North Carolina School of Science and Mathematics

Durham, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2023

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

UNBIASED. IMPACTFUL. IRREFUTABLE.

A Department of the State of North Carolina

NCOSA Office of the State Auditor

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, North Carolina School of Science and Mathematics

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

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

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

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
North Carolina School of Science and Mathematics
Durham, North Carolina

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the North Carolina School of Science and Mathematics, and its discretely presented component unit, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the North Carolina School of Science and Mathematics Foundation and Subsidiary (Foundation), the School's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The School'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 School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School'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 School'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 June 3, 2024 on our consideration of the School'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 School's internal control over financial reporting and compliance.

Jessica N. Holmes, J.D.

Jessica N. Holmes, J.D.
State Auditor

Raleigh, North Carolina

June 3, 2024

Management's Discussion and Analysis

Introduction

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

Using the Annual Report

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

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

The Statement of Cash Flows provides information relative to the School'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 balances of noncash accounts on the Statement of Net Position.

The Notes to the Financial Statements should be read in conjunction with the financial statements. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the School as a whole using accounting methods similar to those used in the private sector. The financial reporting entity for the financial statements is comprised of the School and two component units. The North Carolina School of Science and Mathematics Student and Constituent Support Services, Inc. (SCSSI), a blended component unit, is a legally separate, nonprofit corporation and is reported as if it were part of the School. The North Carolina School of Science and Mathematics Foundation and Subsidiary (Foundation) is a legally separate, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the School. This discussion and analysis excludes the Foundation. More information describing the relationship between the School and Foundation can be found in Note 1A.

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

Net position is divided into categories to show the availability to meet the School's obligations. The first category, net investment in capital assets, provides the School's equity in property, plant, and equipment. The next category is restricted net position and includes resources which the School is obligated to spend on capital projects. The final category is unrestricted net position. Unrestricted net position is available to the School for any lawful purpose. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the School's unrestricted net position has been designated for various programs and initiatives. As a result of recording the net pension liability and net other postemployment benefits liability, the School has an overall deficit in unrestricted net position.

Condensed Statement of Net Position

	2023	2022 (as Restated)	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	$ 4,974,689.77	$ 7,618,039.47	$ (2,643,349.70)	-34.70%
Noncurrent Assets:				
Capital Assets, Net	131,101,722.79	123,081,267.71	8,020,455.08	6.52%
Other	2,829,757.54	1,107,425.39	1,722,332.15	155.53%
Total Assets	138,906,170.10	131,806,732.57	7,099,437.53	5.39%
Deferred Outflows of Resources:				
Deferred Outflows Related to Pensions	7,812,006.65	3,661,841.00	4,150,165.65	113.34%
Deferred Outflows Related to OPEB	6,320,447.00	5,655,668.00	664,779.00	11.75%
Total Deferred Outflows of Resources	14,132,453.65	9,317,509.00	4,814,944.65	51.68%
Liabilities:				
Current Portion of Long-Term Liabilities	446,291.62	452,693.67	(6,402.05)	-1.41%
Other Current Liabilities	5,255,869.58	7,163,770.13	(1,907,900.55)	-26.63%
Long-Term Liabilities	37,147,225.42	34,104,855.60	3,042,369.82	8.92%
Other Noncurrent Liabilities	301,544.64	229,477.46	72,067.18	31.40%
Total Liabilities	43,150,931.26	41,950,796.86	1,200,134.40	2.86%
Deferred Inflows of Resources:				
Deferred Inflows Related to Pensions	148,672.00	4,063,624.00	(3,914,952.00)	-96.34%
Deferred Inflows Related to OPEB	9,310,310.00	6,814,434.00	2,495,876.00	36.63%
Total Deferred Inflows of Resources	9,458,982.00	10,878,058.00	(1,419,076.00)	-13.05%
Net Position:				
Net Investment in Capital Assets	125,249,980.77	114,800,155.46	10,449,825.31	9.10%
Restricted:				
Expendable	2,822,055.45	1,159,708.24	1,662,347.21	143.34%
Unrestricted	(27,643,325.73)	(27,664,476.99)	(21,151.26)	-0.08%
Total Net Position	$ 100,428,710.49	$ 88,295,386.71	$ 12,133,323.78	13.74%

Net position categories are defined in Note 1M of the Notes to the Financial Statements.

The condensed Statement of Net Position shows the School's total net position increased by $12,133,323.78 since the prior year. The School's total assets increased by $7,099,437.53, or 5.39%. The School's current assets decreased by $2,643,349.70 or 34.70% due to the decrease in cash from the prior year when the state allowed for the carryforward of cash related to encumbrances. The School's capital assets, net increased by $8,020,455.08, or 6.52% which was mainly attributable to capital spending for the Morganton Campus expansion. The increase in other noncurrent assets of $1,722,332.15, or 155.53%, was mainly due to the increase of restricted cash and cash equivalents for the construction of the Morganton Campus and other capital projects. See the Capital Assets section below for more details.

The School's net pension liability, net other postemployment benefits (OPEB) liability, deferred outflows of resources, and deferred inflows of resources are allocations of the State's retirement system's cost-sharing pension and OPEB plan balances to participating entities as required by GASB. Deferred outflows of resources increased $4,814,944.65, or 51.68%, and deferred inflows of resources decreased $1,419,076.00, or 13.05%, due to changes in the actuarial valuations of the State's pension and OPEB plans. For more detailed information regarding pension and OPEB, see Notes 10 and 11.

The School's total liabilities increased by $1,200,134.40, or 2.86%, from the prior year balance. Other current liabilities decreased by $1,907,900.55, or 26.63%, primarily due to the Morganton campus nearing completion and the related accounts payable and contract retainage decreasing significantly. Long-term liabilities increased by $3,042,369.82, or 8.92%, due to fluctuations in the net pension liability and net OPEB liability.

Restricted net position increased by $1,662,347.21, or 143.34%, primarily due to the increase in cash for capital projects. Net investment in capital assets increased by $10,449,825.31, or 9.10%, mainly due to the increase in capital assets noted above.

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. The School's dependency on state appropriations and noncapital contributions results in operating deficits since the GASB requires these captions be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the School. 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 School. Nonoperating revenues are revenues received for which goods and services are not provided. Capital contributions and appropriations are considered neither operating nor nonoperating and are reported after "Income Before Other Revenues."

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

	2023	2022	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	$ 956,667.13	$ 947,831.58	$ 8,835.55	0.93%
Sales and Services	91,230.21	88,370.44	2,859.77	3.24%
Other Operating Revenues	195,198.95	37,121.70	158,077.25	425.84%
Total Operating Revenues	1,243,096.29	1,073,323.72	169,772.57	15.82%
Operating Expenses:				
Salaries and Benefits	27,508,481.19	22,509,856.44	4,998,624.75	22.21%
Supplies and Services	12,099,791.83	5,026,254.95	7,073,536.88	140.73%
Utilities	1,545,323.35	1,027,108.25	518,215.10	50.45%
Depreciation/Amortization	2,938,887.88	1,755,570.23	1,183,317.65	67.40%
Total Operating Expenses	44,092,484.25	30,318,789.87	13,773,694.38	45.43%
Operating Loss	(42,849,387.96)	(29,245,466.15)	13,603,921.81	46.52%
Nonoperating Revenues (Expenses):				
State Appropriations	41,194,846.00	33,245,184.00	7,949,662.00	23.91%
State Aid - Coronavirus	556,780.81	1,411,153.75	(854,372.94)	-60.54%
Noncapital Contributions	2,729,326.00	1,957,333.93	771,992.07	39.44%
Other Nonoperating Expenses	(15,557.61)		(15,557.61)	
Interest and Fees on Debt	(82,395.87)	(62,957.39)	19,438.48	30.88%
Net Nonoperating Revenues	44,382,999.33	36,550,714.29	7,832,285.04	21.43%
Income Before Other Revenues	1,533,611.37	7,305,248.14	(5,771,636.77)	-79.01%
Capital Contributions	10,599,712.41	14,735,069.73	(4,135,357.32)	-28.06%
Increase in Net Position	12,133,323.78	22,040,317.87	(9,906,994.09)	-44.95%
Net Position:				
Beginning of Year	88,295,386.71	66,255,068.84	22,040,317.87	33.27%
End of Year	$ 100,428,710.49	$ 88,295,386.71	$ 12,133,323.78	13.74%
Total Revenues	$ 56,323,761.51	$ 52,422,065.13	$ 3,901,696.38	7.44%
Total Expenses	$ 44,190,437.73	$ 30,381,747.26	$ 13,808,690.47	45.45%

The condensed Statement of Revenues, Expenses, and Changes in Net Position shows the total operating loss for fiscal year 2023 was $42,849,387.96, an increase of $13,603,921.81, or 46.52%, from the prior year.

Operating revenues increased by $169,772.57, or 15.82%, mainly due to an increase in forfeitures related to the Optional Retirement Program pension plan. Operating expenses increased $13,773,694.38, or 45.43%, due to increased salaries, pension and other postemployment benefits expense, and supplies and services for the first year in Morganton. Depreciation increased by $1,183,317.65, or 67.40%, mainly due to the construction of the Morganton Campus and other capital projects.

Net nonoperating revenues increased $7,832,285.04, or 21.43%, from the prior year. State appropriations increased by $7,949,662.00, or 23.91%, primarily due to funding received for operations for the Morganton Campus. State aid – coronavirus decreased by $854,372.94, or 60.54% due to a decrease in Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funds from the UNC Board of Governors to be used on COVID-19 related expenses. Noncapital contributions increased by $771,992.07, or 39.44%, due to more funding received from private grants.

Capital contributions decreased by $4,135,357.32, or 28.06%, due to a decrease in Connect NC Bond funds received for the construction of the Morganton campus and other capital funds received for repairs and renovations in the prior year.

One of the School's weaknesses is the lack of diverse streams of revenues. Approximately 96.80% of the School's total revenues come from state appropriations, noncapital contributions, and capital contributions. The School will continue to seek funding aggressively from all possible sources consistent with its mission and prudently manage the financial resources realized from these efforts to fund its operating activities.

Capital Assets

As shown in the following chart, net capital assets increased by $8,020,455.08 during the current year due to various increases discussed below.

Net Capital Assets

	2023	2022 (as Restated)	Increase/ (Decrease)
Land	$ 6,632,390.16	$ 1,687,173.66	$ 4,945,216.50
Art	10,092.76	10,092.76	
Construction in Progress	6,448,965.72	68,261,238.33	(61,812,272.61)
Buildings	130,166,473.39	72,183,321.80	57,983,151.59
Machinery and Equipment	10,843,737.14	6,466,425.68	4,377,311.46
General Infrastructure	8,430,055.50	3,704,523.41	4,725,532.09
Right-to-Use Leased Machinery and Equipment	103,140.00	25,327.00	77,813.00
Right-to-Use Subscription Assets	410,991.54	204,886.00	206,105.54
Total Capital Assets	163,045,846.21	152,542,988.64	10,502,857.57
Less: Accumulated Depreciation/Amortization	(31,944,123.42)	(29,461,720.93)	(2,482,402.49)
Net Capital Assets	$ 131,101,722.79	$ 123,081,267.71	$ 8,020,455.08

Construction in progress decreased by $61,812,272.61 and buildings increased by $57,983,151.59 mainly due to the completion of the majority of the Morganton Campus. Accumulated depreciation increased by $2,484,402.49 due to an increase to buildings. For more detailed information about capital asset holdings, see Note 4.

Long-Term Liability Activity

As shown in the following chart, long-term liabilities increased $3,035,967.77 during the current year primarily due to the $7,686,868.00 increase in pension liability and an offsetting decrease of $4,886,780.00 in the other postemployment benefit liability as noted below.

Long-Term Liability Activity

	2023	2022 (as Restated)	Increase/ (Decrease)
Notes from Direct Borrowings	$ 2,269,972.61	$ 2,478,666.28	$ (208,693.67)
Lease Liabilities	74,340.00	17,857.00	56,483.00
Subscription (SBITA) Liabilities	249,962.00	204,886.00	45,076.00
Compensated Absences	3,278,061.00	2,895,818.00	382,243.00
Net Pension Liability	10,907,561.00	3,220,693.00	7,686,868.00
Net Other Postemployment Benefits Liability	20,331,802.00	25,218,582.00	(4,886,780.00)
Workers' Compensation	481,818.43	521,046.99	(39,228.56)
Total Long-Term Liabilities	$ 37,593,517.04	$ 34,557,549.27	$ 3,035,967.77

For detailed information about long-term liabilities, see Note 6.

Factors Impacting Future Periods

The School is the nation's first public residential high school focused on science, technology, engineering, and math (STEM). The School challenges and inspires talented students from across North Carolina through a residential campus, online programs, summer STEM enrichment programs, and distance offerings for schools and educators.

The School has planned significant improvements to both campuses. The Morganton campus opened to Juniors in the Fall of 2022. The final building to be completed for the Morganton campus, the Student Wellness and Activity Center, will begin construction next year and should be completed in the Fall of 2025. The Durham campus has a number of significant renovation projects beginning, including the renovation of all six dormitories, the renovation of the cafeteria space, and the addition of a new building that will integrate dining, library and student meeting spaces. The Durham renovations are expected to continue through 2028.

Management believes that the School is well positioned to continue its level of excellence in service to students, the community, and governmental agencies. The School's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures, along with UNC Tomorrow initiatives and the expansion plans for the Morganton Campus to address the needs of the State will enable it to provide the necessary resources to support this level of excellence.

Financial Statements

North Carolina School of Science and Mathematics
Statement of Net Position
June 30, 2023

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,848,437.73
Restricted Cash and Cash Equivalents	563,821.12
Receivables	6,583.92
Due from School Component Unit	1,504,718.99
Inventories	48,852.01
Prepaid Expenses	2,276.00
Total Current Assets	4,974,689.77
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,829,757.54
Capital Assets - Nondepreciable (Note 4)	13,091,448.64
Capital Assets - Depreciable, Net (Note 4)	118,010,274.15
Total Noncurrent Assets	133,931,480.33
Total Assets	138,906,170.10
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	7,812,006.65
Deferred Outflows Related to Other Postemployment Benefits (Note 11)	6,320,447.00
Total Deferred Outflows of Resources	14,132,453.65
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	4,245,877.84
Funds Held for Others	329,755.24
Unearned Revenue	680,236.50
Long-Term Liabilities - Current Portion (Note 6)	446,291.62
Total Current Liabilities	5,702,161.20
Noncurrent Liabilities:	
Funds Held for Others	301,544.64
Long-Term Liabilities (Note 6)	37,147,225.42
Total Noncurrent Liabilities	37,448,770.06
Total Liabilities	43,150,931.26
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	148,672.00
Deferred Inflows Related to Other Postemployment Benefits (Note 11)	9,310,310.00
Total Deferred Inflows of Resources	9,458,982.00

NET POSITION	
Net Investment in Capital Assets	125,249,980.77
Restricted:	
Expendable:	
Capital Projects	2,822,055.45
Unrestricted	(27,643,325.73)
Total Net Position	$ 100,428,710.49

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

North Carolina School of Science and Mathematics
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	$ 956,667.13
Sales and Services	91,230.21
Other Operating Revenues	195,198.95
Total Operating Revenues	1,243,096.29
OPERATING EXPENSES	
Salaries and Benefits	27,508,481.19
Supplies and Services	12,099,791.83
Utilities	1,545,323.35
Depreciation/Amortization	2,938,887.88
Total Operating Expenses	44,092,484.25
Operating Loss	(42,849,387.96)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	41,194,846.00
State Aid - Coronavirus	556,780.81
Noncapital Contributions	2,729,326.00
Interest and Fees on Debt	(82,395.87)
Other Nonoperating Expenses	(15,557.61)
Net Nonoperating Revenues	44,382,999.33
Income Before Other Revenues	1,533,611.37
Capital Contributions	10,599,712.41
Increase in Net Position	12,133,323.78
NET POSITION	
Net Position - July 1, 2022	88,295,386.71
Net Position - June 30, 2023	$ 100,428,710.49

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

North Carolina School of Science and Mathematics
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2023 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,532,688.79
Payments to Employees and Fringe Benefits	(30,269,744.71)
Payments to Vendors and Suppliers	(13,621,887.05)
Other Receipts	111,195.44
Net Cash Used by Operating Activities	(42,247,747.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	41,194,846.00
State Aid - Coronavirus	556,780.81
Noncapital Contributions	1,956,687.00
Total Cash Provided by Noncapital Financing Activities	43,708,313.81
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Contributions	12,000,691.60
Acquisition and Construction of Capital Assets	(13,207,483.61)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(308,656.67)
Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities	(82,395.87)
Net Cash Used by Capital Financing and Related Financing Activities	(1,597,844.55)
Net Decrease in Cash and Cash Equivalents	(137,278.27)
Cash and Cash Equivalents - July 1, 2022	6,379,294.66
Cash and Cash Equivalents - June 30, 2023	$ 6,242,016.39

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (42,849,387.96)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	2,938,887.88
Other Nonoperating Income	111,869.48
Changes in Assets and Deferred Outflows of Resources:	
Prepaid Items	(804.35)
Inventories	(11,361.56)
Net Other Postemployment Benefits Asset	13,214.00
Deferred Outflows Related to Pensions	(4,150,165.65)
Deferred Outflows Related to Other Postemployment Benefits	(664,779.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	85,641.25
Funds Held for Others	111,195.44
Unearned Revenue	289,565.50
Net Pension Liability	7,686,868.00
Net Other Postemployment Benefits Liability	(4,732,429.00)
Compensated Absences	382,243.00
Workers' Compensation Liability	(39,228.56)
Deferred Inflows Related to Pensions	(3,914,952.00)
Deferred Inflows Related to Other Postemployment Benefits	2,495,876.00
Net Cash Used by Operating Activities	$ (42,247,747.53)

NONCASH CAPITAL AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 368,857.67
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(154,351.00)

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

North Carolina School of Science and Mathematics Foundation and Subsidiary
Consolidated Statement of Financial Position
June 30, 2023 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,371,189
Accounts Receivable		19,484
Pledges Receivable, Net		5,496,029
Investments:		
Short Term Investment Fund		17,760,526
UNC Investment Fund		20,349,524
Land		60,540
Antique Optical Collection		41,405
Total Assets	$	45,098,697
LIABILITIES		
Accounts Payable and Accrued Expenses	$	1,666,101
NET ASSETS		
Without Donor Restrictions		5,432,840
With Donor Restrictions		37,999,756
Total Net Assets		43,432,596
Total Liabilities and Net Assets	$	45,098,697

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

North Carolina School of Science and Mathematics Foundation and Subsidiary
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2023

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES, GAINS, AND OTHER SUPPORT			
Grants and Contributions	$ 1,448,375	$ 3,231,025	$ 4,679,400
Investment Return Designated for Current Operations	519,353	356,476	875,829
Other Investment Income	350,882	-	350,882
Net Assets Released from Donor Restrictions	3,564,219	(3,564,219)	-
Total Operating Revenues, Gains, and Other Support	5,882,829	23,282	5,906,111
OPERATING EXPENSES			
Programs	4,393,894	-	4,393,894
Fundraising:			
Institutional Advancement	1,192,917	-	1,192,917
General and Administrative:			
Chancellor's Fund	106,695	-	106,695
Foundation Office	623,437	-	623,437
Bad Debt Expense	138,963	-	138,963
Total Operating Expenses	6,455,906	-	6,455,906
Change in Net Assets from Operations	(573,077)	23,282	(549,795)
Investment Loss in Excess of Amounts Designated for Current Operations	(344,629)	(649,115)	(993,744)
Change in Net Assets	(917,706)	(625,833)	(1,543,539)
NET ASSETS			
Net Assets at Beginning of Year	6,350,546	38,625,589	44,976,135
Net Assets at End of Year	$ 5,432,840	$ 37,999,756	$ 43,432,596

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

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina School of Science and Mathematics (School) 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 School and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor and the Board of Trustees have delegated responsibilities for financial accountability of the School's funds. The School's component units are either blended or discretely presented in the School's financial statements. See below for further discussion of the School's component units. Other related foundations and similar nonprofit corporations for which the School is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, NCSSM Student and Constituent Support Services, Inc. (SCSSI), a component unit of the School, is reported as if it were part of the School.

The SCSSI is governed by a seven-member Board of Directors consisting of two ex officio directors. All directors are employees of the School. The ex officio directors consist of the Chancellor and the Vice Chancellor for Student Life. The SCSSI's purpose is to receive, administer, and advance funds for the support of student services and program operations of the School. Because the members of the Board of Directors of the SCSSI are employees of the School and the SCSSI's sole purpose is to benefit the School, its financial statements have been blended with those of the School.

Separate financial statements for the SCSSI may be obtained from Terry Lynch, Executive Director, North Carolina School of Science and Mathematics, SCSSI, Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2801.

Condensed combining information regarding the blended component unit is provided in Note 14.

Discretely Presented Component Unit - The North Carolina School of Science and Mathematics Foundation and Subsidiary (Foundation) is a legally separate, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the School. SSM Holdings, LLC is the wholly owned subsidiary of the Foundation.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the School in support of its programs. The Foundation operates exclusively for charitable and education purposes including, but not limited to, receiving, administering, and obtaining funds for the support of the academic and educational programs of the School. The Foundation board consists of 34 members. Although the School does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the School by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the School, the Foundation is considered a component unit of the School and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2023, the Foundation provided $4,665,751.33 in support directly to the School. Payments for program support included both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Leah Englebright, Director of Budget and Finance, North Carolina School of Science and Mathematics Foundation and Subsidiary, Post Office Box 2418, Durham, NC 27715-2418, or by calling (919) 416-2866.

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 School'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 School 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 School 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, money market 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. The School's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

E. **Receivables** - Receivables consist of amounts due from former employees. Receivables are considered fully collectible and therefore, no allowance for doubtful accounts is recorded.

F. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.

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

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

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years

The art collection is capitalized at cost or acquisition value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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 $10,000 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 $85,000 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 School is reasonably certain will be exercised, the right-to-use leased asset is amortized over the asset's estimated useful life.

H. **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 and resources whose use is limited by external parties or statute.

I. **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.

J. **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 notes from direct borrowings. Other long-term liabilities include: lease liabilities, subscription liabilities, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

The net pension liability represents the School'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 School's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the School's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the School'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 School'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 11 for further information regarding the School's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

K. **Compensated Absences** - The School'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 School 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.

L. 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.

M. Net Position - The School's net position is classified as follows:

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

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the School 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 School. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 8 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

N. Revenue and Expense Recognition - The School 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 School's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees and (2) sales and services of auxiliary enterprises. 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 School are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to School 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 School has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to School 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

School - Unless specifically exempt, the School 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 School 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 School may voluntarily deposit institutional trust funds and special funds with the State Treasurer. Special funds consist of moneys for athletics and agency funds held directly by the School.

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes $5,834,057.94, which represents the School’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 $600.00. The carrying amount of the School’s deposits not with the State Treasurer was $407,358.45, and the bank balance was $439,830.31. Custodial credit risk is the risk that in the event of a bank failure, the School’s deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. As of June 30, 2023, the School’s bank balance was exposed to uninsured and uncollateralized custodial credit risk of $189,830.31.

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

		Fair Value
Investment Type		
Short-Term Investment Fund	$	17,760,526
UNC Investment Fund		20,349,524
Total Investments	$	38,110,050

Note 3 - Fair Value Measurements

School - To the extent available, the School'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.

Short-Term Investment Fund - At year-end, the School's investments held in the STIF were valued at $5,834,057.94 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 School'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.

Foundation - Foundation investments with the UNC Investment Fund and STIF, which were valued at $20,349,524 and $17,760,526 at June 30, 2023, respectively, are stated at fair value determined in accordance with Topic 820, *Fair Value Measurement*, of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. Guidance provided by the FASB 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. In accordance with FASB ASU 2015-07, investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. For the year ended June 30, 2023, this includes all investments.

The following table presents redemption features and other related information for the Foundation's investments with the UNC Investment Fund, which are reported at fair value:

Withdrawal Type	Other Redemption Restrictions	Redemption Notice Period	Redemption Frequency
Spending Distribution	Withdrawals taken to support normal endowment spending up to 7% of member's beginning market value in any given fiscal year (can be taken throughout the year)	30 days	Monthly
Routine	Withdrawals up to a cumulative $10 million in a calendar year	30 days	Monthly
Capital	Withdrawals up to $50 million per calendar quarter	90 days	Quarterly

Investment risks associated with the UNC Investment Fund are included in the audited financial statements of the UNC Investment Fund, LLC, which may be obtained from the UNC Chapel Hill Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

The investments in the STIF have no redemption features limiting the Foundation's ability to fully withdraw its investment. The STIF is similar to a nonexchange traded mutual fund. The underlying securities have readily determinable fair values at the measurement date.

Note 4 - 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	$ 1,687,173.66	$ 4,945,216.50	$ 0.00	$ 6,632,390.16
Art	10,092.76			10,092.76
Construction in Progress	68,261,238.33	9,282,312.72	71,094,585.33	6,448,965.72
Total Capital Assets, Nondepreciable	69,958,504.75	14,227,529.22	71,094,585.33	13,091,448.64
Capital Assets, Depreciable:				
Buildings	72,183,321.80	58,075,038.72	91,887.13	130,166,473.39
Machinery and Equipment	6,466,425.68	4,757,337.10	380,025.64	10,843,737.14
General Infrastructure	3,704,523.41	4,725,532.09		8,430,055.50
Right-to-Use Leased Machinery and Equipment	25,327.00	89,059.00	11,246.00	103,140.00
Right-to-Use Subscription Assets	204,886.00	206,105.54		410,991.54
Total Capital Assets, Depreciable	82,584,483.89	67,853,072.45	483,158.77	149,954,397.57
Less Accumulated Depreciation/Amortization for:				
Buildings	25,887,976.63	2,053,455.54	75,873.71	27,865,558.46
Machinery and Equipment	2,197,957.10	518,292.39	373,864.08	2,342,385.41
General Infrastructure	1,364,345.93	260,807.94		1,625,153.87
Right-to-Use Leased Machinery and Equipment	11,441.27	29,454.67	6,747.60	34,148.34
Right-to-Use Subscription Assets		76,877.34		76,877.34
Total Accumulated Depreciation/Amortization	29,461,720.93	2,938,887.88	456,485.39	31,944,123.42
Total Capital Assets, Depreciable, Net	53,122,762.96	64,914,184.57	26,673.38	118,010,274.15
Capital Assets, Net	$ 123,081,267.71	$ 79,141,713.79	$ 71,121,258.71	$ 131,101,722.79

Note 5 - Accounts Payable and Accrued Liabilities

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 675,971.17
Accounts Payable - Capital Assets	1,083,893.89
Accrued Interest	12,756.11
Accrued Payroll	312,439.26
Contract Retainage	2,160,817.41
Total Current Accounts Payable and Accrued Liabilities	$ 4,245,877.84

Note 6 - 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					
Notes from Direct Borrowings	$ 2,478,666.28	$ 0.00	$ 208,693.67	$ 2,269,972.61	$ 146,992.62
Other Long-Term Liabilities					
Lease Liabilities	17,857.00	89,059.00	32,576.00	74,340.00	28,987.00
Subscription (SBITA) Liabilities	204,886.00	112,463.00	67,387.00	249,962.00	52,591.00
Employee Benefits					
Compensated Absences	2,895,818.00	1,999,619.00	1,617,376.00	3,278,061.00	177,015.00
Net Pension Liability	3,220,693.00	7,686,868.00		10,907,561.00	
Net Other Postemployment Benefits Liability	25,218,582.00	25,577.00	4,912,357.00	20,331,802.00	
Workers' Compensation	521,046.99		39,228.56	481,818.43	40,706.00
Total Other Long-Term Liabilities	32,078,882.99	9,913,586.00	6,668,924.56	35,323,544.43	299,299.00
Total Long-Term Liabilities	$34,557,549.27	$ 9,913,586.00	$ 6,877,618.23	$ 37,593,517.04	$ 446,291.62

Additional information regarding lease and subscription (SBITA) liabilities is included in Note 7.
Additional information regarding the net pension liability is included in Note 10.
Additional information regarding the net other postemployment benefits liability is included in Note 11.
Additional information regarding workers' compensation is included in Note 12.

B. Notes from Direct Borrowings - The School was indebted for notes from direct borrowings for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023
NCSSM-Energy Saving Contract	Banc of America Public Capital Corp	3.37%	10/01/2034	$ 2,523,616.00	$ 2,269,972.61

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

	Annual Requirements	
	Notes from Direct Borrowings	
Fiscal Year	Principal	Interest
2024	$ 146,992.62	$ 74,058.59
2025	151,186.77	69,031.74
2026	168,028.33	63,650.25
2027	172,885.74	57,902.95
2028	177,881.93	51,989.53
2029-2033	996,276.23	167,883.38
2034-2035	456,720.99	15,509.93
Total Requirements	$ 2,269,972.61	$ 500,026.37

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

Notes from Direct Borrowings - The School has pledged the energy savings improvements installed in its buildings and other structures as collateral for the Brady Trane Service, Inc. Performance Contract dated September 10, 2018. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the School 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 School fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty days.

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

Note 7 - Leases and Subscription-Based Information Technology Arrangements

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

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

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

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2023	Current Portion	Lease Terms (1)	Interest Rate Ranges
Lessee:					
Right-to-Use Leased Machinery and Equipment	4	$ 74,340.00	$ 28,987.00	43 months	3.94% - 4.85%

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

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

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

The School'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	3	$ 249,962.00	$ 52,591.00	5-6 years	4.85% - 7.82%

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

	Annual Requirements			
	Lease Liabilities		Subscription (SBITA) Liabilities	
Fiscal Year	Principal	Interest	Principal	Interest
2024	$ 28,987.00	$ 2,907.00	$ 52,591.00	$ 14,797.00
2025	29,551.00	1,515.00	55,599.00	11,788.00
2026	15,802.00	418.00	58,789.00	8,599.00
2027			62,171.00	5,216.00
2028			20,812.00	1,628.00
Total Requirements	$ 74,340.00	$ 4,840.00	$ 249,962.00	$ 42,028.00

Note 8 - 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	$ (3,244,226.35)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(23,321,665.00)
Effect on Unrestricted Net Position	(26,565,891.35)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	(1,077,434.38)
Total Unrestricted Net Position	$ (27,643,325.73)

See Notes 10 and 11 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

Note 9 - Operating Expenses by Function

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

	Salaries and Benefits	Supplies and Services	Utilities	Depreciation/ Amortization	Total
Instruction	$ 16,702,272.94	$ 1,621,384.60	$ 0.00	$ 0.00	$ 18,323,657.54
Academic Support	431,073.00	88,959.17			520,032.17
Student Services	5,474,520.21	2,768,517.00			8,243,037.21
Institutional Support	3,401,594.27	4,865,708.48			8,267,302.75
Operations and Maintenance of Plant	1,499,020.77	2,755,222.58	1,545,323.35		5,799,566.70
Depreciation/Amortization				2,938,887.88	2,938,887.88
Total Operating Expenses	$ 27,508,481.19	$ 12,099,791.83	$ 1,545,323.35	$ 2,938,887.88	$ 44,092,484.25

Note 10 - 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 School'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 $989,868.25, and the School's contributions were $2,867,318.00 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 School reported a liability of $10,907,561.00 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 School's proportion of the net pension liability was based on a projection of the present value of future salaries for the School relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the School's proportion was 0.07349%, which was an increase of 0.00471 from its proportion measured as of June 30, 2021, which was 0.06878%.

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

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

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

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

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

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

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

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

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

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

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
$ 19,285,123.07	$ 10,907,561.00	$ 3,992,552.96

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2023, the School recognized pension expense of $2,498,336.00. At June 30, 2023, the School 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	$ 47,492.65	$ 148,672.00
Changes of Assumptions	860,565.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	3,582,480.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	454,151.00	
Contributions Subsequent to the Measurement Date	2,867,318.00	
Total	$ 7,812,006.65	$ 148,672.00

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

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

Year Ending June 30:	Amount
2024	$ (1,360,498.00)
2025	(1,219,439.00)
2026	(498,739.00)
2027	(1,717,340.00)
Total	$ (4,796,016.00)

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 School 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 School's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the School contributes 6.84%. For the current fiscal year, the School had a total payroll of $20,201,966.49, of which $3,704,162.25 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $222,249.74 and $253,364.70, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

Note 11 - Other Postemployment Benefits

The School 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 12. 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 School's contractually-required contribution rate for the year ended June 30, 2023 was 6.89% of covered payroll. The School's contributions to the RHBF were $1,391,915.00 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 School recognized noncapital contributions for RHBF of $154,351.00.

2. Disability Income

Plan Administration: As discussed in Note 12, 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 School's contractually-required contribution rate for the year ended June 30, 2023 was 0.10% of covered payroll. The School's contributions to DIPNC were $20,202.00 for the year ended June 30, 2023.

C. Net OPEB Liability

Retiree Health Benefit Fund: At June 30, 2023, the School reported a liability of $20,306,225.00 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 School's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the School relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the School's proportion was 0.08551%, which was an increase of 0.00394 from its proportion measured as of June 30, 2021, which was 0.08157%.

Disability Income Plan of North Carolina: At June 30, 2023, the School reported a liability of $25,577.00 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 School's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the School relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the School's proportion was 0.08598%, which was an increase of 0.00508 from its proportion measured as of June 30, 2021, which was 0.08090%.

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 School's proportionate share of the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Net OPEB Liability

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF	$ 23,918,049.13	$ 20,306,225.00	$ 17,355,814.20
	1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC	$ 31,495.33	$ 25,577.00	$ 19,644.71

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	$ 16,715,031.34	$ 20,306,225.00	$ 24,947,687.01

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 School recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	$ (1,513,909.00)
DIPNC	34,929.00
Total OPEB Expense	$ (1,478,980.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2023, the School 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	$ 197,147.00	$ 28,670.00	$ 225,817.00
Changes of Assumptions	1,625,777.00	1,644.00	1,627,421.00
Net Difference Between Projected and Actual Earnings on Plan Investments	175,843.00	27,053.00	202,896.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,849,848.00	2,348.00	2,852,196.00
Contributions Subsequent to the Measurement Date	1,391,915.00	20,202.00	1,412,117.00
Total	$ 6,240,530.00	$ 79,917.00	$ 6,320,447.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 56,189.00	$ 0.00	$ 56,189.00
Changes of Assumptions	9,241,841.00	4,738.00	9,246,579.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		7,542.00	7,542.00
Total	$ 9,298,030.00	$ 12,280.00	$ 9,310,310.00

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	$(1,618,347.00)	$ 12,072.00
2025	(735,373.00)	13,937.00
2026	(1,419,151.00)	10,052.00
2027	(676,544.00)	7,577.00
2028		919.00
Thereafter		2,878.00
Total	$(4,449,415.00)	$ 47,435.00

Note 12 - Risk Management

The School 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

School 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 11, 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 School 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 School 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 11, 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 School 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 School 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 School. 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 School 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 School pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

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

Note 13 - Commitments

The School has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $9,850,542.00 and on other purchases were $723,064.90 at June 30, 2023.

Note 14 - Blended Component Unit

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

Condensed Statement of Net Position
June 30, 2023

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Total
ASSETS			
Current Assets	$ 4,531,738.18	$ 442,951.59	$ 4,974,689.77
Capital Assets, Net	131,101,722.79		131,101,722.79
Other Noncurrent Assets	2,829,757.54		2,829,757.54
Total Assets	138,463,218.51	442,951.59	138,906,170.10
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,132,453.65		14,132,453.65
LIABILITIES			
Current Liabilities	5,451,032.82	251,128.38	5,702,161.20
Long-Term Liabilities	37,147,225.42		37,147,225.42
Other Noncurrent Liabilities	301,544.64		301,544.64
Total Liabilities	42,899,802.88	251,128.38	43,150,931.26
TOTAL DEFERRED INFLOWS OF RESOURCES	9,458,982.00		9,458,982.00
NET POSITION			
Net Investment in Capital Assets	125,249,980.77		125,249,980.77
Restricted - Expendable	2,822,055.45		2,822,055.45
Unrestricted	(27,835,148.94)	191,823.21	(27,643,325.73)
Total Net Position	$ 100,236,887.28	$ 191,823.21	$ 100,428,710.49

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

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Total
OPERATING REVENUES			
Student Tuition and Fees	$ 956,667.13	$ 0.00	$ 956,667.13
Sales and Services	53,369.99	37,860.22	91,230.21
Other Operating Revenues	158,161.23	37,037.72	195,198.95
Total Operating Revenues	1,168,198.35	74,897.94	1,243,096.29
OPERATING EXPENSES			
Operating Expenses	41,106,990.45	46,605.92	41,153,596.37
Depreciation/Amortization	2,938,887.88		2,938,887.88
Total Operating Expenses	44,045,878.33	46,605.92	44,092,484.25
Operating Income (Loss)	(42,877,679.98)	28,292.02	(42,849,387.96)
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	41,194,846.00		41,194,846.00
State Aid - Coronavirus	556,780.81		556,780.81
Noncapital Contributions	2,729,326.00		2,729,326.00
Interest and Fees on Debt	(82,395.87)		(82,395.87)
Other Nonoperating Expenses	(15,557.61)		(15,557.61)
Net Nonoperating Revenues	44,382,999.33		44,382,999.33
Capital Contributions	10,599,712.41		10,599,712.41
Increase in Net Position	12,105,031.76	28,292.02	12,133,323.78
NET POSITION			
Net Position, July 1, 2022	88,131,855.52	163,531.19	88,295,386.71
Net Position, June 30, 2023	$ 100,236,887.28	$ 191,823.21	$ 100,428,710.49

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

	North Carolina School of Science and Mathematics	NCSSM Student and Constituent Support Services, Inc.	Total
Net Cash Used by Operating Activities	$ (42,311,352.46)	$ 63,604.93	$ (42,247,747.53)
Total Cash Provided by Noncapital Financing Activities	43,708,313.81		43,708,313.81
Net Cash Used by Capital Financing and Related Financing Activities	(1,597,844.55)		(1,597,844.55)
Net Decrease in Cash and Cash Equivalents	(200,883.20)	63,604.93	(137,278.27)
Cash and Cash Equivalents, July 1, 2022	6,034,941.14	344,353.52	6,379,294.66
Cash and Cash Equivalents, June 30, 2023	$ 5,834,057.94	$ 407,958.45	$ 6,242,016.39

Note 15 - Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2023, the School 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 16 - Net Position Restatement

As of July 1, 2022, the School 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 4 and Note 6 for details on the restated balances related to capital assets and subscription (SBITA) liabilities, respectively.

Required Supplementary Information

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years* — ***Exhibit C-1***

Teachers' and State Employees' Retirement System	**2023**	**2022**	**2021**	**2020**	**2019**
Proportionate Share Percentage of Collective Net Pension Liability	0.07349%	0.06878%	0.06877%	0.06731%	0.06714%
Proportionate Share of TSERS Collective Net Pension Liability	$ 10,907,561.00	$ 3,220,693.00	$ 8,308,789.00	$ 6,977,999.00	$ 6,684,518.00
Covered Payroll	$ 12,773,042.39	$ 11,614,094.73	$ 11,185,619.67	$ 11,080,555.86	$ 10,423,113.03
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	85.40%	27.73%	74.28%	62.98%	64.13%
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	0.06625%	0.06815%	0.06748%	0.06684%	0.06340%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,256,567.00	$ 6,263,689.00	$ 2,486,772.00	$ 783,646.00	$ 3,849,026.00
Covered Payroll	$ 10,255,604.25	$ 10,198,655.74	$ 10,088,688.52	$ 9,998,912.50	$ 9,641,892.63
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	51.26%	61.42%	24.65%	7.84%	39.92%
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.

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of School Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years

Exhibit C-2

Teachers' and State Employees' Retirement System	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 2,867,318.00	$ 2,092,224.00	$ 1,716,563.00	$ 1,450,775.00	$ 1,361,800.32
Contributions in Relation to the Contractually Determined Contribution	2,867,318.00	2,092,224.00	1,716,563.00	1,450,775.00	1,361,800.32
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 16,497,804.24	$ 12,773,042.39	$ 11,614,094.73	$ 11,185,619.67	$ 11,080,555.86
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	$ 1,123,611.58	$ 1,023,509.30	$ 933,177.00	$ 923,115.00	$ 868,905.50
Contributions in Relation to the Contractually Determined Contribution	1,123,611.58	1,023,509.30	933,177.00	923,115.00	868,905.50
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 10,423,113.03	$ 10,255,604.25	$ 10,198,655.74	$ 10,088,688.52	$ 9,998,912.50
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

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

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

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

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of School 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 10 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

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Seven Fiscal Years**

Exhibit C-3
Page 1 of 2

Retiree Health Benefit Fund	2023	2022	2021	2020	2019
Proportionate Share Percentage of Collective Net OPEB Liability	0.08551%	0.08157%	0.07891%	0.07821%	0.07211%
Proportionate Share of Collective Net OPEB Liability	$ 20,306,225.00	$ 25,218,582.00	$ 21,889,232.00	$ 24,745,719.00	$ 20,542,189.00
Covered Payroll	$ 16,278,079.89	$ 14,821,277.62	$ 14,209,787.25	$ 13,959,582.96	$ 13,161,136.39
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	124.75%	170.15%	154.04%	177.27%	156.08%
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	0.07226%	0.07502%
Proportionate Share of Collective Net OPEB Liability	$ 23,690,030.00	$ 32,636,250.00
Covered Payroll	$ 12,535,663.44	$ 12,300,952.27
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	188.98%	265.31%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Exhibit C-3

Last Seven Fiscal Years*

Disability Income Plan of North Carolina	**2023**	**2022**	**2021**	**2020**	**2019**
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.08598%	0.08090%	0.08457%	0.07855%	0.07822%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ 25,577.00	$ (13,214.00)	$ (41,603.00)	$ (33,894.00)	$ (23,760.00)
Covered Payroll	$ 16,278,079.89	$ 14,821,277.62	$ 14,209,787.25	$ 13,959,582.96	$ 13,161,136.39
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.16%	0.09%	0.29%	0.24%	0.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%

	2018	**2017**
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.07525%	0.07736%
Proportionate Share of Collective Net OPEB Liability (Asset)	$ (45,993.00)	$ (48,041.00)
Covered Payroll	$ 12,535,663.44	$ 12,300,952.27
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.37%	0.39%
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.

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of School Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Retiree Health Benefit Fund	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 1,391,915.00	$ 1,023,891.00	$ 990,061.00	$ 919,374.00	$ 875,265.85
Contributions in Relation to the Contractually Determined Contribution	1,391,915.00	1,023,891.00	990,061.00	919,374.00	875,265.85
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 20,201,966.49	$ 16,278,079.89	$ 14,821,277.62	$ 14,209,787.25	$ 13,959,582.96
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	$ 796,248.75	$ 754,646.94	$ 688,853.33	$ 663,374.38	$ 627,575.59
Contributions in Relation to the Contractually Determined Contribution	796,248.75	754,646.94	688,853.33	663,374.38	627,575.59
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 13,161,136.39	$ 12,535,663.44	$ 12,300,952.27	$ 12,083,322.01	$ 11,621,770.21
Contributions as a Percentage of Covered Payroll	6.05%	6.02%	5.60%	5.49%	5.40%

North Carolina School of Science and Mathematics
Required Supplementary Information
Schedule of School Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit C-4
Page 2 of 2

Disability Income Plan of North Carolina	**2023**	**2022**	**2021**	**2020**	**2019**
Contractually Required Contribution	$ 20,202.00	$ 14,650.00	$ 13,339.00	$ 14,210.00	$ 19,543.42
Contributions in Relation to the Contractually Determined Contribution	20,202.00	14,650.00	13,339.00	14,210.00	19,543.42
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 20,201,966.49	$ 16,278,079.89	$ 14,821,277.62	$ 14,209,787.25	$ 13,959,582.96
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	$ 18,425.59	$ 47,635.52	$ 50,433.90	$ 49,541.62	$ 51,135.79
Contributions in Relation to the Contractually Determined Contribution	18,425.59	47,635.52	50,433.90	49,541.62	51,135.79
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 13,161,136.39	$ 12,535,663.44	$ 12,300,952.27	$ 12,083,322.01	$ 11,621,770.21
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

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

North Carolina School of Science and Mathematics
Notes to Required Supplementary Information
Schedule of School 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 School 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 School 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 11 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
North Carolina School of Science and Mathematics
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina School of Science and Mathematics (School), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated June 3, 2024. Our report includes a reference to other auditors who audited the financial statements of North Carolina School of Science and Mathematics Foundation and Subsidiary (Foundation), as described in our report on the School's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Foundation.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jessica N. Holmes, J.D.

Jessica N. Holmes, J.D.
State Auditor

Raleigh, North Carolina

June 3, 2024

Ordering Information

Copies of this report may be obtained by contacting:

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State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699

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North Carolina Office of the State Auditor at:

919-807-7666

This audit required 441 hours at an approximate cost of $59,976.