STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2022

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Appalachian State University for the year ended June 30, 2022, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Appalachian State University, as of June 30, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Appalachian State University Foundation, Inc., which represent 15.36 percent and 6.48 percent, respectively, of the assets and revenues of the University; nor the financial statements of Appalachian Student Housing Corporation, which represent 7.19 percent and 1.18 percent, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 7, 2022

Management's Discussion and Analysis

Introduction

Appalachian State University (University) presents the following management discussion and analysis as a comparative overview of significant changes that have occurred during the fiscal year ended June 30, 2022. The discussion and analysis, prepared by management, is to be read in combination with the financial statements and notes to the financial statements.

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

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

Financial Highlights

Fiscal year 2022 marked a return to more normal operations for the University as compared to 2020 and 2021 as the country began to move closer to the end of the COVID-19 pandemic. On campus activities resumed with less restrictions, which was evident by increases in sales and services revenues and operating expenses. This was particularly noticeable in the auxiliary units like athletics, dining, and residential life that rely on students and visitors being on campus. Despite reduced operations during the pandemic, the University continued to invest in facilities, experienced continued operational support in the form of increased appropriations combined with state and federal COVID-19 relief funds, and received significant state commitment for new and existing facilities. The following discussion will highlight the results of these activities for the fiscal year just completed.

Adoption of New Accounting Standards

Effective in fiscal year 2022 the University adopted GASB Statement No. 87, *Leases*. The University now recognizes operating leases as lease liabilities with corresponding right-to-use leased assets. Likewise, when the University is the lessor, a lease receivable is recognized along with a corresponding deferred inflow of resources. Overall, there is no effect on the 2022 beginning net position, however the University, as lessee, recognized $11.5 million in opening lease liability balances, new lease liabilities totaling $377 thousand, and $1.7 million in liability reductions. These liabilities were offset by the recognition of $11.5 million of opening right-to-use leased asset balances and $2.4 million in amortization expenses recognized during the period. As lessor the University finished the year with a $3.7 million balance in leases relievable and deferred inflows. More information on leases can be found in notes 6, 9, and 10.

Statement of Net Position

The Condensed Statement of Net Position represents:

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

This statement is like a balance sheet and presents the University's financial position at a single point in time. The prior year amounts have not been restated for the implementation of GASB Statement No. 87, *Leases*, since the statement was not in affect in the prior year.

Condensed Statement of Net Position

	Fiscal Year 2022	Fiscal Year 2021	$ Change	% Change
Assets				
Current Assets	$ 223,465,276	$ 192,527,042	$ 30,938,234	16.1%
Capital Assets, Net	898,773,333	798,673,938	100,099,395	12.5%
Other Noncurrent Assets	253,143,683	280,426,635	(27,282,952)	-9.7%
Total Assets	1,375,382,292	1,271,627,615	103,754,677	8.2%
Deferred Outflows of Resources	95,155,506	88,887,298	6,268,208	7.1%
Liabilities				
Current Liabilities	60,208,387	51,591,698	8,616,689	16.7%
Long-Term Liabilities, Net	703,712,063	734,810,161	(31,098,098)	-4.2%
Other Noncurrent Liabilities	30,424,225	17,219,352	13,204,873	76.7%
Total Liabilities	794,344,675	803,621,211	(9,276,536)	-1.2%
Deferred Inflows of Resources	213,627,928	179,485,334	34,142,594	19.0%
Net Position				
Net Investment in Capital Assets	488,348,948	467,525,035	20,823,913	4.5%
Restricted - Nonexpendable	105,469,257	95,332,490	10,136,767	10.6%
Restricted - Expendable	140,174,176	137,331,341	2,842,835	2.1%
Unrestricted	(271,427,186)	(322,780,498)	51,353,312	15.9%
Total Net Position	$ 462,565,195	$ 377,408,368	$ 85,156,827	22.6%

Total Assets

Assets represent financial resources that have a positive effect on net position. They represent resources needed to meet obligations and make payments as they become due. For the year ended June 30, 2022, total assets increased by 8.2% representing a $103.8 million change during the year. Current assets increased by $30.9 million primarily related to significant increases in unrestricted cash and receivables. Most notable, the University has $16.0 million in additional unspent institutional aid from the American Rescue Plan. Under this federal relief package institutions could calculate and charge lost revenues for operations disrupted during the pandemic to help maintain operating cash balances. The most significant amounts charged to the funds related to dining services, residential life, the steam utility system, international programs, and other activities disrupted during the pandemic. Other notable increases resulted from the savings of $5.5 million of education and technology fees to establish a capital reserve for information technology systems and infrastructure, along with an increase in unspent prior year appropriations allowed to be carried forward for the second summer term and management initiatives totaling $3.4 million and $3.9 million, respectively.

Current receivables increased significantly by 37.7% compared to the previous fiscal year. These increases include a receivable from the Federal Emergency Management Agency for eligible pandemic related expenses submitted for reimbursement from the University's private housing partner, Beyond Boone LLC, for services provided in privately owned residence halls, an increase in student accounts receivable resulting from increased on-campus activities, and lastly a receivable related to amounts paid on behalf of employees in the State's Optional Retirement Plan that have been forfeited and credited back to the University to reduce future expenses.

A 58.0% reduction in inventory offsets the increases recognized in current assets. This was primarily related to a $7.5 million change in ending inventory balances for the University's rental textbook program. In prior years rental textbooks were held in inventory for a 2-year adoption cycle. As technology in the textbook industry has advanced, the hard copy inventory has been transitioned to a digital rental system. As a result, the bookstore decommissioned hard copy textbooks and replaced them with digital titles that are expensed on a per-semester basis only for the number of titles needed during that term. Carrying a large physical inventory is no longer required and more textbooks can be offered under the rental program now that titles are not bound by the 2-year adoption cycle.

Increases in nondepreciable capital assets totaled $42.2 million and comprise most of the change in noncurrent assets. This increase is primarily related to increases in construction in progress for New River Residence Hall currently under construction. During the year, $37.9 million in construction in progress was capitalized for this project. An additional $3.1 million was added to construction in progress for the University's track facility. See the Capital Assets and Debt Administration Section below for discussion of additions to depreciable capital assets.

The increases in total assets were offset by decreases in noncurrent restricted cash and cash equivalents of $41.0 million. Debt proceeds totaling $6.1 million were spent on capital projects and infrastructure for the University's electric utility, New River Light & Power, and $37.9 million in loan proceeds were used for the construction of New River Residence Hall.

Deferred Outflows of Resources

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

The most significant change in deferred outflows resulted from changes in the State's other postemployment benefit (OPEB) plan, the Retiree Health Benefit Fund. During the measurement period of the Plan, changes in assumptions regarding plan participants and changes in the proportion and other factors resulted in a $9.0 million increase in deferred outflows related to OPEB. This increase was offset by a combined $2.8 million decrease in deferred outflows related to pensions due to changes in actuarial valuations and deferred losses on refundings due to routine amortization.

Total Liabilities

Liabilities are obligations of financial resources (assets) that the University has no ability to avoid paying when they become due. Liabilities have a negative effect on net position. For the fiscal year ended June 30, 2022, total liabilities decreased by $9.3 million. This was the result of a $31.1 million decrease in long-term liabilities offset by increases of $8.6 million in current liabilities and $13.2 million in other noncurrent liabilities. The most significant decrease in long-term liabilities is related to the State's net pension liability for the Teachers' and State Employees' Retirement System (TSERS). A very strong performance of the financial markets during the prior year caused the difference between the actual investment returns and the projected investment returns in the Plan to be significantly better. As a result, the University's proportionate share of the State's net pension liability decreased by $50.6 million. In contrast, the net OPEB liability increased by $32.6 million due to changes in assumptions in how long plan participants are expected to be covered. Other reductions in long-term liabilities were the result of satisfying normal debt service requirements and a defeasance of debt resulting in a reduction of long-term debt of $17.7 million. These reductions were offset by $8.0 million in noncurrent leases payable not reflected in the prior period.

Other significant changes in total liabilities include a $3.0 million increase in unearned revenue related to tuition and fees from students for the second summer term and contract and grant funds received in advance of service obligations being met. Lastly, noncurrent accounts payable increased by $13.5 million related to the occupancy and use of Laurel Creek Residence Hall operated under a service concession agreement with Beyond Boone, LLC. The liability represents services the University is contractually required to provide under the operating agreement with the private entity. See note 7 for additional information on the University's service concession arrangements.

Deferred Inflows of Resources

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

Several factors contributed to a $34.1 million increase in deferred inflows of resources. As referenced in the preceding paragraphs, deferred inflows related to pensions increased by $40.4 million due primarily to investment performance exceeding expectations. This was offset by a $52.2 million decrease in deferred inflows related to OPEB caused by changes in actuarial valuations. Another significant change is related to opening Laurel Creek Residence Hall under the University's service concession agreement. When the building was placed into service a $43.4 million deferred inflow was recognized along with the $13.5 million liability to offset the building asset. The University also recorded a $3.7 million deferred inflow relating to leases.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position. Overall net position increased by $85.2 million or 22.6%.

Net investment in capital assets represents the University's investment in assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets. Net investment in capital assets increased $20.8 million as a result of the capital asset and debt discussion provided above and below.

Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs (either by legislation or other third-party restrictions), unexpended capital project funds, and grants from third-party agencies with expenditure restrictions. Balances in restricted expendable funds did not change significantly during fiscal year 2022.

Restricted nonexpendable net position consists of loan funds and endowment gifts with specific restrictions on spending the principal balance. Restricted nonexpendable increased $10.1 million due to additional endowments provided to the University and the Foundation.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University. The most significant increase in net position was in unrestricted net position, which increased by $51.4 million. The preceding discussion explains the majority of these changes. It can be summarized by reviewing the increase in current assets particularly the increases in cash and cash equivalents that resulted from the receipt of federal COVID-19 funds totaling $16.0 million and the increase in carry forward of unspent prior year state appropriations of $7.3 million. Also contributing to the overall increase in unrestricted net position is the cumulative effect of changes related to the State's pension and OPEB plans totaling $29.7 million. Analysis of the Statement of Revenues, Expenses, and Changes in Net Position will provide additional information on activities that drive the changes in these balances.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

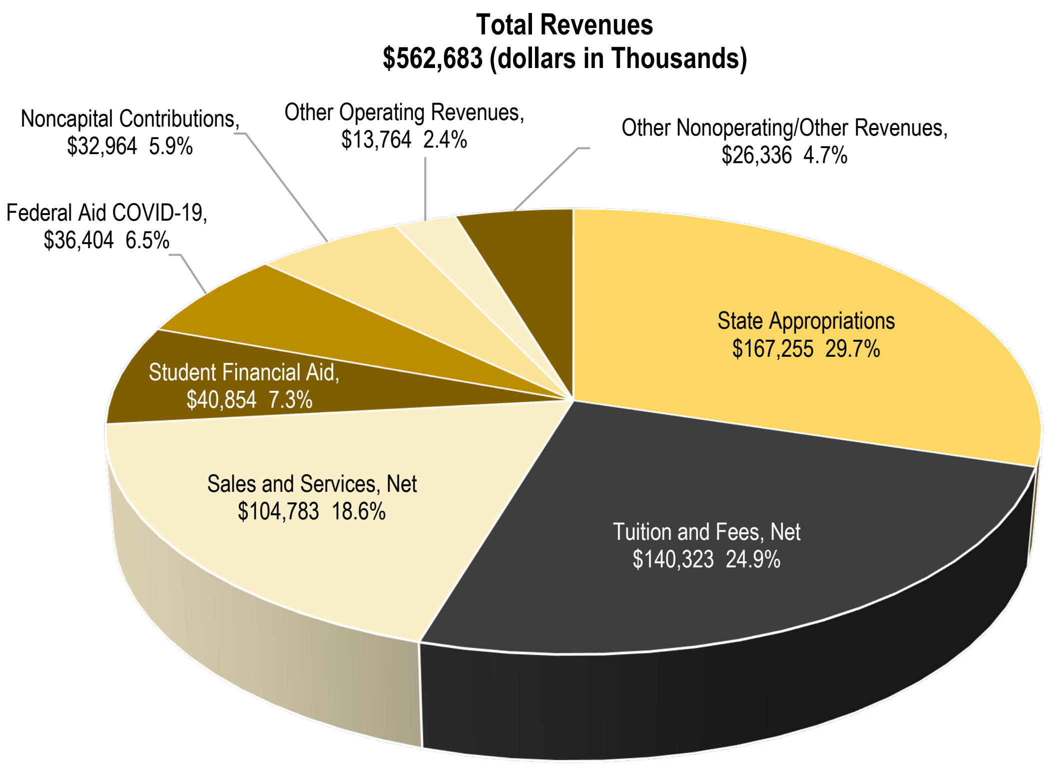
	Fiscal Year 2022	Fiscal Year 2021	$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	$ 140,323,407	$ 130,660,907	$ 9,662,500	7.4%
Grants and Contracts	10,822,157	10,065,173	756,984	7.5%
Sales and Services, Net	104,782,780	69,378,735	35,404,045	51.0%
Other Operating Revenues	2,941,669	3,452,002	(510,333)	-14.8%
Total Operating Revenues	258,870,013	213,556,817	45,313,196	21.2%
Salaries and Benefits	262,678,458	263,694,625	(1,016,167)	-0.4%
Supplies, Services, and Utilities	133,092,616	97,928,555	35,164,061	35.9%
Scholarships and Fellowships	40,406,522	46,451,745	(6,045,223)	-13.0%
Depreciation/Amortization	28,989,535	24,429,628	4,559,907	18.7%
Total Operating Expenses	465,167,131	432,504,553	32,662,578	7.6%
Operating Loss	(206,297,118)	(218,947,736)	12,650,618	-5.8%
Nonoperating Revenues (Expenses)				
State Appropriations	167,255,437	149,535,625	17,719,812	11.8%
State Aid - Coronavirus	4,236,407	6,392,972	(2,156,565)	-33.7%
Student Financial Aid	40,853,808	41,956,841	(1,103,033)	-2.6%
Federal Aid - COVID-19	36,404,274	37,059,391	(655,117)	-1.8%
Noncapital Contributions	32,963,541	27,939,192	5,024,349	18.0%
Investment Income, Net	8,209,099	56,016,856	(47,807,757)	-85.3%
Interest and Fees on Debt	(11,804,247)	(10,772,488)	(1,031,759)	9.6%
Other Nonoperating Revenues (Expenses)	(487,977)	407,976	(895,953)	-219.6%
Net Nonoperating Revenues	277,630,342	308,536,365	(30,906,023)	-10.0%
Income Before Other Revenues	71,333,224	89,588,629	(18,255,405)	-20.4%
Capital Appropriations	-	3,031,676	(3,031,676)	-100.0%
Capital Contributions	3,293,430	3,512,046	(218,616)	-6.2%
Additions to Endowments	10,530,173	5,069,451	5,460,722	107.7%
Total Other Revenues	13,823,603	11,613,173	2,210,430	19.0%
Increase in Net Position	85,156,827	101,201,802	(16,044,975)	-15.9%
Net Position				
Net Position at Beginning of Year	377,408,368	276,206,566	101,201,802	36.6%
Net Position at End of Year	$ 462,565,195	$ 377,408,368	$ 85,156,827	22.6%
Reconciliation of Increase in Net Position				
Total Revenues	$ 562,683,223	$ 544,478,843	$ 18,204,380	3.3%
Less: Total Expenses	477,526,396	443,277,041	34,249,355	7.7%
Increase in Net Position	$ 85,156,827	$ 101,201,802	$ (16,044,975)	-15.9%

Total Revenues

As operations return to prepandemic levels the University recognized an $18.2 million increase in total revenues. The most notable increase was in sales and services totaling $35.4 million. Housing revenues increased by $12.2 million followed by a $7.6 million increase in dining services, $7.1 million in athletics , $2.9 million for short-term study abroad and summer camp programs, and a $2.2 million increase in sales at the University bookstore. Increases in sales and services were offset by decreases in nonoperating revenues. Most notable is a $47.8 million decrease in investment returns. Investement returns, while still significant at $8.2 million, were significantly lower than the extraordinary level experienced in fiscal year 2021. Fiscal year 2022 returns are more in line with past experiences. State aid for coronavirus relief also decreased by $2.2 million as programs to provide assistance come to an end and less expenses are eligible for reimbursement. Lastly, additions to endowment added to the increase in total revenues. The $5.5 million increase was largely driven by higher levels of contributions to the Foundation. In contrast, capital appropriations decreased by $3.0 million. The 2021 carryforward of appropriations for management intitaitives was restricted to capital projects by the legislature. This restriction does not apply for fiscal year 2022 therefore state general fund receipts are recognized in state appropriations, which totaled $167.3 million. State appropriations are discussed below in the economic outlook section.

Chart 1.0 shows the major revenue sources and their proportion to total revenue for the University.

Chart 1.0



Total Expenses

Comparable to what was experienced with sales and services, as restrictions on campus activities have been lifted operating expenses began to return to normal levels. Expenses related to the purchase of supplies, services, and utilities increased by $35.2 million. Purchased power for resale increased for New River Light & Power by $4.5 million. As the University reopened, power consumption increased and demand for wholesale power followed. As dining halls opened to full capacity, purchases for resale increased by $3.5 million. Other notable increases were in travel expenses, which increased by $4.4 million, followed by a $4.4 million increase in contracted services both due to increased in-person activities.

One change in supplies and services that was not directly related to the increase in campus activity relates to rental textbook purchases for resale by the University Bookstore. As discussed previously, over the past year the rental textbook inventory has been converted to a primarily digital format. As the bookstore transitioned inventory from hard copy to digital, inventory balances decreased and were recognized as cost of goods expense. This is reflected in the $7.7 million increase in cost of goods recognized in fiscal year 2022.

Depreciation/amortization expense increased by $4.6 million due to amortization of right-to-use leased assets not reflected in the prior period and newly capitalized assets, contributing to the overall increase in total expenses. Increases in expense were offset by a $6.0 million decrease in scholarship expenses. Approximately $2.6 million of this decrease was a result of less funds available from federal coronavirus relief funds for student emergency awards. Additionally, $1.4 million less in scholarship expenses were recognized by Athletics resulting from a legislative change that allowed full scholarship athletes to receive in-state tuition.

The following chart shows expenses by natural classification. Viewing expenses in this manner shows what types of expenses the University dedicates the most resources towards.

Chart 2.0

Total Expenses by Natural Classification
477,526 (dollars in Thousands)

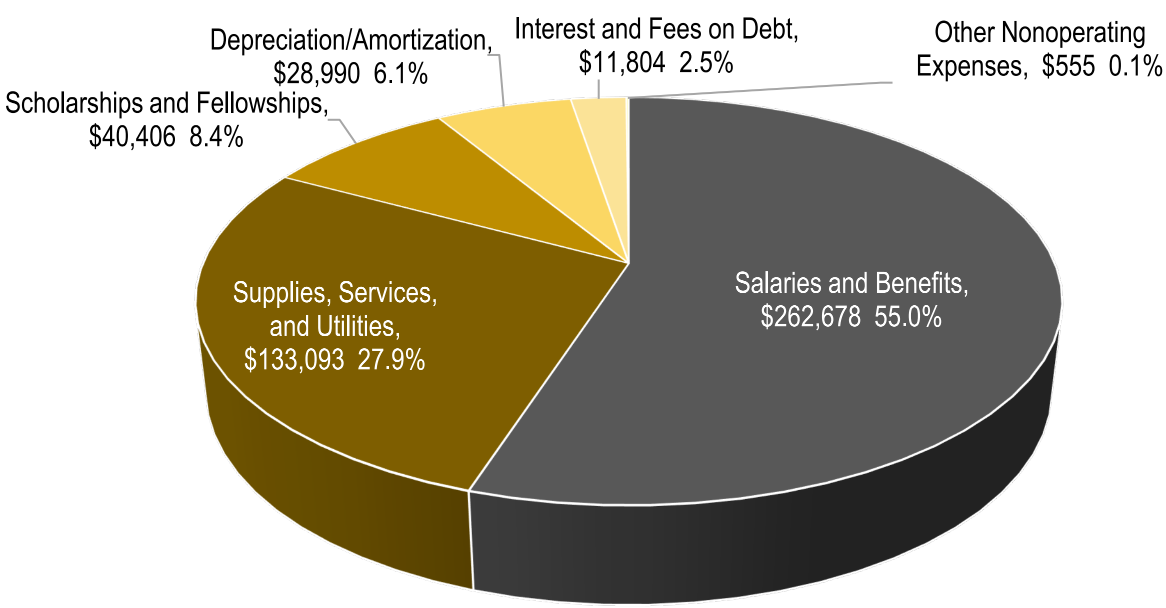
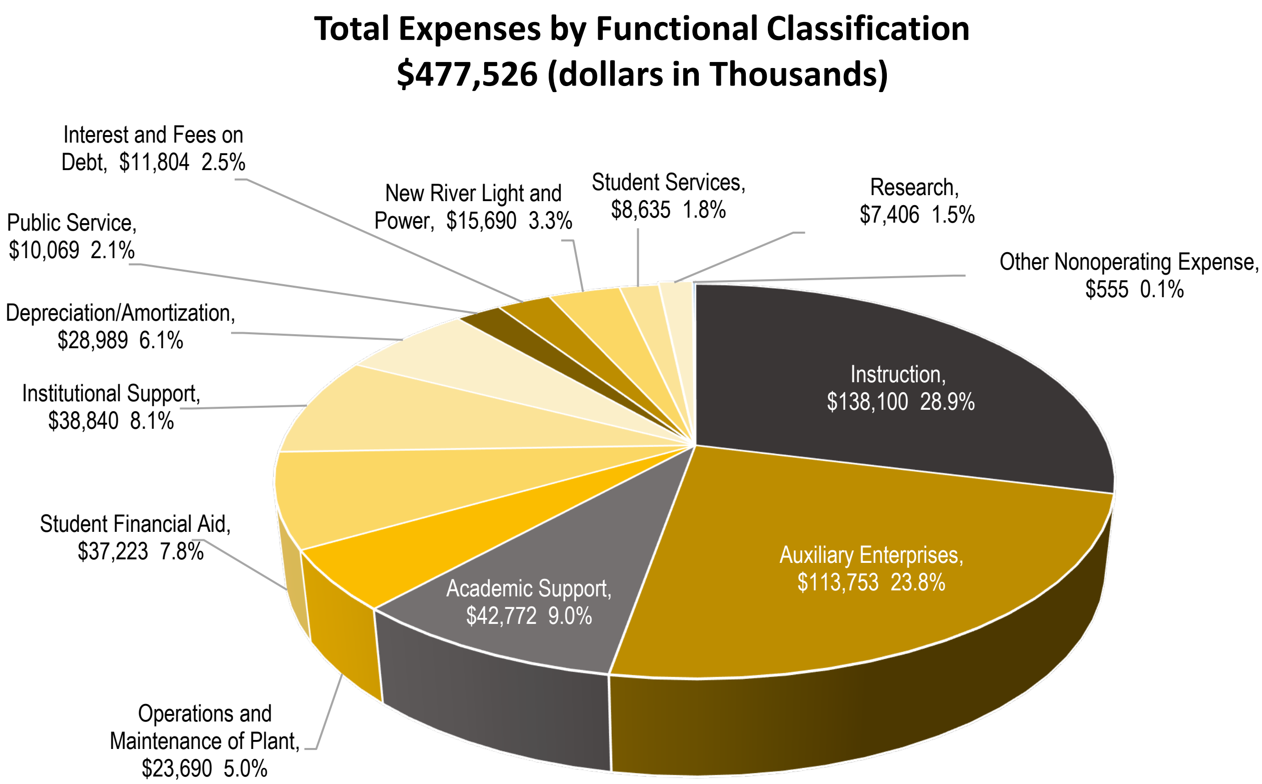


Chart 2.1 shows the amount and percent of expenses by function. Reviewing expenses by these classifications shows the major areas of focus the University expends resources to support. The majority of the expenses, 74.9%, are dedicated to the teaching, academic, and student support functions of the University including auxiliary enterprises that are primarily focused on providing services to students and campus. The remaining expenses support facilities and campus infrastructure making up 17.0% followed by 8.1% for general institutional support.

Chart 2.1



Capital Assets Debt Administration

During fiscal year 2022 $11.4 million was capitalized from construction in progress to capital assets. Costs capitalized include $3.5 million for utility infrastructure and facilities for New River Light & Power, $2.2 million for the University's child development center, $1.9 million in additional costs for Sanford Hall, and $1.3 million in additional capital costs for the North End Zone facility. Most costs for Sanford Hall and the North End Zone facility were capitalized in the prior year when occupancy was acquired.

Laurel Creek Residence Hall was completed and made available for use in the fall of 2021. The University recorded a $59.2 million building asset as part of a service concession arrangement with Beyond Boone, LLC, a private entity. The opening of this facility provides housing for 620 residents in apartment and suite style rooms. It completes the second phase of a major housing project on the west side of campus. Phase III is being completed by the Corporation and accounts for the most significant increase to construction in progress balances. A total of $37.9 million was added to construction in progress for New River

Residence Hall. This facility is the final building to be completed as part of the project and will provide the University with 683 beds and 300 surface parking spaces. Two residence halls were demolished during the final phase of the project. Bowie Hall and Eggers Hall, with a total book value of $1.1 million, were demolished to make way for additional parking near the newly constructed residence halls and Kidd Brewer Stadium. Table 1.0 provides additional information regarding the value and composition of the University's capital assets.

Table 1.0

Capital Assets, Net of Accumulated Depreciation/Amortization *(dollars in thousands)*		Ending Book Value June 30, 2022	Percent of Capital Assets
Land	$	67,640	7.5%
Art, Literature, and Artifacts		4,271	0.5%
Construction in Progress		70,806	7.9%
Buildings, Net		664,883	74.0%
Machinery and Equipment, Net		26,933	3.0%
General Infrastructure, Net		54,300	6.0%
Computer Software, Net		422	0.0%
Right-To-Use Leased Buildings, Net		4,717	0.5%
Right-To-Use Leased Equipment, Net		361	0.0%
Right-To-Use Leased General Infrastructure, Net		4,440	0.5%
Total	$	898,773	

On February 1, 2022, the University issued $16.9 million in Series 2022 General Revenue Refunding Bonds with an average interest rate of 1.42%. The bonds were issued to refund $16.4 million of outstanding Series 2012 General Revenue Bonds with an average interest rate of 2.84%. The refunding was undertaken to reduce total debt service payments by $1.1 million over the next six years and resulted in an economic gain of $1.0 million.

In March of 2022 the Appalachian State University Board of Trustees approved a borrowing resolution to issue debt to construct a parking deck adjacent to the George M. Holmes Convocation Center. The project is planned for a 600-space parking complex that will replace existing surface parking. The revenues for the deck will be generated by daily parking use and academic, athletic, and cultural events held at the Convocation Center. On June 29, 2022, the University received authority from the NC General Assembly and approval from the UNC Board of Governors during its July 2022 meeting to issue general revenue bonds for the project. On September 14, 2022, the University sold $20.5 million of Series 2022B General Revenue Bonds in the competitive market. The interest rate on the bonds is 4.26%, which is lower than the 4.75% rate presented to the Board of Governors. Moody's Investor services assigned an Aa3 rating to the bonds and affirmed the University's Aa3 rating and "Stable" outlook. Additionally, on October 12, 2022, the University d/b/a New River Light & Power (NRLP) issued NRLP 2022 Utility System Revenue Bonds in the amount of $7,000,000. See note 21 for additional information on these debt issuances that occurred after the current fiscal year.

Economic Outlook

The University continues to benefit from strong student demand, steady enrollment growth, and strong operating and capital support from the State. The number of applications the

University receives continues to increase year over year. Applications for fall 2020 were 18,187 and 21,120 for fall of 2021. Applications were 22,261 for the fall of 2022.

For 2021 fall semester total head count increased to 20,641 representing the University's largest enrollment in school history. For the fall of 2022 enrollment is planned to decline slightly, however the University has been anticipating this effect and planned for the smaller high school graduating classes. Freshman enrollment for fall of 2022 was 3,917, which is less than 2021 enrollment of 4,099. The University does expect fall 2023 enrollment for first time freshman to be back to the levels seen in the fall of 2021 and 2022. Despite lower enrollment, the fall 2022 freshman class is still expected to be the third largest in the University's history.

State appropriations increased by $17.7 million to $167.3 million for the fiscal year. This increase mostly reflects additional recurring appropriations for enrollment growth totaling $8.8 million and for legislative salary and benefits increases totaling $5.7 million. In the upcoming year the University anticipates additional appropriations for legislative salary increases and labor market adjustments totaling $13.7 million, and a $7.3 million enrollment growth allocation on top of the $164.5 million base budget. The table below provides information about the projected 2022-2023 budget.

Table 2.0

2022-23 General Fund Projected Budget

	Appropriations	Budgeted Receipts	Total General Fund Budget
Base Budget (2021-22 Authorized)	$ 164,516,707	$ 121,614,132	$ 286,130,839
FY23 Employee Benefit Adjustments	3,736,169	-	3,736,169
FY23 Legislative Salary Increase	7,494,020	-	7,494,020
FY23 Labor Market Adjustment Reserves	2,453,705	-	2,453,705
UNC Enrollment Growth Allocation (FY23)	7,250,127	-	7,250,127
BCBS NC Inst for Health & Human Services Appropriation (Non-Recurring)	225,000	-	225,000
ASU Energy Center Appropriation (Recurring)	200,000	-	200,000
Lab School Receipts (FY23 Projected)	730,583	3,954,106	4,684,689
Federal Work Study Match Allocation	105,000	-	105,000
UNC Campus Scholarship Funding	77,760	-	77,760
SBTDC Allocation (from NCSU)	72,135	-	72,135
UNC Teacher Recruitment Funding	67,386	-	67,386
UNC New Teacher Support Program	58,526	-	58,526
Total Additions	**22,470,411**	**3,954,106**	**26,424,517**
Total Projected Budget	**$ 186,987,118**	**$ 125,568,238**	**$ 312,555,356**

Last year the NC General Assembly appropriated significant resources for repairs, renovations, and capital improvements. Appropriations of $68.0 million will fund major renovations to academic buildings including Peacock Hall, Wey Hall, and Duncan Hall in addition to other smaller repair and renovation projects. A total of $54.0 million was appropriated for the University's innovation district to support the construction of a conservatory for biodiversity education and research. Other facilities being planned for phase I of the innovation district include the development of faculty and staff housing units and a zero-carbon energy system that will help transition the University from relying on the existing steam utility system. A public-private partnership is being explored to help finance the faculty and staff housing units.

The University is continuously looking for innovative ways to grow and provide services to the citizens of North Carolina. Settled in the mountains of the northwestern part of the State, opportunities to expand in Boone are limited. While exploring opportunities to meet online and in person demand for instruction, the University was able to acquire a 225,000 square foot facility in Hickory, NC, about an hour and a half from the main campus. The building will house the App State at Hickory Campus and service the Hickory, Lenoir, and Morganton metropolitan areas. The University purchased the building at a significant value paying $1.0 million for the facility, 15.7 acres of land, and 700 parking spaces. The State continues to support capital investment and appropriated $9.0 million in nonrecurring funds for phase I upgrades to the facility in the 2022-2023 budget. Academic program planning has begun, and classes are planned to begin in the fall of 2023. The creation of the Hickory campus marks an exciting opportunity to partner with area community colleges and the North Carolina School of Science and Mathematics' Western campus to provide access to high quality post-secondary education.[1]

[1] Appalachian State University. (n.d.). App State Hickory | Building Physical Infrastructure | Appalachian's Future. Retrieved September 20, 2022, from https://www.appstate.edu/appalachians-future/building-physical-infrastructure/hickory/

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position — *Exhibit A-1*
June 30, 2022 — *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 149,736,025
Restricted Cash and Cash Equivalents	36,975,516
Receivables, Net (Note 5)	28,473,077
Inventories	5,272,126
Notes Receivable (Note 5)	555,369
Leases Receivable	344,949
Other Assets	2,108,214
Total Current Assets	223,465,276
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	34,533,525
Receivables (Note 5)	13,497,939
Endowment Investments	164,127,986
Restricted Investments	22,500,147
Other Investments	11,508,138
Notes Receivable, Net (Note 5)	577,494
Leases Receivable	3,376,132
Beneficial Interest in Assets Held by Others	1,654,555
Net Other Postemployment Benefits Asset	172,387
Other Noncurrent Assets	1,195,380
Capital Assets - Nondepreciable (Note 6)	142,716,955
Capital Assets - Depreciable, Net (Note 6)	756,056,378
Total Noncurrent Assets	1,151,917,016
Total Assets	1,375,382,292
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	7,884,744
Deferred Outflows Related to Pensions	32,515,896
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	54,754,866
Total Deferred Outflows of Resources	95,155,506
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	14,115,817
Deposits Payable	226,470
Funds Held for Others	781,496
Unearned Revenue	18,395,459
Interest Payable	2,344,145
Long-Term Liabilities - Current Portion (Note 9)	24,345,000
Total Current Liabilities	60,208,387

Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	26,340,832
Deposits Payable	253,485
Funds Held for Others	2,153,158
U.S. Government Grants Refundable	1,676,750
Long-Term Liabilities, Net (Note 9)	703,712,063
Total Noncurrent Liabilities	734,136,288
Total Liabilities	794,344,675
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Under Service Concession Arrangements (Note 7)	73,605,439
Deferred Inflows for Irrevocable Split-Interest Agreements	784,542
Deferred Inflows for Trusts Held by Others	2,725,494
Deferred Inflows Related to Pensions	40,397,348
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	92,405,055
Deferred Inflows for Leases	3,710,050
Total Deferred Inflows of Resources	213,627,928
NET POSITION	
Net Investment in Capital Assets	488,348,948
Restricted:	
Nonexpendable:	
True Endowments	105,272,315
Student Loans and Other	196,942
Total Restricted-Nonexpendable Net Position	105,469,257
Expendable:	
Scholarships, Research, Instruction, and Other	130,516,745
Student Loans	9,657,431
Total Restricted-Expendable Net Position	140,174,176
Unrestricted	(271,427,186)
Total Net Position	$ 462,565,195

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

Appalachian State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2022 — *Exhibit A-2*

OPERATING REVENUES	
Student Tuition and Fees, Net (Note 12)	$ 140,323,407
Federal Grants and Contracts	6,993,755
State and Local Grants and Contracts	2,829,178
Nongovernmental Grants and Contracts	999,224
Sales and Services, Net (Note 12)	104,782,780
Interest Earnings on Loans	47,293
Lease Income	327,202
Other Operating Revenues	2,567,174
Total Operating Revenues	258,870,013
OPERATING EXPENSES	
Salaries and Benefits	262,678,458
Supplies and Services	121,645,236
Scholarships and Fellowships	40,406,522
Utilities	11,447,380
Depreciation/Amortization	28,989,535
Total Operating Expenses	465,167,131
Operating Loss	(206,297,118)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	167,255,437
State Aid - Coronavirus	4,236,407
Student Financial Aid	40,853,808
Federal Aid - COVID-19	36,404,274
Noncapital Contributions	32,963,541
Investment Income (Net of Investment Expense of $692,327)	8,209,099
Interest and Fees on Debt	(11,804,247)
Interest Earned on Leases	67,041
Other Nonoperating Expenses	(555,018)
Net Nonoperating Revenues	277,630,342
Income Before Other Revenues	71,333,224
Capital Contributions	3,293,430
Additions to Endowments	10,530,173
Total Other Revenues	13,823,603
Increase in Net Position	85,156,827
NET POSITION	
Net Position - July 1, 2021	377,408,368
Net Position - June 30, 2022	$ 462,565,195

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 255,153,245
Payments to Employees and Fringe Benefits	(297,412,818)
Payments to Vendors and Suppliers	(124,460,637)
Payments for Scholarships and Fellowships	(40,428,722)
Collection of Loans	421,920
Interest Earned on Loans	54,898
Student Deposits Received	4,358,175
Student Deposits Returned	(4,859,638)
William D. Ford Direct Lending Receipts	70,306,964
William D. Ford Direct Lending Disbursements	(69,899,111)
Related Activity Agency Receipts	8,013,512
Related Activity Agency Disbursements	(8,118,149)
Other Receipts	1,290,804
Net Cash Used by Operating Activities	(205,579,557)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	167,255,437
State Aid - Coronavirus	4,236,407
Student Financial Aid	40,853,808
Federal Aid - COVID-19	36,404,274
Noncapital Contributions	24,976,461
Additions to Endowments	10,530,173
Total Cash Provided by Noncapital Financing Activities	284,256,560
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	88,957
Capital Contributions	3,335,980
Proceeds from Lease Arrangements	368,459
Acquisition and Construction of Capital Assets	(60,695,766)
Principal Paid on Capital Debt and Leases	(18,188,253)
Interest and Fees Paid on Capital Debt and Leases	(11,210,121)
Net Cash Used by Capital Financing and Related Financing Activities	(86,300,744)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,971,960
Investment Income	1,254,939
Purchase of Investments and Related Fees	(8,248,175)
Net Cash Used by Investing Activities	(3,021,276)
Net Decrease in Cash and Cash Equivalents	(10,645,017)
Cash and Cash Equivalents - July 1, 2021	231,890,083
Cash and Cash Equivalents - June 30, 2022	$ 221,245,066

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (206,297,118)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	28,989,535
Lease Income (Amortized Deferred Inflows of Resources)	(327,202)
Allowances, Write-Offs, and Amortizations	101,567
Other Nonoperating Income	1,516,466
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(4,576,337)
Inventories	7,267,565
Notes Receivable, Net	421,921
Other Assets	628,037
Net Other Postemployment Benefits Asset	360,202
Deferred Outflows Related to Pensions	1,308,919
Deferred Outflows Related to Other Postemployment Benefits	(9,019,460)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	652,353
Funds Held for Others	(606,100)
Unearned Revenue	3,025,000
Net Pension Liability	(50,616,125)
Net Other Postemployment Benefits Liability	34,562,521
Compensated Absences	52,252
Deposits Payable	25,660
Workers' Compensation Liability	(929)
Deferred Inflows Under Service Concession Arrangements	(1,239,784)
Deferred Inflows Related to Pensions	40,397,348
Deferred Inflows Related to Other Postemployment Benefits	(52,205,848)
Net Cash Used by Operating Activities	$ (205,579,557)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$ 3,173,641
Assets Acquired through a Service Concession Arrangement	59,170,296
Assets Acquired through a Gift	217,237
Change in Fair Value of Investments	7,520,857
Reinvested Distributions	(811,676)
Loss on Disposal of Capital Assets	(1,682,847)
Amortization of Bond Premiums/Discounts	(1,000,314)
Increase in Receivables Related to Nonoperating/Other Revenues	4,209,939
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(1,938,891)
Payments Made on Behalf of the University	(118,877)
Funds Escrowed to Defease Debt	16,765,800
UNC Management Company Investment Management Fees	(242,692)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Appalachian State University (University) is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

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

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

The Foundation is governed by a 17-member board consisting of 6 ex officio directors and 11 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the University's Board of Trustees and the Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

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

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

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

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

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

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

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

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

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

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

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

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

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

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for computer software which is capitalized when the value or cost is $100,000 or greater. Electric utility assets are capitalized in accordance with the guidelines from the North Carolina Utilities Commission. Lease payables are capitalized as a right-to-use asset when the leased asset has a cost of $100,000 or greater and an estimated useful life of more than one year.

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

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

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

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

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

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

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

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2021 *Annual Comprehensive Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2021 *Annual Comprehensive Financial Report.* This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2022, the amount shown on the Statement of Net Position as cash and cash equivalents includes $191,676,050, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 0.9 years as of June 30, 2022. 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, 2022 was $41,254. The carrying amount of the University's deposits not with the State Treasurer was $29,527,762, and the bank balance was $27,963,759. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2022, $26,608,151 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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

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

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

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

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

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

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

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

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

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

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

The following table presents investments by type and investments subject to interest rate risk at June 30, 2022, for the Long-Term Investment Pool.

Long-Term Investment Pool

	Amount
Investment Type	
Other Securities	
UNC Investment Fund	$ 195,905,410
Real Assets Limited Partnerships	265,061
Alternative Income Fund	63,301
Total Long-Term Investment Pool	$ 196,233,772

UNC Investment Fund, LLC - At June 30, 2022, the University's investments include $195,905,410, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2022, for the University's non-pooled investments.

Non-Pooled Investments

		Investment Maturities (in Years)		
	Amount	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
Debt Mutual Funds	$ 378,250	$ -	$ 57,383	$ 320,867
Money Market Mutual Funds	25,861	25,861	-	-
Total Debt Securities	404,111	$ 25,861	$ 57,383	$ 320,867
Other Securities				
Equity Mutual Funds	537,080			
Investments in Real Estate	553,440			
Domestic Stocks	270,314			
Cash Surrender Value of Life Insurance	137,554			
Total Non-Pooled Investments	$ 1,902,499			

At June 30, 2022, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	A	BB/Ba and below
Debt Mutual Funds	$ 378,250	$ -	$ 280,040	$ 98,210
Money Market Mutual Funds	25,861	25,861	-	-
Totals	$ 404,111	$ 25,861	$ 280,040	$ 98,210

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

At June 30, 2022, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 270,314

Total Investments - The following table presents the total investments at June 30, 2022:

		Amount
Investment Type		
Debt Securities		
Debt Mutual Funds	$	378,250
Money Market Mutual Funds		25,861
Other Securities		
UNC Investment Fund		195,905,410
Equity Mutual Funds		537,080
Investments in Real Estate		553,440
Alternative Income Fund		63,301
Domestic Stocks		270,314
Real Assets Limited Partnerships		265,061
Cash Surrender Value of Life Insurance		137,554
Total Investments	$	198,136,271

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments and certain other assets and liabilities are recorded at fair value as of June 30, 2022. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

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

The following table summarizes the University's investments, including deposits in the Short-Term Investment Fund, and certain other assets and liabilities within the fair value hierarchy at June 30, 2022:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 378,250	$ 378,250	$ -	$ -
Money Market Mutual Funds	25,861	25,861	-	-
Total Debt Securities	404,111	404,111	-	-
Other Securities				
Equity Mutual Funds	537,080	537,080	-	-
Investments in Real Estate	553,440	9,840	-	543,600
Domestic Stocks	270,314	270,314	-	-
Cash Surrender Value of Life Insurance	137,554	137,554	-	-
Total Investments by Fair Value Level	1,902,499	$ 1,358,899	$ -	$ 543,600
Investments Measured at the Net Asset Value (NAV)				
Alternative Income Fund	63,301			
Real Assets Limited Partnerships	265,061			
Total Investments Measured at the NAV	328,362			
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	191,676,050			
UNC Investment Fund	195,905,410			
Total Investments as a Position in an External Investment Pool	387,581,460			
Total Investments Measured at Fair Value	$ 389,812,321			
Other Assets (Liabilities) Measured at Fair Value				
Beneficial Interest in Assets Held by Others	$ 1,654,555	$ -	$ -	$ 1,654,555
Pledge Receivable from Trusts	$ 1,549,002	$ -	$ -	$ 1,549,002
Split-Interest Obligations	$ (1,382,506)	$ -	$ -	$ (1,382,506)

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

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

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

Investments in Real Estate - The Foundation holds interest in donated and acquired real estate with an estimated fair value of $553,440. These investments are classified in Level 1 and 3 of the fair value hierarchy. The amounts reported in the accompanying Statement of Net Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

Net Asset Value - The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2022:

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Other Redemption Restrictions	Redemption Notice Period
Alternative Income Fund[A]	$ 63,301	$ -	Not applicable	Investor withdrawal requests on hold as fund is winding down.	Not applicable
Real Assets Limited Partnerships[B]	265,061	-	Quarterly	Initial lock-up after 10 years.	Written notice at least 45 days prior to redemption.
Total Investments Measured at the NAV	$ 328,362				

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

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

Other Assets and Liabilities Measured at Fair Value

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

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

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

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the of the previous year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible to pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2022, net appreciation of $20,293,955 was available to be spent which was classified in net position as restricted expendable.

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior three years through the fiscal year-end. In establishing this policy, the Foundation considered the long-term expected return on the endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The amounts of net appreciation on investments of donor restricted endowments that are available for authorization for expenditure by the Board of Directors was $64,378,319 at June 30, 2022. This amount is included in net position as restricted expendable in the accompanying Statement of Net Position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2022, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 5,302,255	$ 828,204	$ 4,474,051
Accounts	8,111,235	107,501	8,003,734
Intergovernmental	9,352,408	-	9,352,408
Pledges	7,651,370	1,118,986	6,532,384
Interest on Loans	28,973	-	28,973
Other	81,527	-	81,527
Total Current Receivables	$30,527,768	$ 2,054,691	$28,473,077
Noncurrent Receivables:			
Pledges	$13,497,939	$ -	$13,497,939
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 555,094	$ -	$ 555,094
Institutional Student Loan Programs	275	-	275
Total Notes Receivable - Current	$ 555,369	$ -	$ 555,369
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 680,264	$ 102,770	$ 577,494

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, Nondepreciable:				
Land	$ 67,526,348	$ 113,295	$ -	$ 67,639,643
Art, Literature, and Artifacts	4,082,764	188,500	-	4,271,264
Construction in Progress	28,898,499	53,278,528	11,370,979	70,806,048
Total Capital Assets, Nondepreciable	100,507,611	53,580,323	11,370,979	142,716,955
Capital Assets, Depreciable:				
Buildings	909,316,115	67,575,497	3,278,656	973,612,956
Machinery and Equipment	61,028,363	4,693,440	1,602,104	64,119,699
General Infrastructure	91,484,842	4,375,621	727,384	95,133,079
Computer Software	918,617	-	-	918,617
Right-to-Use Leased Buildings	5,669,700	361,990	-	6,031,690
Right-to-Use Leased Machinery and Equipment	760,296	15,460	-	775,756
Right-to-Use Leased General Infrastructure	5,110,428	-	-	5,110,428
Total Capital Assets, Depreciable	1,074,288,361	77,022,008	5,608,144	1,145,702,225
Less Accumulated Depreciation/Amortization for:				
Buildings	289,976,011	20,908,474	2,154,611	308,729,874
Machinery and Equipment	35,772,534	2,662,281	1,248,108	37,186,707
General Infrastructure	38,389,986	2,965,959	522,578	40,833,367
Computer Software	443,078	53,329	-	496,407
Right-to-Use Leased Buildings	-	1,314,288	-	1,314,288
Right-to-Use Leased Machinery and Equipment	-	414,722	-	414,722
Right-to-Use Leased General Infrastructure	-	670,482	-	670,482
Total Accumulated Depreciation/Amortization	364,581,609	28,989,535	3,925,297	389,645,847
Total Capital Assets, Depreciable, Net	709,706,752	48,032,473	1,682,847	756,056,378
Capital Assets, Net	$ 810,214,363	$ 101,612,796	$ 13,053,826	$ 898,773,333

The July 1, 2021 balances of depreciable capital assets and corresponding accumulated depreciation were restated to reflect reclassifications among categories made after the end of the prior fiscal year and to account for right-to-use leases with the implementation of GASB Statement No. 87, *Leases*. Total net position was not restated for these items.

At year-end, the total amount of leased assets was $11,917,874 and the related accumulated amortization was $2,399,492.

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR STUDENT HOUSING & PARKING DECK

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

The project, with a budgeted total cost of $89.1 million, is located on the campus of the University on land leased to the Operator for 50 years. Upon final payment of all indebtedness owed under the agreement, the Operator will transfer all its interest in the facilities for no cost to the University.

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

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

The University is required to provide certain services related to the facilities under the agreement including facility management, custodial and maintenance, security, and waste disposal. As a result, the University reports a liability, calculated at the present value of these services, over the term of the agreement. On June 30, 2022, the remaining liability totaled $27,107,571. The University also reports the facilities as a capital asset with a book value of $101,104,280 and a related deferred inflow of resources of $73,605,439 that is amortized using the straight-line method over the term of the agreement.

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

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2022, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 5,840,520
Accounts Payable - Capital Assets	2,863,513
Accrued Payroll	4,253,065
Contract Retainage	310,128
Intergovernmental Payables	17,453
Obligations under a Service Concession Arrangement	766,739
Other	64,399
Total Current Accounts Payable and Accrued Liabilities	$ 14,115,817
Noncurrent Accounts Payable and Accrued Liabilities	
Obligations under a Service Concession Arrangement	$ 26,340,832

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion
Long-Term Debt					
Revenue Bonds Payable	$ 232,330,000	$ -	$ 27,230,000	$ 205,100,000	$ 8,835,000
Bonds from Direct Placements	18,350,000	16,897,000	3,132,000	32,115,000	6,014,000
Plus: Unamortized Premium	14,177,055	-	1,006,349	13,170,706	-
Less: Unamortized Discount	-	42,243	6,035	36,208	-
Total Revenue Bonds Payable and Bonds from Direct Placements, Net	264,857,055	16,854,757	31,362,314	250,349,498	14,849,000
Notes from Direct Borrowings	101,130,667	-	3,158,940	97,971,727	3,413,968
Total Long-Term Debt	365,987,722	16,854,757	34,521,254	348,321,225	18,262,968
Other Long-Term Liabilities					
Leases Payable	11,540,424	377,450	1,715,468	10,202,406	2,172,321
Employee Benefits					
Compensated Absences	16,627,021	12,142,719	12,090,467	16,679,273	3,665,852
Net Pension Liability	82,318,270	-	50,616,125	31,702,145	-
Net Other Postemployment Benefits Liability	287,920,246	32,623,631	-	320,543,877	-
Workers' Compensation	609,066	404,904	405,833	608,137	243,859
Total Other Long-Term Liabilities	399,015,027	45,548,704	64,827,893	379,735,838	6,082,032
Total Long-Term Liabilities, Net	$ 765,002,749	$ 62,403,461	$ 99,349,147	$ 728,057,063	$ 24,345,000

Additional information regarding leases payable is included in Note 10.
Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.
Additional information regarding workers' compensation is included in Note 16.

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022	See Table Below
Revenue Bonds Payable						
Millennial Campus						
Millennial Campus Revenue Bonds - End Zone Facility	2018	4.14%	05/01/2049	$ 39,865,000	$ 39,090,000	(1)
ASU General Revenue Bonds						
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	17,510,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	6,180,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	14,785,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000	20,255,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000	1,120,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000	25,140,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000	9,855,000	
ASU General Revenue Bonds - Housing, Bookstore, Athletics Student Union, and Steam Plant Utility System	2017A	2.82%	10/01/2036	56,390,000	55,495,000	
ASU General Revenue Bonds - Academic Building	2019	3.16%	10/01/2048	16,640,000	15,670,000	
Total ASU General Revenue Bonds				198,150,000	166,010,000	
Bonds from Direct Placements						
ASU Utility System Revenue Bonds - Utility System	2016	2.33%	05/05/2026	3,650,000	1,460,000	(2)
ASU General Revenue Refunding Bonds - Steam Utility System	2018A	2.99%	10/01/2023	9,270,000	3,865,000	
Millennial Campus Revenue Bonds - Athletic Turf Field	2020	1.68%	05/01/2030	2,552,000	2,075,000	
ASU General Revenue Refunding Bonds - Housing, Bookstore, Athletics	2020	1.56%	10/01/2025	2,259,000	1,443,000	
ASU Utility System Revenue Bonds - Utility System	2020	1.73%	05/05/2040	6,500,000	6,375,000	(2)
ASU General Revenue Refunding Bonds - Housing, Bookstore, and Student Recreation Center	2022	1.42%	05/01/2028	16,897,000	16,897,000	
Total Bonds from Direct Placements				41,128,000	32,115,000	
Total Revenue Bonds Payable and Bonds from Direct Placements (principal only)				$ 279,143,000	237,215,000	
Plus: Unamortized Premium					13,170,706	
Less: Unamortized Discount					36,208	
Total Revenue Bonds Payable and Bonds from Direct Placements, Net					$ 250,349,498	

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

			For the Year Ended June 30, 2022			
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	University Charges to Athletics and Auxiliaries	$ 71,971,650	$ 1,883,070	$ -	$ 1,716,500	100%
(2)	Electric Utilities	$ 8,994,864	$ (350,842)	$ 625,000	$ 156,348	26%

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2022
Energy Savings Project	T.D. Bank	1.98%	07/01/2027	$ 16,499,917	$ 7,339,088
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Group	1.84%	02/14/2023	1,495,951	180,345
Former Watauga High School	Watauga County	0.00%	07/01/2040	15,475,000	15,475,000
Renovation of Schaefer Center	First Citizens Bank	4.10%	01/15/2027	5,362,147	1,998,193
Video Boards	Truist (BB&T)	2.76%	09/01/2022	3,582,027	179,101
Student Housing	PNC Bank	2.08%	04/01/2028	72,800,000	72,800,000
Total Notes from Direct Borrowings				$ 115,215,042	$ 97,971,727

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2022, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Bonds from Direct Placements		Notes from Direct Borrowings	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2023	$ 8,835,000	$ 7,818,281	$ 6,014,000	$ 582,898	$ 3,413,968	$ 1,599,805
2024	9,320,000	7,410,631	6,191,000	404,609	4,487,062	1,678,573
2025	9,845,000	6,975,122	4,273,000	309,861	4,589,555	1,594,240
2026	11,005,000	6,497,981	3,713,000	243,732	4,693,582	1,507,189
2027	9,905,000	6,028,225	3,435,000	187,835	4,600,409	1,417,706
2028-2032	55,600,000	23,750,247	5,409,000	422,849	68,712,151	4,401,333
2033-2037	44,725,000	14,434,750	1,875,000	197,525	4,000,000	-
2038-2042	21,135,000	8,982,647	1,205,000	37,326	3,475,000	-
2043-2047	26,065,000	4,590,844	-	-	-	-
2048-2049	8,665,000	489,700	-	-	-	-
Total Requirements	$ 205,100,000	$ 86,978,428	$ 32,115,000	$ 2,386,635	$ 97,971,727	$ 12,198,846

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

Revenue Bonds Payable - The University has outstanding General Revenue bonds totaling $166,010,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. The University also has outstanding Millennial Campus Revenue bonds totaling $39,090,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated December 1, 2018. Under both indentures, an event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

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

Bonds from Direct Placements - The University has outstanding direct placements for Series 2016 Utility System Bonds totaling $1,460,000 and Series 2020 Utility System Bonds totaling $6,375,000. These bonds are subject to default provisions as defined in the Appalachian State University d/b/a New River Light & Power General Trust Indenture dated December 1, 2011. An event of default occurs when there is a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

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

The University has outstanding direct placements for Series 2018A General Revenue Refunding Bonds totaling $3,865,000, Series 2020 Millennial Campus Revenue Bonds of $2,075,000, Series 2020 Revenue Refunding Bonds of $1,443,000, and Series 2022 Revenue Refunding Bonds of $16,897,000. These bonds are subject to default provisions under the Board of Governors of the University of North Carolina General Trust Indenture dated May 1, 2003. An event of default is defined as a failure to pay principal or premium on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure.

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

Notes from Direct Borrowings - The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the direct borrowing of the Guaranteed Energy Savings and Performance Contracting Phase II dated June 6, 2013 with an outstanding amount of $7,339,088. This agreement contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when within 30 days following the due date, (2) any representation or Warranty furnished by the University in the Agreement proves to be false or misleading in any material respect when made, or (3) any other material failure by the University to perform or comply with the terms and conditions of the Agreement, unless corrected within 30 days after written notice to the University.

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

The carrying value of the energy savings improvement assets associated with the Phase II of the Energy Savings and Performance Contracting is $12,736,742 and is subject to security provisions in the agreements to ensure timely debt service payments.

The University has pledged the energy savings improvements installed in its buildings and other structures as collateral for the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014, with an outstanding amount of $180,345. The carrying value of the energy savings improvement assets associated with the agreement is $97,358 and is subject to security provisions in the agreement to ensure timely debt service payments. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of non-appropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within thirty days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within thirty days.

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

The University has outstanding notes from direct borrowings of $15,475,000 through a long-term note agreement with Watauga County dated September 28, 2017. The University has pledged a land asset with a book value of $18,390,209, which is subject to security provisions in the agreement to ensure timely debt service payments. This agreement contains provisions related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 15 days from the due date, or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to maker.

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

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of the Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2022, was $1,998,193.

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

The Foundation entered into a loan agreement with a financial institution on February 8, 2017, to finance a video boards project. The Foundation assigned donor pledges for the project to the bank as collateral for the loan. The outstanding balance as of June 30, 2022, was $179,101. The loan is payable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%.

The Corporation entered into a loan agreement with a financial institution on December 18, 2020, to finance the construction of New River Residence Hall and associated site improvements. The Corporation assigned to the bank, right, title and interest in lease and use agreements established between the University and the Corporation, and upon default, the Base Rentals, which includes all rental revenue from the facility, and payments received or receivable by the Corporation under these agreements, and a continuing security interest in the Base Rentals, as well as the lease and use agreements after the commencement of any proceeding under the Bankruptcy Code involving the Corporation. The bank has the right, power and authority to: (1) settle, compromise, release, extend the time of payment of, and make allowances, adjustments and discounts of any Base Rentals or other obligations; (2) enforce payment of Base Rentals; (3) enter on, take possession of and operate the residence hall if a default occurs; and, (4) perform any and all obligations of the Corporation. The outstanding balance as of June 30, 2022, was $72,800,000. The note is payable in semi-annual installments of principal due and quarterly installments of interest due each year with all remaining principal and interest due April 1, 2028. The loan carries an interest rate of 2.08%.

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

On February 1, 2022 the University issued $16,897,000 in General Revenue Refunding Bonds with an average interest rate of 1.42%. The bonds were issued for a current refunding of $16,440,000 of outstanding Series 2012 General Revenue Bonds with an average interest rate of 2.84%. The refunding was undertaken to reduce total debt service payments by $1,075,303 over the next six years and resulted in an economic gain of $1,028,597.

NOTE 10 - LEASES

The University's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Receivable (Liability) June 30, 2022	Current Portion	Lease Terms (1)	Interest Rate/ Ranges
Lessor:					
Buildings	3	$ 1,504,845	$ 261,023	7.52 Years	2.39-4.90%
Machinery and Equipment	3	2,216,236	83,926	16.07 Years	2.69-3.18%
Total	6	$ 3,721,081	$ 344,949		
Lessee:					
Right-to-Use Buildings	11	$ (4,808,293)	$ 1,272,735	5.39 Years	2.39-850%
Right-to-Use Machinery and Equipment	14	(381,873)	336,547	1.08 Years	2.39-3.98%
Right-to-Use General Infrastructure	1	(5,012,240)	563,039	6.58 Years	2.69%
Total	26	$ (10,202,406)	$ 2,172,321		

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

A. Lease Receivable - During the year the University did not recognize any variable payment amounts.

B. Lease Liability - Measurement of the lease liability excluded the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index). During the fiscal year, the University recognized expenses of $14,726 for these changes in variable payments not previously included in the measurement of the lease liability.

Future principal and interest lease payments as of June 30, 2022 were as follows:

Fiscal Year	Principal	Interest	Total
2023	$ 2,172,321	$ 304,283	$ 2,476,604
2024	1,568,257	248,794	1,817,051
2025	1,458,739	199,467	1,658,206
2026	1,383,206	152,755	1,535,961
2027	1,360,602	105,935	1,466,537
2028-2032	2,259,281	71,487	2,330,768
Total	$ 10,202,406	$ 1,082,721	$ 11,285,127

NOTE 11 - NET POSITION

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

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	$ (39,583,597)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(358,798,082)
Effect on Unrestricted Net Position	(398,381,679)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	126,954,493
Total Unrestricted Net Position	$ (271,427,186)

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

NOTE 12 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$173,659,693	$ 33,143,373	$ 192,913	$140,323,407
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Residential Life	$ 38,654,725	$ 5,138,380	$ 42,987	$ 33,473,358
Dining	18,901,220	3,333,409	9,911	15,557,900
Student Union Services	1,234,846	-	-	1,234,846
Health, Physical Education, and Recreation Services	1,114,763	18,747	78,793	1,017,223
Bookstore	13,763,080	1,760,348	18,868	11,983,864
Parking	5,926,689	385,251	2,918	5,538,520
Athletic	12,828,077	-	-	12,828,077
Other	2,174,862	200,465	5,000	1,969,397
Sales and Services of Education and Related Activities	6,492,255	555,183	142,635	5,794,437
New River Light and Power	15,431,201	-	46,043	15,385,158
Total Sales and Services, Net	$116,521,718	$ 11,391,783	$ 347,155	$104,782,780

NOTE 13 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$127,322,056	$ 10,773,867	$ 3,690	$ -	$ -	$138,099,613
Research	4,572,415	2,813,562	20,057	-	-	7,406,034
Public Service	5,690,653	4,071,549	305,794	617	-	10,068,613
Academic Support	30,608,040	11,725,942	434,568	3,765	-	42,772,315
Student Services	7,771,288	863,588	-	-	-	8,634,876
Institutional Support	25,142,182	13,697,971	-	-	-	38,840,153
Operations and Maintenance of Plant	15,818,523	3,268,030	-	4,603,260	-	23,689,813
Student Financial Aid	558,595	78,653	36,585,666	-	-	37,222,914
Auxiliary Enterprises	42,216,576	61,640,527	3,056,747	6,839,738	-	113,753,588
New River Light and Power	2,978,130	12,711,547		-	-	15,689,677
Depreciation/Amortization	-	-	-	-	28,989,535	28,989,535
Total Operating Expenses	$262,678,458	$ 121,645,236	$ 40,406,522	$11,447,380	$ 28,989,535	$465,167,131

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of $15,249,070 provided by the Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the University in providing the student awards, the related program activity is reported as nonoperating Federal Aid – COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 12.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The University's contractually-required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. Plan members' contributions to the pension plan were $6,588,421, and the University's contributions were $17,986,389 for the year ended June 30, 2022.

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 2021 *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, the 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 2021 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2022, the University reported a liability of $31,702,145 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The University's proportion of the net pension liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the University's proportion was 0.67702%, which was a decrease of 0.00431 from its proportion measured as of June 30, 2020, which was 0.68133%.

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	12/31/2020
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, 2020 valuations 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, 2021 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, 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 3.05%. 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, 2021 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 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, 2021 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%)
$ 106,340,940	$ 31,702,145	$ (30,341,403)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2022, the University recognized pension expense of $9,294,103. At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 1,782,018	$ 719,990
Changes of Assumptions	11,891,816	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	39,279,353
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	855,673	398,005
Contributions Subsequent to the Measurement Date	17,986,389	-
Total	$ 32,515,896	$ 40,397,348

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, 2023. 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
2023	$ (3,301,236)
2024	(4,759,117)
2025	(5,760,668)
2026	(12,046,820)
Total	$ (25,867,841)

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

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

Participants contribute 6% of compensation and the University contributes 6.84%. For the current fiscal year, the University had a total payroll of $228,340,361, of which $91,757,899 was covered under ORP. Total employee and employer contributions for pension benefits for the year were $5,505,474 and $6,276,240, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The amount of plan forfeitures reflected in pension expense was $3,124,988.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2021 *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 benefits 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 of North Carolina 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 2021 *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 eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when 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, the Legislative Retirement System, 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 State Health 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 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System 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 Bill. The University's contractually-required contribution rate for the year ended June 30, 2022 was 6.29% of covered payroll. The University's contributions to the RHBF were $12,678,433 for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (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 RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2022, the University recognized noncapital contributions for RHBF of $1,938,891.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the 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, for as long as an employee is disabled. 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 the end of the short-term disability period 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. An 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, or (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 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, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2022 was 0.09% of covered payroll. The University's contributions to DIPNC were $181,408 for the year ended June 30, 2022.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2022, the University reported a liability of $320,543,877 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The University's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the University's proportion was 1.03684%, which was a decrease of 0.00105 from its proportion measured as of June 30, 2020, which was 1.03789%.

Net OPEB Asset: At June 30, 2022, the University reported an asset of $172,387 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The University's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the University's proportion was 1.05539%, which was a decrease of 0.02724 from its proportion measured as of June 30, 2020, which was 1.08263%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, 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, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return is net of OPEB plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, 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 a 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, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, 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 3.05%. 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, 2021 is 1.3%.

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 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 earlier in the note, 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.

The actuarial assumptions used in the December 31, 2020 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 the long-term investment return, 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 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows 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 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows 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 projected to be available to make all projected future benefit payments to the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the University's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) 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 (Asset)		
	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF	$ 381,283,902	$ 320,543,877	$ 271,353,750
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC	$ (108,842)	$ (172,387)	$ (231,173)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) 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 (Asset)

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	$ 359,587,586	$ 320,543,877	$ 401,411,175

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	$ (181,443)	$ (172,387)	$ (161,105)

OPEB Expense: For the fiscal year ended June 30, 2022, the University recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	$ (13,827,542)
DIPNC	381,557
Total OPEB Expense	$ (13,445,985)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,892,445	$ 439,538	$ 2,331,983
Changes of Assumptions	26,217,729	30,269	26,247,998
Net Difference Between Projected and Actual Earnings on Plan Investments	-	16,823	16,823
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	13,273,285	24,936	13,298,221
Contributions Subsequent to the Measurement Date	12,678,433	181,408	12,859,841
Total	$ 54,061,892	$ 692,974	$ 54,754,866

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 5,966,814	$ -	$ 5,966,814
Changes of Assumptions	77,899,128	62,585	77,961,713
Net Difference Between Projected and Actual Earnings on Plan Investments	163,971	-	163,971
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	8,286,184	26,373	8,312,557
Total	$ 92,316,097	$ 88,958	$ 92,405,055

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2023. 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
2023	$ (39,886,508)	$ 115,293
2024	(8,164,808)	79,388
2025	(620,533)	102,248
2026	(5,927,907)	48,729
2027	3,667,118	18,355
Thereafter	-	58,595
Total	$ (50,932,638)	$ 422,608

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. **Employee Dishonesty and Computer Fraud**

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

4. **Statewide Workers' Compensation Program**

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

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

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

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

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $20,423,709 and on other purchases were $9,168,197 at June 30, 2022.

B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 18 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2022, is presented as follows:

Condensed Statement of Net Position
June 30, 2022

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
ASSETS					
Current Assets	$ 178,204,993	$ 39,228,254	$ 6,165,281	$ (133,252)	$ 223,465,276
Capital Assets, Net	822,043,298	2,078,655	74,722,300	(70,920)	898,773,333
Other Noncurrent Assets	65,025,207	170,039,720	18,136,944	(58,188)	253,143,683
Total Assets	1,065,273,498	211,346,629	99,024,525	(262,360)	1,375,382,292
TOTAL DEFERRED OUTFLOWS OF RESOURCES	95,155,506	-	-	-	95,155,506
LIABILITIES					
Current Liabilities	54,717,269	1,058,082	4,566,288	(133,252)	60,208,387
Long-Term Liabilities, Net	631,203,001	1,617,250	70,950,000	(58,188)	703,712,063
Other Noncurrent Liabilities	29,189,897	1,234,328	-	-	30,424,225
Total Liabilities	715,110,167	3,909,660	75,516,288	(191,440)	794,344,675
TOTAL DEFERRED INFLOWS OF RESOURCES	210,117,891	3,580,957	-	(70,920)	213,627,928
NET POSITION					
Net Investment in Capital Assets	470,492,899	194,655	17,661,394	-	488,348,948
Restricted - Nonexpendable	19,612,478	85,856,779	-	-	105,469,257
Restricted - Expendable	32,667,923	107,506,253	-	-	140,174,176
Unrestricted	(287,572,354)	10,298,325	5,846,843	-	(271,427,186)
Total Net Position	$ 235,200,946	$ 203,856,012	$ 23,508,237	$ -	$ 462,565,195

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	$ 140,323,407	$ -	$ -	$ -	$ 140,323,407
Grants and Contracts	10,822,157	-	-	-	10,822,157
Sales and Services, Net	97,423,743	996,454	6,362,583	-	104,782,780
Other Operating Revenues	2,193,239	690,948	112,802	(55,320)	2,941,669
Total Operating Revenues	250,762,546	1,687,402	6,475,385	(55,320)	258,870,013
OPERATING EXPENSES					
Operating Expenses	431,512,589	26,415,744	3,735,047	(25,485,784)	436,177,596
Depreciation/Amortization	28,305,412	105,475	591,437	(12,789)	28,989,535
Total Operating Expenses	459,818,001	26,521,219	4,326,484	(25,498,573)	465,167,131
Operating Income (Loss)	(209,055,455)	(24,833,817)	2,148,901	25,443,253	(206,297,118)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	167,255,437	-	-	-	167,255,437
State Aid - Coronavirus	4,236,407	-	-	-	4,236,407
Student Financial Aid	40,853,808	-	-	-	40,853,808
Federal Aid - COVID-19	36,404,274	-	-	-	36,404,274
Noncapital Contributions	31,504,666	17,022,263	-	(15,563,388)	32,963,541
Investment Income, Net	2,143,428	6,043,584	22,087	-	8,209,099
Interest and Fees on Debt	(10,179,457)	(112,294)	(1,514,240)	1,744	(11,804,247)
Other Nonoperating Revenues (Expense)	(806,968)	4,547,354	-	(4,228,363)	(487,977)
Net Nonoperating Revenues (Expenses)	271,411,595	27,500,907	(1,492,153)	(19,790,007)	277,630,342
Capital Contributions	5,284,195	1,174,101	146,178	(3,311,044)	3,293,430
Additions to Endowments	2,342,202	10,530,173	-	(2,342,202)	10,530,173
Total Other Revenues	7,626,397	11,704,274	146,178	(5,653,246)	13,823,603
Increase in Net Position	69,982,537	14,371,364	802,926	-	85,156,827
NET POSITION					
Net Position, July 1, 2021	165,218,409	189,484,648	22,705,311	-	377,408,368
Net Position, June 30, 2022	$ 235,200,946	$ 203,856,012	$ 23,508,237	$ -	$ 462,565,195

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

	University	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	$ (208,942,976)	$ (20,088,155)	$ 2,640,904	$ 20,810,670	$ (205,579,557)
Total Cash Provided by Noncapital Financing Activities	275,546,412	26,615,738	-	(17,905,590)	284,256,560
Net Cash Used by Capital Financing and Related Financing Activities	(44,150,561)	(99,551)	(39,145,552)	(2,905,080)	(86,300,744)
Net Cash Provided (Used) by Investing Activities	(1,825,649)	(1,217,714)	22,087	-	(3,021,276)
Net Increase (Decrease) in Cash and Cash Equivalents	20,627,226	5,210,318	(36,482,561)	-	(10,645,017)
Cash and Cash Equivalents, July 1, 2021	138,600,596	32,894,503	60,394,984	-	231,890,083
Cash and Cash Equivalents, June 30, 2022	$ 159,227,822	$ 38,104,821	$ 23,912,423	$ -	$ 221,245,066

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

NOTE 20 - NET POSITION RESTATEMENT

As of July 1, 2021, the University implemented GASB Statement No. 87, *Leases*. Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 6 and Note 9 for details on the restated balances related to capital assets and lease liabilities, respectively.

NOTE 21 - SUBSEQUENT EVENTS

On September 14, 2022, the University issued Series 2022B General Revenue Bonds in the amount of $20,455,000 with a premium of $452,047. The interest rate on the bonds is 4.26% with an average coupon rate of 4.23%. The bonds have a 30-year term and mature on October 1, 2052. Proceeds from the bonds will be used to pay the costs of construction for a 600-space parking deck adjacent to the Holmes Convocation Center.

On October 12, 2022, the University d/b/a New River Light & Power (NRLP) issued NRLP 2022 Utility System Revenue Bonds in the amount of $7,000,000. Proceeds from the financing will provide working capital to cover deficit cash balances resulting from the rapid increase in wholesale energy costs while rate adjustments are put into place. The bonds will be repaid from the utility system revenues generated by rates charged to customers.

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net Pension Liability	0.67702%	0.68133%	0.67358%	0.62781%	0.62049%
Proportionate Share of TSERS Collective Net Pension Liability	$ 31,702,145	$ 82,318,270	$ 69,829,749	$ 62,505,322	$ 49,232,413
Covered Payroll	$ 105,783,295	$ 105,255,412	$ 101,764,996	$ 94,335,041	$ 89,737,238
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	29.97%	78.21%	68.62%	66.26%	54.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.86%	85.98%	87.56%	87.61%	89.51%

	2017	**2016**	**2015**	**2014**
Proportionate Share Percentage of Collective Net Pension Liability	0.59985%	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 55,132,411	$ 21,345,035	$ 6,607,765	$ 33,791,262
Covered Payroll	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	64.58%	25.68%	8.30%	42.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

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

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

Exhibit B-2

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 17,986,389	$ 15,634,771	$ 13,651,627	$ 12,506,918	$ 10,169,317
Contributions in Relation to the Contractually Determined Contribution	$ 17,986,389	15,634,771	13,651,627	12,506,918	10,169,317
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 109,807,013	$ 105,783,295	$ 105,255,412	$ 101,764,996	$ 94,335,041
Contributions as a Percentage of Covered Payroll	16.38%	14.78%	12.97%	12.29%	10.78%

	2017	**2016**	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 8,955,776	$ 7,811,944	$ 7,605,144	$ 6,916,329	$ 6,586,802
Contributions in Relation to the Contractually Determined Contribution	8,955,776	7,811,944	7,605,144	6,916,329	6,586,802
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

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

Changes of Benefit Terms:

Cost of Living Increase

Teachers' and State Employees'	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Retirement System	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA's) in the period of the legislative session of Board of Trustees meeting when it was passed. The COLA is effective July 1 of that period and the fiscal year end 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 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.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 14 for more information on the specific assumptions for each 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 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 Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the 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 Teachers' and State Employees' Retirement System 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 the most recent available information included in the State of North Carolina's 2021 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
*Last Six Fiscal Years**

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net OPEB Liability	1.03684%	1.03789%	1.03909%	1.00750%	0.96582%
Proportionate Share of Collective Net OPEB Liability	$ 320,543,877	$ 287,920,246	$ 328,761,498	$ 287,017,119	$ 316,660,087
Covered Payroll	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	166.21%	148.54%	174.12%	160.29%	183.51%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.72%	6.92%	4.40%	4.40%	3.52%

	2017
Proportionate Share Percentage of Collective Net OPEB Liability	1.08025%
Proportionate Share of Collective Net OPEB Liability	$ 469,945,468
Covered Payroll	$ 164,465,182
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	285.74%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.41%

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans — Exhibit B-3
Last Six Fiscal Years* — Page 2 of 2

Disability Income Plan of North Carolina	2022	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net OPEB Asset	1.05539%	1.08263%	1.07350%	1.04545%	1.05029%
Proportionate Share of Collective Net OPEB Asset	$ 172,387	$ 532,589	$ 463,215	$ 317,566	$ 641,937
Covered Payroll	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042	$ 172,557,711
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.09%	0.27%	0.25%	0.18%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.18%	115.57%	113.00%	108.47%	116.23%

	2017
Proportionate Share Percentage of Collective Net OPEB Asset	1.01711%
Proportionate Share of Collective Net OPEB Asset	$ 631,625
Covered Payroll	$ 164,465,182
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.06%

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

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

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

Exhibit B-4

Last Ten Fiscal Years

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 12,678,433	$ 12,882,383	$ 12,540,749	$ 11,838,264	$ 10,832,891
Contributions in Relation to the Contractually Determined Contribution	12,678,433	12,882,383	12,540,749	11,838,264	10,832,891
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042
Contributions as a Percentage of Covered Payroll	6.29%	6.68%	6.47%	6.27%	6.05%

	2017	**2016**	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 10,025,603	$ 9,210,050	$ 8,743,687	$ 8,201,682	$ 7,935,118
Contributions in Relation to the Contractually Determined Contribution	10,025,603	9,210,050	8,743,687	8,201,682	7,935,118
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994	$ 149,719,202
Contributions as a Percentage of Covered Payroll	5.81%	5.60%	5.49%	5.40%	5.30%

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

Disability Income Plan of North Carolina	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 181,408	$ 173,565	$ 193,829	$ 264,331	$ 250,678
Contributions in Relation to the Contractually Determined Contribution	181,408	173,565	193,829	264,331	250,678
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 201,564,912	$ 192,850,042	$ 193,829,196	$ 188,808,035	$ 179,056,042
Contributions as a Percentage of Covered Payroll	0.09%	0.09%	0.10%	0.14%	0.14%

	2017	**2016**	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 655,719	$ 674,307	$ 652,989	$ 668,285	$ 658,764
Contributions in Relation to the Contractually Determined Contribution	655,719	674,307	652,989	668,285	658,764
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 172,557,711	$ 164,465,182	$ 159,265,704	$ 151,882,994	$ 149,719,202
Contributions as a Percentage of Covered Payroll	0.38%	0.41%	0.41%	0.44%	0.44%

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

Appalachian State University
Notes to Required Supplementary Information
Schedule of University Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
For the Fiscal Year Ended June 30, 2022

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.

Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: 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 Teachers' and State Employees' Retirement System 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.

Consistent with the prior year, for the actuarial valuation measured as of June 30, 2021, the discount rate for the RHBF was updated to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. In 2020, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. 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 four years. 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 the most recent available information included in the State of North Carolina's 2021 *Annual Comprehensive Financial Report* .

Independent Auditor’s Report

STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 7, 2022. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately for the Appalachian Housing Corporation by those auditors. The financial statements of Appalachian State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Appalachian State University Foundation, Inc.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 7, 2022

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This audit required 558 hours at an approximate cost of $66,960.