's Response to Finding

Government Auditing Standards require us to perform limited procedures on the University's response to the finding identified in our audit and describe in the accompanying Finding, Recommendation, and Response section. The University's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

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.



Jessica N. Holmes, J.D.
State Auditor

Raleigh, North Carolina

May 17, 2024



Finding, Recommendation, and Response

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describe conditions that represent a deficiency in internal control.

Lack of Supporting Documentation for P-Card Transactions

The University did not obtain supporting documentation for all Purchasing Card (P-Card)¹ transactions. During the fiscal year, the University paid 7,479 P-Card transactions totaling \$3.1 million.

Auditors tested a sample of 40 P-Card transactions totaling \$17,402. The University did not have documentation to support the purchases² for 14 (35%) of the transactions totaling \$7,801.³

As a result, University funds could have been used for purchases that did not have a valid University purpose, and therefore the funds would not have been available for valid University purposes.

Without documentation to support the validity of P-Card transactions, the potential for undetected fraud, waste, and abuse increases.

According to University management, procedures were not followed to obtain supporting documentation due to staff turnover in the University's Purchasing Department. In addition, University management did not have monitoring procedures in place to ensure staff followed the procedures.

The University's *Purchasing Card Policies and Procedures* requires documentation for purchases made using P-Cards that supports that the purchase was for a valid University purpose.

Specifically, the *Purchasing Card Policies and Procedures* requires each cardholder to upload receipts and a documented business purpose to the electronic system by the 15th of each month. Once the cardholder completes their review, the approver reviews, verifies, and signs off on purchases in the system, ensuring a receipt and business purpose are present.⁴

Recommendation: University management should ensure contingency plans are in place to monitor and ensure supporting documentation is obtained for P-Card transactions during periods impacted by staff turnover.

University's Response: See page 67-68 for the University's response to this finding.

¹ Per the University's *Procurement Card Policy*, the P-Card is essentially a standard Visa Card in which *the liability rests with the University instead of the individual Cardholder*. The P-Card is issued to an employee to allow the employee to purchase allowable goods and services on behalf of the University within set spending limits. The University uses the terms "Procurement Card" and "Purchasing Card" interchangeably.

² Sufficient documentation would include an itemized receipt, invoice, or other documentation to support a valid University purchase.

³ Even though we only found \$7,801, when extended to the entire population of P-Card transactions, the projected amount of unsupported P-Card transactions could be \$1,404,758 (plus or minus \$206,938 at a 90% confidence level).

⁴ Section II, Cardholder Policies and Procedures; B. Roles and Responsibilities.

May 14, 2024

The Honorable Jessica N. Holmes, J.D.
State Auditor
Office of the State Auditor
325 N. Salisbury Street
2601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Auditor Holmes:

Fayetteville State University is pleased to submit its response to the State Auditor's finding in connection with the University's financial statement audit for the year ended June 30, 2023. Fayetteville State University deeply appreciates our ongoing partnership with the North Carolina State Auditor's Office and looks forward to implementing process enhancements to prevent this deficiency from occurring in the future:

Audit Finding: Lack of Supporting Documentation for P-Card Transactions

Recommendation: University management should ensure contingency plans are in place to monitor and ensure supporting documentation is obtained for P-Card transactions during periods impacted by staff turnover.

University Response: Fayetteville State University acknowledges and agrees with the finding and recommendation presented.

With regards to ensuring contingency plans are in place to monitor and ensure supporting documentation is obtained for P-Card transactions during periods impacted by staff turnover, the University has implemented or is in the process of implementing the following:

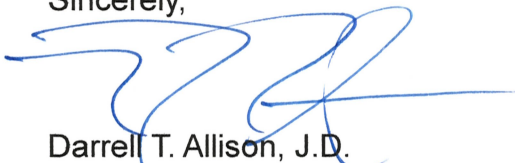
- Hired an Associated Vice Chancellor for Administration, who is responsible for oversight over purchasing and contracts. This position reflects the critical importance of this function to the University. Previously, this area had a manager.

- A new purchasing manager has been hired who began work on 5/6/24. Currently, there are 2 vacant positions in active recruitment with an expected start date in the next 90 days.
- The Division of Business and Finance has revamped and relaunched P-Card training which was mandatory at the time of card issuance. The revised P-Card training includes new sections focused on defining acceptable business purposes that must be provided along with the receipts. In order to maintain card privileges, all current cardholders, reconcilers, and approvers were required to retake the training and take an applicable quiz by January 31, 2024. This will be an annual mandatory requirement for all card holders.
- The Division of Business and Finance has increased monitoring activities for P-Cards. The P-Card administrator is now responsible for reviewing a sample of receipts for compliance and ensuring that the business purpose has been properly documented. If a proper business purpose is not provided, the P-Card will be suspended until resolved by the P-Card holder. Additionally, if a P-Card holder is not in compliance for any three months, the P-Card is revoked.

We have a high degree of confidence that implementing these corrective actions coupled with stringent and on-going monitoring will sufficiently address the recommendations provided.

Please feel free to contact Mr. Jesse Chroman if you have further concerns or questions regarding the University's response. We truly value your contributions along with the high level of professionalism exhibited by your staff in the completion of this engagement.

Sincerely,



Darrell T. Allison, J.D.
Chancellor

cc: Dr. Kimberly Jeffries Leonard, Chair, FSU Board of Trustees
Mr. Glenn Adams, Vice Chair, FSU Board of Trustees and
Chair, Board of Trustees Legal, Audit, Risk and Compliance Committee
Mr. Jesse Chroman, Director of Internal Audit

Ordering Information

Copies of this report may be obtained by contacting:

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State of North Carolina
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Internet: www.auditor.nc.gov/about-us/state-auditors-tipline

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

919-807-7666



This audit required 817 audit hours at an approximate cost of \$111,112.