

**INVITATION TO TENDER FOR PURCHASE**  
**made by**  
**STATE OF NORTH CAROLINA**

**to the Holders described herein of all or any portion of the maturities listed in Table 1 on page (iii)  
herein of the following bond issues (collectively, the "Target Bonds"):**

**State of North Carolina**

- **General Obligation Refunding Bonds, Series 2016A**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2016B**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2018A**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2019B**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2020A**

**THIS INVITATION WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON NOVEMBER 3,  
2025, UNLESS EARLIER TERMINATED OR EXTENDED AS DESCRIBED HEREIN.**

This Invitation to Tender for Purchase, dated October 20, 2025 (as it may be amended or supplemented, including the cover page and Appendices hereto, this "Invitation"), describes an invitation by the State of North Carolina (the "State"), with the assistance of BofA Securities, Inc., as dealer manager (the "Dealer Manager"), to the beneficial owners (the "Holders" or "Bondholders") of the Target Bonds to tender such Target Bonds for purchase by the State for cash at the applicable purchase prices (each, a "Purchase Price") based on the applicable Purchase Yield. The Purchase Yield for each Target Bond will be the sum of the yield on the relevant Reference BVAL Index (the "Reference Yield") plus the fixed spread (each, a "Fixed Spread"), as set forth in Table 1 on page (iii) of this Invitation. The Reference BVAL Index for each Target Bond will be based on the month and year of the Maturity Date for such Target Bond. The Reference Yield will be based on the yield for the applicable Reference BVAL Index, as set forth in the Monthly Value Table as of the date and time the Purchase Prices are determined, as shown on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website at the following address:

<https://emma.msrb.org/ToolsAndResources/BloombergYieldCurve?daily=True>

See "INTRODUCTION—Determination of Purchase Prices" for a description of the methodology to be used for the calculation of the Purchase Prices. In addition to the Purchase Price, Bondholders who tender Target Bonds for purchase on the Settlement Date (as defined herein) will receive accrued interest on such Target Bonds to, but not including, the Settlement Date ("Accrued Interest"). On or about November 5, 2025, the State will publish the Notice of Purchase Price, which will set forth the Purchase Price for each respective CUSIP of the Target Bonds.

Subject to the terms and conditions of this Invitation, and assuming all conditions to this Invitation have then been satisfied or waived by the State, the State will purchase Target Bonds, which are tendered and accepted for purchase by the State in accordance with this Invitation, on November 19, 2025, unless earlier terminated or extended by the State (such date being the "Settlement Date"), provided that such Target Bonds have been validly tendered by the Expiration Date (as defined herein). Bondholders who tender Target Bonds for purchase on the Settlement Date also will receive Accrued Interest on such Target Bonds. The source of funds to purchase the Target Bonds validly tendered and accepted for purchase by the State will be limited to (a) the proceeds of general obligation bonds of the State to be issued for such purpose (the "Series 2025C Bonds"), which are anticipated to be issued on the Settlement Date, or (b) other available funds of the State. The Series 2025C Bonds will be issued in the manner, on the terms and with the security therefor described in the Preliminary Official Statement dated October 20, 2025 attached hereto as APPENDIX A (the "Series 2025C Bonds POS"). The

source of funds for payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase by the State will be legally available moneys of the State and paid on the Settlement Date. The purchase of any Target Bonds tendered pursuant to this Invitation is contingent on the issuance of the Series 2025C Bonds and the availability of other available funds of State for such purchase. The purchase of any Target Bonds tendered pursuant to this Invitation is also subject to certain other conditions, including, without limitation, the Financing Conditions (as defined herein). See "INTRODUCTION – General; Financing Conditions" and "TERMS OF THE INVITATION—Conditions to Purchase" herein.

**HOLDERS OF TARGET BONDS TENDERED PURSUANT TO THIS INVITATION BUT NOT ACCEPTED BY THE STATE FOR PURCHASE WILL CONTINUE TO HOLD SUCH TARGET BONDS AND SUCH TARGET BONDS WILL REMAIN OUTSTANDING. THE STATE RESERVES THE RIGHT TO, AND MAY DECIDE TO, REFUND (ON AN ADVANCE OR CURRENT BASIS) SOME OR ALL OF THE TARGET BONDS NOT PURCHASED PURSUANT TO THIS INVITATION THROUGH THE ISSUANCE OF PUBLICLY-OFFERED OR PRIVATELY-PLACED TAXABLE OR TAX-EXEMPT OBLIGATIONS OF THE STATE. See "INTRODUCTION – Target Bonds Not Tendered for Purchase" and "ADDITIONAL CONSIDERATIONS" herein.**

To make an informed decision as to whether, and how, to tender Target Bonds for purchase pursuant to this Invitation, Bondholders must read this Invitation carefully, including APPENDIX A, and consult with their broker, account executive, financial advisor, attorney and/or other professionals. For more information about risks concerning this Invitation, please see "ADDITIONAL CONSIDERATIONS" herein.

Any Bondholder wishing to tender Target Bonds pursuant to this Invitation should follow the procedures more specifically described herein. Bondholders and their brokers and account executives with questions about this Invitation should contact the Dealer Manager or the Information Agent (as defined herein).

***The Information Agent and Tender Agent for this Invitation is  
GLOBIC ADVISORS***

***The Dealer Manager for this Invitation is***

**BofA Securities, Inc.**

**Key Dates and Times**

*All of these dates and times are subject to change. All times in this Invitation are New York City time.*

*Notices of changes will be sent in the manner provided for in this Invitation.*

|                                                                |                                               |
|----------------------------------------------------------------|-----------------------------------------------|
| Launch Date and Publication Date of Series 2025C Bonds POS ... | <b>October 20, 2025</b>                       |
| Expiration Date .....                                          | <b>5:00 p.m. on November 3, 2025</b>          |
| Notice of Results.....                                         | <b>November 4, 2025</b>                       |
| Determination of Purchase Prices .....                         | <b>Approx. 10:00 a.m. on November 5, 2025</b> |
| Notice of Purchase Prices .....                                | <b>Before 5:00 p.m. on November 5, 2025</b>   |
| Acceptance Date/Notice of Acceptance.....                      | <b>November 6, 2025</b>                       |
| Settlement Date.....                                           | <b>November 19, 2025</b>                      |

**TABLE 1**  
**TARGET BONDS<sup>(1)</sup>**

| <b>Target Bonds Series</b> | <b>CUSIP<sup>†</sup></b> | <b>Maturity Date</b> | <b>Optional Redemption Date at Par</b> | <b>Interest Rate</b> | <b>Par Amount Outstanding</b> | <b>Reference BVAL Index <sup>(2)</sup></b> | <b>Fixed Spreads (bps)<sup>(3)</sup></b> |
|----------------------------|--------------------------|----------------------|----------------------------------------|----------------------|-------------------------------|--------------------------------------------|------------------------------------------|
| 2016A                      | 658256Z62                | 6/1/2027             | 6/1/2026                               | 5.000%               | 65,050,000                    | Jun-2027                                   | -27.0                                    |
| 2016A                      | 658256Z70                | 6/1/2028             | 6/1/2026                               | 5.000%               | 37,665,000                    | Jun-2028                                   | -19.0                                    |
| 2016A                      | 658256Z88                | 6/1/2029             | 6/1/2026                               | 5.000%               | 21,335,000                    | Jun-2029                                   | -16.0                                    |
| 2016A                      | 658256Z96                | 6/1/2030             | 6/1/2026                               | 3.000%               | 21,180,000                    | Jun-2030                                   | 5.0                                      |
| 2016B                      | 6582562N1                | 6/1/2027             | 6/1/2026                               | 5.000%               | 10,000,000                    | Jun-2027                                   | -27.0                                    |
| 2016B                      | 6582562P6                | 6/1/2028             | 6/1/2026                               | 5.000%               | 10,000,000                    | Jun-2028                                   | -19.0                                    |
| 2016B                      | 6582562Q4                | 6/1/2029             | 6/1/2026                               | 4.000%               | 10,000,000                    | Jun-2029                                   | -16.0                                    |
| 2016B                      | 6582562R2                | 6/1/2030             | 6/1/2026                               | 2.000%               | 10,000,000                    | Jun-2030                                   | 46.0                                     |
| 2016B                      | 6582562S0                | 6/1/2031             | 6/1/2026                               | 3.000%               | 10,000,000                    | Jun-2031                                   | 5.0                                      |
| 2016B                      | 6582562T8                | 6/1/2032             | 6/1/2026                               | 3.000%               | 10,000,000                    | Jun-2032                                   | 1.0                                      |
| 2016B                      | 6582562U5                | 6/1/2033             | 6/1/2026                               | 3.000%               | 10,000,000                    | Jun-2033                                   | 22.0                                     |
| 2016B                      | 6582562V3                | 6/1/2034             | 6/1/2026                               | 3.000%               | 10,000,000                    | Jun-2034                                   | 18.0                                     |
| 2016B                      | 6582562W1                | 6/1/2035             | 6/1/2026                               | 3.000%               | 10,000,000                    | Jun-2035                                   | 5.0                                      |
| 2016B                      | 6582562X9                | 6/1/2036             | 6/1/2026                               | 2.500%               | 10,000,000                    | Jun-2036                                   | 41.0                                     |
| 2018A                      | 6582563P5                | 6/1/2029             | 6/1/2028                               | 5.000%               | 20,000,000                    | Jun-2029                                   | -20.0                                    |
| 2018A                      | 6582563Q3                | 6/1/2030             | 6/1/2028                               | 5.000%               | 20,000,000                    | Jun-2030                                   | -20.0                                    |
| 2018A                      | 6582563R1                | 6/1/2031             | 6/1/2028                               | 5.000%               | 20,000,000                    | Jun-2031                                   | -27.0                                    |
| 2018A                      | 6582563S9                | 6/1/2032             | 6/1/2028                               | 3.000%               | 20,000,000                    | Jun-2032                                   | 26.0                                     |
| 2018A                      | 6582563T7                | 6/1/2033             | 6/1/2028                               | 3.125%               | 20,000,000                    | Jun-2033                                   | 27.0                                     |
| 2018A                      | 6582563U4                | 6/1/2034             | 6/1/2028                               | 3.000%               | 20,000,000                    | Jun-2034                                   | 23.0                                     |
| 2018A                      | 6582563V2                | 6/1/2035             | 6/1/2028                               | 3.000%               | 20,000,000                    | Jun-2035                                   | 24.0                                     |
| 2018A                      | 6582563W0                | 6/1/2036             | 6/1/2028                               | 3.250%               | 20,000,000                    | Jun-2036                                   | 28.0                                     |
| 2018A                      | 6582563X8                | 6/1/2037             | 6/1/2028                               | 3.250%               | 20,000,000                    | Jun-2037                                   | 27.0                                     |
| 2018A                      | 6582563Y6                | 6/1/2038             | 6/1/2028                               | 3.250%               | 20,000,000                    | Jun-2038                                   | 16.0                                     |
| 2019B                      | 6582564F6                | 6/1/2026             |                                        | 5.000%               | 30,000,000                    | Jun-2026                                   | -15.0                                    |
| 2019B                      | 6582564K5                | 6/1/2030             | 6/1/2029                               | 5.000%               | 30,000,000                    | Jun-2030                                   | -20.0                                    |
| 2019B                      | 6582564L3                | 6/1/2031             | 6/1/2029                               | 4.000%               | 30,000,000                    | Jun-2031                                   | -27.0                                    |
| 2019B                      | 6582564M1                | 6/1/2032             | 6/1/2029                               | 2.000%               | 30,000,000                    | Jun-2032                                   | 47.0                                     |
| 2019B                      | 6582564N9                | 6/1/2033             | 6/1/2029                               | 2.000%               | 30,000,000                    | Jun-2033                                   | 46.0                                     |
| 2019B                      | 6582564P4                | 6/1/2034             | 6/1/2029                               | 3.000%               | 30,000,000                    | Jun-2034                                   | 23.0                                     |
| 2019B                      | 6582564Q2                | 6/1/2035             | 6/1/2029                               | 3.000%               | 30,000,000                    | Jun-2035                                   | 14.0                                     |
| 2019B                      | 6582564R0                | 6/1/2036             | 6/1/2029                               | 2.125%               | 30,000,000                    | Jun-2036                                   | 42.0                                     |
| 2019B                      | 6582564S8                | 6/1/2037             | 6/1/2029                               | 3.000%               | 30,000,000                    | Jun-2037                                   | 5.0                                      |
| 2019B                      | 6582564T6                | 6/1/2038             | 6/1/2029                               | 3.000%               | 30,000,000                    | Jun-2038                                   | 31.0                                     |

|       |           |          |          |        |            |          |       |
|-------|-----------|----------|----------|--------|------------|----------|-------|
| 2019B | 6582564U3 | 6/1/2039 | 6/1/2029 | 3.000% | 30,000,000 | Jun-2039 | 33.0  |
| 2020A | 6582565F5 | 6/1/2031 | 6/1/2030 | 5.000% | 20,000,000 | Jun-2031 | -22.0 |
| 2020A | 6582565G3 | 6/1/2032 | 6/1/2030 | 1.500% | 20,000,000 | Jun-2032 | 84.0  |
| 2020A | 6582565H1 | 6/1/2033 | 6/1/2030 | 1.625% | 20,000,000 | Jun-2033 | 81.0  |
| 2020A | 6582565J7 | 6/1/2034 | 6/1/2030 | 1.625% | 20,000,000 | Jun-2034 | 80.0  |
| 2020A | 6582565K4 | 6/1/2035 | 6/1/2030 | 1.750% | 20,000,000 | Jun-2035 | 78.0  |
| 2020A | 6582565L2 | 6/1/2036 | 6/1/2030 | 1.875% | 20,000,000 | Jun-2036 | 74.0  |
| 2020A | 6582565M0 | 6/1/2037 | 6/1/2030 | 2.000% | 20,000,000 | Jun-2037 | 59.0  |
| 2020A | 6582565N8 | 6/1/2038 | 6/1/2030 | 2.000% | 20,000,000 | Jun-2038 | 61.0  |
| 2020A | 6582565P3 | 6/1/2039 | 6/1/2030 | 1.875% | 20,000,000 | Jun-2039 | 72.0  |

- (1) Purchase Prices will be determined using the methodology set forth under the caption "INTRODUCTION - Determination of Purchase Prices." APPENDIX B contains illustrative Purchase Prices as of October 17, 2025. The actual Purchase Prices will be determined through the methodology set forth under caption "INTRODUCTION - Determination of Purchase Prices." For each CUSIP the calculation of the Purchase Price may be performed to either the maturity date or the optional redemption date at par, in accordance with standard market convention. See APPENDIX C to this Invitation for an overview of the calculation of the Purchase Price (including additional detail regarding the use of optional redemption dates at par in such calculations).
- (2) The Reference Yield will be based on the yield for the applicable Reference BVAL Index, as set forth in the Monthly Value Table as of date and time the Purchase Prices are determined, as shown on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website at the following address:  
<https://emma.msrb.org/ToolsAndResources/BloombergYieldCurve?daily=True>.
- (3) Fixed spreads are shown in basis points and do not include Accrued Interest on the Target Bonds tendered for purchase. Accrued Interest on the Target Bonds tendered and accepted for purchase will be paid by the State to but not including the Settlement Date in addition to the applicable Purchase Price.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the State, the Dealer Manager or the Information Agent and Tender Agent takes any responsibility for the accuracy of such numbers.

## IMPORTANT INFORMATION

*This Invitation and other information with respect to this Invitation are and will be available from BofA Securities, Inc. (the "Dealer Manager") and Globic Advisors (the "Information Agent" and the "Tender Agent") at <http://emma.msrb.org> and [www.globic.com/northcarolina](http://www.globic.com/northcarolina). Bondholders wishing to tender their Target Bonds for purchase pursuant to this Invitation should follow the procedures described in this Invitation. The State, in its sole discretion, reserves the right to (i) cancel or modify this Invitation at any time on or prior to the Expiration Date and (ii) make a future invitation to tender bonds at prices different than the prices described herein. The State will have no obligation to purchase Target Bonds tendered if a cancellation or a modification occurs or if the State is unable to issue the Series 2025C Bonds. The State further reserves the right to accept nonconforming tenders or waive irregularities in any tender. The State also reserves the right in the future to refund (on an advance or current basis) any remaining portion of outstanding Target Bonds through the issuance of publicly offered or privately placed taxable or tax-exempt obligations. The purchase of Target Bonds pursuant to this Invitation is also subject to certain other conditions, including, without limitation, the Financing Conditions that are anticipated to occur after the Expiration Date but prior to the Settlement Date.*

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS INVITATION OR PASSED UPON THE FAIRNESS OR MERITS OF THIS INVITATION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS INVITATION. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

This Invitation is not being extended to, and Target Bonds tendered in response to this Invitation will not be accepted from or on behalf of, Bondholders in any jurisdiction in which this Invitation or such acceptance thereof would not be in compliance with the laws of such jurisdiction. In any jurisdictions where the securities, "blue sky" or other laws require this Invitation to be made through a licensed or registered broker or dealer, this Invitation shall be deemed to be made on behalf of the State through the Dealer Manager or one or more registered brokers or dealers licensed under the laws of that jurisdiction.

References to website addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not a part of, this Invitation.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Invitation, including the appendices hereto, and, if given or made, such information or representation may not be relied upon as having been authorized by the State.

The delivery of this Invitation shall not under any circumstances create any implication that any information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in any attachments hereto or materials delivered herewith or in the affairs of the State, since the date hereof. The information contained in this Invitation is as of the date of this Invitation only and is subject to change, completion, or amendment without notice.

Certain statements included or incorporated by reference into this Invitation constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "forecast," "plan," "expect," "estimate," "budget" or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if or when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur.

This Invitation, including the appendices hereto, contains important information which should be read in its entirety before any decision is made with respect to this Invitation.

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**INVITATION TO TENDER FOR PURCHASE**  
**made by**  
**STATE OF NORTH CAROLINA**

**to the Holders described herein of all or any portion of the maturities listed on Table 1 on page (iii)**  
**herein of the following bond issues (collectively, the "Target Bonds"):**

**State of North Carolina**

- **General Obligation Refunding Bonds, Series 2016A**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2016B**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2018A**
- **General Obligation Public Improvement (Connect NC) Bonds, Series 2019B**
- **Public Improvement (Connect NC) Bonds, Series 2020A**

**INTRODUCTION**

**General; Financing Conditions**

This Invitation to Tender for Purchase, dated October 20, 2025 (as it may be amended or supplemented, including the cover page and Appendices hereto, this "Invitation"), describes an invitation by the State of North Carolina (the "State"), with the assistance of BofA Securities, Inc., as dealer manager (the "Dealer Manager"), to the beneficial owners (the "Holders" or "Bondholders") of the Target Bonds to tender such Target Bonds for purchase by the State for cash at the applicable purchase prices (each, a "Purchase Price") based on the applicable Purchase Yield. The "Purchase Yield" for each Target Bond will be the sum of the yield on the relevant Reference BVAL Index (the "Reference Yield") plus the fixed spread (each, a "Fixed Spread"), as set forth in Table 1 on page (iii) of this Invitation. See "- Determination of Purchase Prices" for a more detailed description of the methodology to be used for the calculation of the Purchase Prices. In addition to the Purchase Price, Bondholders who tender Target Bonds for purchase on the Settlement Date (as defined herein) will receive accrued interest on such Target Bonds up to, but not including, the Settlement Date ("Accrued Interest").

APPENDIX B contains illustrative Purchase Prices as of October 17, 2025. Actual Purchase Prices will be determined using the methodology set forth in "- Determination of Purchase Prices." For each CUSIP the calculation of the Purchase Price may be performed to either the maturity date or the optional redemption date at par, in accordance with standard market convention. See APPENDIX C to this Invitation for an overview of the calculation of the Purchase Prices (including additional detail regarding the use of optional redemption dates at par in such calculations). On or about November 5, 2025, the State will publish the Notice of Purchase Prices, which will set forth the Purchase Price for each respective CUSIP of the Target Bonds.

For certain information concerning the State, see the Preliminary Official Statement dated October 20, 2025 attached hereto as APPENDIX A (the "Series 2025C Bonds POS").

Subject to the terms and conditions of this Invitation, the State will purchase Target Bonds tendered and accepted by the State for purchase on November 19, 2025\*, unless earlier terminated or extended by the State, assuming all conditions to such purchase have then been satisfied or waived by the State (such date being the "Settlement Date"), provided that such Target Bonds have been validly tendered for purchase by the Expiration Date (as defined herein). Bondholders who tender Target Bonds for purchase on the Settlement Date also will receive Accrued Interest on such Target Bonds to but not including the Settlement Date. Subject to the terms and conditions of this Invitation, on the Settlement Date the State will purchase Target Bonds tendered for purchase, provided that such Target Bonds tendered for purchase have been validly tendered by 5:00 p.m., New York City time, on November 3, 2025 (as extended from time to time in accordance with this Invitation, the

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\* Preliminary, subject to change.

"Expiration Date") and accepted by the State on or before 5:00 p.m., New York City time, on November 6, 2025 (the "Acceptance Date"), unless earlier terminated or extended by the State, assuming all conditions to the purchase of Target Bonds tendered for purchase have then been satisfied or waived by the State. Bondholders who tender Target Bonds for purchase on the Settlement Date also will receive Accrued Interest on such Target Bonds.

The source of funds to purchase the Target Bonds validly tendered and accepted for purchase by the State will be limited to (a) proceeds of bonds of the State issued for such purpose (the "Series 2025C Bonds"), which are anticipated to be issued on the Settlement Date and (b) other available funds of the State. The Series 2025C Bonds will be issued in the manner, on the terms and with the security therefor described in the Series 2025C Bonds POS. The source of funds for payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase by the State will be legally available moneys of the State.

**As set forth herein, the State's obligation to accept for purchase Target Bonds validly tendered (and not validly withdrawn) pursuant to this Invitation is subject to the State determining in its reasonable discretion that it will receive sufficient economic benefit as a result of market conditions, actual level of participation by holders of the Target Bonds, or any other factors not within the sole control of the State, all on terms and conditions that are in the State's best interest, from the purchase of Target Bonds, and is also subject to the terms of this Invitation and certain other conditions as described herein, including the rights of the State to terminate this Invitation as described in "TERMS OF THE INVITATION - Conditions to Purchase" herein (collectively, the "Financing Conditions"). In addition, the State may elect to purchase less than all of the tendered Target Bonds in order to maximize the economic benefits of the transaction. To the extent the State has other funds intended for the purchase of Target Bonds (either for economic benefit or debt reduction), the State's obligation to accept for purchase Target Bonds validly tendered (and not validly withdrawn) pursuant to this Invitation is further subject to the State having sufficient other funds intended for such purchase. See "INTRODUCTION - Sources of Funds to Purchase Target Bonds and Pay Accrued Interest" below.**

The State reserves the right, subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, at any time prior to the Expiration Date or from time to time, in its sole discretion. This Invitation may be withdrawn by the State at any time prior to the Expiration Date.

**TO MAKE AN INFORMED DECISION AS TO WHETHER, AND HOW, TO TENDER THEIR TARGET BONDS FOR PURCHASE, BONDHOLDERS MUST READ THIS INVITATION AND ALL APPENDICES TO THIS INVITATION.**

None of the State, the Dealer Manager or the Information Agent and Tender Agent (as defined herein) makes any recommendation that any Bondholder tender or refrain from tendering all or any portion of such Bondholder's Target Bonds for purchase. Bondholders must make their own decisions and should read this Invitation carefully and consult with their broker, account executive, financial advisor, attorney and/or other appropriate professional in making these decisions.

In the event all conditions to this Invitation are not satisfied or waived by the State on or prior to the Settlement Date, any Target Bonds tendered pursuant to this Invitation shall be returned to the applicable Holders.

**HOLDERS OF TARGET BONDS TENDERED PURSUANT TO THIS INVITATION BUT NOT ACCEPTED BY THE STATE FOR PURCHASE WILL CONTINUE TO HOLD SUCH TARGET BONDS AND SUCH TARGET BONDS WILL REMAIN OUTSTANDING. THE STATE RESERVES THE RIGHT TO, AND MAY DECIDE TO, REFUND (ON AN ADVANCE OR CURRENT BASIS) SOME OR ALL OF THE TARGET BONDS NOT PURCHASED PURSUANT TO THIS INVITATION THROUGH THE ISSUANCE OF PUBLICLY-OFFERED OR PRIVATELY-PLACED TAXABLE OR TAX-EXEMPT OBLIGATIONS OF THE STATE. See "INTRODUCTION - Target Bonds Not Tendered for Purchase" and "ADDITIONAL CONSIDERATIONS" herein.**

## Determination of Purchase Prices

The Purchase Price applicable to each CUSIP of the Target Bonds will be calculated on November 5, 2025 at approximately 10:00 a.m., New York City time.

On November 5, 2025, following the calculation of the Purchase Prices, the State will publish the Notice of Purchase Prices, which Notice of Purchase Prices will set forth the Purchase Prices for each respective CUSIP of the Target Bonds. The Notice of Purchase Prices will be made available: (i) on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website, currently located at <http://emma.msrb.org> (the "EMMA Website"), using the CUSIP numbers for the Target Bonds listed in Table 1 on page (iii) of this Invitation; (ii) to DTC (as defined herein) and to the DTC participants holding the Target Bonds; and (iii) by posting electronically on the website of the Information Agent at [www.globic.com/northcarolina](http://www.globic.com/northcarolina).

The applicable Purchase Price payable by the State for each \$1,000 principal amount of each CUSIP of Target Bonds validly tendered at or prior to the Expiration Date, and accepted by the State pursuant to this Invitation on or prior to the Acceptance Date, will be determined in accordance with standard market practice, as described in this Invitation. The applicable Purchase Prices will be equal to (such price being truncated to the nearest cent per \$1,000 principal amount):

(a) the present value on the Settlement Date, as determined on date and at the time the Purchase Prices are calculated, of \$1,000 principal amount of such Target Bonds due on the maturity date of such Target Bonds<sup>1</sup>, or, if applicable and as described below, the optional redemption date at par (also referred to herein as the "par call date") of such Target Bonds, and all scheduled interest payments on such principal amount of Target Bonds to be made from (but excluding) the Settlement Date, up to and including such maturity date or par call date, discounted to the Settlement Date in accordance with standard market practice as described by the formula set forth in APPENDIX C to this Invitation, at a discount rate equal to the applicable Purchase Yield (as calculated in the following paragraph), minus

(b) the applicable Accrued Interest per \$1,000 principal amount of such Target Bonds.

The Purchase Yield will be equal to the sum of:

(a) the Reference Yield, the yield on the indicated reference month and year (the "Reference BVAL Index") for the BVAL AAA Callable Municipal Curve (set forth in Table 1 on page (iii) of this Invitation) as set forth in the Monthly Value Table as of date and time of the calculation of the Purchase Prices, as shown on the EMMA Website at the following address: <https://emma.msrb.org/ToolsAndResources/BloombergYieldCurve?daily=True> and accessed by the link to Monthly Value Table. The Reference BVAL Index for each Target Bond will be the month and year of the Maturity Date for such Target Bond, and

(b) the applicable Fixed Spread specified on Table 1 on page (iii) of this Invitation for each CUSIP of the Target Bonds.

For any Target Bond, if the stated interest rate on a Target Bond is less than the applicable Purchase Yield, then the calculation will assume that the payment of such Target Bond is through the Maturity Date of such Target Bond, and if the stated interest rate on a Target Bond is greater than the applicable Purchase Yield, then the calculation will assume that the payment of such Target Bond is through the par call date of such Target Bond. Promptly after the Purchase Prices are determined, the State will issue the Notice of Purchase Prices.

In addition to the Purchase Price, Holders whose Target Bonds are accepted for purchase will receive Accrued Interest equal to the accrued and unpaid interest on such Target Bonds from and including the

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<sup>1</sup> Term Bonds priced to their Maturity Date are priced as if the entire principal amount of such Term Bonds is paid on the applicable Maturity Date for such Term Bonds and sinking fund installments for such Term Bonds are disregarded.

immediately preceding interest payment date for such Target Bonds to, but excluding, the Settlement Date. Such Accrued Interest will be calculated in accordance with the terms of such Target Bonds. For the avoidance of doubt, Accrued Interest will cease to accrue on the Settlement Date for all Target Bonds accepted and purchased by the State. Under no circumstances will any interest be payable because of any delay in the transmission of funds to Holders by DTC or its participants.

#### **Sources of Funds to Purchase Target Bonds and Pay Accrued Interest**

The source of funds to purchase the Target Bonds validly tendered and accepted for purchase by the State pursuant to this Invitation will be limited to the proceeds of the Series 2025C Bonds and other available funds of the State. The payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase by the State pursuant to this Invitation will be made with legally available moneys of the State.

The State may use up to \$100 million of cash, in addition to the proceeds of the Series 2025C Bonds, to purchase Target Bonds tendered pursuant to this Invitation. Portions of such cash are dedicated to specific series of the Target Bonds and may only be used to purchase such Target Bonds of such series tendered for purchase.

**THE AVAILABILITY OF PROCEEDS OF THE SERIES 2025C BONDS FOR THE PURCHASE OF ANY TARGET BONDS TENDERED PURSUANT TO THIS INVITATION IS CONTINGENT ON THE AVAILABILITY OF OTHER FUNDS OF THE STATE FOR SUCH PURCHASE AND THE ISSUANCE BY THE STATE OF THE SERIES 2025C BONDS, THE ISSUANCE OF WHICH IS SUBJECT TO CONDITIONS TO BE SATISFIED ON OR PRIOR TO THE SETTLEMENT DATE.**

#### **Brokerage Commissions and Solicitation Fees**

Bondholders will not be obligated to pay any brokerage commissions or solicitation fees to the State, the Dealer Manager, or the Information Agent and Tender Agent in connection with this Invitation. However, Bondholders should check with their broker, bank, account executive or other financial institution which maintains the account in which their Target Bonds are held (their "Financial Representative") to determine whether it will charge any commissions or fees.

#### **Target Bonds Not Tendered for Purchase**

Any Target Bonds that are not tendered for purchase in response to this Invitation will continue to be outstanding, and payable and secured, pursuant to their terms. THE STATE RESERVES THE RIGHT TO, AND MAY DECIDE TO, REFUND (ON AN ADVANCE OR CURRENT BASIS) SOME OR ALL OF THE TARGET BONDS NOT PURCHASED PURSUANT TO THIS INVITATION THROUGH THE ISSUANCE OF PUBLICLY-OFFERED OR PRIVATELY-PLACED TAXABLE OR TAX-EXEMPT OBLIGATIONS OF THE STATE. See "ADDITIONAL CONSIDERATIONS" herein.

The purchase by the State of Target Bonds of any CUSIP may have certain potential adverse effects on holders of Target Bonds not purchased pursuant to this Invitation, including the principal amount of the Target Bonds of such CUSIP available to trade publicly will be reduced, which could adversely affect the liquidity and market value of any Target Bonds of that CUSIP that remain outstanding.

#### **Dealer Manager, Information Agent and Tender Agent**

BofA Securities, Inc. is the Dealer Manager for this Invitation. Investors with questions about this Invitation should contact the Dealer Manager or Globic Advisors, which serves as Information Agent and Tender Agent (the "Information Agent" or the "Tender Agent") for this Invitation, at the addresses and telephone numbers set forth in "MISCELLANEOUS." See "DEALER MANAGER" and "INFORMATION AGENT AND TENDER AGENT" herein.

## **TERMS OF THE INVITATION**

### **Expiration Date**

This Invitation will expire on the Expiration Date, unless earlier terminated or extended, as described in this Invitation. In the sole discretion of the State, Target Bonds tendered after 5:00 p.m., New York City time, on the Expiration Date and prior to the acceptance of tenders by the State on the Acceptance Date as described below under the heading "- Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results" may be accepted by the State for purchase. See "- Extension, Termination and Amendment of the Invitation; Changes to Terms" below for a discussion of the State's ability to extend the Expiration Date and to terminate or amend this Invitation.

### **Tenders Only Through the State's ATOP Account**

The Target Bonds are held in book-entry-only form through the facilities of The Depository Trust Company ("DTC"). The State, through the Information Agent and Tender Agent, will establish an Automated Purchase Offer Program ("ATOP") account at DTC for this Invitation. Bondholders who wish to tender their Target Bonds for purchase pursuant to this Invitation may do so through the State's ATOP account.

**ALL TENDERS FOR PURCHASE MUST BE MADE THROUGH THE STATE'S ATOP ACCOUNT. THE STATE WILL NOT ACCEPT ANY TENDERS FOR PURCHASE THAT ARE NOT MADE THROUGH ITS ATOP ACCOUNT. LETTERS OF TRANSMITTAL ARE NOT BEING USED IN CONNECTION WITH THIS INVITATION.**

Any financial institution that is a participant in DTC may make a book-entry tender of the Target Bonds by causing DTC to transfer such Target Bonds into the State's ATOP account relating to this Invitation in accordance with DTC's procedures for such transfer. Bondholders who are not DTC participants can only tender Target Bonds pursuant to this Invitation by making arrangements with and instructing their Financial Representative to tender the Bondholder's Target Bonds through the State's ATOP account. To ensure a Bondholder's Target Bonds are tendered to the State's ATOP account by 5:00 p.m., New York City time, on the Expiration Date, the Bondholder must provide instructions to the Bondholder's Financial Representative in sufficient time for the Financial Representative to tender the Target Bonds to the State's ATOP account by this deadline. A Bondholder should contact its Financial Representative for information as to when the Financial Representative needs the Bondholder's instructions in order to tender the Bondholder's Target Bonds to the State's ATOP account by 5:00 p.m., New York City time, on the Expiration Date. See "- Tender of Target Bonds by Financial Institutions; State's ATOP Account."

The State, the Dealer Manager, and the Information Agent and Tender Agent are not responsible for the transfer of any tendered Target Bonds to the State's ATOP account or for any mistakes, errors or omissions in the transfer of any tendered Target Bonds.

### **Information to Bondholders**

**The State may give information about this Invitation to the market and Bondholders by posting such information to the EMMA Website against the CUSIPs for the Target Bonds, which institution, together with the Information Agent are collectively referred to herein as the "Information Services." The Information Agent will deliver information provided to it by the State through its website, [www.globic.com/northcarolina](http://www.globic.com/northcarolina). Delivery by the State of information to the Information Services will be deemed to constitute delivery of this information to each Bondholder.**

**The Dealer Manager and the Information Agent and Tender Agent have no obligation to ensure that a Bondholder actually receives any information given to the Information Services.**

Bondholders who would like to receive information transmitted by or on behalf of the State to the Information Services may receive such information from the Dealer Manager or the Information Agent and Tender Agent by contacting them using the contact information set forth in "MISCELLANEOUS" or by making appropriate arrangements with its Financial Representative or directly with the Information Services.

Any updates to this Invitation, including, without limitation any supplements to the Series 2025C Bonds POS, will be distributed through the Information Services. The final Official Statement with respect to the Series 2025C Bonds will be posted to the EMMA Website against the CUSIPs for the Target Bonds subsequent to the Acceptance Date and prior to the Settlement Date.

### **Priority of Allocation to Series 2025C Bonds**

The State has advised BofA Securities Inc., as representative of the underwriters (the "Representative") for the Series 2025C Bonds, that any Holder who tenders Target Bonds for purchase pursuant to this Invitation and who submits an order to purchase any Series 2025C Bonds may, subject to certain limitations, have a preference of allocation of the Series 2025C Bonds up to the principal amount of the Target Bonds that such Bondholder is tendering for purchase. The Representative has the discretion to accept orders outside of the State's advised priorities if it determines that it is in the best interests of the underwriters of the Series 2025C Bonds, as provided in the rules of the Municipal Securities Rulemaking Board. The State also has the discretion to alter its advised priorities.

### **Minimum Denominations and Consideration**

A Bondholder may tender Target Bonds for purchase of a particular CUSIP that it owns in an amount of its choosing, but in a principal amount equal to the minimum denomination of \$5,000 (the "Minimum Authorized Denomination") or any integral multiple of \$5,000 in excess thereof only.

The Notice of Results, which will provide the principal amount of Target Bonds of each CUSIP which were tendered for purchase by holders of the Target Bonds, will be made available by the State on or about November 4, 2025: (i) on the EMMA Website, using the CUSIP numbers for the Target Bonds listed in Table 1 on page (iii) in this Invitation; (ii) to DTC and to the DTC participants holding the Target Bonds; and (iii) by posting electronically on the website of the Information Agent at [www.globic.com/northcarolina](http://www.globic.com/northcarolina).

### **Accrued Interest**

The Purchase Price of the Target Bonds will not include Accrued Interest. In addition to the Purchase Prices of the Target Bonds accepted for purchase by the State, Accrued Interest on such Target Bonds will be paid by, or on behalf of, the State to the tendering Bondholders on the Settlement Date. The source of funds for payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase by the State will be from legally available moneys of the State.

### **Provisions Applicable to Tenders**

***Need for Advice.*** A Bondholder should ask its Financial Representative or financial advisor for help in determining: (a) whether to tender Target Bonds of a particular CUSIP for purchase, and (b) the principal amount of Target Bonds of such CUSIP to be tendered. A Bondholder also should inquire as to whether its Financial Representative or financial advisor will charge a fee for submitting tenders if the State purchases the Bondholder's tendered Target Bonds. The State, the Dealer Manager, and the Information Agent and Tender Agent will not charge any Bondholder for tendering Target Bonds.

***Need for Specificity of Tender.*** A tender cannot exceed the par amount of Target Bonds owned by the Bondholder and must include the following information: (1) the CUSIP number(s) of the Target Bond(s) being tendered, and (2) the principal amount of each CUSIP being tendered (such principal amount must be stated in Minimum Authorized Denomination and if not so stated, for tenders of less than all of the Holder's position in

the Target Bonds, such principal amount will be reduced to the greatest integral multiple of \$5,000). Any Bondholder located outside of the United States should check with their broker to determine if there any additional minimal increments, alternative settlement timing or other limitations.

"All or none" tenders are not permitted.

Target Bonds may be tendered for payment only in principal amounts equal to the Minimum Authorized Denomination and integral multiples of \$5,000 in excess thereof. Holders who tender less than all of their Target Bonds must continue to hold their Target Bonds in at least the Minimum Authorized Denomination and integral multiples of \$5,000 in excess thereof. No alternative, conditional or contingent tenders will be accepted.

**ALL TENDERS FOR PURCHASE MUST BE MADE THROUGH THE STATE'S ATOP ACCOUNT. THE STATE WILL NOT ACCEPT ANY TENDERS FOR PURCHASE THAT ARE NOT MADE THROUGH ITS ATOP ACCOUNT. LETTERS OF TRANSMITTAL ARE NOT BEING USED IN CONNECTION WITH THIS INVITATION.** See "- Tender of Target Bonds by Financial Institutions; State's ATOP Account."

**General.** A Bondholder may only tender Target Bonds it owns or controls. By tendering Target Bonds pursuant to this Invitation, a Bondholder will be deemed to have represented and agreed with the State as set forth below under "- Representations by Tendering Bondholders to the State." All tenders shall survive the death or incapacity of the tendering Bondholder.

Bondholders who would like to receive information furnished by the State to the Information Services can review the EMMA Website for the CUSIPs for the Target Bonds or may receive such information from the Dealer Manager or the Information Agent and Tender Agent by contacting them using the contact information set forth in "MISCELLANEOUS" or by making appropriate arrangements with its Financial Representative or directly with the Information Services.

#### **Representations by Tendering Bondholders to the State**

By tendering Target Bonds for purchase, each tendering Bondholder will be deemed to have represented to and agreed with the State that:

(a) the Bondholder has received this Invitation and the Series 2025C Bonds POS and has had the opportunity to review this Invitation and the Series 2025C Bonds POS prior to making its decision to tender Target Bonds, and agrees if the purchase of any tendered Target Bonds is consummated, the purchase of such Target Bonds shall be on the terms and conditions set forth in this Invitation;

(b) the Bondholder has full power and authority to tender, sell, assign and transfer the tendered Target Bonds; and on the Settlement Date, the State will acquire good, marketable and unencumbered title thereto, free and clear of all liens, charges, encumbrances, conditional sales agreements or other obligations and not subject to any adverse claims, subject to payment to the Bondholder of the applicable Purchase Price(s) plus Accrued Interest;

(c) the Bondholder has made its own independent decision to tender its Target Bonds for purchase pursuant to this Invitation, and as to the terms thereof, and such decision is based upon the Bondholder's own judgment and upon advice from such advisors with whom the Bondholder has determined to consult;

(d) the Bondholder is not relying on any communication from the State, the Dealer Manager or the Information Agent and Tender Agent as investment advice or as a recommendation to tender the Bondholder's Target Bonds at the applicable Purchase Price, it being understood that the information from the State, the Dealer Manager and the Information Agent and Tender Agent related to the terms and conditions of this Invitation made pursuant to this Invitation shall not be considered investment advice or a recommendation to tender Target Bonds; and

(e) the Bondholder is capable of assessing the merits of and understanding (on its own and/or through independent professional advice), and does understand, agree and accept, the terms and conditions of this Invitation.

#### **Tender of Target Bonds by Financial Institutions; State's ATOP Account**

The State, through the Information Agent and Tender Agent, will establish the State's ATOP account at DTC for this Invitation promptly after the date of this Invitation. Any financial institution that is a participant in DTC may make a book-entry tender of the Target Bonds by causing DTC to transfer such Target Bonds into the State's ATOP account corresponding to this Invitation in accordance with DTC's procedures.

Concurrently with the delivery of Target Bonds through book-entry transfer into the State's ATOP account, an Agent's Message (as described below) in connection with such book-entry transfer must be transmitted to and received at the State's ATOP account by not later than 5:00 p.m., New York City time, on the Expiration Date, *provided, however*, a tender of Target Bonds related to an Agent's Message transmitted to the State's ATOP account after such time may be accepted by the State for purchase if the State, in its sole discretion, waives the defect in the timing of the delivery of such message. The confirmation of a book-entry transfer to the State's ATOP account as described above is referred to herein as a "Book-Entry Confirmation." The term "Agent's Message" means a message transmitted by DTC to, and received by, the Information Agent and Tender Agent and forming a part of a Book-Entry Confirmation which states that DTC has received an express acknowledgment from the DTC participant tendering Target Bonds that are the subject of such Book-Entry Confirmation, stating the CUSIP number(s) and the principal amount(s) of the Target Bonds that have been tendered by such participant pursuant to this Invitation, and to the effect that such participant agrees to be bound by the terms of this Invitation. By causing DTC to transfer Target Bonds into the State's ATOP account, a financial institution warrants to the State that it has full authority, and has received from the Bondholder(s) of such Target Bonds all direction necessary, to tender, transfer and sell such Target Bonds as set forth in this Invitation.

**ALL TENDERS FOR PURCHASE MUST BE MADE THROUGH THE STATE'S ATOP ACCOUNT. THE STATE WILL NOT ACCEPT ANY TENDERS FOR PURCHASE THAT ARE NOT MADE THROUGH ITS ATOP ACCOUNTS. LETTERS OF TRANSMITTAL ARE NOT BEING USED IN CONNECTION WITH THIS INVITATION.**

Bondholders who are not DTC participants can only tender Target Bonds pursuant to this Invitation by making arrangements with and instructing their Financial Representative to tender the Bondholder's Target Bonds through the State's ATOP account. To ensure a Bondholder's Target Bonds are tendered to the State's ATOP account by 5:00 p.m., New York City time, on the Expiration Date, a Bondholder must provide instructions to its Financial Representative in sufficient time for the Financial Representative to tender the Bondholder's Target Bonds to the State's ATOP account by this deadline. A Bondholder should contact its Financial Representative for information as to when the Financial Representative needs the Bondholder's instructions in order to tender the Bondholder's Target Bonds to the State's ATOP account by 5:00 p.m., New York City time, on the Expiration Date.

#### **Determinations as to Form and Validity of Tenders; Right of Waiver and Rejection**

All questions as to the validity (including the time of receipt at the State's ATOP account), form, eligibility and acceptance of any Target Bonds tendered for purchase pursuant to this Invitation will be determined by the State in its sole discretion and such determinations will be final, conclusive and binding.

The State reserves the right to accept nonconforming tenders or waive any irregularities in any tender. The State, the Dealer Manager, and the Information Agent and Tender Agent are not obligated to give notice of the acceptance of any nonconforming tenders or the waivers of any irregularities in tenders and they will have no liability for failing to give such notice.



The State reserves the absolute right to reject any and all tenders, whether or not they comply with the terms of this Invitation.

#### **Amendment or Withdrawals of Tenders Prior to the Expiration Date**

A Bondholder may withdraw the Target Bonds tendered for purchase pursuant to this Invitation by causing a withdrawal notice to be transmitted via DTC's ATOP system to, and received by, the Information Agent and Tender Agent before 5:00 p.m., New York City time, on the Expiration Date.

Bondholders who are not DTC participants can only withdraw their tendered Target Bonds by making arrangements with and instructing the custodial intermediary through which they hold their Target Bonds to submit the Bondholder's notice of withdrawal through DTC's ATOP system.

All tenders of the Target Bonds for purchase will become irrevocable as of 5:00 p.m., New York City time, on the Expiration Date. See "—Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results."

A notice of withdrawal must be submitted in substantially the same manner as an initial tender of Target Bonds.

**Bondholders who have tendered their Target Bonds will not receive any information from the State, the Dealer Manager or the Information Agent and Tender Agent concerning tenders by other Bondholders. Offering Bondholders will not be afforded an opportunity to amend their tender after 5:00 p.m., New York City time, on the Expiration Date. An amended or withdrawn tender must specify the applicable CUSIP number, the principal amount previously tendered and the new amount being tender, if any. All questions as to the validity (including the time of receipt) of an amendment or withdrawal will be determined by the State in its sole discretion and will be final, conclusive and binding.**

Tenders of Target Bonds may be withdrawn prior to 5:00 p.m., New York City time, on the Expiration Date. **ALL TENDERS OF TARGET BONDS SHALL BE IRREVOCABLE AT 5:00 P.M. , NEW YORK CITY TIME, ON THE EXPIRATION DATE.**

#### **Acceptance of Tenders for Purchase**

On the Acceptance Date, upon the terms and subject to the conditions of this Invitation, the State will publish a Notice of Acceptance (the "Notice of Acceptance") which identifies the outstanding Target Bonds validly tendered pursuant to this Invitation (or defectively tendered, if such defect has been waived by the State) it has elected to accept for purchase, with acceptance subject to the satisfaction or waiver by the State of the conditions to the purchase of tendered Target Bonds. See "- Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results" and "- Conditions to Purchase."

The State will have no obligation to purchase Target Bonds tendered if a cancellation or a modification occurs or if the State is unable to issue the Series 2025C Bonds or the State does not have sufficient other funds intended for such purchase. **In addition, as set forth herein, the State's obligation to accept for purchase, Target Bonds validly tendered (and not validly withdrawn) pursuant to this Invitation are subject to the State determining in its reasonable discretion that it will receive sufficient economic benefit as a result of market conditions, actual level of participation by holders of the Target Bonds, or any other factors not within the sole control of the State, all on terms and conditions that are in the State's best interest, from the purchase of Target Bonds, and is also subject to the terms of this Invitation and certain other Financing Conditions, including the rights of the State to terminate this Invitation as described in "- Conditions to Purchase" herein. In addition, the State may elect to purchase less than all of the Target Bonds in order to maximize the economic benefits of the transaction.**

The State in its sole discretion will select which, if any, Target Bonds to purchase of a particular CUSIP based on its determination of the economic benefit from such purchase. Should the State choose to purchase some but not all of the tendered Target Bonds of a particular CUSIP, the State will accept those tendered Target Bonds on a pro rata basis reflecting the ratio of (a) the principal amount, if any, the State determines to purchase to (b) the aggregate principal amount of valid offers to sell received. In such event, should the principal amount of any individual tender offer, when adjusted by the pro rata acceptance, result in an amount that is not a multiple of the Minimum Authorized Denomination, the principal amount of such offer will be rounded up to the nearest multiple of \$5,000. The pro rata calculation will take into consideration the rounding procedure.

**Notwithstanding any other provision of this Invitation, the consummation of this Invitation and the State's obligation to accept for purchase, and to pay for, Target Bonds validly tendered (and not validly withdrawn) pursuant to this Invitation are subject to the satisfaction of or waiver of the conditions set forth in "—Conditions to Purchase" herein. The State reserves the right, subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, at any time prior to the Expiration Date or from time to time, in its sole discretion. This Invitation may be withdrawn by the State at any time prior to the Expiration Date.**

#### **Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results**

Acceptance by the State of Target Bonds tendered for purchase will constitute an irrevocable agreement between the offering Bondholder and the State to sell and purchase such Target Bonds, subject to satisfaction of all conditions to the State's obligation to purchase, tendered Target Bonds and the other terms of this Invitation. See "- Minimum Denominations and Consideration" and "- Conditions to Purchase" herein.

On November 4, 2025, unless such date is extended by the State, the State will provide a Notice of Results. The notification will state the principal amount of Target Bonds of each CUSIP which were tendered for purchase by holders of the Target Bonds.

The acceptance of Target Bonds tendered for purchase is expected to be made by notification to the Information Services no later than 5:00 p.m., New York City time, on the Acceptance Date, unless such date is earlier terminated or extended by the State. This notification will state the principal amount of the Target Bonds of each CUSIP that the State has agreed to purchase, in accordance with this Invitation, which may be zero for a particular CUSIP.

Following the publication of the Notice of Acceptance, all Target Bonds that were tendered but were not accepted for purchase will be released and returned to the tendering institution in accordance with DTC's ATOP procedures. The State, the Dealer Manager, and the Information Agent and Tender Agent are not responsible or liable for the operation of the ATOP system by DTC to properly credit such released Target Bonds to the applicable account of the DTC participant or custodial intermediary or by such DTC participant or custodial intermediary for the account of the Bondholder.

#### **Settlement Date; Purchase of Target Bonds**

Subject to satisfaction of all conditions to the State's obligation to purchase tendered Target Bonds, as applicable and as described herein, the Settlement Date is the day on which Target Bonds accepted for purchase will be purchased at the applicable Purchase Price(s) together with Accrued Interest thereon. The Settlement Date will occur following the Acceptance Date, subject to all conditions to this Invitation having been satisfied or waived by the State. The expected Settlement Date is November 19, 2025, unless earlier terminated or extended by the State, assuming all conditions to this Invitation have been satisfied or waived by the State. Bondholders whose Target Bonds are accepted for purchase on the Settlement Date will receive Accrued Interest.

The State may, in its sole discretion, change the Settlement Date by giving notice to the Information Services prior to the change. See "— Conditions to Purchase."

Subject to satisfaction of all conditions to the State's obligation to purchase Target Bonds tendered for purchase pursuant to this Invitation, as described herein, payment by the State, or on the State's behalf, will be made in immediately available funds on the Settlement Date by deposit with DTC of the aggregate Purchase Price and Accrued Interest on the Target Bonds accepted for purchase. The State expects that, in accordance with DTC's standard procedures, DTC will transmit the aggregate Purchase Price (plus Accrued Interest) in immediately available funds to each of its participant financial institutions holding the Target Bonds accepted for purchase on behalf of Bondholders for delivery to the Bondholders. **The State, the Dealer Manager, and the Information Agent and Tender Agent have no responsibility or liability for the distribution of the Purchase Prices plus Accrued Interest by DTC to the Bondholders.**

### **Purchase and Accrued Interest Funds**

The source of funds to pay the Purchase Price of the Target Bonds validly tendered and accepted for purchase by the State pursuant to this Invitation is anticipated to be proceeds of the Series 2025C Bonds. The source of funds for payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase by the State pursuant to this Invitation will be from legally available moneys of the State. The purchase of any Target Bonds tendered pursuant to this Invitation is contingent on the issuance by the State of the Series 2025C Bonds and the availability of other available funds of State for such purchase, as well as certain other conditions which must be satisfied on or prior to the Settlement Date. See "- Conditions to Purchase" herein for more information on the conditions precedent to this Invitation.

### **Conditions to Purchase**

If, after the Acceptance Date, but prior to payment for Target Bonds accepted by the State on the Settlement Date, any of the following events should occur, the State will have the absolute right to cancel its obligations to purchase Target Bonds without any liability to any Bondholder (collectively, the "Financing Conditions"):

- Litigation or another proceeding is pending or threatened which the State reasonably believes may, directly or indirectly, have an adverse impact on this Invitation or the expected benefits of this Invitation to the State or the Bondholders;
- A war, national emergency, banking moratorium, suspension of payments by banks, a general suspension of trading by the New York Stock Exchange or a limitation of prices on the New York Stock Exchange exists and the State reasonably believes this fact makes it inadvisable to proceed with the purchase of Target Bonds;
- If for any reason, the Series 2025C Bonds are not issued or the State does not have sufficient other funds intended for such purchase (see "INTRODUCTION - Sources of Funds to Purchase Target Bonds and Pay Accrued Interest" below); or
- A material disruption in securities settlement, payment or clearance services.

These Financing Conditions are for the sole benefit of the State and may be asserted by the State, prior to the time of payment of the Target Bonds it has agreed to purchase, regardless of the circumstances giving rise to any of these conditions, or may be waived by the State in whole or in part at any time and from time to time in its discretion, and may be exercised independently for each CUSIP. The failure by the State at any time to exercise any of these rights will not be deemed a waiver of any of these rights, and the waiver of these rights with respect to particular facts and other circumstances will not be deemed a waiver of these rights with respect to any other facts and circumstances. Each of these rights will be deemed an ongoing right of the State which may be asserted at any time and from time to time prior to the time of payment of the Target Bonds it has agreed to purchase. Any determination by the State concerning the events described in this section will be final and binding upon all parties.

Any tendered Target Bonds not purchased as a result of a failure to satisfy the Financing Conditions may now or in the future be refunded by the State and at any time in the future Bondholders may be invited to tender such Target Bonds for purchase by the State in its sole discretion.

#### **Extension, Termination and Amendment of the Invitation; Changes to Terms**

Through and including the Expiration Date, the State has the right to extend this Invitation, as to any or all of the Target Bonds, to any date in its sole discretion, provided that a notice of any extension of the Expiration Date is given to the Information Services, including by posting such notice to the EMMA Website against the CUSIPs for the Target Bonds, on or about 9:00 a.m., New York City time, on the first business day after the Expiration Date.

The State also has the right, prior to acceptance of Target Bonds tendered for purchase as described above under the heading "—Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results," to terminate this Invitation at any time by giving notice to the Information Services. The termination will be effective at the time specified in such notice.

The State also has the right, prior to acceptance of Target Bonds tendered for purchase as described above under the heading "—Acceptance of Tenders Constitutes Irrevocable Agreement; Notice of Results," to amend or waive the terms of this Invitation in any respect and at any time by giving notice to the Information Services. This amendment or waiver will be effective at the time specified in such notice.

If the State extends this Invitation, or amends the terms of this Invitation to change the consideration offered for the Bonds, including, without limitation, a change in the Purchase Price of the Target Bonds pursuant to this Invitation, the State shall provide notice thereof no less than five (5) business days prior to the Expiration Date, as extended. **In such event, any tenders submitted with respect to the affected Target Bonds prior to such change in the Purchase Price for such Target Bonds pursuant to this Invitation will remain in full force and effect and any Bondholder of such affected Target Bonds wishing to revoke their tender of such Target Bonds must affirmatively withdraw such tender prior to the Expiration Date.** See "—Amendment or Withdrawals of Tenders Prior to the Expiration Date."

If the State amends the terms of this Invitation (other than any term that relates to the consideration offered for the Target Bonds), which amendment may include a waiver of any term, in any material respect, notice of such amendment or waiver will be given no later than three (3) business days before the Expiration Date, as extended to provide reasonable time for dissemination of such amendment or waiver to Holders and for Holders to respond.

No extension, termination or amendment of this Invitation (or waiver of any terms of this Invitation) will change the State's right to decline to purchase any Target Bonds without liability. See "- Conditions to Purchase."

The State, the Dealer Manager and the Information Agent and Tender Agent have no obligation to ensure that a Bondholder actually receives any information given to the Information Services.

#### **AVAILABLE INFORMATION**

Certain information relating to the Target Bonds and the State may be obtained by contacting the Dealer Manager or Information Agent and Tender Agent at the contact information set forth under "MISCELLANEOUS". Such information is limited to this Invitation, including the information set forth in the Series 2025C Bonds POS which is attached hereto as APPENDIX A.

## ADDITIONAL CONSIDERATIONS

*None of the State, the Dealer Manager or the Information Agent and Tender Agent make any recommendation that any Bondholder tender or refrain from tendering all or any portion of the Target Bonds. Each Bondholder must make its decision and should read this Invitation and the Series 2025C Bonds POS and consult with its broker, account executive, financial advisor and/or other financial professional in making such decision.*

In deciding whether to participate in this Invitation, each Bondholder should consider carefully, in addition to the other information contained in this Invitation, the following:

- In the event that the Series 2025C Bonds are not issued and sold, tendered Target Bonds accepted for purchase are not required to be purchased by the State and in such event, Bondholders will continue to hold their respective tendered Target Bonds.
- Even if the State does not purchase any tendered Target Bonds, the State shall have the right now or in the future to refund all or any portion of the tendered Target Bonds or may in the future invite Bondholders to tender such tendered Bonds for purchase by the State.

### **The State May Later Acquire Target Bonds at More Favorable Prices Than Those Offered Pursuant to this Invitation**

The State reserves the right to, and may in the future decide to, acquire some or all of the Target Bonds not purchased pursuant to this Invitation through open market purchases, privately negotiated transactions, subsequent purchase offers, exchange offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the consideration offered pursuant to this Invitation set forth in this Invitation, which could be cash or other consideration. Any future acquisition of Target Bonds may be on the same terms or on terms that are more or less favorable to Bondholders than the terms of this Invitation. The decision to make future purchases by the State and the terms of such future transactions will depend on various factors existing at that time. There can be no assurance as to which of these alternatives, if any, the State will ultimately choose to pursue in the future.

### **Target Bonds Not Tendered for Purchase**

Holders of Target Bonds who do not tender their Target Bonds for purchase pursuant to this Invitation and Holders of Target Bonds whose tenders are rejected by the State will continue to hold their interest in such Target Bonds. **If the Target Bonds are purchased pursuant to this Invitation, the Principal Amount of the Target Bonds for a particular CUSIP that remains outstanding will be reduced, which could adversely affect the liquidity and market value of the Target Bonds of that CUSIP that remain outstanding.**

### **Timeliness of Tender**

The Invitation will expire at 5:00 p.m., New York City time, on the Expiration Date (currently scheduled for November 3, 2025), unless extended or terminated. Target Bonds tendered as described in this Invitation after 5:00 p.m., New York City time on the Expiration Date will not be accepted for tender, except in the State's sole discretion.

### **Acceptance Date**

Notification of acceptance of Target Bonds tendered pursuant to this Invitation will be given on or before 5:00 p.m., New York City time, on the Acceptance Date (currently scheduled for November 6, 2025), unless the Expiration Date is extended or this Invitation is terminated. See "TERMS OF THE INVITATION - Acceptance of Tenders for Purchase" herein.

## SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) of the Target Bonds that tender their Target Bonds for cash. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective tendering Bondholders should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given Bondholder, nor does it address the U.S. tax considerations applicable to all categories of Bondholders, some of which may be subject to special taxing rules (regardless of whether or not such Bondholders constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, Bondholders that hold their Target Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address: (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Internal Revenue Code of 1986, as amended (the "Code"), or (iii) the indirect effects on persons who hold equity interests in a Bondholder. This summary also does not consider the tax consequences of a tender of the Target Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to Bondholders who hold their Target Bonds as "capital assets" within the meaning of Section 1221 of the Code. The following discussion does not address tax considerations applicable to any holders of the Target Bonds other than U.S. Holders.

As used herein, "U.S. Holder" means a Bondholder that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). If a partnership holds Target Bonds, the tax treatment of a tender to such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Target Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of a tender of Target Bonds (including their status as U.S. Holders).

PROSPECTIVE TENDERING BONDHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE U.S. FEDERAL, STATE, LOCAL OR NON-U.S. TAX CONSEQUENCES TO THEM FROM THE TENDER OF THE TARGET BONDS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES.

### **Tendering U.S. Holders**

The tender of a Target Bond for cash will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a tendered Target Bond will recognize gain or loss equal to the difference between (i) the amount of cash received (except to the extent attributable to accrued but unpaid interest and original issue discount accrued since the most recent compounding date on the Target Bond, which will be treated for federal income tax purposes as a coupon payment on the Target Bond ) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Target Bond (generally, the purchase price paid by the U.S. Holder for the Target Bond, decreased by any amortized premium, and increased by the amount of any original issue discount previously accrued by such U.S. Holder with respect to such Target Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Target Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal

income tax rate applicable to ordinary income if such U.S. holder's holding period for the Target Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

### **Backup Withholding**

Payments with respect to tenders of Target Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a tendering non-corporate U.S. Holder of a Target Bond may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Target Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Target Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. Holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

### **DEALER MANAGER**

The State has retained BofA Securities, Inc. ("BofA Securities") to act on its behalf as Dealer Manager for this Invitation. The State has agreed to pay the Dealer Manager customary fees for its services and to reimburse the Dealer Manager for its reasonable out-of-pocket costs and expenses relating to this Invitation. References in this Invitation to the Dealer Manager are to BofA Securities only in its capacity as the Dealer Manager. The compensation of the Dealer Manager is based upon the amount of Target Bonds tendered to and accepted by the State.

The Dealer Manager may contact Bondholders regarding this Invitation and may request brokers, dealers, custodian banks, depositories, trust companies and other nominees to forward this Invitation to beneficial owners of the Target Bonds.

The Dealer Manager and its affiliates together comprise full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealer Manager and its affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the State for which it received or will receive customary fees and expenses. In the ordinary course of its various business activities, the Dealer Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities and financial instruments which may include bank loans and/or credit default swaps) for their own account and for the accounts of their respective customers and may at any time hold long and short positions in such securities and instruments. Such investment securities activities may involve securities and instruments of the State, including the Target Bonds. Affiliates of a Dealer Manager may have holdings of Target Bonds that they are unable to disclose for legal or regulatory reasons.

In addition to its role as a Dealer Manager for the Target Bonds, BofA Securities is also serving as the Representative of the Underwriters for the Series 2025C Bonds as described in the Series 2025C Bonds POS.

The Dealer Manager is not acting as a financial or municipal advisor to the State in connection with this Invitation or the Series 2025C Bonds.

## **INFORMATION AGENT AND TENDER AGENT**

The State has retained Globic Advisors to serve as Information Agent and Tender Agent for this Invitation. The State has agreed to pay the Information Agent and Tender Agent customary fees for its services and to reimburse the Information Agent and Tender Agent for its reasonable out-of-pocket costs and expenses relating to this Invitation.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters and the issuance of the Series 2025C Bonds is subject to the approval of McGuireWoods LLP, Bond Counsel and delivery of the approving opinions of Bond Counsel in substantially the forms set forth in Appendix D of the Series 2025C Bonds POS attached hereto as APPENDIX A. Certain legal matters will be passed upon for the State by McGuireWoods LLP, Disclosure Counsel to the State. Certain legal matters will be passed on for the Dealer Manager by its counsel, Womble Bond Dickinson (US) LLP. Compensation of such counsels is contingent in whole or in part on the issuance of the Series 2025C Bonds.

## **MISCELLANEOUS**

No one has been authorized by the State, the Dealer Manager, or the Information Agent and Tender Agent to recommend to any Bondholder whether to tender Target Bonds pursuant to this Invitation or the amount of Target Bonds to tender. No one has been authorized to give any information or to make any representation in connection with this Invitation other than those contained in this Invitation. Any recommendations, information and representations given or made cannot be relied upon as having been authorized by the State, the Dealer Manager or the Information Agent and Tender Agent.

None of the State, the Dealer Manager, or the Information Agent and Tender Agent make any recommendation that any Bondholder tender or refrain from tendering all or any portion of the principal amount of such Bondholder's Target Bonds. Bondholders must make their own decisions and should read this Invitation carefully and consult with their broker, account executive, financial advisor, attorney and/or other professional in making these decisions.

Investors with questions about this Invitation should contact the Dealer Manager or the Information Agent and Tender Agent. The contact information for the Dealer Manager and the Information Agent and Tender Agent is as follows:

### ***Dealer Manager***

#### **BofA Securities, Inc.**

One Bryant Park, 12<sup>th</sup> Floor New York, New York 10036 Tel: (215) 446-7020  
Attn: Contact your BofA Securities Representative or the Municipal Liability Management Group  
Email: [dg.muni-lm@bofa.com](mailto:dg.muni-lm@bofa.com)

### ***The Information Agent and Tender Agent***

#### **Globic Advisors**

477 Madison Avenue, 6<sup>th</sup> Floor New York, New York 10022 Tel: (212) 227-9622  
Attn: Patrick Seguritan Email: [pseguritan@globic.com](mailto:pseguritan@globic.com)  
Document Website: [www.globic.com/northcarolina](http://www.globic.com/northcarolina)



**APPENDIX A**

**SERIES 2025C BONDS POS**

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**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 20, 2025**

**NEW ISSUE—BOOK-ENTRY ONLY**

**Ratings:**

**Moody's: Aaa**

**S&P: AAA**

**Fitch: AAA**

**(See "RATINGS" herein)**

*This Official Statement has been prepared by the State of North Carolina (the "State") to provide information on the State of North Carolina General Obligation Refunding Bonds, Series 2025C (the "Series 2025C Bonds") and General Obligation Refunding Bonds, Series 2026A (Forward Delivery) (the "Series 2026A Bonds" and together with the Series 2025C Bonds, the "Bonds"). Selected information is presented on this cover page for the convenience of the user. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*



**DEPARTMENT OF STATE TREASURER**

**\$147,885,000\***

**\$180,065,000\***

**STATE OF NORTH CAROLINA**

**STATE OF NORTH CAROLINA**

**GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2025C**

**GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2026A (FORWARD DELIVERY)**

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside cover**

**Tax Treatment:**

In the opinion of Bond Counsel, under existing law and subject to conditions described in the Section herein **"TAX MATTERS,"** interest on the Bonds (a) is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. Bond Counsel is further of the opinion that interest on the Bonds is exempt from all present North Carolina income taxes. See **"TAX MATTERS"** herein regarding other tax considerations.

**Redemption:**

The Series 2025C Bonds are subject to optional redemption prior to maturity as described herein. See **"THE BONDS – Redemption."**

The Series 2026A Bonds are not subject to optional redemption prior to maturity.

**Purpose:**

The State will use the proceeds of the Series 2025C Bonds, along with other available funds, to (i) refund all of the outstanding principal amount of the Refunded 2015A Bonds (as defined herein), (ii) pay the purchase price for the Purchased Refunded Bonds (as defined herein) tendered to the State pursuant to the Tender Offer (as defined herein) and (iii) pay the costs of issuing the Series 2025C Bonds. The State may use the proceeds of the Series 2026A Bonds to (i) refund all or a portion of the Refunded 2016 Bonds (as defined herein) not tendered for purchase and (ii) pay the costs of issuing the Series 2026A Bonds. See **"PLAN OF REFUNDING"** herein.

**Interest Payment  
Dates:**

Series 2025C Bonds: June 1 and December 1 of each year, commencing June 1, 2026

Series 2026A Bonds: June 1 and December 1 of each year, commencing June 1, 2026

**Denominations:**

\$5,000 or integral multiples thereof

**Sale Date:**

November 5\*, 2025

**Closing/Settlement  
Date:**

Series 2025C Bonds: November 19\*, 2025

Series 2026 Bonds (Forward Delivery): Preliminary Closing Date: November 19\*, 2025  
Settlement Date: March 4\*, 2026

**Bond Counsel/  
Disclosure Counsel:**

McGuireWoods LLP, Raleigh, North Carolina

**Underwriters'  
Counsel:**

Womble Bond Dickinson (US) LLP, Raleigh, North Carolina

**Municipal Advisor:**

Davenport & Company LLC, Charlotte, North Carolina.

**BofA Securities  
J.P. Morgan**

**Wells Fargo Securities  
Truist Securities**

The date of this Official Statement is November \_\_, 2025

\* Preliminary, subject to change.

THIS PRELIMINARY OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO COMPLETION OR AMENDMENT IN A FINAL OFFICIAL STATEMENT. The Bonds may not be sold nor may offers to buy be accepted prior to the time the final Official Statement is delivered. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that jurisdiction.

**\$147,885,000\***  
**STATE OF NORTH CAROLINA**  
**GENERAL OBLIGATION REFUNDING BONDS,**  
**SERIES 2025C**

**\$180,065,000\***  
**STATE OF NORTH CAROLINA**  
**GENERAL OBLIGATION REFUNDING BONDS,**  
**SERIES 2026A (FORWARD DELIVERY)**

**MATURITY SCHEDULE\***

**Series 2025C Bonds**

| <b>Due<br/>June 1</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Yield</b> | <b>CUSIP® **<br/>(Base:    )</b> | <b>Due<br/>June 1</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Yield</b> | <b>CUSIP® **<br/>(Base:    )</b> |
|-----------------------|-----------------------------|--------------------------|--------------|----------------------------------|-----------------------|-----------------------------|--------------------------|--------------|----------------------------------|
| 2026                  | \$11,185,000                |                          |              |                                  | 2033                  | \$19,740,000                |                          |              |                                  |
| 2027                  | 6,795,000                   |                          |              |                                  | 2034                  | 15,915,000                  |                          |              |                                  |
| 2028                  | 6,785,000                   |                          |              |                                  | 2035                  | 15,845,000                  |                          |              |                                  |
| 2029                  | 15,050,000                  |                          |              |                                  | 2036                  | 5,670,000                   |                          |              |                                  |
| 2030                  | 18,920,000                  |                          |              |                                  | 2037                  | 530,000                     |                          |              |                                  |
| 2031                  | 11,260,000                  |                          |              |                                  | 2038                  | 500,000                     |                          |              |                                  |
| 2032                  | 15,230,000                  |                          |              |                                  | 2039                  | 4,460,000                   |                          |              |                                  |

**Series 2026A Bonds**

| <b>Due June 1</b> | <b>Principal<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Yield</b> | <b>CUSIP® **<br/>(Base:    )</b> |
|-------------------|-----------------------------|--------------------------|--------------|----------------------------------|
| 2026              | \$1,855,000                 |                          |              |                                  |
| 2027              | 73,805,000                  |                          |              |                                  |
| 2028              | 46,355,000                  |                          |              |                                  |
| 2029              | 20,995,000                  |                          |              |                                  |
| 2030              | 12,405,000                  |                          |              |                                  |
| 2031              | 6,030,000                   |                          |              |                                  |
| 2032              | 7,435,000                   |                          |              |                                  |
| 2033              | 5,550,000                   |                          |              |                                  |
| 2034              | 5,635,000                   |                          |              |                                  |

\* Preliminary, subject to change.

\*\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. Copyright©2025 CUSIP Global Services. All rights reserved. The CUSIP data herein is provided solely for the convenience of reference only. The State nor the Underwriters are responsible for selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions.

The Bonds are being issued under exemptions from any registration requirements under the Securities Act of 1933, as amended, and any registration requirements under the securities laws of the State of North Carolina.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

In making an investment decision, investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

The information set forth herein has been obtained from the State and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any of such sources as to information provided by any other source. All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the State since the date hereof.

The information set forth herein has been obtained from sources which are believed to be reliable and is in a form deemed final by the State for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for certain information permitted to be omitted under Rule 15c2-12(b)(1)). The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

Certain statements contained in this Official Statement reflect forecasts and constitute forward-looking statements rather than historical facts. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates that are inherently subject to numerous risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 (as defined herein).

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**STATE OF NORTH CAROLINA**

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**Council of State**

Josh Stein ..... Governor  
Rachel Hunt ..... Lieutenant Governor  
Elaine F. Marshall ..... Secretary of State  
Dave Boliek ..... State Auditor  
Bradford B. Briner ..... State Treasurer  
Mo Green ..... Superintendent of Public Instruction  
Jeff Jackson ..... Attorney General  
Steve Troxler ..... Commissioner of Agriculture  
Luke Farley ..... Commissioner of Labor  
Mike Causey ..... Commissioner of Insurance

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**Legislature**

Phil Berger ..... Senate President Pro Tem  
Destin Hall ..... Speaker of the House

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**Municipal Advisor**

Davenport & Company LLC,  
Charlotte, North Carolina

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**Bond Counsel/Disclosure Counsel**

McGuireWoods LLP  
Raleigh, North Carolina

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NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
LOCAL GOVERNMENT COMMISSION

**\$147,885,000\***

**STATE OF NORTH CAROLINA  
GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2025C**

**\$180,065,000\***

**STATE OF NORTH CAROLINA  
GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2026A (FORWARD DELIVERY)**

**INTRODUCTION**

The purpose of this Official Statement, which includes the appendices, is to provide information in connection with the \$147,885,000\* in aggregate principal amount of General Obligation Refunding Bonds, Series 2025C (the "Series 2025C Bonds") and \$180,065,000\* in aggregate principal amount of General Obligation Refunding Bonds, Series 2026A (Forward Delivery) (the "Series 2026A Bonds" and the Series 2025C Bonds, the "Bonds") of the State of North Carolina (the "State").

The State will use the proceeds of the Series 2025C Bonds, along with other available funds, to (i) refund all of the outstanding principal amount of the Refunded 2015A Bonds (as defined herein), (ii) pay the purchase price for the Purchased Refunded Bonds (as defined herein) tendered to the State pursuant to the Tender Offer (as defined herein) and (iii) pay the costs of issuing the Series 2025C Bonds. The State may use the proceeds of the Series 2026A Bonds, along with other available funds, to (i) refund all or a portion of the Refunded 2016 Bonds (as defined herein) not tendered for purchase and (ii) pay the costs of issuing the Series 2026A Bonds. See "**PLAN OF REFUNDING**" herein.

The information furnished herein includes a brief description of the State and its organization, tax structure, budget, debt management and economic condition. The Office of the State Controller, the Department of Revenue, the Office of State Budget and Management, the Department of Transportation, the Department of Commerce, the Department of Agriculture and Consumer Services, the Department of Justice, the Department of Administration, the Department of Public Safety, the Department of Health and Human Services, the Department of Public Instruction, the University of North Carolina System Office, the North Carolina Community Colleges System Office and the North Carolina State Lottery Commission have assisted the State Treasurer in gathering and assembling the information contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any date subsequent to the date thereof. The information contained

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\* Preliminary, subject to change.

herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

Concurrently with the issuance of the Bonds, the State is also in the process of issuing its Limited Obligation Refunding Bonds, Series 2025B (the "2025B Limited Obligation Bonds") for the purpose of (i) refunding certain outstanding limited obligation bonds and (ii) paying costs of issuance. The 2025B Limited Obligation Bonds are expected to close on November 13, 2025.\* The 2025B Limited Obligation Bonds are not being offered pursuant to this Official Statement.

### **Authorization of the Bonds**

The Bonds are being issued pursuant to the provisions of the original bond-authorizing legislation under which the bonds being refunded were authorized and certain provisions of the State Refunding Bond Act, Article 3A of Chapter 142 of the North Carolina General Statutes, as amended (the "Act").

### **Purpose**

The proceeds of the Bonds are being issued, along with other available funds, to refund the Refunded Bonds as described below in the "**PLAN OF REFUNDING.**"

### **Information Concerning the State**

For information concerning the State see Appendix A.

### **Details of the Bonds**

The Bonds will be dated the date of initial execution and delivery, and will mature on June 1 in the years and amounts set forth on the inside cover hereof. Interest on the Bonds will be payable on each June 1 and December 1, beginning June 1, 2026, at the rates set forth on the inside cover hereof. The interest so payable and punctually paid or duly provided for on any interest payment date will be paid to the person in whose name a Bond is registered at the close of business on the regular record date for such interest, which shall be the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date. Individual purchases of the Bonds will be made in denominations of \$5,000 or whole multiples thereof.

### **Book-Entry Form**

The Bonds will initially be delivered as fully registered certificates in book-entry-only form without physical delivery of certificates to the beneficial owners of the Bonds. The Trustee will make payments of principal and interest on the Bonds to The Depository Trust Company, a New York corporation ("DTC"), which will in turn remit such payments to its participants for subsequent distribution to the beneficial owners of the Bonds. See **Appendix D** hereto.

### **Tax Status**

In the opinion of Bond Counsel, under existing law and subject to conditions described in the Section herein "**TAX MATTERS,**" interest on the Bonds (a) is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not a specific item of tax preference for purposes of the

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\* Preliminary, subject to change.

federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. Bond Counsel is further of the opinion that interest on the Bonds is exempt from all present North Carolina income taxes. See "**TAX MATTERS**" herein regarding other tax considerations.

### **Continuing Disclosure**

The State will undertake to provide continuing disclosure of certain annual financial information and operating data and certain material events. See "**CONTINUING DISCLOSURE**" herein.

### **Financial Statements**

The State's financial statements and required supplementary information for the State are included in the Annual Comprehensive Financial Report ("ACFR") for the Fiscal Year ended June 30, 2024 and are included in **Appendix B** hereto. In the normal course, the State finalizes its annual audit and related ACFR by the end of November and expects to do so this year. The final ACFR for the Fiscal Year ended June 30, 2025 is expected to be available on the State's website and on Municipal Securities Rulemaking Board's (the "MSRB") Electronic Municipal Market Access system after it is final, but neither such report nor such ACFR is incorporated by reference into this Official Statement.

## **THE BONDS**

### **Description**

The Bonds will be dated the date of their delivery and will bear interest from their date at the interest rates and will mature on the dates set forth on the inside cover page of this Official Statement. Interest on the Series 2025C Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2026. Interest on the Series 2026A Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2026. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The principal of and interest on the Bonds will be payable to owners of Bonds shown on the records of DTC at the close of business on the 15<sup>th</sup> day of the month preceding an interest payment date.

The Bonds will be issuable as fully registered bonds in a book-entry only system under which DTC will act as securities depository for the Bonds. Purchases and transfers of the Bonds may be made only in authorized denominations of \$5,000 and integral multiples thereof and in accordance with the practices and procedures of DTC. See **Appendix D** hereto for a description of the book-entry only system and DTC.

### **Redemption**

*Optional Redemption - Series 2025C Bonds.\** The Series 2025C Bonds maturing on or before June 1, 2035 are not subject to optional redemption before their maturities. The Series 2025C Bonds maturing on or after June 1, 2036 may be redeemed before their maturities in whole or in part on any date on or after

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\* Preliminary, subject to change. Determination of the optional redemption provisions of the Series 2025C Bonds will be determined at pricing and dependent upon, among other things, the Purchased Refunded Bonds tendered and accepted by the State pursuant to the Tender Offer.

June 1, 2035, at the option of the State, at a redemption price equal to 100% of the principal amount of Series 2025C Bonds to be so redeemed, together with accrued interest to the redemption date, if any.

*Optional Redemption - Series 2026A Bonds.* The Series 2026A Bonds are not subject to optional redemption before their maturities.

*Selection of Bonds for Redemption; Notice of Redemption.* With respect to the Series 2025C Bonds, if less than all of the Series 2025C Bonds of any one maturity is called for redemption, the particular Series 2025C Bonds or portions of Series 2025C Bonds to be redeemed shall be selected by lot in such manner as the State may determine; provided, however, that the portion of any Series 2025C Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof and that, in selecting Series 2025C Bonds for redemption, each Series 2025C Bond shall be considered as representing that number of Series 2025C Bonds which is obtained by dividing the principal amount of such Series 2025C Bond by \$5,000. So long as a book-entry system with DTC is used for determining beneficial ownership of Series 2025C Bonds, if less than all of the Series 2025C Bonds within a maturity are to be redeemed, DTC and its participants shall determine by lot which of the Series 2025C Bonds within such maturity are to be redeemed. If less than all of the Series 2025C Bonds stated to mature on different dates shall be called for redemption, the particular Series 2025C Bonds or portions of Series 2025C Bonds to be redeemed shall be called in such manner as the State may determine.

Notice of redemption shall be given by the State to DTC or its nominee, in accordance with its procedures, as the registered owner of the Bonds. Such notice shall be given not more than 60 nor less than 30 days prior to the date fixed for redemption. The State will not be responsible for giving notices of redemption to anyone other than DTC or its nominee for so long as DTC or its nominee is the sole registered owner of the Bonds. On the date fixed for redemption, notice having been given as hereinabove described, the Bonds or portions thereof called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date. If moneys sufficient to pay the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption have been deposited by the State to be held in trust for the registered owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue, such Bonds or portions thereof shall cease to be entitled to any benefits or security under the resolution providing for their issuance or to be deemed outstanding, and the registered owners of such Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the redemption price thereof, plus accrued interest to the date of redemption, and, if a portion of a Bond shall have been selected for redemption, a new bond or bonds of the same maturity and issue, of any authorized denomination or denominations and bearing interest at the same rate for the unredeemed portion of the principal amount of such Bond. Any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the State on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed, and that if such moneys are not so received, such notice shall be of no force or effect and such Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the redemption price and interest on such Bonds are not received by the State on or prior to the redemption date, the redemption shall not be made and the State shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

#### **Authorization and Purpose of the Bonds**

The Bonds are being issued pursuant to the provisions of the original bond-authorizing legislation under which the bonds being refunded were authorized and certain provisions of the State Refunding Bond Act, Article 3A of Chapter 142 of the North Carolina General Statutes, as amended (the "Act"). The Bonds are being issued to refund the Refunded Bonds as described below in the "**PLAN OF REFUNDING.**"

## **Security for the Bonds**

The Bonds are general obligations of the State for the payment of which, both principal and interest as the same shall become due, the faith and credit and the taxing power of the State are pledged.

In a case involving a suit for breach of contract, the Supreme Court of North Carolina has held that whenever the State, through its authorized officers and agencies, enters into a valid contract, the State implicitly consents to be sued for damages on the contract if it breaches the contract and that the doctrine of sovereign immunity will not be a defense to the State. If a plaintiff is successful in establishing a claim against the State, it may not, however, be able to execute on the judgment since a legislative enactment may be required to discharge the State's obligation. Thus, if the State fails to make timely payment of the principal of and interest on any of the Bonds and a bondholder brings a successful action against the State for breach of contract, favorable legislative action may be required before the judgment could be satisfied.

## **PLAN OF REFUNDING**

### **General**

The State will use the proceeds of the Series 2025C Bonds, along with other available funds, to (i) refund all of the outstanding principal amount of the General Obligation Bonds, Series 2015A (the "Refunded 2015A Bonds"), (ii) pay the purchase price for the Purchased Refunded Bonds (as defined herein) tendered to the State pursuant to the Tender Offer (as defined herein) and (iii) pay the costs of issuing the Series 2025C Bonds. The State may use the proceeds of the Series 2026A Bonds to (i) refund all or a portion of the Refunded 2016 Bonds (as defined herein) not tendered for purchase and (ii) pay the costs of issuing the Series 2026A Bonds.

For purposes herein the Refunded 2015A Bonds, the Purchased Refunded Bonds and the Refunded 2016 Bonds are collectively referred to as the "Refunded Bonds."

### **Series 2025C Bonds**

The State will use the proceeds of the Series 2025C Bonds, along with other available funds, to (i) refund the Refunded 2015A Bonds, (ii) pay the purchase price for the Purchased Refunded Bonds (as defined herein) tendered to the State pursuant to the Tender Offer (as defined herein) and (iii) pay the costs of issuing the Series 2025C Bonds.

#### *Refunded 2015A Bonds.*

The Refunded 2015A Bonds are currently expected to be called for redemption on December 22, 2025 (the "2015A Redemption Date") at a price equal to 100% of the outstanding principal amount of the Refunded 2015A Bonds plus accrued interest to the 2015A Redemption Date.

In order to accomplish the refunding of the Refunded 2015A Bonds, a portion of the proceeds from the sale of the Bonds, along with other available funds, will be deposited into the escrow account (the "2015A Escrow Account") to be established pursuant to an escrow deposit agreement dated as of November 1, 2025 (the "2015A Escrow Agreement"), between the State and U.S. Bank Trust Company, National Association, as escrow agent (the "Escrow Agent").

Amounts deposited into the 2015A Escrow Account will be applied to the purchase of certain direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (the "Federal Securities"), the maturing principal and interest of which will provide funds sufficient to pay, when and as due, respectively, (1) the interest on the Refunded 2015A

Bonds until the 2015A Redemption Date and (2) the redemption price of 100% of the Refunded 2015A Bonds on the 2015A Redemption Date. The Escrow Agent will be given irrevocable instructions to redeem the Refunded 2015A Bonds on the 2015A Redemption Date.

Amounts on deposit under the 2015A Escrow Agreement will not secure the Series 2025C Bonds.

The Verification Agent will verify, from the information provided to it by the Underwriters, the accuracy, as of the date of issuance of the Series 2025C Bonds, of the mathematical computations of the adequacy of the maturing principal of and interest on the Federal Securities to pay interest on the Refunded 2015A Bonds through the 2015A Redemption Date, and the principal amount of the Refunded 2015A Bonds on the 2015A Redemption Date.

#### *Purchased Refunded Bonds.*

A portion of the proceeds of the Series 2025C Bonds may be used to pay the purchase price for the Purchased Refunded Bonds (as defined herein) tendered to the State pursuant to the Tender Offer as more fully described under "- **Invitation to Tender Bonds**" below.

The Purchased Refunded Bonds will be listed in **Appendix E**.

#### **Invitation to Tender Bonds**

The State released its Invitation to Tender For Purchase, dated October 20, 2025 (the "Invitation"), inviting owners of certain outstanding general obligation bonds of the State, which are described in more detail in the Invitation (the "Target Bonds"), to tender such Target Bonds for purchase by the State (the "Tender Offer"). The purpose of the Tender Offer is to give the State the opportunity to purchase the Target Bonds and realize debt service savings and debt service reduction. Target Bonds tendered for purchase will be retired and cancelled on the date of issuance of the Series 2025C Bonds (the "2025C Settlement Date").

Pursuant to the Tender Offer as set forth in the Invitation, the owners of Target Bonds may tender such Target Bonds for cash and, subject to the conditions set forth therein, the State expects to purchase the Target Bonds that are accepted for purchase per the terms and at the purchase prices set forth in the Invitation plus accrued interest to but not including the 2025C Settlement Date. The Target Bonds purchased pursuant to the Tender Offer (the "Purchased Refunded Bonds") will be cancelled on the 2025C Settlement Date and shall no longer be deemed outstanding. Funds to pay the purchase price of the Purchased Refunded Bonds and to pay the costs of the Tender Offer, are expected to be provided from proceeds of the Series 2025C Bonds and other available funds of the State.

This section is not intended to summarize all of the terms of the Invitation, and for owners of the Targeted Bonds and prospective purchasers of the Series 2025C Bonds reference is made to the Invitation for a discussion of the terms of the Tender Offer, the description of the Target Bonds and the conditions for settlement of the Target Bonds validly tendered and accepted for purchase. The closing related to the Target Bonds tendered for purchase will be contingent upon the State's issuance of the Series 2025C Bonds and the availability of certain other available funds of the State.

Acceptance of the Tender Offer is within the discretion of the owners of the Target Bonds. The State can provide no assurance as to whether all or any portion of the Target Bonds will be tendered for purchase. As set forth in the Invitation, the State's obligation to accept for purchase Target Bonds validly tendered pursuant to the Invitation is subject to the State determining in its reasonable discretion that it will receive sufficient economic benefit as a result of market conditions, actual level of participation by holders of the Target Bonds, or any other factors not within the sole control of the State. In the event the State determines in its discretion that the acceptance rate is substantially less than expected or otherwise

determines not to accept for purchase the Target Bonds, the State may reduce the estimated principal amount of the Series 2025C Bonds or elect not to issue the Series 2025C Bonds.

### **Forward Delivery of the Series 2026A Bonds**

If Target Bonds offered to be tendered for purchase are less than the maximum amount the State determines to be economically beneficial, the State may use proceeds of the Series 2026A Bonds to current refund on June 1, 2026 (the "2016 Redemption Date") certain maturities, or portion of maturities, of the State's General Obligation Refunding Bonds, Series 2016A (the "Refunded 2016A Bonds") and General Obligation Public Improvement (Connect NC) Bonds, Series 2016B (the "Refunded 2016B Bonds" and together with the Refunded 2016A Bonds, the "Refunded 2016 Bonds"). The State will deposit such proceeds in an irrevocable escrow account (the "2026A Escrow Account"), created under an escrow deposit agreement between the State and the Escrow Agent (the "2026A Escrow Agreement"). The Escrow Agent will hold the amount so deposited in the 2026A Escrow Account uninvested in cash or apply such amount to purchase direct, non-callable obligations of the United States Treasury or other securities guaranteed by the United States of America (the "2026A Escrow Securities"). The 2026A Escrow Securities will mature and bear interest at times and in the amounts which, together with cash in the 2026A Escrow Account, will be sufficient to pay the interest when due and the principal and redemption premium, if any, on the Refunded 2016 Bonds on the 2016 Redemption Date.

The State expects that the Series 2026A Bonds will be issued and delivered on or about March 4<sup>\*</sup>, 2026. There are numerous conditions which must be satisfied prior to issuance and delivery of the Series 2026A Bonds as described generally below under "**PLAN OF REFUNDING – Conditions to Series 2026A Settlement**," provided, such list is not meant to be an exhaustive list of such conditions. There can be no assurance that all of the conditions to the issuance and delivery of the Series 2026A Bonds will be satisfied nor that the Series 2026A Bonds will be issued. The Underwriters also have certain termination rights as described under "**PLAN OF REFUNDING – Termination of Forward Delivery Bond Purchase Agreement**."

### **2026A Settlement**

On or about March 4<sup>\*</sup>, 2026, or such other date as may be mutually agreed upon by the State and the Underwriters, the State will, subject to the terms and conditions of the Forward Delivery Bond Purchase Agreement between the State and the Underwriters (the "Forward Delivery Bond Purchase Agreement"), deliver the Series 2026A Bonds to the Underwriters and deliver or cause to be delivered to the Underwriters the other documents, opinions, certificates and instruments required by the Forward Delivery Bond Purchase Agreement to be delivered as part of the settlement as more fully discussed below. Subject to the terms and conditions of the Forward Delivery Bond Purchase Agreement, the Underwriters will accept such delivery and pay the purchase price for the Serie 2026A Bonds. The date upon which such transaction is consummated is referred to herein as the "2026A Settlement Date."

Prior to the execution by the Representative of the Forward Delivery Bond Purchase Agreement, in connection with the obligation of the Underwriters named in the Forward Delivery Bond Purchase Agreement to purchase the Series 2026A Bonds, each purchaser of the Series 2026A Bonds (each, a "Purchaser" and collectively, the "Purchasers") will be required to execute and deliver a contract in substantially the form attached hereto as **Appendix F**, which is representative of the form of Master Agreement for Forward Delivery Bonds Purchases on file with BofA Securities, Inc., the Representative of the Underwriters (the "Master Agreement").

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<sup>\*</sup> Preliminary, subject to change.

The State will not be a party to the Master Agreement and will not in any way be responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the Forward Delivery Bond Purchase Agreement are not conditioned or dependent upon the performance of any Master Agreement. Except as detailed below under "Termination of Forward Delivery Purchase Contract," a Purchaser will not be able to withdraw its orders and will not be excused from performance of its obligations to take up and pay for the related Series 2026A Bonds on the 2026A Settlement Date because of market or credit changes, including but not limited to changes in the financial condition, operations, performance, properties or prospects of the State from the date of the Forward Delivery Bond Purchase Agreement to the 2026A Settlement Date.

### **Conditions to 2026A Settlement**

*General.* The settlement and the issuance of the Series 2026A Bonds are conditioned upon the satisfaction of the specific conditions of the Forward Delivery Bond Purchase Agreement, including delivery of certain documents described in the Forward Delivery Bond Purchase Agreement (collectively, the "Settlement Documents"). The Settlement Documents include, among other items, the opinion of Bond Counsel with respect to the Series 2026A Bonds in substantially the form set forth in **Appendix C** hereto and certain other opinions or letters of Bond Counsel and counsel to the Underwriters, as well as updated certifications of the State, including, without limitation the completeness and accuracy of the Updated Official Statement (as defined below) to the 2026A Settlement Date and updated certifications with respect to certain representations made in connection with the Initial Closing Date. The settlement and the issuance of the Series 2026A Bonds are further contingent upon the Series 2026A Bonds being rated at the levels described below under " – **Termination of Forward Delivery Bond Purchase Agreement.**"

*Updated Official Statement.* Pursuant to the Forward Delivery Bond Purchase Agreement, the State agrees to prepare one updated official statement (the "Updated Official Statement"), to be dated a date not more than three weeks and not less than five days prior to the 2026A Settlement Date, and which, as of such date, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Updated Official Statement may consist either of the Official Statement and a supplement thereto or a separate document substantially in the form of the Official Statement updated to its date. Other than the Updated Official Statement, the State and the Underwriters have not agreed to, nor is the State obligated to, provide updates to the information contained in this Official Statement during the period between the date of this Official Statement and the 2026A Settlement Date (the "Forward Delivery Period").

*Issuance of Legal Opinions.* It is a condition to the issuance of the Series 2026A Bonds on the 2026A Settlement Date that Bond Counsel deliver its approving opinion with respect to the Series 2026A Bonds in substantially the form set forth in as **Appendix C**. The ability of Bond Counsel to deliver its opinion on the 2026A Settlement Date is subject to its review and analysis at that time of certain matters, including, among others, the application of the proceeds of the Series 2026A Bonds and Refunded 2016 Bonds, and pertinent provisions of statutes, regulations, rulings and court decisions, including, but not necessarily limited to, State law and federal income tax and security laws then in effect or proposed to be in effect. Bond Counsel has advised the State and the Underwriters that, assuming satisfaction by the State and the Underwriters of their respective obligations to be satisfied in the Forward Delivery Bond Purchase Agreement, and the issuance of the Series 2026A Bonds, and no change in any applicable law, regulations or rulings, or in interpretations thereof, or in any other facts or circumstances (tax or otherwise) which, in Bond Counsel's view, affect or are material to their opinions (including, without limitation, the existence of any litigation), Bond Counsel expects to be able to issue on the 2026A Settlement Date an opinion with respect to the Series 2026A Bonds in substantially the form attached hereto as **Appendix C**. In addition, in order to deliver such opinion, appropriate certifications and representations will be required to establish the reasonable expectations of the State. No assurances can be made that there will be no change in any applicable law, regulations or rulings, or in the interpretations thereof, prior to the 2026A Settlement Date;



the facts and circumstances that are material to such opinions will not differ, as of the 2026A Settlement Date, from those that are currently expected; or such certifications and representations will be delivered and made in connection with the issuance of the Series 2026A Bonds. As a consequence of any of the foregoing, Bond Counsel may be unable to render its opinion.

### **Termination of Forward Delivery Bond Purchase Agreement**

Under the Forward Delivery Bond Purchase Agreement, the Representative may terminate the Underwriters' obligation to purchase the Series 2026A Bonds in the event that between November 19, 2025 (the "Initial Closing Date") and the 2026A Settlement Date, one of the following events shall have occurred:

(a) in the event the State is unable, after using its best efforts, to satisfy the conditions to the obligation of the Underwriters to purchase, accept delivery of and pay for the Series 2026A Bonds at the 2026A Settlement Date as set forth in the Forward Delivery Bond Purchase Agreement (unless waived by the Representative) by the time such completion is required;

(b) (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies, (ii) any legislation enacted by the Congress of the United States or introduced therein or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date that is on or before the 2026A Settlement Date), (iii) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date that is on or before the 2026A Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in the case of any of (i), (ii), (iii) or (iv) would (A) as to the Underwriters, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriters from purchasing the Series 2026A Bonds as provided in the Forward Delivery Agreement or selling the Series 2026A Bonds or beneficial ownership interests therein to the public, or (B) as to the State, make the issuance, sale or delivery of the Series 2026A Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized), or prevent the issuance of any of the opinions required to be delivered on the 2026A Settlement Date under the Forward Delivery Bond Purchase Agreement; provided, however, that such change in or addition to law, legislation, law, rule or regulation or judgment, ruling or order shall have become effective, been enacted, introduced or recommended, been proposed or enacted or been issued as the case may be, after the date of the Forward Delivery Agreement;

(c) the Updated Official Statement, as the same may be amended or supplemented in accordance with the Forward Delivery Bond Purchase Agreement prior to the time of the 2026A Settlement Date, contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(d) Bond Counsel does not deliver an opinion on the 2026A Settlement Date substantially in the form and to the effect set forth in **Appendix C** hereto;

(e) an event of default has occurred and is continuing, technical or otherwise, on the Settlement Date under any of the following documents: the Forward Delivery Agreement, the Series 2026A Bonds, the 2026A Escrow Agreement and the Disclosure Certificate; or

(f) a reduction or withdrawal by any rating agency of the assigned ratings below the following ratings, or, as of the 2026A Settlement Date, the failure by any of the following rating agencies to assign the following ratings or higher to the Series 2026A Bonds: a "Aa2" rating by Moody's Investors Service,

a "AA" rating by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, and a "AA" rating by Fitch Ratings.

### **Additional Risks Related to the Forward Delivery Period**

During the Forward Delivery Period, certain information contained in this Official Statement could change in a material respect. Except as described herein, the Underwriters may not refuse to purchase the Series 2026A Bonds by reason of "general market or credit changes," including, but not limited to, changes in the financial condition, operations, performance, properties or prospects of the State prior to the 2026A Settlement Date.

### **Additional Risks Applicable to Purchasers of the Series 2026A Bonds**

*Ratings Risk.* As described above, the Forward Delivery Bond Purchase Agreement does not permit the Underwriters to refuse to accept delivery of and pay for the Series 2026A Bonds because of any adverse change in the business or affairs of the State, unless such adverse change results in a reduction or withdrawal of the assigned ratings on the Series 2026A Bonds to or below the levels described above under " – **Termination of Forward Delivery Bond Purchase Agreement.**"

*Secondary Market.* The Underwriters are not obligated to establish a secondary market in the Series 2026A Bonds and no assurances can be given that a secondary market will exist for the Series 2026A Bonds during the Forward Delivery Period. Prospective purchasers of the Series 2026A Bonds should assume that the Series 2026A Bonds will not be a liquid investment throughout the Forward Delivery Period.

*Federal Tax Proposals.* The Forward Delivery Bond Purchase Agreement obligates the State to deliver and the Underwriters to acquire the Series 2026A Bonds if the State delivers the opinion of Bond Counsel substantially in the form set forth in **Appendix C** hereto and certain other conditions are met. It is possible that legislation could be introduced (or that legislation previously introduced could be amended) that, if adopted, would reform or modify the system of federal taxation. Such legislation could (a) eliminate the tax exemption granted to interest payable on "state or local bonds," such as the Series 2026A Bonds, or (b) diminish the value of the federal tax exemption granted interest on the Series 2026A Bonds under the current system of federal income taxation. Notwithstanding that the enactment of legislation which could diminish the value of the federal tax exemption for interest payable on "state or local bonds," the State might be able to satisfy the requirements for the delivery of the Series 2026A Bonds. In such event, the Purchasers would be required to accept delivery of the Series 2026A Bonds. Prospective Purchasers are encouraged to consult their tax advisors regarding the likelihood that such bills would be introduced or amended or enacted and the consequences of such enactment to the Purchasers.

*Other Investment Considerations.* Events occurring prior to the 2026A Settlement Date may have significant consequences to persons who have agreed to purchase the Series 2026A Bonds on the 2026A Settlement Date. The values of the Series 2026A Bonds of each maturity on the 2026A Settlement Date are unlikely to be the same as, and in all likelihood will be greater or less than, the purchase price therefor, and such differences may be substantial. Several factors may adversely affect such values including, but not limited to, a general increase in interest rates for all obligations and other indebtedness, any threatened or adopted change in the federal income tax laws affecting the relative benefits of owning tax-exempt securities versus other types of investments, such as fully taxable obligations, or any adverse development with respect to the State's results of operations, financial condition or prospects or with respect to the ratings of the Series 2026A Bonds. In addition, although the delivery of the opinion of Bond Counsel in substantially the form set forth in **Appendix C**, which is a condition to the issuance and delivery of the Series 2026A Bonds, is subject to any number of conditions to be fulfilled at the time of such delivery as described above, changes or proposed changes in federal income tax laws or regulations or interpretations thereof could affect the market value of tax-exempt securities generally, including, without limitation, the

Series 2026A Bonds, without preventing the delivery of the Series 2026A Bonds on the 2026A Settlement Date.

### **Master Agreement for Forward Bond Purchases**

Each person placing an order for the Series 2026A Bonds which is accepted by the Representative will be required to execute a Master Agreement in substantially the form set forth in **Appendix F** hereto.

BY PLACING AN ORDER WITH THE UNDERWRITERS FOR THE PURCHASE OF THE SERIES 2026A BONDS AND EXECUTING THE MASTER AGREEMENT WITH THE REPRESENTATIVE, EACH PERSON ACKNOWLEDGES AND AGREES THAT HE OR SHE HAS REVIEWED THIS OFFICIAL STATEMENT IN ITS ENTIRETY AND HAS PLACED SUCH AN ORDER WITH FULL KNOWLEDGE AND UNDERSTANDING OF THE DELAYED DELIVERY CLOSING CONDITIONS AND RISKS AND IS OBLIGATED TO PURCHASE THE SERIES 2026A BONDS WHICH ARE THE SUBJECT OF SUCH ORDER, SO LONG AS THE CONDITIONS OF THE FORWARD DELIVERY BOND PURCHASE AGREEMENT FOR THE DELIVERY OF THE SERIES 2026A BONDS ARE SATISFIED AND THE REPRESENTATIVE HAS NOT ELECTED TO TERMINATE THE FORWARD DELIVERY BOND PURCHASE AGREEMENT.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The State estimates the sources and uses of funds for the plan of finance to be as follows:

| <b>Sources:</b>                      | <b>Series 2025C Bonds</b> | <b>Series 2026A Bonds</b> |
|--------------------------------------|---------------------------|---------------------------|
| Par Amount                           |                           |                           |
| [Plus][Less] [Net] Original Issue    |                           |                           |
| [Premium][Discount]                  |                           |                           |
| Cash                                 |                           |                           |
| Total Sources of Funds               |                           |                           |
| <u>Uses:</u>                         |                           |                           |
| Refund Series 2015A Bonds            |                           |                           |
| Purchase of Purchased Refunded Bonds |                           |                           |
| Refund Series 2016 Bonds             |                           |                           |
| Costs of Issuance <sup>(1)</sup>     |                           |                           |
| Total Uses of Funds                  |                           |                           |

<sup>(1)</sup> Includes legal fees, underwriters' compensation, rating agency fees, fees and expenses of the municipal advisor and miscellaneous fees and expenses.

## CONTINUING DISCLOSURE

The State will undertake, for the benefit of the beneficial owners of the Bonds, to provide to the MSRB:

(a) by not later than seven months from the end of each fiscal year of the State, commencing with the fiscal year ended June 30, 2025, audited financial statements of the State for such fiscal year, if available, prepared in accordance with Section 143B-426.40H of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the State are not available by seven months from the end of such fiscal year, unaudited financial statements of the State for such fiscal year to be replaced subsequently by audited financial statements of the State to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each fiscal year of the State, commencing with the fiscal year ended June 30, 2025, financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included in Appendix A to this Official Statement as described below, to the extent such items are not included in the financial statements referred to in (a) above:

- (1) the information with respect to authorized budget for current fiscal year only for the General Fund, Highway Fund and Highway Trust Fund in the section entitled "BUDGETING FOR REVENUES AND EXPENDITURES – Governmental Funds;"
- (2) the information in the section entitled "BUDGETING FOR REVENUES AND EXPENDITURES - Reserves;"
- (3) the information in the sections entitled "STATE INDEBTEDNESS PAID FROM THE GENERAL FUND – General Obligation Indebtedness" and "– Special Indebtedness" (including the table entitled Annual Debt Service Requirements for General Obligation Bonds and Special Indebtedness);" and
- (4) in Exhibit A-1, the tax rate information in the section entitled "GENERAL FUND REVENUES AND EXPENDITURES – Revenues;"

(c) in a timely manner not in excess of ten (10) business days following the occurrence of the event, to the MSRB notice of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-

TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

- (7) modification of the rights of the beneficial owners of the Bonds, if material;
- (8) call of any of the Bonds, if material, and tender offers;
- (9) defeasance of any of the Bonds;
- (10) release, substitution or sale of any property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the State;
- (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
- (14) the appointment of a successor or additional trustee, or the change in the name of a trustee, if material;
- (15) incurrence of a financial obligation (as defined below) of the State, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the State, any of which affect beneficial owners of the Bonds, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the State, any of which reflect financial difficulties; and

(d) in a timely manner, notice of a failure of the State to provide required annual financial information described in (a) or (b) above on or before the date specified.

All documents provided to the MSRB as described above shall be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The State may discharge its undertaking described above by transmitting those documents or notices in a manner subsequently authorized or required by the SEC in lieu of the manner described above.

For purposes of Event 15 and Event 16 listed above, the term "financial obligation" means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

The State has determined parameters for assessing whether a particular event, action or situation is material as described in Event 15. Under these parameters, the term the "State" does not include entities that, under accounting standards, are component units of the State. The three major components units of the State are the University of North Carolina System, the community colleges and the State Health Plan.

There are 11 other non-major components of the State. See Note 1A in the State's Annual Comprehensive Financial Report, which can be found at [www.osc.nc.gov](http://www.osc.nc.gov). While the State has established the parameters set forth above with respect to Event 15, determinations as to the materiality of events which may require disclosure under Event 15 will be made at the time of such event and in the context of the facts and circumstances at the time of the event.

At present, Section 143B-426.40H of the General Statutes of North Carolina requires all State agencies and component units of the State, as defined by generally accepted accounting principles, to prepare annual financial information on all funds administered by them no later than 60 days after the end of the State's fiscal year in accordance with generally accepted accounting principles as described in authoritative pronouncements and interpreted or prescribed by the State Controller, and in the form and timeframe required by the State Controller. These statements shall be combined by the State Controller into a Comprehensive Annual Comprehensive Financial Report for the State in accordance with generally accepted accounting principles. These statements, along with the opinion of the State Auditor, shall be published as the official financial statements of the State.

If the State fails to comply with the undertaking described above, any beneficial owner of the Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking will not be an event of default and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds. As to the remedy of specific performance, it is the Attorney General's opinion that specific performance of such undertaking would be enforceable against the State.

The State has reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the State, provided that:

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the State;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners of the Bonds, as determined either by parties unaffiliated with the State (such as bond counsel) or by the approving vote of the owners of a majority in principal amount of the Bonds then outstanding pursuant to the terms of such resolution, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

On September 11, 2024, Moody's updated the State's Grant Anticipation Revenue Vehicle Bonds "GARVEE" bonds to Aa3 from A2. A notice was posted but not within 10 business days. Other than as

described herein, the State has complied, in all material respects, with the terms of all prior undertakings under Rule 15c2-12 during the last five years with respect to its general obligation bonds, special indebtedness and GARVEE bonds. No representation is made by the State or the State Treasurer's office relating to any Rule 15c2-12 undertakings of any component of the State that independently issues bonds subject to Rule 15c2-12 (including, but not limited to, the Board of Governors of the University of North Carolina, the North Carolina Turnpike Authority, the North Carolina Medical Care Commission, the North Carolina Capital Facilities Finance Agency, the North Carolina Agricultural Finance Authority, the North Carolina Housing Finance Agency, etc.).

## **LEGAL MATTERS**

Certain legal matters relating to the authorization and issuance of the Bonds are subject to the approval of McGuireWoods LLP, Raleigh, North Carolina, Bond Counsel. The proposed forms of the approving legal opinions of Bond Counsel are included in **Appendix C** hereto.

McGuireWoods LLP, Raleigh, North Carolina, has also acted as Disclosure Counsel and provided advice to the State with respect to information in this Official Statement other than the financial or statistical data or any projections herein.

## **LEGAL INVESTMENT**

The legislation pursuant to which the Bonds are issued provides that the Bonds are securities in which all public officers, agencies and public bodies of the State and its political subdivisions all insurance companies, trust companies, investment companies, banks, savings banks, savings and loan associations credit unions, pension or retirement funds, other financial institutions engaged in business in the State, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

## **TAX MATTERS**

### **Opinion of Bond Counsel – Federal Income Tax Status of Interest**

Bond Counsel's opinion regarding the federal income tax status of the interest on the Bonds will state that, under current law and assuming continuing compliance with the Covenants (as hereinafter defined), interest on the Bonds (i) is excludable from the gross income of the owners thereof for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code.

Bond Counsel's opinion speaks as of its date, is based on current provisions of the Code, and other current legal authority and precedent, and covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the excludability of interest on the Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the State or about the effect of future changes in the Code, the applicable regulations, or the interpretation or the enforcement thereof by the Internal Revenue Service (the "IRS") or the courts. The State has covenanted, however, to comply with the requirements of the Code.

Although Bond Counsel is of the opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, Bonds may otherwise affect the federal tax liability of an owner of the Bonds. The nature and extent of

these other federal tax consequences depend on the owner's particular tax status and levels of other income or deductions. Bond Counsel will express no opinion regarding any such other tax consequences and prospective purchasers of the Bonds should consult their own tax advisors with respect thereto.

See "FORMS OF OPINIONS OF BOND COUNSEL" in **Appendix C**.

Delivery of the Series 2026A Bonds, and the delivery of Bond Counsel's opinion with respect to the Series 2026A Bonds, is subject to the satisfaction of certain terms and conditions provided in the Forward Delivery Agreement as described under the heading "**PLAN OF REFUNDING**."

### **Reliance and Assumptions; Effect of Certain Changes**

In delivering its opinion regarding the federal income tax treatment of interest on the Bonds, Bond Counsel is relying upon certifications of representatives of the State, the underwriters of the Bonds, the municipal advisor to the State and other persons as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the State. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by such Bonds, limitations on the source of the payment of and the security for such Bonds and the obligation to rebate certain excess earnings on the gross proceeds of such Bonds to the United States Treasury. The Tax Certificate to be entered into by the State (the "Tax Certificate") with respect to the Bonds contains covenants (the "Covenants") under which the State has agreed to comply with such requirements. Failure by the State to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. If such a failure occurs, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in the Tax Certificate. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation,



banks and other financial institutions, certain insurance companies, dealers in tax-exempt obligations, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, owners of an interest in a financial securitization trust, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

### **Original Issue Discount**

In general, a Bond purchased in the initial public offering with yields higher than their applicable interest rates, as shown on the inside cover page hereof, have been sold with "original issue discount." Each such Bond is referred to below as an "OID Bond." The excess of (i) the stated amount payable at the maturity (excluding qualified stated interest) of any OID Bond over (ii) the issue price of the OID Bond as determined under Section 1273 of the Code (which may differ from the price shown on the inside front cover page of this Official Statement) constitutes the amount of original issue discount, which is treated in the same manner as interest on the Bonds for federal income tax purposes.

The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest. In the case of an original owner of an OID Bond, the amount of original issue discount that is treated as having accrued on such OID Bond is added to the owner's adjusted basis in determining, for federal income tax purposes, gain or loss upon the disposition of the OID Bond (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued original issue discount will be excludable from the gross income of the owner for federal income tax purposes.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial public offering may be determined according to rules that differ from those described above.

In addition, original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed in this section. Consequently, the owner of an OID Bond should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although such owner has not received cash attributable to such original issue discount in such year.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the original issue discount accrued upon sale or redemption of such OID Bonds (including OID Bonds not purchased in the initial public offering) and with respect to the state and local tax consequences of owning OID Bonds.

### **Bond Premium**

Bonds purchased in the initial public offering with yields lower than their applicable interest rates, as shown on the inside cover page hereof, have been sold with "bond premium." Each such Bond is referred to below as an "OIP Bond." The excess of (i) the owner's basis in the OIP Bond immediately after acquisition over (ii) the amount payable at maturity (excluding qualified stated interest) as determined under Section 171 of the Code constitutes the amount of the bond premium. Under the Code, the bond premium is amortized based on the owner's yield over the remaining term of the OIP Bond (or, in the case of certain callable OIP Bonds, to an earlier call date that results in a lowest yield on the OIP Bond). The owner of an OIP Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each

interest accrual period against the bond premium allocable to that period. No deduction is allowed for such amortization of bond premium even though the owner is required to decrease the adjusted basis in the owner's OIP Bond by the amount of the amortizable bond premium, which will result in an increase in the gain (or decrease in the loss) recognized for federal income tax purposes upon a sale or disposition of the OIP Bond prior to its maturity.

Prospective purchasers of any OIP Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, sale, exchange, or other disposition of, and amortization of bond premium on, such OIP Bonds.

### **Information Reporting and Backup Withholding**

Prospective purchasers should be aware that the interest on the Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest on the Bonds may be subject to backup withholding if the interest is paid to an owner who or which (i) is not an "exempt recipient" and (ii) (A) fails to furnish an accurate U.S. taxpayer identification number in the manner required, (B) has been notified of a failure to report all interest and dividends required to be shown on federal income tax returns or (C) fails to certify under penalty of perjury that the owner is not subject to withholding. Individuals generally are not exempt recipients, although corporations and other entities generally are.

The reporting and backup withholding requirements do not in and of themselves affect the excludability of interest on the Bonds from gross income for federal income tax purposes, and amounts withheld under the backup withholding rules may be refunded or credited against the owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

### **Internal Revenue Service Audits**

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, the IRS will, under its current procedures, treat the State as the taxpayer. As such, the beneficial owners of the Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Bonds.

### **Opinion of Bond Counsel – North Carolina Income Tax Consequences**

Bond Counsel's opinion will also state that, under existing law, the interest on the Bonds is exempt from all present State of North Carolina income taxes. Bond Counsel will express no opinion regarding (a) other North Carolina tax consequences arising with respect to the Bonds or (b) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than North Carolina. Prospective purchasers of the Bonds should consult their own tax advisors regarding the tax status of interest on the Bonds in a particular state or local jurisdiction other than North Carolina.

### **Changes in Federal and State Tax Law and Regulations**

Legislation affecting tax-exempt obligations is regularly considered by the U.S. Congress and various state legislatures. Such legislation may effect changes in federal or state income tax rates and the application of federal or state income tax laws (including the substitution of another type of tax), or may

repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or state income tax purposes.

The U.S. Department of the Treasury and the IRS and state regulatory authorities are continuously drafting regulations to interpret and apply the provisions of the Code and state law and court proceedings may be filed the outcome of which could modify the federal or state tax treatment of tax-exempt obligations.

There can be no assurance that legislation proposed or enacted after the date of issue of the Bonds, regulatory interpretation of the Code or state laws or actions by a court involving either the Bonds or other tax-exempt obligations will not have an adverse effect on the Bonds' federal or state tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential consequences of any such proposed or pending federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

### **LITIGATION**

No litigation is now pending in any court seeking to restrain or enjoin the authorization, execution or delivery of the Bonds or contesting the authority of proceedings for the authorization, execution or delivery of the Bonds or the validity thereof, or the creation, organization, corporate existence or powers of the State, or the title of any of the present officers thereof to their respective titles or the authority or proceedings for the execution and delivery of the Bonds by the State.

### **RATINGS**

Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Inc. have assigned ratings of "Aaa", "AAA" and "AAA", respectively, to the Bonds. These ratings reflect only the view of such rating agencies, and an explanation of the significance of such ratings may be obtained from such rating agencies. Certain information and materials not included in this Official Statement were furnished to such rating agencies. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **MUNICIPAL ADVISOR**

Davenport & Company LLC ("Davenport") is employed as a municipal advisor to the State in connection with the issuance of the Bonds. The municipal advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Davenport, in its capacity as municipal advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents provided, agreed to or made by others with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Davenport, as the municipal advisor to the State, has provided the following sentence for inclusion in this Official Statement. Although Davenport has assisted in the preparation of this Official Statement, Davenport is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the maturing principal amounts of the respective Federal Securities and interest earned thereon, together with any cash in the related escrow account, to pay the redemption price of and interest on the applicable Refunded Bonds as such interest payments become due and the applicable Refunded Bonds are redeemed are being verified by Bingham Arbitrage Rebate Services, Inc.

## UNDERWRITING

BofA Securities, Inc., Wells Fargo Bank, National Association, J.P. Morgan Securities LLC and Truist Securities, Inc. (the "Underwriters") are offering the Series 2025C Bonds pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between BofA Securities, Inc. (the "Representative"), on behalf of the Underwriters and the State. The Bond Purchase Agreement provides, in part, that subject to certain conditions, the Underwriters will purchase the Series 2025C Bonds from the State at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the Series 2025C Bonds, [plus][less] a [net] original issue [premium][discount] of \$\_\_\_\_\_ and less an underwriters' discount of \$\_\_\_\_\_). The Underwriters have agreed, subject to the terms of the Forward Delivery Bond Purchase Agreement, to purchase the Series 2026A Bonds from the State. The Forward Delivery Bond Purchase Agreement provides, in part, that subject to certain conditions, the Underwriters will purchase the Series 2026A Bonds from the State at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the Series 2026A Bonds, [plus][discount] a [net] original issue [premium][discount] and less an underwriters' discount of \$\_\_\_\_\_).

The Underwriters will make a public offering of the Bonds at prices that are not in excess of the public offering price or prices (or less than the yields) stated on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

In connection with the Tender Offer, BofA Securities, Inc. is also serving as Dealer Manager (in such capacity, the "Dealer Manager") pursuant to the terms of a dealer manager agreement with the State. For its services as Dealer Manager, the Dealer Manager will be compensated (the "Dealer Manager Fee") in an amount equal to a percentage of the aggregate principal amount of Purchased Refunded Bonds tendered and accepted for purchase. The Dealer Manager Fee is expected to be paid from a portion of the proceeds of the Series 2025C Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the State (directly, as

collateral securing other obligations or otherwise) and/or persons and entities with relationships with the State.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

BofA Securities, Inc., an Underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill"). As part of this arrangement, BofA Securities, Inc. may distribute securities to Merrill, which may in turn distribute such securities to investors through the financial advisor network of Merrill. As part of this arrangement, BofA Securities, Inc. may compensate Merrill as a dealer for their selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), an underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co. Inc. (CS&Co.) and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Truist Securities, Inc. has entered into agreements (the "Distribution Agreements") with certain of its affiliates (the "Retail Affiliates") for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreements, Truist Securities, Inc. may share a portion of its underwriting compensation, as applicable, with respect to the Bonds with the Retail Affiliates. Truist Securities, Inc. and the Retail Affiliates are subsidiaries of Truist Financial Corporation.

Truist Securities is the trade name for the corporate and investment banking services of Truist Financial Corporation and its subsidiaries. Securities and strategic advisory services are provided by Truist Securities, Inc., member FINRA and SIPC. Lending, financial risk management, and treasury management and payment services are offered by Truist Bank. Deposit products are offered by Truist Bank, Member FDIC. In its normal course of business Truist Bank may currently, or in the future, provide credit, treasury management, or other commercial banking services to the State.

## **RELATIONSHIP OF PARTIES**

McGuireWoods LLP, Bond Counsel, is also serving as Disclosure Counsel. McGuireWoods LLP has represented the Underwriters as counsel in other financing transactions. Womble Bond Dickinson (US) LLP, counsel to the Underwriters, has previously represented and is currently representing the State in other financing and unrelated legal matters.

Neither the State nor the Underwriters have conditioned the future employment of either of these firms in connection with any proposed financing issues for the State or for the Underwriters on the successful execution and delivery of the Bonds.

## **MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The delivery of this Official Statement and its distribution and use by the underwriters have been duly authorized and approved by the State.

The State has deemed this Preliminary Official Statement final as of its date within the meaning of Rule 15c2-12, except for the omission of certain pricing and other information permitted to be omitted pursuant to Rule 15c2-12.

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## **APPENDIX A**

### **THE STATE OF NORTH CAROLINA**

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## **INTRODUCTION**

The following information with respect to the State of North Carolina (the "State"), its economy, activities and other matters prepared for use in this offering document has been drawn from a number of different sources. In some respects, those sources differ as to the dates of information collection and collation, accounting treatment and the particular definitions of terms or categories used for the reporting of information. Efforts have been made to obtain the most recent information available, to note the sources of such information and, when possible, to indicate reasons for differences between separately presented data. However, while the information from sources other than the State is believed reliable, no assurance can be given it is entirely accurate or that all such differences have been identified. Any information noted as coming from such other sources should be viewed as included only for general comparison purposes and not as indicative of absolute numbers, facts or rankings.

The State, located in the southeast region of the United States along the Atlantic Coast, has a land area, exclusive of waterways and lakes, of approximately 50,000 square miles, making it the 28th largest state by size. The State is approximately 500 miles from east to west and about 150 miles from north to south and the coastline is 301 miles long. There are 80,384 miles of roads, with Interstate 40 crossing the State east to west, and Interstates 77, 85 and 95 crossing the State north to south.

The State is divided into three main geographic regions. The Coastal Plain region lies along the Atlantic Ocean and includes the Outer Banks, a chain of barrier islands, as well as wide areas of sandy soil, wetlands, and fertile farmland. The Piedmont region, located in the central part of the State, is characterized by gently rolling hills and red clay soil; it serves as the center of industry and population, with major cities such as Charlotte, Raleigh, and Greensboro. To the west, the Mountain region includes the Blue Ridge Mountains and the Great Smoky Mountains, both part of the larger Appalachian chain. This region contains rugged terrain, dense forests, and the highest peak in the eastern United States, Mount Mitchell. The variety of landforms, the State's location along the Atlantic Seaboard, and its central role in the southeastern U.S. economy have all contributed significantly to the development and growth of North Carolina.

The State has 100 counties, 76 cities, 456 towns and 21 villages.

## **DEMOGRAPHIC CHARACTERISTICS**

### **Population**

According to the U.S. Census Bureau, the State's population was 11,046,024 in 2024, which was approximately 3.25% of the United States total population. Among the fifty states, the State ranks 9th in population size. Most of North Carolina's population is concentrated in the Piedmont – particularly in the band of urban areas from Charlotte, through the Triad (Winston-Salem, Greensboro, High Point), to the Triangle (Raleigh, Durham, Chapel Hill). There remains a significant rural population in the State as well. Since 2020, according to the U.S. Census Bureau, 84 of North Carolina's 100 counties experienced population growth – compared to 62% of all counties and county equivalents in the South and 58% of all counties and county equivalents in the United States.

| <b>Year</b> | <b>United States<br/>Population as of<br/>July 1</b> | <b>United States Increase<br/>from Prior<br/>Fiscal Year</b> | <b>North Carolina<br/>Population as of<br/>July 1</b> | <b>North Carolina<br/>Increase from Prior<br/>Fiscal Year</b> |
|-------------|------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------|
| 2020        | 331,577,720                                          | 0.41%                                                        | 10,449,652                                            | 0.77%                                                         |
| 2021        | 323,099,760                                          | 0.16                                                         | 10,564,320                                            | 1.10                                                          |
| 2022        | 334,017,321                                          | 0.58                                                         | 10,710,793                                            | 1.39                                                          |
| 2023        | 336,806,231                                          | 0.83                                                         | 10,881,189                                            | 1.59                                                          |
| 2024        | 340,110,988                                          | 0.98                                                         | 11,046,024                                            | 1.51                                                          |

Source: U.S. Census Bureau, Population Division, Vintage 2024 and 2010-20 Intercensal Population Estimates.

Between April 1, 2020 and July 1, 2024, the State's population increased by an estimated 604,525 (the third largest numeric population increase in the nation). Notably, it is estimated that approximately 350 or more people are moving to the State per day.

#### **Population and Population Change April 1, 2020 – July 1, 2024**

| <b>State</b>          | <b>Population<br/>as of July<br/>1, 2024</b> | <b>Population Change,<br/>2020-24</b> |            |
|-----------------------|----------------------------------------------|---------------------------------------|------------|
|                       |                                              | <b>Numeric</b>                        | <b>%</b>   |
| California            | 39,431,263                                   | (124,411)                             | -0.3%      |
| Texas                 | 31,290,831                                   | 2,141,373                             | 7.3        |
| Florida               | 23,372,215                                   | 1,834,023                             | 8.5        |
| New York              | 19,867,248                                   | (336,524)                             | -1.7       |
| Pennsylvania          | 13,078,751                                   | 75,842                                | 0.6        |
| Illinois              | 12,710,158                                   | (111,656)                             | -0.9       |
| Ohio                  | 11,883,304                                   | 83,851                                | 0.7        |
| Georgia               | 11,180,878                                   | 467,123                               | 4.4        |
| <b>North Carolina</b> | <b>11,046,024</b>                            | <b>604,525</b>                        | <b>5.8</b> |
| Michigan              | 10,140,459                                   | 61,121                                | 0.6        |

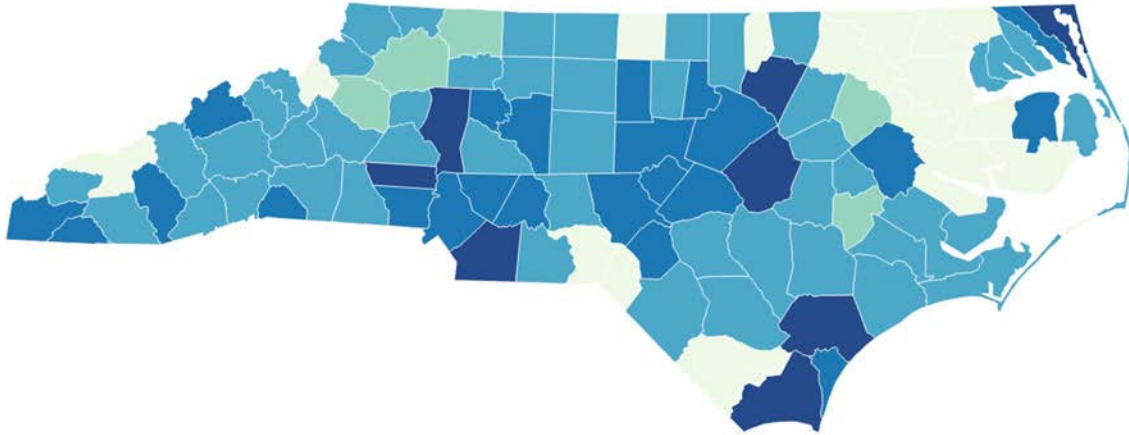
Source: U.S. Census Bureau, Population Division, Vintage 2024 Population Estimates.

# Population Percent Change, 2020 - 2024

Census Estimates of Population Change from April 1, 2020 - July 1, 2024

## Percent Change

< 0   0-1   1-5   5-10   ≥ 10



Map prepared by NC OSBM.

Source: US Census Bureau, Population Estimates, Vintage 2024 • Created with Datawrapper

Migration is a major contributor to the State's population growth, accounting for 95% of all growth since the 2020 Census. Since 2020, 573,000 more people moved to North Carolina than those who left. Most of those moving to North Carolina moved from another state (a net gain of approximately 392,000 people) with the remainder moving from another country (a net gain of approximately 181,000 people). North Carolina is among the thirteen states that added population through natural increase (more births than deaths), domestic or state-to-state migration, and net international migration.

The two largest cities in the State are two of the fastest growing in the nation. Charlotte had the 3rd largest percentage growth (7.9%) and 4th largest numeric growth (69,000) between 2020 and 2024 among the 50 largest cities in the United States. During the same period, Raleigh experienced the 5th fastest population growth (6.8%) and 10th largest population gain (32,000). At 875,000 people in 2024, Charlotte ranks as the 14th largest city in the United States while Raleigh, at 468,000, is the 39th largest. In addition to Charlotte and Raleigh, there are three other cities in excess of 250,000 people and another five of 100,000 or more.

## Age Distribution

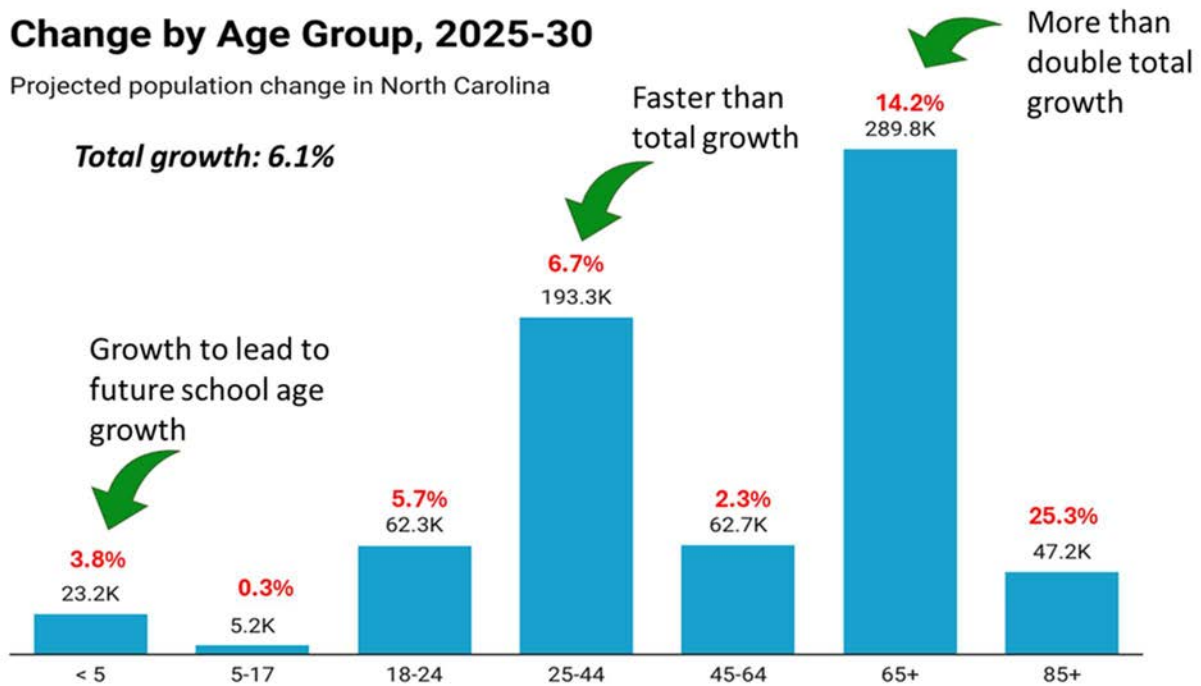
In Fiscal Year 2024-25, approximately half of North Carolina's population was in the prime working ages of 25 to 64. As of Fiscal Year 2024-25, approximately 2.3 million of the population was comprised of children (those under 18 years of age). Seniors (65 and older) are the fastest growing age group in North Carolina; while they are currently 18% of the population, it is estimated that the senior population will increase in size.

The following chart illustrates this growth:

## Change by Age Group, 2025-30

Projected population change in North Carolina

**Total growth: 6.1%**



Source: NC OSBM, Population Projections, Vintage 2024 • Created with Datawrapper

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## ECONOMIC CHARACTERISTICS

North Carolina's economy is broad and diversified. Highlights regarding the North Carolina economy include:

- 11th largest economy in the nation
- Unemployment remains low at 3.7% (August 2025)
- In 2024, the State attracted 17,000 new jobs and \$15.2 billion in investments, particularly in technology, pharmaceuticals and advanced manufacturing
- Between December 2019 and August 2025, North Carolina's job growth rose by approximately 10.2%, outpacing the United States' average of approximately 5.1%
- North Carolina's income growth from fourth quarter of 2019 to second quarter of 2025 was approximately 46.1% compared to the national average of 36.6%
- From fourth quarter of 2019 to second quarter of 2025, real Gross-Domestic Product ("GDP") in North Carolina grew by approximately 17.8%, compared to 13.3% for the United States

### Principal Economic Sectors

Mirroring national trends, the State's economy relies more heavily on service-providing jobs than on goods-producing jobs. In 2024, service providing establishments accounted for 86% of private sector establishments and 80% of private sector wages, compared to 14% of private sector establishments and 20% of private sector wages for goods-producing establishments. Service-producing establishments are well-distributed among many sectors, including professional services, retail trade, and health and education. In 2024, service-providing private sector employment accounted for an estimated 3.4 million jobs, while the goods-producing private sector employment accounted for an estimated 782,000 jobs and government employment accounted for an additional 717,000 jobs in 2024.

*Services.* Service providing sectors, including information, financial activities, professional and business services, educational and health services, leisure and hospitality, and other services account for over 4.3 million jobs, or about 85% of total nonfarm employment in the State, according to December 2024 data seasonally adjusted from the Bureau of Labor Statistics' current employment statistics.

The Charlotte MSA is home to a large number of financial industry employers including Wells Fargo Bank, N.A., Bank of America, N.A., Truist Bank and Fidelity. The Raleigh-Durham-Chapel Hill area is home to three major universities, North Carolina State University, Duke University and the University of North Carolina at Chapel Hill, and major technology employers such as IBM, Cisco, Lenovo and GlaxoSmithKline. The headquarters for 10 Fortune 500 companies are located in the State.

*Agriculture.* In 2022 (latest data available), agriculture and agribusiness (food, fiber and forestry) accounted for one-sixth of the State's income and employment. Almost 16%, or \$111 billion of the \$716 billion gross state product, was contributed by the food, fiber, and forestry industries that year. These industries account for over 770,000 of the State's 4.5 million employees. The United States Department of Agriculture ("USDA") reported the cash receipts for North Carolina's agricultural production to be \$14.8 billion in 2024, placing the State tenth in the nation in gross agricultural income.

*Trade.* According to the United States Bureau of Labor Statistics, North Carolina's trade industry (consisting of wholesale and retail trade, transportation, warehousing and utilities sectors) accounts for approximately 18.4% of the State's nonfarm employment (seasonally adjusted). Trade employment decreased by 0.4% in 2024.

*Exports.* Exports continue to make important contributions to the State's economy. According to the Office of the United States Trade Representative, the State's total value of merchandise exports reached \$42.8 billion in 2024, an increase of approximately 36% (\$11 billion) from its export level in 2014. Based on 2024 annual data, the State ranked 15th in the nation in the value of its goods exports. North Carolina's goods exports in 2022 (latest data available) supported an estimated 145,000 jobs.

*Manufacturing.* While the percentage of North Carolina workers in manufacturing has decreased over time, according to the North Carolina Department of Commerce, the sector still accounts for almost 10% of the State's total employment and remains critical to the State's economy. In Site Selection Group's 2024 ranking of best states for manufacturing, North Carolina was ranked number one, and according to the Bureau of Economic Analysis, the State had the nation's eighth largest manufacturing GDP in 2024. The State's manufacturing industry is fairly diversified. Chemical product manufacturing provides the highest contribution to the State's GDP while food production ranks second.

*Tourism.* Tourism is a major contributor to North Carolina's economy. The Economic Development Partnership of North Carolina and Tourism Economics estimate that direct visitor spending contributed approximately \$36.7 billion to the State's economy in 2024, approximately a 3.1% increase over the prior year. Estimated State tax receipts from tourism increased by 1.1% over the prior year, to just under \$1.4 billion. Visitors spent an estimated \$99.6 million per day in North Carolina in 2024, contributing approximately \$3.7 million daily in State revenue as a result of that spending. North Carolina's estimated direct tourism employment was approximately 230,300, an increase of 1.4% from the prior year.

*Military.* According to the Defense Manpower Data Center, North Carolina hosts the fourth largest military population in the United States as of June 30, 2025. According to Military State Policy Source, North Carolina residents included 91,046 active-duty service members and 41,940 National Guard and reserve members as of December 31, 2024. Over 618,846 veterans reside in the State according to the most recent American Community Survey estimate from 2023.

The Fort Bragg Army base in Fayetteville is one of the largest military installations in the world. Additional major military installations within the State are Marine Corps Camp Lejeune, Marine Corps Air Station Cherry Point, Marine Corps Air Station New River, Seymour Johnson Air Force Base, and the U.S. Coast Guard Air Station in Elizabeth City. Other military facilities in the State include the Military Ocean Terminal Sunny Point (which is the largest military terminal in the country and serves as a transfer point for military material between trucks, rail and ships) and the Army Research Office (located in the Research Triangle Park). These military installations and facilities directly contribute to the economic development of North Carolina through capital investment, employment, and defense contracting, and indirectly through increased demand experienced by regional businesses and increased spending from households.

## **Assessed Value**

The following table shows the assessed valuation of real property, tangible personal property and property of public service companies in the State for the last five fiscal years; the table excludes exempt property. Counties are required by statute to assess property at 100% of its appraised value. Real property must be revalued every eight years, but counties may elect to revalue more frequently. The State does not levy an ad valorem tax on real property or tangible personal property.



| Assessed Valuation<br>(\$ millions) |               |                               |                                    |                    |
|-------------------------------------|---------------|-------------------------------|------------------------------------|--------------------|
| Fiscal Year                         | Real Property | Tangible Personal<br>Property | Public Service<br>Company Property | Total <sup>1</sup> |
| 2020-21                             | \$1,059,268   | \$200,424                     | \$38,741                           | \$1,298,433        |
| 2021-22                             | 1,126,348     | 215,338                       | 39,864                             | 1,381,550          |
| 2022-23                             | 1,182,382     | 231,324                       | 41,975                             | 1,455,682          |
| 2023-24                             | 1,397,660     | 250,111                       | 44,162                             | 1,691,933          |
| 2024-25                             | 1,569,340     | 267,277                       | 46,400                             | 1,883,017          |

Source: Compiled by Department of Revenue from reports submitted by county assessors.

<sup>1</sup> Totals may not foot due to rounding.

### Taxable Retail Sales

Over the past five fiscal years, taxable retail sales in the State have increased by approximately \$57.3 million or approximately 31%. The following table illustrates the changes in taxable retail sales for the Fiscal Year 2020-21 through Fiscal Year 2024-25.

| Retail Taxable Sales<br>(\$ in millions) |           |            |
|------------------------------------------|-----------|------------|
| Fiscal Year                              | Sales     | Y/Y Growth |
| 2020-21                                  | \$184,873 | 15.7%      |
| 2021-22                                  | 211,168   | 14.2       |
| 2022-23                                  | 228,834   | 8.4        |
| 2023-24                                  | 236,235   | 3.2        |
| 2024-25                                  | 242,172   | 2.5        |

Source: NC Dept. of Revenue, 2024 Statistical Abstract.

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## Personal Income

From calendar year 2020 to 2024, per capita personal income in the State grew from \$51,779 to \$64,855 in current dollars, a 25.3% increase. The State's estimated 2023 Median Household Income was \$70,804, an increase of 0.8% over 2022, the 15th fastest growth rate among the 50 states.

### Per Capita Income North Carolina Compared to United States

| Calendar Year | Population               |                                   |                           |                                   | Per Capita Income     |                       |                     |
|---------------|--------------------------|-----------------------------------|---------------------------|-----------------------------------|-----------------------|-----------------------|---------------------|
|               | United States Population | U.S. % Increase from Prior Period | North Carolina Population | N.C. % Increase from Prior Period | United States         | North Carolina        | N.C. as a % of U.S. |
| 2000          | 282,125,000 <sup>1</sup> | 13.46%                            | 8,049,313 <sup>1</sup>    | 21.30%                            | \$30,529 <sup>2</sup> | \$27,410 <sup>2</sup> | 89.78%              |
| 2010          | 308,745,538 <sup>1</sup> | 9.44                              | 9,535,483 <sup>1</sup>    | 18.46                             | 40,526 <sup>2</sup>   | 35,848 <sup>2</sup>   | 88.45               |
| 2020          | 331,577,720              | 7.40                              | 10,449,652                | 9.59                              | 59,160 <sup>2</sup>   | 51,779 <sup>2</sup>   | 87.52               |
| 2021          | 323,099,760              | 0.16                              | 10,564,320                | 1.10                              | 64,657 <sup>2</sup>   | 57,023 <sup>2</sup>   | 88.19               |
| 2022          | 334,017,321              | 0.58                              | 10,710,793                | 1.39                              | 66,255 <sup>2</sup>   | 58,871 <sup>2</sup>   | 88.86               |
| 2023          | 336,806,231              | 0.83                              | 10,881,189                | 1.59                              | 69,956 <sup>2</sup>   | 61,579 <sup>2</sup>   | 88.03               |
| 2024          | 340,110,988              | 0.98                              | 11,046,024                | 1.51                              | 73,207 <sup>2</sup>   | 64,855 <sup>2</sup>   | 88.59               |

Sources: <sup>1</sup> U.S. Department of Commerce, Bureau of the Census.

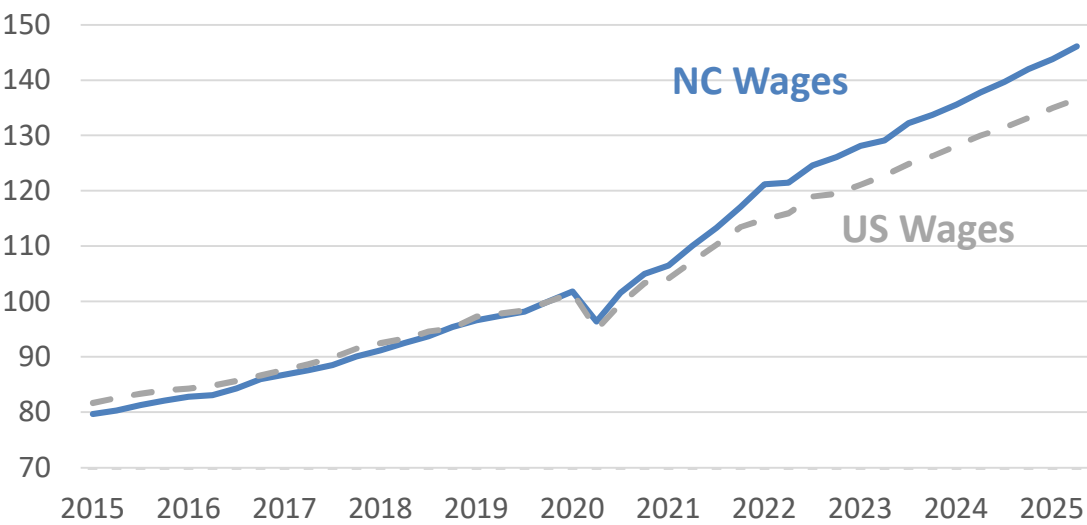
<sup>2</sup> <https://fred.stlouisfed.org/series/NPCPI> and <https://fred.stlouisfed.org/series/A792RC0A052NBEA>

For calendar year 2023, 43.6% of individual income tax returns in North Carolina were from filers having a taxable income of \$15,000 or less and 4.8% were from filers having a taxable income of \$200,001 or more. Those percentages were 51.3% and 1.4%, respectively, in 2009. See North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024, attached as Appendix B to this Official Statement.

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The following chart shows that wage growth in North Carolina outpaced the wage growth for the United States since the early pandemic. North Carolina's wage growth has resulted in increased income tax and sales tax collections.

NC and US Wages Indexed to 2019 Q4 = 100



### Housing

In 2024, North Carolina had over five million housing units, accounting for approximately 3% of all housing units in the United States. The State has seen significant growth in residential construction since 2020, adding more housing units than all but three other states and contributing to approximately 6% of the nation's housing unit growth. Additionally, North Carolina had the fourth fastest housing unit growth rate since 2020, with an increase of approximately 7.7%.

Housing Units in 2024 and Housing Unit Change, 2020 – 2024  
Ranked by Housing Unit Change

| State                    | Housing Units in 2024 | % of All Housing Units | Housing Unit Change, 2020 - 2024 | % Housing Unit Change, 2020 - 2024 | Share of US Change |
|--------------------------|-----------------------|------------------------|----------------------------------|------------------------------------|--------------------|
| 1. Texas                 | 12,617,283            | 9%                     | 1,027,970                        | 8.9%                               | 16%                |
| 2. Florida               | 10,629,918            | 7                      | 764,559                          | 7.7                                | 12                 |
| 3. California            | 14,877,904            | 10                     | 485,763                          | 3.4                                | 8                  |
| <b>4. North Carolina</b> | <b>5,073,639</b>      | <b>3</b>               | <b>364,924</b>                   | <b>7.7</b>                         | <b>6</b>           |
| 5. Georgia               | 4,668,859             | 3                      | 257,911                          | 5.8                                | 4                  |
| United States            | 146,770,711           | 100%                   | 6,271,975                        | 4.5%                               | 100%               |

Source: U.S. Census Bureau, Estimates of Housing Units for the United States, Regions, States, and the District of Columbia: April 1, 2020 to July 1, 2024.

## Employment

The following table sets forth the State's labor force and the number of non-agricultural jobs by major sector for calendar years 2020 through 2024. Statistics with respect to the labor force are based upon actual laborers available in the workforce; while statistics with respect to jobs relate to actual jobs established (one member of the labor force may maintain more than one job). Note that the labor force and current employment statistics data listed for calendar years 2020 through 2024 are unadjusted.

### North Carolina Employment Data for the Calendar Years 2020-2024

|                                       | 2020      | 2021      | 2022      | 2023      | 2024      |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Labor Force Data (People)             |           |           |           |           |           |
| Civilian Labor Force:                 | 4,787,234 | 5,000,933 | 5,101,330 | 5,220,556 | 5,269,449 |
| Employed                              | 4,430,134 | 4,769,039 | 4,929,061 | 5,047,952 | 5,079,071 |
| Unemployed                            | 357,100   | 231,894   | 172,269   | 172,604   | 190,378   |
| Unemployment Rate (%)                 | 7.50%     | 4.60%     | 3.40%     | 3.30%     | 3.60%     |
| Jobs (Establishment Data):            |           |           |           |           |           |
| Total Nonfarm                         | 4,422,800 | 4,613,200 | 4,813,600 | 4,945,400 | 5,015,400 |
| Total Private                         | 3,632,182 | 3,828,857 | 4,018,296 | 4,133,598 | 4,184,582 |
| Goods Producing                       | 711,566   | 730,566   | 749,064   | 759,519   | 765,691   |
| Natural Resource Mining               | 29,560    | 28,154    | 27,950    | 28,535    | 28,414    |
| Construction                          | 229,369   | 238,391   | 247,861   | 261,427   | 272,147   |
| Manufacturing                         | 452,637   | 464,007   | 473,254   | 469,557   | 465,130   |
| Durable Goods                         | 244,424   | 250,564   | 255,557   | 253,561   | 251,170   |
| Non-Durable Goods                     | 208,213   | 213,443   | 217,697   | 215,996   | 213,960   |
| Service Providing                     | 3,433,748 | 3,602,080 | 3,777,748 | 4,070,598 | 4,135,520 |
| Trade, Trans, Warehousing & Utilities | 875,341   | 923,278   | 949,464   | 961,997   | 963,853   |
| Wholesale Trade                       | 175,068   | 184,656   | 189,893   | 192,399   | 192,771   |
| Retail Trade                          | 507,698   | 535,501   | 550,689   | 557,958   | 559,035   |
| Trans., Warehouse & Utilities         | 192,575   | 203,121   | 208,882   | 211,640   | 212,047   |
| Information                           | 74,478    | 78,316    | 82,627    | 86,075    | 86,852    |
| Financial Activities                  | 252,045   | 270,915   | 288,332   | 300,130   | 304,696   |
| Professional and Business Services    | 642,795   | 682,340   | 740,138   | 749,322   | 746,544   |
| Education and Health Services         | 984,087   | 997,115   | 1,012,694 | 1,052,700 | 1,088,544 |
| Leisure and Hospitality Services      | 425,493   | 463,487   | 505,734   | 536,321   | 546,808   |
| Other Services                        | 109,016   | 116,286   | 123,535   | 129,920   | 132,183   |
| Government                            | 248,359   | 246,722   | 247,962   | 254,080   | 265,641   |

Source: Bureau of Labor Statistics.

## Largest Employers

The State's 10 largest employers, including governmental entities, ranked in order according to employment for Fiscal Year 2023-24 are listed below:

### Ten Largest Employers

| Rank  | Employer                           | Number of Employees | Percentage of Total State Employment |
|-------|------------------------------------|---------------------|--------------------------------------|
| 1     | State of North Carolina Government | 175,000 – 179,999   | 3.49%                                |
| 2     | Federal Government                 | 80,000 – 84,999     | 1.62                                 |
| 3     | Wal-Mart Associates, Inc.          | 60,000 – 64,999     | 1.23                                 |
| 4     | Duke University                    | 40,000 – 44,999     | 0.84                                 |
| 5     | Atrium Health                      | 40,000 – 44,999     | 0.84                                 |
| 6     | Food Lion LLC                      | 35,000 – 39,999     | 0.74                                 |
| 7     | Wells Fargo                        | 30,000 – 34,999     | 0.64                                 |
| 8     | Amazon Fulfillment Services Inc.   | 20,000 – 24,999     | 0.44                                 |
| 9     | Wake County Public Schools         | 20,000 – 24,999     | 0.44                                 |
| 10    | Bank of America, N.A.              | 20,000 – 24,999     | 0.44                                 |
| Total |                                    | 520,000 – 569,990   | 10.72%                               |

Source: North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024.

## Unemployment

North Carolina's Fiscal Year 2024-25 average annual seasonally unadjusted unemployment rate was 3.7%, which was lower than the 4.1% rate nationally. Most recently, the State's August 2025, seasonally unadjusted unemployment rate was 3.7%, which was lower than nation's 4.3% unemployment rate for the same month. In the same month, the State's Labor Force Participation Rate was estimated at 59.3%, the nation's 16th highest.

### North Carolina Civilian Labor Force

| Fiscal Year | Employed  | Unemployed | NC Unemployed Percentage Rate | National Unemployed Percentage Rate |
|-------------|-----------|------------|-------------------------------|-------------------------------------|
| 2020-21     | 4,933,758 | 294,545    | 6.1%                          | 6.9%                                |
| 2021-22     | 4,887,698 | 202,293    | 4.0                           | 4.2                                 |
| 2022-23     | 5,033,532 | 186,999    | 3.6                           | 3.5                                 |
| 2023-24     | 5,094,846 | 186,674    | 3.6                           | 3.8                                 |
| 2024-25     | 5,090,917 | 195,549    | 3.7                           | 4.1                                 |

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics.

Note: The numbers in this table represent the average of the twelve-month period June through July.

## STATE GOVERNMENT ORGANIZATION

The State's capital and central state government administration are located in Raleigh, in the central Piedmont. State governmental powers are divided among the legislative, executive and judicial branches. The General Assembly, the legislative branch, is composed of the 50-member Senate and 120-member House of Representatives and has three major functions: to enact general and local laws governing the affairs of the State, to provide and allocate funds for operating State government by enacting revenue and appropriation laws and to study regulation and funding aspects of State operations. The main work of the General Assembly is the enactment of legislation. The General Assembly is required by law to meet at least on a biennial basis, a budget being adopted for the biennium in odd-numbered years. Since 1973 the General Assembly also has met in the second year of each biennium to review the State budget and financial condition.

The Governor, elected for a four-year term, is the chief officer of the executive branch. The Governor is chair of the Council of State, which is composed of the elected officials of the executive branch. The Governor has the power to veto budgetary and certain other legislative matters, although the veto can be overridden by three-fifths of the members of both chambers of the General Assembly.

The judicial branch administers, through a unified system of courts, the judicial powers of the State in the areas of civil and criminal law.

The largest expenditures in the State's budget relate to the State's significant responsibilities in the areas of education, health and human services, corrections and transportation. The first three of these areas are discussed below. See "**BUDGETING FOR REVENUES AND EXPENDITURES – Governmental Funds – Highway Fund**" and "**– Highway Trust Fund**" below for a discussion of the transportation area. Currently budgeted expenditures are subject to change as described hereafter.

## REQUIREMENT FOR BALANCED BUDGET

### Constitutional Provision

The State Constitution in Article III, Section 5, details the duties of the Governor to prepare and recommend to the General Assembly a comprehensive budget of anticipated revenue and proposed expenditures of the State for the ensuing fiscal period. Furthermore, once a budget is enacted by the General Assembly, the Governor is required to administer that budget and to ensure that the State does not incur a deficit during any fiscal period. To comply with this mandate, the Governor must monitor State revenues and make the necessary spending reductions if, during a fiscal year, projected receipts plus the unreserved General Fund balance at the start of the year are not sufficient to cover budgeted expenditures.

### State Budget Act

N.C. General Statute Chapter 143C, The State Budget Act ("SBA"), sets out the procedures by which the State's budget is prepared, adopted and administered. The SBA requires the adoption of a balanced budget and G.S. 143C-4-1 provides guidance as to what constitutes a balanced budget. A budget for a fund is balanced when the beginning unreserved fund balance for a fiscal year, together with the projected receipts to the fund during the fiscal year, is equal to or greater than the sum of appropriations from the fund for that fiscal year. If the Governor finds that revenues to any fund, when added to the beginning unreserved fund balance in that fund, will be insufficient to support appropriations, the Governor shall immediately notify the General Assembly that a deficit is anticipated. Furthermore, the Governor shall report in a timely manner to the General Assembly a plan containing the expenditure reductions and other lawful measures that are to be implemented to avert a deficit. However, the North Carolina Constitution provides that any such reduction in appropriations to avert a deficit shall be made "after first making adequate provision for the prompt payment of the principal of and interest on bonds and notes of the State according to their terms."

The State Constitution and statutory requirements for the State budget, in part for historical reasons, provide for the use of budgetary financial data rather than financial data presented in conformity with generally accepted accounting principles ("GAAP"). The differences between budgetary financial data and GAAP financial data include that budgetary funds are accounted for on a cash basis, rather than on a modified accrual basis, and there is a significant variance in the treatment of appropriated but unspent funds at the end of a fiscal period. The financial statements in the State's Annual Comprehensive Financial Report are GAAP statements.

## BUDGETING FOR REVENUES AND EXPENDITURES

### Governmental Funds

The State maintains the following governmental funds: (1) the General Fund, (2) the Highway Fund and (3) the Highway Trust Fund.

*General Fund.* The General Fund serves as the State's primary operating fund. The General Fund is funded by the sources set forth in Exhibit A-1 hereto and funds the expenditures set forth in Exhibit A-1 hereto (which can be found starting on page A-43). The following table sets forth the budgeted expenditures compared to actual expenditures (unaudited) for Fiscal Year 2024-25 as well as the current enacted budget for Fiscal Years 2025-26 and 2026-27. The current enacted budget for the 2025-27 biennium consists of the base budget (i.e., the previous Fiscal Year's recurring budget with limited changes) and changes from five bills enacted by the General Assembly that impact appropriations.

#### Expenditures from General Fund

| Category                                 | FY 2024            |                    | FY 2025               |                     | FY 2026              | FY 2027              |
|------------------------------------------|--------------------|--------------------|-----------------------|---------------------|----------------------|----------------------|
|                                          | Budget             | Actual             | Budget                | Actual <sup>4</sup> | Enacted <sup>5</sup> | Enacted <sup>5</sup> |
| Education                                | \$17,298.20        | \$17,018.19        | \$18,181.00           | \$17,970.91         | \$18,232.47          | \$18,337.90          |
| Health and Human Services                | 7,390.56           | 7,276.09           | 8,147.54              | 8,037.20            | 8,338.15             | 8,400.87             |
| Justice and Public Safety                | 3,636.65           | 3,623.86           | 3,037.27 <sup>1</sup> | 3,032.42            | 3,844.87             | 3,830.06             |
| General Government                       | 631.16             | 617.82             | 611.93                | 564.05              | 626.41               | 624.97               |
| Natural and Economic Resources           | 795.89             | 779.82             | 1,679.98 <sup>1</sup> | 1,667.63            | 797.90               | 797.28               |
| Debt Service <sup>2</sup>                | -                  | -                  | -                     | -                   | -                    | -                    |
| Statewide Reserves/ Capital <sup>3</sup> | 34.81              | (99.69)            | 57.89                 | (4.77)              | 42.21                | 42.21                |
| <b>Total General Fund Appropriation</b>  | <b>\$29,787.26</b> | <b>\$29,216.09</b> | <b>\$31,715.63</b>    | <b>\$31,267.45</b>  | <b>\$31,882.00</b>   | <b>\$32,033.29</b>   |

Source: Office of State Budget and Management.

Note: Amounts represented above are in millions.

<sup>1</sup>The General Assembly provided \$800 million in General Funds to offset a replacement of American Reinvestment Plan Act State Fiscal Recover Funds (SFRF) previously allocated to the Department of Environmental Quality. The \$800 million in SFRF funds eventually offset \$800 million in General Funds in at the Department of Adult Correction for allowable expenses.

<sup>2</sup>Debt Service is funded via a General Fund reservation from the State Capital and Infrastructure Fund. See "**BUDGETING FOR REVENUES AND EXPENDITURES – Reserves – State Capital and Infrastructure Fund**" for more information concerning debt service paid from the General Fund.

<sup>3</sup>Reservations reflect appropriated reserves that are distributed to agencies (Pay Plan Reserves, Building Reserves, and reversions of funds).

<sup>4</sup>Unaudited.

<sup>5</sup>See "Continuation Budget and Enacted Legislation" below.

*Continuation Budget and Enacted Legislation.* As set forth above, under "**REQUIREMENT FOR BALANCED BUDGET**," the State Constitution requires a balanced budget. The State's Office of State

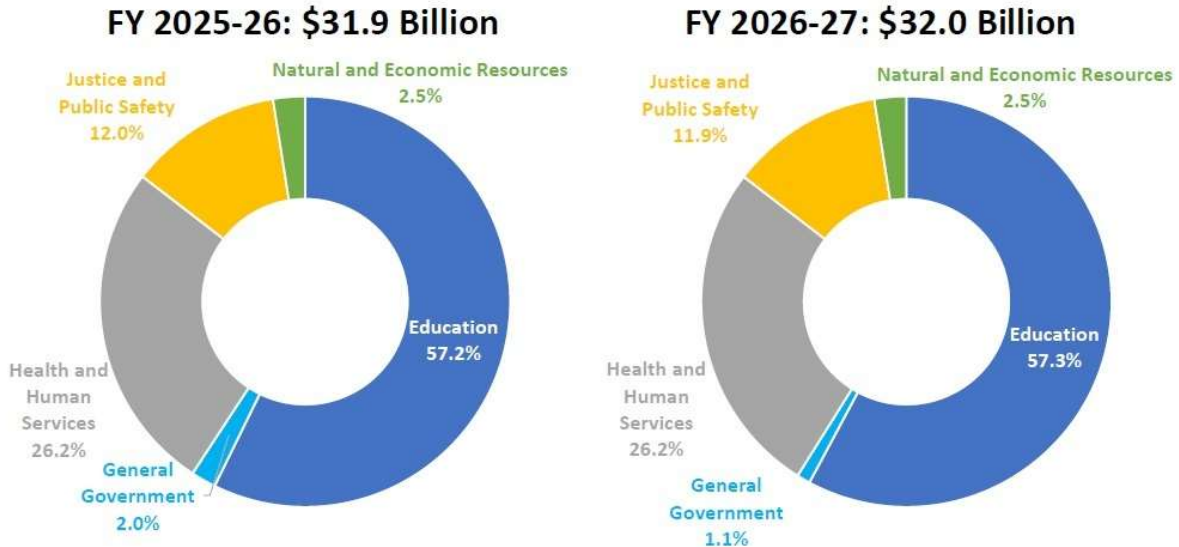
Budget and Management and the General Assembly's Fiscal Research Division together create a "consensus revenue forecast" for each fiscal year. The consensus revenue forecast is \$34.67 billion for Fiscal Year 2025-26 and \$33.84 billion for Fiscal Year 2026-27. Accordingly, the continuation budget is in balance with excess funds available for further budgeting or application to reserves.

North Carolina operates on a biennial budget cycle that begins in odd numbered fiscal years (e.g., Fiscal Years 2025-2027). The Governor develops a proposed budget beginning during the prior fiscal year, starting from the "base budget," which reflects the previous fiscal year's certified budget with one-time items removed and minimal adjustments made for statutory appropriations, leases, and required benefits. Both the Governor and General Assembly build their budgets from this base budget.

If a Current Appropriations Act is not enacted by July 1 of an odd-numbered calendar year, the State operates under a statutory continuing resolution (G.S. 143C-5-4). The continuing resolution reflects the recurring certified budget from the prior fiscal year and ensures that obligations such as employee pay and debt service continue until a new budget is adopted.

The current biennium runs from July 1, 2025, through June 30, 2027, and the Governor, the Senate and the House of Representatives have each proposed full biennial budgets. In July 2025, the General Assembly enacted House Bill 125 (S.L. 2025-89), which appropriated the base budget. In addition, the General Assembly passed four additional pieces of legislation with targeted appropriations. However, none of these measures constituted a comprehensive "Current Appropriations Act," which is the statutory requirement to lift the continuing resolution. The State is currently operating under both the continuing resolution and targeted enacted legislation.

The following illustrates the expenditures appropriated with respect to the enacted legislation:





Notwithstanding the Base Budget, the Governor, the House of Representatives and the Senate each have differing versions of a "full budget." Principal differences include, without limitation:

- Tax rates;
- Pay increases for teachers and other State employees; and
- Other capital expenditures and appropriations.

No representation or prediction is made herein with respect to the timing or composition of any future budget adopted by the General Assembly and signed into law by the Governor.

*Highway Fund.* The Highway Fund provides for most of the activities of the North Carolina Department of Transportation ("NCDOT"), including maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles ("DMV"), transit, aviation, rail, and ferry system. The primary revenue sources of the Highway Fund are federal funds, 75% of motor fuels taxes, and non-tax fee revenue collected by the DMV, which includes vehicle registration fees and driver's license fees.

Presented in the table below is a summary of the actual revenues and expenditures for the Highway Fund for Fiscal Year 2024-25 (unaudited) and the certified budget amount for Fiscal Year 2025-26, excluding federal and departmental receipts and expenditures:

|                                       | <b>Highway Fund<br/>(\$ millions)</b> |                                     |
|---------------------------------------|---------------------------------------|-------------------------------------|
|                                       | <b>Actual 2024-25<br/>(unaudited)</b> | <b>Certified Budget<br/>2025-26</b> |
| Beginning Balance, July 1             | \$1,169.3                             | \$1,180.5                           |
| Revenue                               | 3,574.8                               | 3,176.8                             |
| GARVEE Bond Proceeds                  | 441.5                                 | —                                   |
| Energy Savings Loan                   | —                                     | —                                   |
| Interfund Transfer <sup>1</sup>       | 467.9                                 | —                                   |
|                                       | <b>\$5,653.5</b>                      | <b>\$4,357.3</b>                    |
| Total Available Funds                 |                                       |                                     |
| Expenditures and Obligations          |                                       |                                     |
| Current Operations                    | \$4,354.6                             | \$3,176.8                           |
| GARVEE Bond Expenditures              | 43.1                                  | —                                   |
| Interfund Transfer (General Fund)     | 64.9                                  | —                                   |
| Capital Improvements                  | 10.4                                  | —                                   |
| Total Expenditures and<br>Obligations | <b>\$4,473.0</b>                      | <b>\$3,176.8</b>                    |
| Ending Fund Balance,<br>June 30       | <b>\$1,180.5</b>                      | <b>\$1,180.5</b>                    |

Source: North Carolina Department of Transportation.

<sup>1</sup> Includes transfers to the Highway Trust Fund and other small funds.

For more information concerning the State's GARVEE Bonds, see "STATE INDEBTEDNESS PAID FROM THE HIGHWAY FUND" below.

*Highway Trust Fund.* The Highway Trust Fund provides a dedicated funding mechanism to meet specific highway and transportation construction needs in North Carolina. Additionally, the Highway Trust Fund provides allocations for the debt service on limited obligation bonds issued for highway purposes. The principal revenue sources of the Highway Trust Fund are highway use taxes, 25% percent of motor fuels taxes, and a percentage of the net proceeds of State sales and use taxes. In addition, the Highway Trust Fund provides annual transfers to the North Carolina Turnpike Authority to pay debt service or financing expenses for specified toll road construction projects (see "*Note 10 – Interfund Balances and Transfers – Interfund Transfers*" in the North Carolina Annual Comprehensive Financial Report for Fiscal Year 2023-24, attached as Appendix B to this Official Statement).

In addition, the Highway Trust Fund provides a dedicated funding mechanism for the North Carolina State Ports Authority to finance capital projects and to pay debt service or related financing costs and expenses on revenue bonds or notes issued by the North Carolina State Ports Authority. By session law as part of the budgeting process, the General Assembly has committed to an annual transfer in the amount of \$45 million. This annual transfer began in Fiscal Year 2017-18 and to date these funds have been spent on capital projects.

A summary, prepared by the North Carolina Department of Transportation, excluding federal and departmental receipts and expenditures, of the actual revenues and expenditures for Fiscal Year 2024-25 (unaudited) and the certified budget amount for Fiscal Year 2025-26 are presented below (in millions):

**Highway Trust Fund  
(\$ millions)**

|                                                                  | <b>Actual Fiscal<br/>Year 2024-25<br/>(unaudited)</b> | <b>Certified Budget<br/>Fiscal Year 2025-26<br/>(unaudited)</b> |
|------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------|
| Beginning Balance, July 1                                        | \$ 844.5                                              | \$1,348.4                                                       |
| Revenue                                                          | 2,498.4                                               | 2,494.7                                                         |
| Interfund Transfer <sup>1</sup>                                  | (39.9)                                                | —                                                               |
| Interfund Transfer (NC Turnpike Authority GAP Funds)             | (49.0)                                                | (49.0)                                                          |
| Interfund Transfer (NC Turnpike Authority Project Participation) | (8.7)                                                 | —                                                               |
| Interfund Transfer (NC Ports Authority)                          | (45.0)                                                | (45.0)                                                          |
| Total Available Funds                                            | <b>\$3,200.3</b>                                      | <b>\$3,749.1</b>                                                |
| Expenditures and Obligations                                     |                                                       |                                                                 |
| Current Operations                                               | <b>\$1,896.9</b>                                      | <b>\$2,445.7</b>                                                |
| Ending Fund Balance, June 30                                     | <b>\$1,303.4</b>                                      | <b>\$1,303.4</b>                                                |

Source: North Carolina Department of Transportation.

<sup>1</sup> Includes transfers to the General Fund and the Highway Fund.

For more information concerning the State's Limited Obligation Bonds and the North Carolina Turnpike Authority's debt obligations payable from the Highway Trust Fund, see "**STATE INDEBTEDNESS PAID FROM THE HIGHWAY TRUST FUND**" below.

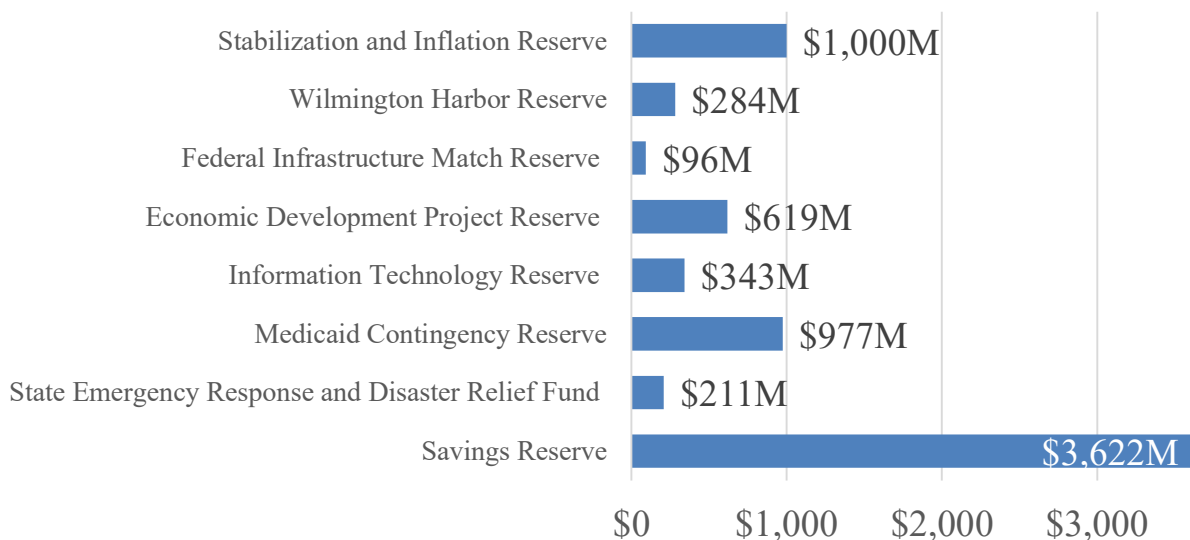
## **Enterprise Funds**

The State maintains certain enterprise funds. The major enterprise funds are the Unemployment Compensation Fund, the North Carolina State Lottery Fund, the North Carolina Turnpike Authority, and the EPA Revolving Loan Fund. For more information regarding these enterprise funds, see "FINANCIAL ANALYSIS OF THE STATE AS A WHOLE – Enterprise Funds" in the North Carolina Annual Comprehensive Financial Report for Fiscal Year 2023-24, attached as Appendix B to this Official Statement.

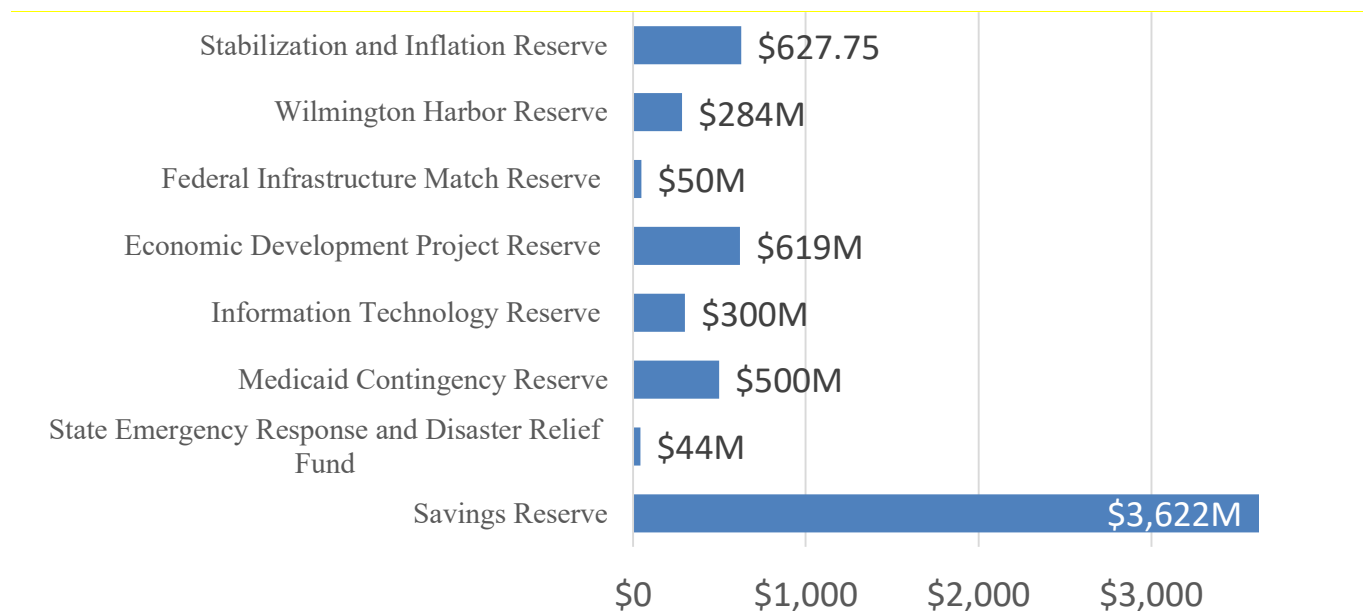
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## Reserves

The State maintains certain reserve funds for the purposes described in "*Long-Term Financial Planning and Major Initiatives*" in the North Carolina Annual Comprehensive Financial Report for Fiscal Year 2023-24, attached as Appendix B to this Official Statement. As of June 30, 2025, the State had approximately \$7.2 billion in reserves as set forth below:



The current enacted budget provides that at June 30, 2026, the State would have an additional \$1.1 billion of additional reserve transfers, which would yield the balances below in the various reserves. The State will use this \$1.1 billion in part for disaster response, information technology projects and economic development related items.



*State Capital and Infrastructure Fund.* The General Assembly created the State Capital and Infrastructure Fund ("SCIF") in Fiscal Year 2020-21. The fund was fully enacted in Fiscal Year 2021-22. The SCIF's purpose is to pay for debt service, related operating personnel costs, capital improvements, and other items (such as directed grants to non-state entities) as directed by the General Assembly. The SCIF receives a statutory appropriation under authorization by the General Assembly. As of Fiscal Year 2024-25, the SCIF had a balance of \$4.5 billion, of which \$1.2 billion was unappropriated as a reserve. The General Fund reserves for Fiscal Year 2025-26 is \$1.1 billion, against a current enacted budget of \$1.3 billion. The SCIF reserve balance will make up the difference in General Funds.

| <b>General Fund Budget</b>                    |                                       |                                        |                                        |
|-----------------------------------------------|---------------------------------------|----------------------------------------|----------------------------------------|
|                                               | <b>Fiscal Year 2024-25<br/>Budget</b> | <b>Fiscal Year 2025-26<br/>Enacted</b> | <b>Fiscal Year 2026-27<br/>Enacted</b> |
| Recurring Expenditures                        | \$ 31,254,011,702                     | \$ 32,004,493,067                      | \$ 32,048,898,044                      |
| Non-recurring Expenditures                    | 461,617,399                           | (122,489,989)                          | (15,611,394)                           |
| Total Expenditures                            | \$ 31,715,629,101                     | \$ 31,882,003,078                      | \$ 32,033,286,650                      |
| Recurring Revenue                             | 34,559,028,847                        | 34,587,179,259                         | 33,758,980,000                         |
| <b>State Capital and Infrastructure Fund</b>  |                                       |                                        |                                        |
| Statutory Transfer from the General Fund      | \$ 1,461,333,238                      | \$ 1,120,000,000                       | \$ 1,159,200,000                       |
| Non-recurring <sup>1</sup>                    | 700,000,000                           | 0                                      | 0                                      |
| Total                                         | \$ 2,161,333,238                      | \$ 1,120,000,000                       | \$ 1,159,200,000                       |
| Recurring Staff and Debt Service Expenditures | 461,570,629                           | 379,358,114                            | 379,358,114                            |

<sup>1</sup> Non-recurring is the unreserved fund balance from the prior fiscal year.

## **STATE INDEBTEDNESS PAID FROM THE GENERAL FUND**

The State Constitution provides in substance that the State shall not contract a debt, other than refunding debt, by borrowing money in any biennium and pledge its faith and credit to the payment thereof for an amount in excess of two-thirds of the amount by which the outstanding debt of the State shall have been reduced in the preceding biennium unless the proposed debt is submitted to and approved by the voters. Exceptions to this requirement, arising either from specific language in the State Constitution or court cases, include refunding bonds, notes or other obligations issued in anticipation of revenues, moral obligation bonds, revenue bonds and obligations as to which the State's payments are subject to annual appropriation, including Special Indebtedness or similar bonds.

### **General Obligation Indebtedness**

The debt service schedule for outstanding general obligation indebtedness can be found on "*Table 12 – Schedule of General Obligation Bonds Payable – June 30, 2024*" in the North Carolina Annual Comprehensive Financial Report for Fiscal Year 2023-24, attached as Appendix B to this Official Statement.

As of June 30, 2025, there are no authorized and unissued general obligation bonds.

## Special Indebtedness

Pursuant to the State Capital Facilities Finance Act and earlier statutes, the State issues various types of debt not supported by the full faith, credit and taxing power of the State. Termed "Special Indebtedness," such debt is supported primarily by annual appropriations for debt service by the General Assembly but may also be secured by a lien on facilities, equipment or other assets. Examples of Special Indebtedness include certificates of participation, lease-revenue bonds and limited obligation bonds.

The table below shows outstanding Special Indebtedness as of the end of each of the last five fiscal years. Certain bonds issued by the North Carolina Turnpike Authority and bonds issued under the Build NC legislation described below are not included since, while payable from annual appropriations for debt service from the General Assembly, such appropriations are to come from the Highway Trust Fund. See **"STATE INDEBTEDNESS PAYABLE FROM THE HIGHWAY TRUST FUND"** hereafter.

### Outstanding Special Indebtedness Subject to Annual Appropriation from the General Fund

| <u>As of 6/30</u> | <u>Total Debt Subject to<br/>Annual Appropriation <sup>1, 2</sup></u> |
|-------------------|-----------------------------------------------------------------------|
| 2021              | \$1,332,455,000                                                       |
| 2022              | 1,155,390,000                                                         |
| 2023              | 995,100,000                                                           |
| 2024              | 831,000,000                                                           |
| 2025 <sup>3</sup> | 695,085,000                                                           |

Source: North Carolina Department of State Treasurer.

<sup>1</sup> Table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

<sup>2</sup> For additional information, see *"Table 13 – Schedule of Special Indebtedness Debt – June 30, 2024"* in the North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024.

<sup>3</sup> Unaudited.

*Special Indebtedness Authorized and Unissued as of June 30, 2025.* As of June 30, 2025, the State of North Carolina had no authorized but unissued special indebtedness which is intended to be paid from the General Fund.

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### Annual Debt Service Requirements for General Obligation Bonds and Special Indebtedness

| Fiscal<br>Year | General Obligation<br>Existing Debt <sup>1</sup> |                         | Special Indebtedness<br>Existing Debt <sup>2, 3</sup> |                       | Total<br>Existing Debt <sup>1,2,4</sup> |                         |
|----------------|--------------------------------------------------|-------------------------|-------------------------------------------------------|-----------------------|-----------------------------------------|-------------------------|
|                | Principal                                        | Principal & Interest    | Principal                                             | Principal & Interest  | Principal                               | Principal & Interest    |
| 2025-26        | \$ 173,320,000                                   | \$ 226,521,700          | \$ 128,565,000                                        | \$ 159,715,150        | \$ 301,885,000                          | \$ 386,236,850          |
| 2026-27        | 156,620,000                                      | 201,155,700             | 125,305,000                                           | 150,409,700           | 281,925,000                             | 351,565,400             |
| 2027-28        | 129,230,000                                      | 166,166,100             | 124,035,000                                           | 142,874,450           | 253,265,000                             | 309,040,550             |
| 2028-29        | 112,900,000                                      | 143,576,988             | 112,625,000                                           | 126,149,600           | 225,525,000                             | 269,726,588             |
| 2029-30        | 112,745,000                                      | 138,079,375             | 73,925,000                                            | 82,126,250            | 186,670,000                             | 220,205,625             |
| 2030-31        | 91,565,000                                       | 112,159,200             | 73,355,000                                            | 78,177,100            | 164,920,000                             | 190,336,300             |
| 2031-32        | 91,565,000                                       | 108,312,250             | 39,950,000                                            | 42,130,850            | 131,515,000                             | 150,443,100             |
| 2032-33        | 91,565,000                                       | 106,165,300             | 17,325,000                                            | 17,844,750            | 108,890,000                             | 124,010,050             |
| 2033-34        | 91,565,000                                       | 103,852,700             | —                                                     | —                     | 91,565,000                              | 103,852,700             |
| 2034-35        | 91,565,000                                       | 101,265,100             | —                                                     | —                     | 91,565,000                              | 101,265,100             |
| 2035-36        | 80,000,000                                       | 87,087,500              | —                                                     | —                     | 80,000,000                              | 87,087,500              |
| 2036-37        | 70,000,000                                       | 75,175,000              | —                                                     | —                     | 70,000,000                              | 75,175,000              |
| 2037-38        | 70,000,000                                       | 73,225,000              | —                                                     | —                     | 70,000,000                              | 73,225,000              |
| 2038-39        | 50,000,000                                       | 51,275,000              | —                                                     | —                     | 50,000,000                              | 51,275,000              |
|                | <u>\$ 1,412,640,000</u>                          | <u>\$ 1,694,016,913</u> | <u>\$ 695,085,000</u>                                 | <u>\$ 799,427,850</u> | <u>\$ 2,107,725,000</u>                 | <u>\$ 2,493,444,763</u> |

Source: North Carolina Department of State Treasurer.

<sup>1</sup> Includes outstanding refunding bonds but not related refunded bonds since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the bonds refunded to and including their respective maturities or dates of redemption.

Includes Refunded Bonds expected to be refunded with proceeds of the Series 2025C Bonds and the Series 2026A Bonds.

<sup>2</sup> Includes outstanding refunding bonds.

<sup>3</sup> As stated in the "INTRODUCTION" in the Official Statement, the State is issuing its Limited Obligation Refunding Bonds, Series 2025B (the "Series 2025B Bonds") for the purpose of refunding certain outstanding limited obligation bonds. Amounts include any bonds that may be refunded in connection with the issuance of the Series 2025B Bonds.

<sup>4</sup> Does not include bonds payable from the Highway Trust Fund (North Carolina Turnpike Authority and Build NC Bonds).

## Comparison Statistics

### Per Capita General Fund Supported State Indebtedness

| As of<br>June 30 | Population <sup>1</sup> | Outstanding General<br>Obligation Debt and Special<br>Indebtedness Subject to Annual<br>Appropriation <sup>2, 3</sup> | Debt Per<br>Capita | Percentage<br>of Per<br>Capita<br>Income <sup>4</sup> |
|------------------|-------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------|
| 2020             | 10,453,812              | \$ 4,380,325,000                                                                                                      | \$ 419.02          | 0.80%                                                 |
| 2021             | 10,567,100              | 4,924,135,000                                                                                                         | 465.99             | 0.59                                                  |
| 2022             | 10,695,965              | 4,658,680,000                                                                                                         | 435.55             | 0.58                                                  |
| 2023             | 10,835,491              | 4,097,430,000                                                                                                         | 378.15             | 0.47                                                  |
| 2024             | 10,976,837              | 3,532,850,000                                                                                                         | 321.85             | 0.40                                                  |

Source: North Carolina Department of State Treasurer.

<sup>1</sup> Population numbers are derived from the North Carolina Annual Comprehensive Financial Report for Fiscal Year 2023-24.

<sup>2</sup> Does not include bonds payable from the Highway Trust Fund (North Carolina Turnpike Authority and Build NC Bonds).

<sup>3</sup> The table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

<sup>4</sup> Since the 2024 per capita income estimate was not available, the Office of State Controller used the U.S. Per Capita Income growth rate of the previous year to project the 2024 U.S. Per Capita Income, and the previous NC as a percentage of US was used to project the 2024 per capita income for North Carolina.

### Percentage of Annual General Obligation and Special Indebtedness Debt Service to General Expenditures<sup>1</sup>

| Fiscal Year | Debt Service<br>(Principal and Interest) <sup>2</sup> | Total Governmental<br>Expenditures <sup>3</sup> | Percentage |
|-------------|-------------------------------------------------------|-------------------------------------------------|------------|
| 2019-20     | \$ 948,828,000                                        | \$ 52,157,876,000                               | 1.82%      |
| 2020-21     | 919,621,000                                           | 58,404,659,000                                  | 1.57       |
| 2021-22     | 1,135,192,000                                         | 68,891,466,000                                  | 1.65       |
| 2022-23     | 1,061,596,000                                         | 71,357,766,000                                  | 1.49       |
| 2023-24     | 999,826,000                                           | 77,168,326,000                                  | 1.30       |

Source: North Carolina Annual Comprehensive Financial Report for the Fiscal Year 2023-24.

<sup>1</sup> Since the comparison is to total expenditures including from federal funds, in addition to general obligation bonds and special indebtedness, revenue bonds payable from certain federal highway funds, GARVEE Bonds (as defined herein) are included.

<sup>2</sup> Debt service on special indebtedness subject to appropriation, general obligation indebtedness and GARVEE Bonds. Amounts include issuance costs. Amounts do not include North Carolina Turnpike Authority bond debt service. The table includes refunding debt but not refunded debt since sufficient funds have been placed with an escrow agent to pay all principal and interest and any premium on the debt refunded to and including their respective maturities or dates of redemption.

<sup>3</sup> Includes General Fund appropriations, Federal funds, funds from Highway Fund and Highway Trust Fund and other departmental receipts.



## Related Matters

*Moral Obligation Bonds.* There are no outstanding bonds of the State which contemplate the appropriation by the General Assembly of such amount as may be necessary to make up any deficiency in a debt service reserve thereof. Furthermore, no legislation has been enacted by the General Assembly which would authorize the issuance of any such bonds.

*Refunding Bonds.* The State is authorized to issue refunding bonds from time to time as determined by the State Treasurer, without voter approval or action by the General Assembly, to refund any bonds of the State then outstanding. If favorable market conditions occur, the State may issue bonds to refund any of its existing bonds if such issuance will result in desirable debt service savings to the State.

*Revenue Bonds.* Pursuant to Section 136-18(12b) of the North Carolina General Statutes and the State and Local Government Revenue Bond Act, the State as of June 30, 2025, had an outstanding balance of \$1.04 billion (unaudited) in GARVEE Bonds (as defined below) issued for the purpose of accelerating various transportation projects across the State. The GARVEE Bonds are payable solely from certain federal aid revenues received on behalf of the State and do not create a debt, liability or obligation of the State or any political subdivision of the State. The State is currently evaluating future GARVEE Bond issuances, including refundings. See also "**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS**" below.

*Guaranteed State Energy Contracts.* The State is authorized to finance up to \$500 million for projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. As of June 30, 2025, a total of \$310 million (unaudited) of such contracts had been entered into.

*No Swap Agreements.* The State has no swap agreements relating to outstanding indebtedness.

## General Fund Capital Financing Outlook

As of June 30, 2025, the State had no authorized but unissued general obligation bonds, excluding refunding bonds. In addition, the State has no authorized but unissued special indebtedness supported by the General Fund.

## STATE INDEBTEDNESS PAID FROM THE HIGHWAY FUND

The State has established a program to issue grant anticipation vehicle bonds ("GARVEE Bonds"). GARVEE Bonds are secured and payable solely from certain federal aid revenues received by or on behalf of the State that are legally available for the payment thereof and moneys held in certain funds under the related indenture. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Such funds are generally deposited into the Highway Fund. The GARVEE Bonds are limited obligations of the State payable solely from the trust estate established by the related indenture, and shall not be deemed or construed as creating a debt, liability or obligation of the State or of any political subdivision of the State or a pledge of the full faith and credit of the State or of any political subdivision of the State within the meaning of the State Constitution or the laws of the State concerning or limiting the creation of indebtedness by the State.

Set forth below are the amounts required in each of the State's fiscal years during the term of the outstanding GARVEE Bonds for the payment of principal and interest thereon:

### **GARVEE Bond Debt Service**

| <b>Fiscal Year<br/>Ending<br/>June 30</b> | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Combined Total</u></b> |
|-------------------------------------------|-------------------------|------------------------|------------------------------|
| 2025-26                                   | \$ 97,165,000           | \$ 46,174,556          | \$ 143,339,556               |
| 2026-27                                   | 97,065,000              | 46,283,350             | 143,348,350                  |
| 2027-28                                   | 101,915,000             | 41,430,100             | 143,345,100                  |
| 2028-29                                   | 107,005,000             | 36,334,350             | 143,339,350                  |
| 2029-30                                   | 112,360,000             | 30,984,100             | 143,344,100                  |
| 2030-31                                   | 81,155,000              | 25,366,100             | 106,521,100                  |
| 2031-32                                   | 85,200,000              | 21,308,350             | 106,508,350                  |
| 2032-33                                   | 89,480,000              | 17,048,350             | 106,528,350                  |
| 2033-34                                   | 93,945,000              | 12,574,350             | 106,519,350                  |
| 2034-35                                   | 41,335,000              | 8,082,900              | 49,417,900                   |
| 2035-36                                   | 43,195,000              | 6,230,100              | 49,425,100                   |
| 2036-37                                   | 21,985,000              | 4,738,000              | 26,723,000                   |
| 2037-38                                   | 23,085,000              | 3,638,750              | 26,723,750                   |
| 2038-39                                   | 24,240,000              | 3,484,500              | 26,724,500                   |
| 2039-40                                   | 25,450,000              | 1,272,500              | 26,722,500                   |
| Total                                     | <u>\$ 1,044,580,000</u> | <u>\$ 303,950,356</u>  | <u>\$ 1,348,530,356</u>      |

### **Grant Anticipation Vehicle Bonds Debt Outlook**

While there are no current plans for additional issuances of GARVEE Bonds at this time, the State may decide to issue additional GARVEE Bonds in the future.

### **STATE INDEBTEDNESS PAID FROM THE HIGHWAY TRUST FUND**

In 2018 the General Assembly enacted, and the Governor signed, the Build NC Act of 2018. This act provides, upon the satisfaction of certain conditions, for the issuance of special indebtedness in the amount of up to \$300 million per year for 10 years to finance various transportation projects. Legislation passed in June 2020 allowed \$700 million of such indebtedness to be issued in Fiscal Year 2020-21 but did not change the overall amount that may be issued over the 10-year period. Unlike most issuances of special indebtedness in the State, such debt, while payable from annual appropriations for debt service from the General Assembly, is to be paid with appropriations from the Highway Trust Fund. On June 27, 2019, the first series of Limited Obligation (Build NC) Bonds was issued with a par amount of \$300 million. On November 12, 2020, the second series of Limited Obligation (Build NC) Bonds was issued with a par amount of \$700 million. On May 19, 2022, the third series of Limited Obligation (Build NC) Bonds was issued with a par amount of \$300 million. In May 2024, legislation was passed to extend the issuance period to 13-years, expiring December 31, 2031. On May 6, 2025, the fourth series of Limited Obligation (Build NC) Bonds, Series 2025A was issued with a par amount of \$300 million. As of June 30, 2025, the balance outstanding for Build NC Bonds was \$1,283.86 million.

**Limited Obligation (Build NC) Bond Debt Service**

| <b>Fiscal Year Ending<br/>June 30</b> | <b>Principal</b>        | <b>Interest</b>       | <b>Total Debt Service</b> |
|---------------------------------------|-------------------------|-----------------------|---------------------------|
| 2025-26                               | \$ 90,670,000           | \$ 59,380,663         | \$ 150,050,663            |
| 2026-27                               | 94,995,000              | 55,051,675            | 150,046,675               |
| 2027-28                               | 99,745,000              | 50,301,925            | 150,046,925               |
| 2028-29                               | 104,730,000             | 45,314,675            | 150,044,675               |
| 2029-30                               | 109,970,000             | 40,078,175            | 150,048,175               |
| 2030-31                               | 115,465,000             | 34,579,675            | 150,044,675               |
| 2031-32                               | 121,245,000             | 28,806,425            | 150,051,425               |
| 2032-33                               | 126,805,000             | 23,244,175            | 150,049,175               |
| 2033-34                               | 132,210,000             | 17,836,825            | 150,046,825               |
| 2034-35                               | 109,655,000             | 12,214,775            | 121,869,775               |
| 2035-36                               | 48,640,000              | 8,360,125             | 57,000,125                |
| 2036-37                               | 51,070,000              | 5,928,125             | 56,998,125                |
| 2037-38                               | 24,950,000              | 3,657,900             | 28,607,900                |
| 2038-39                               | 26,200,000              | 2,410,400             | 28,610,400                |
| 2039-40                               | 27,510,000              | 1,100,400             | 28,610,400                |
| Total                                 | <u>\$ 1,283,860,000</u> | <u>\$ 388,265,938</u> | <u>\$1,672,125,938</u>    |

In addition, the North Carolina Turnpike Authority (the "North Carolina Turnpike Authority"), part of the Department of Transportation, is authorized to construct and operate toll roads within the State, and to issue toll revenue bonds to finance such costs (see "**REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS**" below). Additionally, the General Assembly has enacted legislation authorizing the transfer of funds from the Highway Trust Fund to the North Carolina Turnpike Authority, with the proceeds of such transfers to be used to pay debt service on bonds issued by the North Carolina Turnpike Authority for its turnpike projects and for certain related purposes; such bonds are not supported by toll revenues (the "Turnpike State Appropriation Bonds"). The Turnpike State Appropriation Bonds (including refunding bonds) are supported by aggregate total legislative commitments of \$25 million annually for the Triangle Expressway System and \$24 million annually for the Monroe Connector System (aggregate outstanding principal amount was \$618,440,113 (unaudited) as of June 30, 2025).

For additional information about the North Carolina Turnpike Authority see "*Note 17 – Pledged Revenues*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024, attached as Appendix B to this Official Statement.

**North Carolina Turnpike Authority State Appropriation Bond Debt Service  
Payable from Highway Trust Fund**

| <b>Fiscal Year Ending<br/>June 30</b> | <b>Principal</b>     | <b>Interest <sup>1</sup></b> | <b>Total Debt Service</b> |
|---------------------------------------|----------------------|------------------------------|---------------------------|
| 2025-26                               | \$24,269,000         | \$21,211,657                 | \$45,480,657              |
| 2026-27                               | 25,155,000           | 20,303,078                   | 45,458,078                |
| 2027-28                               | 26,090,000           | 19,358,348                   | 45,448,348                |
| 2028-29                               | 27,051,000           | 18,375,588                   | 45,426,588                |
| 2029-30                               | 28,059,000           | 17,353,488                   | 45,412,488                |
| 2030-31                               | 29,102,000           | 16,290,084                   | 45,392,084                |
| 2031-32                               | 30,189,000           | 15,183,845                   | 45,372,845                |
| 2032-33                               | 33,190,000           | 14,032,500                   | 47,222,500                |
| 2033-34                               | 34,665,000           | 12,558,100                   | 47,223,100                |
| 2034-35                               | 36,215,000           | 11,017,200                   | 47,232,200                |
| 2035-36                               | 37,820,000           | 9,406,850                    | 47,226,850                |
| 2036-37                               | 39,515,000           | 7,724,100                    | 47,239,100                |
| 2037-38                               | 41,285,000           | 5,965,100                    | 47,250,100                |
| 2038-39                               | 43,130,000           | 4,126,575                    | 47,256,575                |
| 2039-40                               | 33,654,324           | 13,520,551                   | 47,174,875                |
| 2040-41                               | 34,102,050           | 13,057,700                   | 47,159,750                |
| 2041-42                               | 18,431,264           | 12,508,611                   | 30,939,875                |
| 2042-43                               | 12,167,964           | 12,832,036                   | 25,000,000                |
| 2043-44                               | 11,737,855           | 13,262,145                   | 25,000,000                |
| 2044-45                               | 11,290,637           | 13,709,363                   | 25,000,000                |
| 2045-46                               | 10,909,830           | 14,090,170                   | 25,000,000                |
| 2046-47                               | 10,511,785           | 14,488,215                   | 25,000,000                |
| 2047-48                               | 10,124,282           | 14,875,718                   | 25,000,000                |
| 2048-49                               | 9,775,122            | 15,224,878                   | 25,000,000                |
| <b>Total</b>                          | <b>\$618,440,113</b> | <b>\$330,475,901</b>         | <b>\$948,916,014</b>      |

<sup>1</sup> Includes the accreted interest on the North Carolina Turnpike Authority's Triangle Expressway System Appropriation Revenue Bonds, Series 2019 (Capital Appreciation Bonds) which were issued as capital appreciation bonds. Interest on capital appreciation bonds is not currently paid but accretes and is paid upon maturity of the bonds.

### **Highway Trust Fund Capital Financing Outlook**

The Department of Transportation assumes that there will be additional issuances of Limited Obligation (Build NC) Bonds, limited to a maximum principal amount of \$300 million per year and not to exceed a maximum principal amount of \$1,400 million in aggregate, between Fiscal Year 2025-26 through Fiscal Year 2031-32. There are a number of conditions to the issuance of additional series of Limited Obligation (Build NC) Bonds that must be met prior to the issuance thereof.

### **North Carolina Turnpike Authority Capital Financing Outlook**

The North Carolina Turnpike Authority does not anticipate issuance of additional new money State Appropriation Bonds at this time. As outstanding State Appropriation Bonds become callable, North Carolina Turnpike Authority and its advisors analyze opportunities to issue refunding bonds to achieve a reduction in overall debt service payments. There are a number of conditions to the issuance of additional bonds that must be met prior to the issuance thereof, including, but not limited to, meeting certain debt service and revenue ratio limits.

## REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS

The following table summarize the outstanding revenue bonds and other indebtedness of State authorities and institutions as of June 30, 2025. The State is not responsible for debt service on any of the revenue bonds and other indebtedness presented in this table.

### Outstanding Debt Service Related to Revenue Bonds and Other Indebtedness Of State Authority and Institutions as of June 30, 2025

| State Authority                                          | Outstanding Balance |
|----------------------------------------------------------|---------------------|
| Appalachian State University <sup>1</sup>                | \$322,778,002       |
| East Carolina University <sup>1</sup>                    | 340,115,000         |
| Elizabeth City University <sup>1</sup>                   | 40,113,752          |
| Fayetteville State University <sup>1</sup>               | 45,866,852          |
| North Carolina A & T State University <sup>1</sup>       | 140,239,541         |
| North Carolina Central University <sup>1</sup>           | 86,391,390          |
| North Carolina State University                          | 581,664,978         |
| University of North Carolina at Asheville <sup>1</sup>   | 63,836,400          |
| University of North Carolina at Chapel Hill <sup>1</sup> | 1,200,670,000       |
| University of North Carolina at Charlotte <sup>1</sup>   | 468,221,806         |
| University of North Carolina at Greensboro <sup>1</sup>  | 222,454,071         |
| University of North Carolina at Pembroke <sup>1</sup>    | 42,323,984          |
| University of North Carolina at Wilmington <sup>1</sup>  | 175,030,243         |
| UNC School of the Arts <sup>1</sup>                      | 42,859,000          |
| Western Carolina University <sup>1</sup>                 | 239,785,000         |
| Winston-Salem State University <sup>1</sup>              | 65,362,121          |
| North Carolina Agricultural Finance Authority            | 18,178,655          |
| North Carolina Capital Facilities Finance Agency         | 1,222,572,683       |
| North Carolina Eastern Municipal Power Agency            | 48,845,000          |
| North Carolina Housing Finance Agency                    | 3,703,161,000       |
| North Carolina Medical Care Commission                   | 4,919,083,021       |
| North Carolina Municipal Power Agency No.1               | 470,845,000         |
| North Carolina State Education Assistance Authority      | 145,595,000         |
| North Carolina State Ports Authority                     | 66,881,988          |
| North Carolina Turnpike Authority (NCTA) <sup>2</sup>    | 2,157,538,274       |
| North Carolina Department of Transportation              | 99,445,000          |
| Total:                                                   | \$16,929,857,761    |

Source: Chief fiscal officer of each authority or institution.

<sup>1</sup> Long-term liabilities of nongovernmental component units of the UNC System excluded.

<sup>2</sup> Toll revenue bonds and other revenue indebtedness only; amount includes \$665,034,594 in debt to the U.S. Department of Transportation under the Transportation, Infrastructure, Finance and Innovation Act ("TIFIA") which is secured on a subordinate basis by toll project revenues. See "STATE INDEBTEDNESS PAID FROM THE HIGHWAY TRUST FUND" above for North Carolina Turnpike Authority debt supported by State appropriations.

## STATE HEALTH PLAN

### Overview

The State provides health care coverage to approximately 750,000 teachers, state employees, university employees, community college personnel, retirees, and their dependents through the State Health Plan. Employee health benefits are funded through a combination of state appropriations to employing units for premiums and contributions by employees. Retiree health benefits are funded on a pay-as-you-go basis with state appropriated contributions matching benefit payments, creating a financial benefit/burden relationship. Employee and retiree health benefit programs and premiums are determined by the State Health Plan Board of Trustees.

The following table sets forth the State Health Plan's membership by type as of July 31, 2025.

| Segment              | Total Members  |                        | Members        |
|----------------------|----------------|------------------------|----------------|
|                      | Subscriber     | Relationship Dependent |                |
| Active               | 300,287        | 180,830                | 481,117        |
| COBRA                | 605            | 528                    | 1,133          |
| Direct Bill          | 69             | 39                     | 108            |
| Retirees             | 226,734        | 35,554                 | 262,288        |
| Sponsored Dependents | 3,118          | 138                    | 3,256          |
| <b>Total</b>         | <b>530,813</b> | <b>217,089</b>         | <b>747,902</b> |

The following table sets for the eligibility and contributions for retirees.

### Retiree Eligibility and Contribution

|                            |                                                                                                                                                                                       |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No Retiree Benefit         | Employees with a hire date on or after January 1, 2021                                                                                                                                |
| Non-contributory coverage  | Employees hired prior to October 1, 2006 with at least 5 years of membership service, and<br>Employees hired on or after October 1, 2006 with at least 20 years of creditable service |
| 50% contributory coverage  | Employees hired on or after October 1, 2006 with at least 10 years of membership service but less than 20 years of creditable service                                                 |
| 100% contributory coverage | Employees hired on or after October 1, 2006, with at least 5 years of membership service but less than 10 years of creditable service                                                 |

See also "**OTHER POST-EMPLOYMENT BENEFITS – Retiree Health Benefit Fund**" for certain information on retirees and certain other members.

### Funding Status

In June 2025, the North Carolina Office of the State Auditor confirmed that actuarial projections from 2024 showed net losses for the State Health Plan of \$199 million, \$507 million, and \$862 million for the calendar years 2025, 2026 and 2027 with an ultimate \$949 million cash deficit by the end of 2027. In July 2025, the North Carolina General Assembly increased the State's contribution for covered members from \$8,095 to \$8,500 per covered member, resulting in an additional \$150 million in funds annually. In addition, the State Health Plan Board of Trustees voted to increase deductibles and out-of-pocket

maximums for all plans offered as well as premium increases for the 2026 benefit year. With these changes, the State Health Plan is anticipated to close the projected deficit through 2027.

As of June 30, 2024, the State's net Other Postemployment Benefits (OPEB) liability was \$26.65 billion (for more information regarding such OPEB liability see "*Note 14 – Other Postemployment Benefits*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement).

## **RETIREMENT AND PENSION PLANS**

### **General**

The State administers a number of defined benefit public employee retirement plans and two defined contribution plans. There are other defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for related administrative costs. The State also provides an optional retirement plan for university employees and a special separation allowance for eligible sworn law enforcement officers.

For additional information on these plans, including plan administration, benefits provided, contributions and actuarial assumptions, see "*Note 12 – Retirement Plans*" and "*Note 13 – Deferred Compensation Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

### **Actuarial Assumptions and Methods**

The Retirement Systems' Boards of Trustees selects actuarial assumptions and methods based on the advice of the Systems' consulting actuary. The assumptions are selected according to State law and guidelines promulgated by the Actuarial Standards Board. The Boards of Trustees review each significant assumption or method at least once every five years and updates those assumptions and methods when necessary. See "*Note 12 – Retirement Plans*" and "*Note 13 – Deferred Compensation Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

### **Defined Benefit Retirement Plans Covering State Employees**

Each of the following three defined benefit plans involves State employees:

*Teachers' and State Employees' Retirement System.* Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, local education agencies, and certain proprietary component units along with charter schools that elect to join TSERS. Total active member accounts on December 31, 2024, amounted to 301,507 (includes members in receipt of disability benefits from the Disability Income Plan of North Carolina), and, in addition, there were 237,365 inactive members. The number of individuals in receipt of a recurring monthly benefit, or "annuitants", as of December 31, 2024, totaled 257,645. Benefits accrue at the rate of 1.82% of the four-year average compensation for each year of service. For Fiscal Year 2024-25, the system was funded by member contributions of 6% of compensation and employer contributions of 16.79% of covered payroll, in addition to investment income. The plan does not provide for automatic post-retirement benefit increases. TSERS is a multiple-employer plan covering employees of the State, its component units and other employers. The State is legally obligated to make contributions with respect to some, but not all, benefits. The State's

financial reporting under GASB Statement No. 68 includes disclosure of the obligations associated with the State and its component units.

*Consolidated Judicial Retirement System.* Membership is comprised of judges, district attorneys, public defenders and clerks of court. Total active member accounts on December 31, 2024, amounted to 594 and, in addition, there were 66 inactive members. Annuitants as of December 31, 2024, totaled 862. Benefits accrue at the rates of 3.02%, 3.52% or 4.02% of the final annual-equivalent compensation rate for each year of service, with the accrual rate depending on the member's job classification. For Fiscal Year 2024-25, the plan was funded by member contributions of 6% of compensation and employer contributions of 35.96% of covered payroll, in addition to investment income. The plan does not provide for automatic post-retirement benefit increases. The plan is a single-employer plan administered and funded by the State.

*Legislative Retirement System.* Membership is comprised of members of the General Assembly. Total active member accounts estimated at December 31, 2024, amounted to 170, and, in addition, there were 112 inactive members. Annuitants as of December 31, 2024, totaled 291. Benefits accrue at the rate of 4.02% of the member's highest annual compensation for each year of service. For Fiscal Year 2024-25, the plan was funded by member contributions of 7% of compensation and employer contributions of 19.32% of covered payroll, in addition to investment income. The plan does not provide for automatic post-retirement benefit increases. The plan is a single-employer plan administered and funded by the State.

The following financial and statistical data represent a consolidation of the above three retirement systems with State employee members for the Fiscal Years 2020-21 through 2024-25.

**Retirement Systems Receipts and Disbursements**  
(\$ millions)

|                                     | Fiscal Year         |                      |                     |                     |
|-------------------------------------|---------------------|----------------------|---------------------|---------------------|
|                                     | 2020-21             | 2021-22              | 2022-23             | 2023-24             |
| Receipts:                           |                     |                      |                     |                     |
| Employee Contribution               | \$ 986.89           | \$ 1,036.36          | \$ 1,065.82         | \$ 1,113.82         |
| Employer Contribution <sup>1</sup>  | 2,403.50            | 2,796.40             | 3,070.75            | 3,248.65            |
| Investment Earnings                 | 14,148.62           | (6,171.90)           | 4,111.58            | 6,598.28            |
| Other                               | 0.42                | 1.95                 | 1.94                | 0.22                |
| Total                               | <u>\$ 17,539.43</u> | <u>\$ (2,337.19)</u> | <u>\$ 8,250.09</u>  | <u>\$ 10,960.97</u> |
| Disbursements:                      |                     |                      |                     |                     |
| Benefits                            | \$ 5,007.59         | \$ 5,258.48          | \$ 5,557.48         | \$ 5,720.71         |
| Refunds                             | 100.01              | 121.96               | 139.28              | 126.31              |
| Other                               | 15.36               | 13.23                | 16.56               | 17.04               |
| Total                               | <u>\$ 5,122.96</u>  | <u>\$ 5,393.67</u>   | <u>\$ 5,713.32</u>  | <u>\$ 5,864.06</u>  |
| Excess of Income over Disbursements | <u>\$ 12,416.47</u> | <u>\$ (7,730.86)</u> | <u>\$ 2,536.77</u>  | <u>\$ 5,096.91</u>  |
| Net Position                        | <u>\$ 87,154.25</u> | <u>\$ 79,423.39</u>  | <u>\$ 81,960.16</u> | <u>\$ 87,057.07</u> |

Source: North Carolina Retirement System Financial Statements.

<sup>1</sup> See "**Contributions**" hereafter.

Note: Totals may not add due to rounding.



## Other Defined Benefit Retirement Plans Receiving State Appropriations

In addition to the above defined benefit retirement plans, the State administers several other pension and retirement plans that do not cover employees of the State. For more information on plans other than the two described hereafter, see "*Note 12 – Retirement Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

*Firefighters' and Rescue Squad Workers' Pension Fund.* Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Estimated active membership totaled 45,576 on December 31, 2024. Annuitants as of December 31, 2024, totaled 15,487. Benefits are \$175 per month payable at age 55 with a minimum of 20 years of service. The plan is funded by a \$15 monthly contribution by each member, investment income, and an actuarially based State appropriation. For Fiscal Year 2024-25, the amount appropriated by the State was \$20,402,208. The plan is a multiple-employer plan with a special funding situation, in that the State is not an employer but is legally obligated to contribute to the plan.

*National Guard Pension Fund.* Membership is established at age 60 for members and former members of the North Carolina National Guard ("NCNG") who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. Benefits are currently \$105 per month for the first 20 years of service plus \$10.50 per month for each additional year of service to a maximum of \$210 per month. Annuitants on December 31, 2024, totaled 4,895. The plan is funded by an actuarially based State appropriation and investment income. For Fiscal Year 2024-25, the amount appropriated by the State was \$1,120,949. The plan is a single-employer plan with a special funding situation, in that the State is not an employer but is legally obligated to contribute to the plan.

As of December 31, 2023, the total calculated unfunded actuarial accrued liability of the only other defined benefit plan with an unfunded liability other than those described above (the Local Governmental Employees' Retirement System) was approximately \$5.19 billion, about 15% of the plan's asset value.

## Contributions

The funding policy on which contributions are based includes the use of actuarial methods see "*Note 12 – Retirement Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement. For the largest plan ("TSERS"), the legislature has fully funded the annual contribution developed by the actuaries and recommended by the Board of Trustees every year with only one exception since 1941 (in 2010, for Fiscal Year 2010-11, the legislature set the contribution rate at 4.93% when the actuarially determined contribution was 6.71%).

The Board of Trustees of TSERS adopted the Employer Contribution Rate Stabilization Policy on April 29, 2021, replacing a prior version of the policy that it had adopted on January 21, 2016. The policy establishes a procedure for determining the employer contribution rates for TSERS that the Board of Trustees recommends to the General Assembly for the Fiscal Years ending in 2022-23 through 2026-27. Under this policy, the contribution rate recommended to the General Assembly is no less than 0.35% of payroll greater than the recommended contribution from the prior fiscal year, within the following limits: (1) contributions may not be less than the "underlying" actuarially determined contribution, using the assumptions adopted before application of the policy; and (2) contributions may not be greater than the actuarially determined contribution using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

For Fiscal Year 2025-26, the Employer Contribution Rate Stabilization Policy resulted in a recommended contribution rate of 17.14% of payroll, which was 0.35% greater than the recommended contribution rate from the prior fiscal year (16.79%). The recommended contribution rate exceeded the underlying actuarially determined contribution prior to application of the policy (14.85%) and was less than the policy's upper bound (52.06% of payroll, based on a discount rate equal to the yield on 30-year United States Treasury securities). Accordingly, the Board elected to recommend the actuarially determined contributions ("ADC") equal to 17.14% of payroll. This recommendation was based on an assumption that no legislative benefit improvements or cost-of-living increases or supplements would be granted. Through Session Law 2025-89, the General Assembly appropriated a State contribution equal to the Board's recommended rate of 17.14% of compensation. For more information on contribution rates, see "*Note 12 – Retirement Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

### **Financial Reporting**

Under the statements issued by the Governmental Accounting Standards Board ("GASB"), the calculation and reporting of the costs and obligations associated with government pensions differ from the methodologies used by the State for determining contributions to the System. While the financial reporting is different there are no changes in the funding policy. North Carolina's pension plans are well funded and use conservative actuarial assumptions, and the State's financial reports reflect the State's status as having some of the most well-funded state-sponsored pension plans in the country. Financial reporting of the State's pension plans report the current market value of assets rather than the actuarial value of assets, thus the plan's ratio of assets to liabilities is subject to volatility.

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**Changes in Net Pension Liability and Related Ratios <sup>1</sup>**  
**Fiscal Years 2014-2020**  
**(\$ thousands)**

| <b>Date <sup>2</sup></b>                                    | <b>PFNP <sup>3</sup></b> | <b>TPL <sup>4</sup></b> | <b>NPL <sup>5</sup></b> | <b>PFNP/TPL</b> | <b>Payroll <sup>6</sup></b> |
|-------------------------------------------------------------|--------------------------|-------------------------|-------------------------|-----------------|-----------------------------|
| <b>Teachers' &amp; State Employees' Retirement System</b>   |                          |                         |                         |                 |                             |
| 6/30/2021                                                   | \$86,391,031             | \$91,073,632            | \$4,682,601             | 94.86%          | \$16,057,185                |
| 6/30/2022                                                   | 78,730,004               | 93,572,242              | 14,842,238              | 84.14           | 16,861,679                  |
| 6/30/2023                                                   | 81,249,054               | 97,921,037              | 16,671,983              | 82.97           | 17,462,008                  |
| 6/30/2024                                                   | 86,309,278               | 101,125,956             | 14,816,678              | 85.35           | 18,210,471                  |
| 6/30/2025 <sup>7</sup>                                      | 93,375,669               | 105,134,285             | 11,758,616              | 88.82           | 18,979,381                  |
| <b>Consolidated Judicial Retirement System</b>              |                          |                         |                         |                 |                             |
| 6/30/2021                                                   | \$731,320                | \$802,893               | \$71,573                | 91.09%          | \$80,294                    |
| 6/30/2022                                                   | 664,764                  | 839,335                 | 174,571                 | 79.20           | 83,528                      |
| 6/30/2023                                                   | 682,362                  | 883,416                 | 201,054                 | 77.24           | 87,489                      |
| 6/30/2024                                                   | 718,371                  | 926,852                 | 208,481                 | 77.51           | 100,833                     |
| 6/30/2025 <sup>7</sup>                                      | 772,761                  | 976,106                 | 203,345                 | 79.17           | 105,751                     |
| <b>Legislative Retirement System</b>                        |                          |                         |                         |                 |                             |
| 6/30/2021                                                   | \$31,895                 | \$29,974                | \$(1,921)               | 106.41%         | \$3,615                     |
| 6/30/2022                                                   | 28,620                   | 30,150                  | 1,530                   | 94.93           | 3,619                       |
| 6/30/2023                                                   | 28,748                   | 30,433                  | 1,685                   | 94.46           | 3,617                       |
| 6/30/2024                                                   | 29,419                   | 30,565                  | 1,146                   | 96.25           | 3,622                       |
| 6/30/2025 <sup>7</sup>                                      | 30,264                   | 30,113                  | (151)                   | 100.50          | 3,613                       |
| <b>National Guard Pension Fund</b>                          |                          |                         |                         |                 |                             |
| 6/30/2021                                                   | \$175,765                | \$174,571               | \$(1,194)               | 100.68%         | N/A*                        |
| 6/30/2022                                                   | 165,381                  | 150,054                 | (15,327)                | 110.21          | N/A*                        |
| 6/30/2023                                                   | 175,727                  | 143,712                 | (32,015)                | 122.28          | N/A*                        |
| 6/30/2024                                                   | 179,931                  | 152,337                 | (27,594)                | 118.11          | N/A*                        |
| 6/30/2025 <sup>7</sup>                                      | 188,874                  | 154,550                 | (34,324)                | 122.21          | N/A*                        |
| <b>Firefighters' and Rescue Squad Workers' Pension Fund</b> |                          |                         |                         |                 |                             |
| 6/30/2021                                                   | \$528,127                | \$500,196               | \$(27,931)              | 105.58%         | N/A*                        |
| 6/30/2022                                                   | 480,956                  | 500,618                 | 19,662                  | 96.07           | N/A*                        |
| 6/30/2023                                                   | 496,440                  | 505,749                 | 9,309                   | 98.16           | N/A*                        |
| 6/30/2024                                                   | 527,010                  | 512,870                 | (14,140)                | 102.76          | N/A*                        |
| 6/30/2025 <sup>7</sup>                                      | 568,886                  | 532,516                 | (36,370)                | 106.83          | N/A*                        |

Source: North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024.

\* The National Guard Pension Fund and the Firefighters' and Rescue Squad Workers' Pension Fund provide benefits that are not a function of a member's compensation; thus, payroll for these plans is not applicable for pension funding purposes.

<sup>1</sup> The figures in this table correspond with required disclosures under GASB 67 and GASB 68 for cost-sharing multiple-employer, single-employer or special funding defined benefit plans.

<sup>2</sup> "Date" here means the fiscal year end date.

<sup>3</sup> "PFNP" here means Plan Fiduciary Net Position, as defined under GASB 67 and/or GASB 68.

<sup>4</sup> "TPL" here means Total Pension Liability, as defined under GASB 67 and/or GASB 68.

<sup>5</sup> "NPL" here means Net Pension Liability, as defined under GASB 67 and/or GASB 68. This value approximately corresponds with the total pension liability, less the amount of the plan fiduciary net position. Negative values (denoted by parentheses) indicate a net pension asset.

<sup>6</sup> "Payroll" means the total amount of reported compensation for employees covered by the plan.

<sup>7</sup> Unaudited.

Under GASB No. 67 and GASB No. 68, the Systems are required to demonstrate solvency with a comparison of projected future benefits payable for current members versus System assets available to pay those benefits. System assets are projected using the assumed long-term rate of return (6.50% effective for the reporting as of June 30, 2024), increased annually by expected contributions by current active members and decreased annually by expected benefit payments for members in receipt of benefits. If System assets are depleted before all projected future benefits are paid, then the System's liabilities must be measured by discounting the benefits using a municipal bond rate for all years beyond the insolvency date. This comparison is performed annually, and for the current reporting period all Systems are projected to remain solvent (and thus no liabilities have been measured at the municipal bond rate).

## **OTHER POST-EMPLOYMENT BENEFITS**

The State administers two post-employment benefit plans for which it appropriates funds, the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC"). Although the assets of such plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of the plan and for related administrative costs. For more information see *"Note 14 – Other Postemployment Benefits"* and the tables under the section entitled "REQUIRED SUPPLEMENTARY INFORMATION: OTHER POSTEMPLOYMENT BENEFIT PLANS" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

Actuarial data for the plans is disclosed in the notes to the State's Annual Comprehensive Financial Report, based on the disclosure requirements for cost-sharing, multiple-employer plans (RHBF and DIPNC) and also presented as required supplementary information ("RSI"). The net OPEB liability is recorded as an accounting liability in accordance with GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."*

State contributions to the DIPNC are actuarially determined and are established in the Appropriations Bill by the General Assembly. Contribution rates to the RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are also determined by the General Assembly in the Appropriations Bill.

### **Retiree Health Benefit Fund**

The RHBF has been established as a fund to provide health benefits to retired and disabled employees and their eligible dependents. RHBF is a cost-sharing, multi-employer, defined benefit healthcare plan exclusively for the benefit of Teachers and State Employees who retire from the State, the UNC System and community colleges. In addition, Local Education Agencies ("LEAs"), charter schools and some select local governments that are not part of the financial reporting entity also participate.

Plan benefits received by retired employees and disabled employees from RHBF are other postemployment benefits ("OPEB"). The benefits provided include medical and pharmacy coverage for employees and their eligible 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 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.

The Segal Company completed the most recent actuarial valuation of RHBF as of June 30, 2025. The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional

accumulation of funds to pay costs attributable to retirees. Based on the actuarial assumptions and methods (see "**Actuarial Assumptions and Methods**" above), the most recent complete actuarial valuation indicated a Total OPEB Liability of \$26.195 billion for RHBF (\$21.953 billion unfunded), with an actuarially determined contribution of \$1.726 billion for Fiscal Year 2024-25. In the aggregate for Fiscal Year 2024-25, the participating employers in RHBF funded OPEB costs of \$1.524 billion.

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. For Fiscal Year 2024-25, the RHBF was funded by employer contributions of 6.99% of covered payroll, in addition to investment income. Based on 2018 legislation enacted by the North Carolina General Assembly, RHBF will receive annually a share of the balance, if any, of the Unfunded Liability Solvency Reserve. Under the 2018 legislation, distributions from the Unfunded Liability Solvency Reserve may not be used to supplant other funding for the plans, nor can they be used as funding for enhanced plan benefits. Recent legislation SL 2020-48 allowed for funds to transfer from the Public Employee Health Benefit Fund to the RHBF. During Fiscal Year 2024-25, there was a transfer of \$0.3 million to the RHBF. Since the amount transferred is at the discretion of the Treasurer, this is not considered a consistent source of funding for the RHBF.

For Fiscal Year 2023-24, the State and its Component Units, as employers in the cost-sharing, multiple-employer plan, funded OPEB costs of \$871 million for the retiree healthcare plan, its statutorily required contribution.

For State employees first hired on and after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the 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 or members of the General Assembly with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. State employees hired on or after January 1, 2021 are not entitled to coverage upon retirement.

### **Disability Income Plan of North Carolina**

The DIPNC is a cost-sharing, multiple-employer defined benefit plan, providing short-term and long-term disability benefits to eligible members of TSERS and the University Employees' Optional Retirement Program. DIPNC covers employees of the State, the UNC System, community colleges, certain participating component units and local education agencies.

Long-term disability benefits are an "other post-employment benefit" payable 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. The long-term disability benefit generally provides up to 65% of the member's pre-disability rate of income, reduced for any Social Security benefits, Workers' Compensation benefits, state-provided retirement or insurance benefits and wages earned by the disabled member. The resulting benefit is subject to minimum and maximum amounts. In order to be eligible for long-term disability benefits, a member must meet certain requirements as to the nature of the disability, application for benefits and in some cases, eligibility for Social Security disability benefits. Benefit recipients may not continue working as permanent, full-time employees. Members may not receive DIPNC long-term benefits if they are eligible to receive a retirement benefit from TSERS that is not reduced on account of age.

The consulting actuary to the TSERS Board of Trustees provides an actuarial valuation report each year. The valuation determines an actuarially determined contribution for the fiscal year beginning 18

months after the valuation date, under the assumptions and methods selected by the TSERS Board of Trustees. It also provides information for use in financial reporting for the fiscal year ending six months after the valuation date. The latest actuarial valuation of the disability income benefits plan was done by Gallagher Benefit Services, Inc. and was as of December 31, 2023, except for certain information as of a later date.

For purposes of determining an actuarially determined contribution rate as a percentage of covered payroll, the valuation employs the aggregate actuarial cost method. This method does not include an explicit measurement or amortization of unfunded liabilities. For Fiscal Year 2025-26, the ADC for DIPNC was calculated to be 0.07% of covered payroll. For the same fiscal year, the General Assembly has established an employer contribution rate of 0.07% of covered payroll in Session Law 2025-89.

For purposes of financial reporting, the valuation employs the entry-age normal actuarial cost method. Using the entry-age normal method, the valuation report indicated a Total OPEB Liability of \$202 million for the plan as of June 30, 2025, with a Net OPEB Asset of \$65.3 million. For Fiscal Year 2024-25, the ADC was 0.11% of covered payroll (\$24 million) and actual appropriated contributions were \$28 million. As a result, the contractually required contribution was more than fully funded for that year by DIPNC's participating employers, including the State.

For a schedule of Net OPEB Liability and related ratios for RHBF and DIPNC, see "*Schedule of Changes in the Net OPEB Liability and Related Ratios Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

## LITIGATION

Litigation matters threatened or ongoing, as well as audits, compliance reviews, and investigations, arise in the normal course of the State's activities. These matters may relate to any area of the State's operations. Investors should review "*Note 21 – Conduit Debt Obligations, Commitments, and Contingencies – Litigation*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement ("Note 21") for a full description of ongoing legal proceedings. The summary below outlines recent developments since June 30, 2024, and should be read in conjunction with Note 21.

For those cases in Note 21 that are not noted below, such cases have been resolved and have resulted in either no liability to the State or immaterial liability.

Although an adverse result in any of the cases described in Note 21 or below could have negative budgetary consequences, in the opinion of the Department of State Treasurer after consultation with the Attorney General, an adverse decision in any of these cases would not materially adversely affect the State's ability to meet its financial obligations.

The following cases were included in Note 21 and remain outstanding but have had no material updates: Hoke County Board of Education et al. v. State of North Carolina et al. — Right to a Sound Basic Education (formerly Leandro); Legionnaires' Disease Litigation/2019 Mountain State Fair – North Carolina Department of Agriculture and Consumer Services; and Map Act Litigation (Kirby v. North Carolina Department of Transportation and subsequent cases).

Michael Hughes, on behalf of himself and others similarly situated v. Board of Trustees Teachers' and State Employees' Retirement System, et al. Since June 30, 2024, the trial court granted Defendants' motion for judgment on the pleadings and dismissed the case. Plaintiffs appealed to the Court of Appeals.

The Court of Appeals, in a split decision, ruled for the Defendants the State and the Retirement System Division concluding that sovereign immunity shields the State from the COLA-grounded lawsuits for breach of contract. Plaintiffs sought an en banc rehearing/review from the Court of Appeals, but the Court of Appeals denied it. Plaintiffs petitioned the North Carolina Supreme Court for discretionary review, and it has not yet ruled. The likelihood of an unfavorable outcome is only reasonably possible.

*Lake, et al. v. North Carolina State Health Plan for Teachers and State Employees, et al.* Since June 30, 2024, the parties engaged in the discovery process pursuant to the Court's direction. Before another trial in Superior Court, the parties filed motions for summary judgment, to exclude certain experts, and, on the part of the North Carolina State Health Plan, to decertify the class of plaintiffs. These motions were denied. The North Carolina State Health Plan has appealed to the North Carolina Supreme Court with respect to the denial of its motion to decertify the class, filing its notice of appeal on April 11, 2025.

It is thought that if the original trial court's ruling were to stand the costs to the State could substantially exceed \$100 million, not including the significant costs to the North Carolina State Health Plan of complying with the plaintiffs' demands going forward. There remain significant issues to be resolved in this case, including whether there was, in fact, an impairment of the contractual right to health care benefits that the North Carolina Supreme Court found, whether such impairment, if it existed, was reasonable, as well as the existence and amount, if any, of damages.

*Lexington/AIG v. NC, POELIC, et al.* In 2024, DOJ was able to successfully negotiate a resolution with plaintiffs' counsel for \$7.5 million which resolved all potential claims against the State and to cabin off claims against the State Bureau of Investigation agents which would fully resolve once plaintiffs complete their claims against the excess insurance carriers. Thus, the risk of any further adverse decision against the State is remote.

*Bolch v. Governor, DHHS, Kody Kinsley, Susan Osborne, Mark Payne, Mecklenburg DSS & Gaston DSS.* Plaintiffs, working with A Better Childhood, filed this Class Action Complaint on August 27, 2024, in the Western District alleging systemic issues in the child welfare system in violation of the Constitution, the Adoption Assistance and Child Welfare Act, and the Americans with Disabilities Act (ADA). The State defendants filed motions to dismiss which was granted in September 2024. Plaintiffs requested reconsideration of dismissal at the district court level, which is unlikely to succeed. However, an appeal is likely. If defendants are unsuccessful, they will need to revisit their evaluation of the likelihood of an unfavorable outcome and the fiscal exposure of the State may be substantial in the event of the favorable outcome of this litigation for plaintiffs. The risk of adverse fiscal impact is reasonably possible.

*Timothy B, Flora B, Isabella A, Steph C, DRNC, NC NAACP v. Kody Kinsley in his official capacity & NC DHHS.* Class Action Complaint for Declaratory and Injunctive Relief filed in the Middle District on 12/6/2022. The complaint alleges that DHHS unlawfully places children with disabilities in child welfare custody ("foster care") who are unnecessarily segregated from their home communities and routinely isolated in heavily restrictive, and often clinically inappropriate, institutional placements known as psychiatric residential treatment facilities ("PRTFs"). The claims are raised as unlawful pursuant to FED. R. CIV. P. 57: policies, procedures, and practices that violate Title II of the Americans with Disabilities Act, 42 U.S.C. § 12131 et seq., or Section 504 of the Rehabilitation Act, 29 U.S.C. § 794 et seq., The risk of adverse fiscal impact is reasonably possible.

*North Carolina Bar and Tavern Association; et al., v. Cooper.* Since June 30, 2024, the North Carolina Supreme Court issued an opinion on August 22, 2025, in which it affirmed in part and reversed in part the Court of Appeals' decision and remanded the case back to trial court for the parties to conduct further discovery. The North Carolina Supreme Court affirmed the dismissal of plaintiffs' statutory claims and reversed the Court of Appeals' entry of summary judgment on the fruits-of-labor and equal protection

claims. The North Carolina Supreme Court held that deferential rational-basis review applies to equal protection claims concerning state action that burdens a person's right to earn a living and because there was at least some "conceivable" justification for the Governor's orders the trial court properly dismissed that claim. The North Carolina Supreme Court also held that because the Court of Appeals issued its decision before the North Carolina Supreme Court had released its decision in the Ace Speedway case – a case in which it clarified the standard for fruits-of-labor claims – the case needed to be remanded to the trial court so that the parties can engage in discovery under the clarified standard. The risk of adverse fiscal impact is reasonably possible.

*Howell; et al. v. Cooper et al.* The North Carolina Supreme Court issued an opinion on August 22, 2025, in which, relying on its prior decision in Ace Speedway, it held that plaintiffs' claims for damages here could proceed beyond a motion to dismiss. It held that the fruits-of-labor and law-of-the-land clauses are implicated whenever State action "interferes" in some way with a person's right to earn a living. If State action does so, the Court reaffirmed that then State action will be invalidated unless the State has 1) acted for a proper purpose and 2) chosen reasonable means to achieve that purpose. The Court also stressed that both inquiries are very fact-intensive, apparently requiring discovery to resolve. The risk of adverse fiscal impact is reasonably possible.

*Ussery v. Hooks et al. (federal court).* Since June 30, 2024 the case is fully briefed in the Fourth Circuit following the plaintiff's filing of a notice to appeal on July 19, 2024, and, as none of the parties requested oral argument, the State is awaiting decision from that Court. The risk of adverse fiscal impact is remote.

Utility Easement Issues: The consequences of the decisions in *Department of Transportation v. Canady*, 2020 N.C. App. LEXIS 943 and *Department of Transportation v. Prior, Wake County 20-CVS-6521*. Since June 30, 2024, the Department of Transportation proposed statutory changes to limit the potential damages claims in these cases, by specifically stating that the imposition of these easements does not constitute new control of access, and that the decision in Black is limited to easements for right of way and not applicable to other easements. Legislation was proposed to incorporate these changes, but to date has not been enacted or considered by the General Assembly as a whole, and the proposed changes included in Senate Bill 391 were not included the comprehensive transportation bill (Session Law 2025-47).

This potential for increased liability has become even more extreme due to the results of trials in Guilford County in March 2025. The largest of those cases was *Department of Transportation v. JPC Monroe*, in which DOT prevented from putting on evidence at trial due to a previous ruling on a Section 108 motion. DOT's deposit was \$48,900, and the jury verdict was \$13,920,000. Five related cases were tried shortly thereafter, with the verdicts totaling \$6,640,419, off of deposits totaling \$235,250. These verdicts are currently on appeal. DOT has retained outside counsel to handle the appeals and provide advice on coordinating the pending litigation in the trial courts.

*Ussery v. Cooper et al. (state court).* Since June 30, 2024, the defendants' motions to dismiss were heard before the Honorable George Hicks on April 21, 2025. On April 23, 2025 Judge Hicks granted in part the State Defendants' motion to dismiss. The court dismissed all the claims against State Defendants Cooper, Hooks, Brock, and Fink for failure to state a claim under N.C. R. Civ. P. 12(b)(6) but denied the claims against State Defendants Hawley (now Terry Green who replaced the retired Hawley), Proctor, and the State of North Carolina. Those State defendants filed a notice of appeal with the Court of Appeals on May 22, 2025. Plaintiff and the City of Raleigh also filed notice of appeal, the appeals have been consolidated, the City of Raleigh ordered a copy of the transcript from the motions to dismiss hearing, and the deadline to file the transcript was September 2, 2025. The risk of adverse fiscal impact is remote.



*Samantha R. v. NC and DHHS*, filed in Wake County Superior Court in May 2017. The six individual plaintiffs and plaintiff organization Disability Rights North Carolina ("DRNC") assert that the State of North Carolina and the North Carolina Department of Health and Human Services ("NC DHHS") have violated the North Carolina Persons with Disabilities Protection Act and the State Constitution. Plaintiffs seek an injunction requiring the defendants to administer publicly funded behavioral health programs to individuals with intellectual and developmental disabilities in compliance with the Act and the North Carolina Constitution. As plaintiffs do not seek monetary damages, it is hard to put a dollar amount on the litigation. However, if the Court does enter some sort of injunction, NC DHHS anticipates that substantial funds would be needed for implementation of any service or systems modification. Attorney General staff attorneys represent NC DHHS and the State. NC DHHS' motion to dismiss was denied. After the completion of discovery, all parties filed motions for summary judgment. The trial court denied the State's motion for summary judgment and granted plaintiff's partial Motion for Summary Judgment by order dated February 4, 2020. The Court ruled that the State was in violation of North Carolina General Statute 168A-7(b) of the North Carolina Persons with Disabilities Protection Act. At the Court's direction, the parties briefed the question of the proper remedy for the violation of the integration mandate. The Court heard the issue on May 12, 2022.

On July 21, 2022, the Court directed the parties to submit a proposed order adopting specific and measurable goals. On November 2, 2022, the Court entered its order, in the form of an injunction, directing North Carolina and NC DHHS to transition individuals from institutions to community settings; to reduce the registry/wait list; and to collect and report data to DRNC on direct care professionals.

On November 30, 2022, Defendants filed a notice of appeal and motion to stay the Court's decision (from both the remedies order dated November 2, 2022, and the Summary Judgment order dated February 4, 2020) and a motion to stay enforcement of the remedies order pending the appeal. On February 9, 2023, the Court granted the motion to stay on Benchmarks 1 and 2 of the injunctions for the duration of the appeal. The Court also clarified the requirement on cessation of admissions.

The parties filed the record on appeal with the North Carolina Court of Appeals in May 2023. The parties also agreed to mediation through the appellate court, which began in August 2023 and continued through April 2024. On April 10, 2024, the parties filed a joint motion and proposed consent order with the Superior Court which reflects the parties' agreement to resolve the appeal and outstanding claims in the litigation. The parties appeared before the Superior Court on April 17, 2024. The Superior Court approved the parties' plan, NC DHHS dismissed the appeal, and the case is continuing before the Superior Court as it monitors the parties' compliance with the consent order. NCDHHS has ongoing quarterly reporting requirements through 2025 and part of 2026. The consent order provides that the parties will confer and propose potential further actions to the Court by July 1, 2026. The risk of adverse fiscal impact is reasonably possible.

*Disability Rights North Carolina v NC DHHS*, Case No. 1:24-cv-335-LCB-JLW (Middle District of North Carolina). In May 2024, plaintiff Disability Rights North Carolina brought claims against NC DHHS and its secretary in his official capacity. Plaintiff alleged that state court criminal detainees with mental health disabilities, who may be incapable of proceeding to trial, are required to wait an unreasonable amount of time in county jails before they are provided with capacity assessments and capacity restoration services. Plaintiff asserted alleged violations under 42 USC § 1983 and the Fourteenth Amendment to the US Constitution (substantive due process and procedural due process), and under the Americans with Disabilities Act and the Rehabilitation Act. As plaintiff does not seek monetary damages, it is difficult to put a dollar amount on the litigation; however, if the Court enters some sort of injunction, NC DHHS anticipates that substantial funds may be needed for implementation of any service or systems modifications. Plaintiff moved for a preliminary injunction in May 2024, and NC DHHS moved to dismiss in June 2024. In June 2025, the Court issued a memorandum opinion and recommendation of United States

Magistrate Judge. It concluded and recommended that the motion for preliminary injunction be denied, and that the motion to dismiss be denied in part and granted in part. In July 2025, both parties filed objections to portions of the recommendation, which remain pending before the Court. The risk of adverse fiscal impact is reasonably possible.

*Lannan et al. v. UNC Board of Governors* (20-CVS-9988-910). This case is a putative class action seeking a refund of fees paid by students enrolled at UNC-Chapel Hill and NC State University during the fall 2021 semester. Specifically, the two named plaintiffs have claimed that they did not receive the value of these fees, particularly those directed to on-campus activities, when these two universities transitioned from an in-person to remote model of instruction several weeks into the fall 2021 semester. They also have claimed they did not receive the benefit of parking fees they paid.

In their original complaint, filed in September 2021, the plaintiffs brought a claim for breach of contract, as well as violations of the North Carolina Constitution. The trial court dismissed the plaintiffs' constitutional claim but declined to dismiss their breach-of-contract claim. Both sides appealed, and the case eventually was heard by the North Carolina Supreme Court in October 2024.

In March 2025, the North Carolina Supreme Court affirmed the trial court's decision, concluding that the plaintiffs had sufficiently alleged their breach-of-contract claims. The case is now back before the Wake County Superior Court and proceeding through discovery.

The two named plaintiffs are seeking refunds of \$2,000 - \$2,500 in mandatory student fees. During the fall 2021 semester, NC State had a total student enrollment of approximately 34,000 students, and UNC-Chapel Hill had a total student enrollment of approximately 29,500 students. Thus, if the plaintiffs are able to certify a class, the potential outside recovery could be more than \$150 million.

*Other Litigation.* Cases have only been individually listed where they have some potential (albeit minimal in several listed cases) for the fiscal impact to reach or exceed \$20 million. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are reasonably expected to have a material adverse effect on the financial position of the State.

## CYBERSECURITY

The State relies on a large and complex technology environment to conduct its operations. As a recipient and provider of federal and state personal, private and sensitive information, the State and its agencies and offices face multiple cyber threats including, but not limited to, data compromise, ransomware attacks, data extortion and exfiltration, denial of service and other attacks on computers and other critical infrastructure and systems.

The State adopted the National Institute of Standards and Technology Risk Management Framework in 2016 as the standard for managing information security risk in State information technology resources. The Statewide Information Security Manual ("SISM") published by the North Carolina Department of Information Technology is the foundation for information technology security in North Carolina and must be followed by executive branch agencies unless otherwise prescribed by federal or State statute. The manual sets out the standards required by G.S. §143B-1376, which directs the State Chief Information Officer to establish a statewide set of standards for information technology security to maximize the functionality, security and interoperability of the State's distributed information technology assets, including, but not limited to, data classification and management, communications and encryption technologies. G.S. §143B-1376 also includes mandatory cyber awareness training and reporting of cyber

incidents by all State and local government entities. The SISM policy covers all State information and information systems including those used, managed or operated by a contractor, an agency or other organization on behalf of the State. The policy applies to all State employees, contractors and all other users of State information and information systems that support the operation and assets of the State. Use by local governments, local education agencies, community colleges and constituent institutions of the University is encouraged to the extent allowed by law. In carrying out its functions, the State works with a range of state, federal, local government and private sector entities.

The State has established a Joint Cyber Task Force ("JCTF") which is a partnership between State agencies, National Guard Cyber Response Force, the Federal Bureau of Investigation, the Department of Homeland Security, the Cybersecurity and Infrastructure Security Agency and the North Carolina Local Government Information Systems Association Information Technology (IT) Strike Team. The JCTF is tasked with establishing Tactics, Techniques and Procedures for incident response and provide cyber incident engagement support for any state, local government and academic institution impacted by a significant cyber incident.

No assurances can be given that the State's security and operational control measures will be successful against all future cyber threats and attacks. The results of any successful attack on the State's computer and information technology systems could impact its operations, damage the State's digital networks and systems and cause reputational damage. The costs of remedying any such damage, depending on the severity of the overall impact, could be substantial.

## **CLIMATE CHANGE**

Climate change refers to the effect that a warming and changing climate has on the environment, humans and infrastructure. Among the impacts of climate change are rising sea surface temperatures and sea levels, leading to more frequent and more severe extreme weather events such as hurricanes, flooding, wildfires and drought. A large portion of the State's coastline is vulnerable to projected sea level rise due to its low elevation and geological factors that are causing the sinking of land in the northern part of the State.

On October 29, 2019, Governor Cooper signed Executive Order 80 ("EO80"), directing all cabinet agencies to integrate climate adaptation and resilience planning into their policies, programs and operations. EO80 specified a number of emissions-reduction and clean-energy goals, established an interagency council on climate change and called for a range of other specific actions across state government. EO80 also directed the Department of Environmental Quality ("DEQ"), with support of other agencies and stakeholders, to prepare the 2020 North Carolina Climate Risk Assessment and Resilience Plan (the "2020 Resilience Plan"). The DEQ and other agencies recognized the need for an objective and credible climate science analysis to support the EO80 activities and the development of the 2020 Resilience Plan. In response to this need and request, the North Carolina Institute for Climate Studies, an inter-institutional research institute of the UNC System administered by NC State, led the development of the North Carolina Climate Science Report.

## **HURRICANE HELENE**

In September 2024, Hurricane Helene caused high winds and severe flooding in western North Carolina, resulting in loss of life and extensive damage to property throughout the region. The State continues to assess the storm's economic impacts. More than 40% of the State's population live in one of the 39 counties declared official federal disaster assistance counties as a result of Hurricane Helene. Losses in scope for the economic-impact estimates include physical damage to real and personal property as well as economic loss from business-disruption effects, including lost revenue to businesses and lost income for

workers. On September 28, 2024, 39 counties were declared major disaster areas by the President of the United States. An assessment conducted by the State estimated the overall impact of damage from Helene to be nearly \$60 billion.

## **RECENT FEDERAL ACTIONS**

Changes in presidential administrations or Congressional sessions can generate significant shifts in federal priorities and policies including (without limitation) taxation, appropriations, borrowing, trade, immigrations, education and environmental matters. Such shifts may be followed by material increases or decreases in the levels of federal funding directly affecting federal agencies and authorities and indirectly affecting state and local recipients of such funding. Through executive orders and other federal actions, the current presidential administration has recently proposed policy shifts that involve, among other things, (a) delaying or canceling various grants and other appropriations, (b) shrinking the federal workforce through early buyouts and terminations, (c) eliminating certain federal agencies and departments, (d) imposing new or increased tariffs for certain imported goods and materials, and (e) increasing immigration enforcement actions.

The State's budget includes significant federal funding for areas such as education, highway safety, human services and public health, natural resources and the environment, and labor and employment. For the Fiscal Year 2023-24, approximately 43% of State revenues were derived from federal sources. The President of the United States has issued a series of executive orders that suspend or limit federal funding to state and local governments. Along with 21 other states and the District of Columbia, the Attorney General for the State has challenged the January 20, 2025 executive order pausing several federal funding streams.

In addition, on March 24, 2025, the United States Department of Health and Human Services (the "USDHHS") announced that it would be cutting \$11 billion in federal funds that go toward COVID-19 initiatives and various public health projects across the country. The Attorney General for the State has joined 22 other states and the District of Columbia in suing the USDHHS over this decision. The Attorney General has stated that the cuts could cost the State more than \$230 million in healthcare funding. On April 3, 2025, the U.S. District Court issued a temporary injunction barring the USDHHS and its agencies from implementing the cuts in federal funding.

According to the Bureau of Labor Statistics, as of July 2025, North Carolina employed approximately 82,400 federal civilian workers, representing about 1.6% of the State's nonfarm workforce. North Carolina is among the top ten states in terms of federal employment, accounting for approximately 2.8% of the 2.93 million federal jobs nationwide. While federal employment in North Carolina has remained relatively stable, the State faces challenges due to federal policy changes. In July 2024, the U.S. Department of Agriculture announced plans to relocate most of its Washington, D.C. based workforce to regional hubs, including Raleigh, as part of a broader initiative to streamline operations. This move could potentially impact the distribution of federal jobs within the State.

Regardless of whether the executive orders and cuts to funding are upheld as enforceable, the current administration's policy goals may lead to significant shifts in required contract and grant provisions and related program rules for federal financial assistance, which could affect both new awards as well as existing agreements. Such changes could have a materially adverse financial impact on the State.

## EXHIBIT A-1

### GENERAL FUND REVENUES AND EXPENDITURES

#### Revenues

In addition to the tax and non-tax revenue discussed hereafter, the State receives various federal funds, virtually all of which are designated for specific purposes. The State's financial statements, included in Appendix B to this Official Statement, show the total receipts and expenditures from both federal and non-federal sources for the General Fund, the Highway Fund and the Highway Trust Fund for the five fiscal years ended June 30, 2024. *Unless otherwise indicated, the information set forth below covering the State's recent and current financial status and budgets excludes federal receipts and expenditures.*

#### Major Components of State General Fund Revenues and Other Financing Sources (\$ millions)

|                          | Fiscal Year        |                    |                    |                    |                      |
|--------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
|                          | 2020-21            | 2021-22            | 2022-23            | 2023-24            | 2024-25 <sup>2</sup> |
| State Taxes              | \$ 29,127.6        | \$ 33,478.3        | \$ 33,273.2        | \$ 32,740.9        | \$ 33,787.5          |
| Federal funds            | 20,363.9           | 23,855.8           | 25,433.1           | 27,669.3           | 36,608.8             |
| Fees, licenses and fines | 948.5              | 1,130.0            | 1,221.1            | 1,645.7            | 1,848.4              |
| State Lottery transfer   | 938.9              | 931.9              | 1,017.4            | 1,099.0            | 1,079.0              |
| Other transfers in       | 189.5              | 254.3              | 182.3              | 259.3              | 258.5                |
| Sales and services       | 181.1              | 176.9              | 178.4              | 164.9              | 168.0                |
| Local funds              | 108.7              | 118.2              | 117.4              | 135.6              | 144.7                |
| Tobacco settlement       | 167.2              | 171.6              | 156.6              | 139.7              | 132.5                |
| Investment earnings      | 34.4               | 66.5               | 713.9              | 1,299.3            | 1,352.2              |
| Federal COVID-19 funds   | 5,410.4            | 7,793.4            | 5,291.5            | 3,235.9            | 2,766.3              |
| Other <sup>1</sup>       | 260.5              | 265.9              | 260.8              | 284.9              | 270.3                |
| <b>Total</b>             | <b>\$ 57,730.7</b> | <b>\$ 68,242.8</b> | <b>\$ 67,845.7</b> | <b>\$ 68,674.5</b> | <b>\$ 78,416.2</b>   |

Source: North Carolina Annual Comprehensive Financial Reports for the Fiscal Years 2020 through 2024, "Statement of Revenues, Expenses and Changes in Fund Balance - Governmental Funds," General Fund column, adjusted to break out State Lottery Transfer from "Note 10 - Interfund Balances and Transfers".

<sup>1</sup> "Other" category includes line items for interest earnings on loans; rental and lease of property; contributions, gifts and grants; miscellaneous; sale of capital assets; and insurance recoveries. Proceeds of debt, including premium on sale, are not included in the table.

<sup>2</sup> Unaudited.

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*Tax Revenue.* State taxes are the General Fund's largest revenue source and are derived primarily from Individual Income and Sales taxes, supplemented by other smaller taxes including Corporate Income, Franchise, and Insurance taxes.

### State Tax Payments into General Fund (\$ millions)

|                             | Fiscal Year        |                    |                    |                    |                      |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
|                             | 2020-21            | 2021-22            | 2022-23            | 2023-24            | 2024-25 <sup>3</sup> |
| Taxes:                      |                    |                    |                    |                    |                      |
| Individual Income Tax       | \$ 15,368.9        | \$ 17,845.9        | \$ 16,799.4        | \$ 16,464.0        | \$ 17,101.8          |
| Sales and Use Tax           | 9,811.2            | 11,012.6           | 11,650.9           | 11,683.7           | 11,815.2             |
| Corporate Income Tax        | 1,304.3            | 1,630.0            | 1,725.9            | 1,509.6            | 1,536.7              |
| Franchise Tax               | 870.9              | 890.4              | 849.1              | 743.3              | 696.7                |
| Insurance Tax               | 722.9              | 1,001.6            | 1,164.2            | 1,238.6            | 1,471.7              |
| Beverage Tax                | 533.3              | 559.2              | 592.2              | 591.3              | 588.6                |
| Tobacco Products Tax        | 307.3              | 296.7              | 283.8              | 257.2              | 248.7                |
| Other Taxes <sup>1, 2</sup> | 208.8              | 241.9              | 207.7              | 253.2              | 328.1                |
| Total                       | <u>\$ 29,127.6</u> | <u>\$ 33,478.3</u> | <u>\$ 33,273.2</u> | <u>\$ 32,740.9</u> | <u>\$ 33,787.5</u>   |

Source: North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024, "Table 5 - Schedule of Revenues by Source -- General Fund".

<sup>1</sup> "Other Taxes" category includes line items for license tax, real estate conveyance tax, manufacturing tax and other taxes.

<sup>2</sup> Session Law 2013-316 repealed piped natural gas and estate (reported as inheritance) taxes. The collections of these tax types will continue to decline until zero. Beginning Fiscal Year 2018-19, gift taxes were combined with other taxes due to continued decline in revenue stream. All years have been adjusted to include piped natural gas tax, inheritance tax and gift tax balances with other taxes.

<sup>3</sup> Unaudited.

The five largest tax sources (individual income, sales and use, corporate, franchise, and insurance) are summarized herein.

### Individual Income Tax.

North Carolina imposes a tax for each taxable year on an individual's North Carolina taxable income. Tax rates are set by the General Assembly, which has gradually reduced the individual income tax rate from 5.75% (for tax year 2015) to 4.25% (for tax year 2025). The rate is set to decrease to 3.99% for taxable years beginning on or after January 1, 2026.

The 2023 General Assembly also set individual income tax rate reduction triggers; if the total General Fund revenue in a fiscal year set out below exceeds the trigger indicated for that fiscal year, then the applicable tax rate for the indicated and subsequent tax years shall be equal to the greater of (i) the prior taxable year's rate decreased by one-half percentage point (0.50%) or (ii) two and forty-nine hundredths percent (2.49%). Total General Fund revenue is the amount stated in the final accounting of total General Fund Reverting Net Tax and Non-Tax Revenues for the fiscal year, as reported by the Office of the State Controller in August following the end of the fiscal year.

| <b>Fiscal Year</b> | <b>Trigger Amount</b> | <b>Taxable Year Beginning</b> |
|--------------------|-----------------------|-------------------------------|
| 2025-26            | \$33.042 billion      | In 2027                       |
| 2026-27            | 34.100 billion        | In 2028                       |
| 2027-28            | 34.760 billion        | In 2029                       |
| 2028-29            | 35.750 billion        | In 2030                       |
| 2029-30            | 36.510 billion        | In 2031                       |
| 2030-31            | 38.000 billion        | In 2032                       |
| 2031-32            | 38.500 billion        | In 2033                       |
| 2032-33            | 39.000 billion        | In 2034                       |

#### Sales and Use Tax.

The general State tax at a rate of 4.75% and the applicable local taxes are due on the sales price or purchase price of most taxable items. In general, sales of tangible personal property are subject to sales and use taxes unless specifically exempted in statute and sales of services are not subject to sales and use taxes unless specifically taxed in statute. Under state law, 1.5% of net State sales and use tax proceeds must be transferred to the Highway Fund, and 4.5% to the Highway Trust Fund.

#### Corporation Income Tax.

North Carolina imposes a tax for each taxable year on State net income of both foreign and domestic corporations. Tax rates are set by the General Assembly, which has gradually reduced the corporate income tax rate from 5.0% (for tax year 2014) to 2.25% (for tax year 2025). Legislation enacted during the 2021 General Assembly session phases out the corporate income tax over six years beginning in tax year 2025 as indicated below:

#### **Corporation Income Tax Rates**

| <b>Tax Rate</b> | <b>Tax Year</b> |
|-----------------|-----------------|
| 2.25%           | 2025            |
| 2.00            | 2026, 2027      |
| 1.00            | 2028, 2029      |
| 0.00            | After 2029      |

State net income is derived by making certain adjustments to the federal taxable net income of corporations, such as taxes on income and excess profits and interest on obligations of the United States.

#### Corporation Franchise Tax.

The franchise tax is imposed on business corporations at the rate of \$1.50 per \$1,000, with a minimum tax of \$200. For tax years beginning on or after January 1, 2023, and applicable to the 2022 and later corporate tax returns, the franchise tax is calculated based on the amount of a corporation's net worth apportionable to the State.

For S Corporations, franchise tax is \$200 for the first \$1 million dollars of the corporation's tax base and \$1.50 per \$1,000 of its tax base that exceeds \$1 million dollars. The 2023 General Assembly set a cap on franchise tax for a C Corporation at \$500 for the first \$1 million of its franchise tax base, effective for tax years beginning on or after January 1, 2025, and applicable to the 2024 and later corporate tax returns. The franchise tax rate is \$1.50 per \$1,000 of the tax base that exceeds \$1 million.

### Insurance Tax.

North Carolina levies a tax on insurance companies based on gross premiums from business in the State at the following rates: (a) 0.74% additional tax for property coverage (10% of the gross premiums from insurance contracts for automobile physical damage coverage and 100% of the gross premiums from all other contracts for property coverage); (b) 2.5% for workers' compensation; and (c) 1.9% for all other policies including those of health maintenance organizations. Out-of-state insurers are also subject to a premium tax and must pay the higher of either the rates that would apply to North Carolina insurers doing business in the chartered state or the North Carolina tax rates.

*Non-Tax Revenue.* Non-Tax State revenue accounted for 5.05% of State General Fund revenue in Fiscal Year 2024-25.

### Institutional and Departmental Receipts.

The State receives various items of institutional and departmental receipts which are deposited with the State Treasurer. The most important of these are fees, tuition payments and federal funds collected by State agencies. Certain of these amounts are separately designated by the General Assembly.

### Disproportionate Share Hospital Receipts.

Like most states, North Carolina receives Medicaid Disproportionate Share Hospital ("DSH") payments from the federal government for its public hospitals that serve a disproportionate share of indigent patients. For each fiscal year of the biennium 2025-27, an amount equal to DSH payments to State-owned public hospitals is returned to the State and the General Assembly appropriates a specified amount of these receipts as non-tax revenue. The source(s) of the proceeds returned to the General Fund may include General Fund appropriation, nonfederal revenue, fund balances or other sources.

### Tobacco Fund Settlement.

In 1998, 46 states' Attorneys General and the nation's major tobacco companies signed a master settlement agreement that, among other things, reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. The amount payable each year depends upon various factors, including the market share of such companies. In 1999, the State approved legislation to implement the terms of the agreement in North Carolina and created a nonprofit corporation, The Golden LEAF, Inc. (the "Foundation"), to distribute a portion of the settlement funds received by the State. The legislation directed that these funds be used for the purposes of providing economic impact assistance to economically affected or tobacco-dependent regions of North Carolina, subject to diversion by the North Carolina General Assembly.

As of July 2023, \$25 million of the funds received are to be transferred to the Foundation annually; the remainder are included in General Fund availability as non-tax revenue. In FY 2024-25, the General Fund retained slightly over \$100 million from Settlement Funds.

### State Lottery.

The net proceeds of the North Carolina State Lottery provide enhanced educational opportunities, support public school construction, and fund college and university scholarships. The following table sets forth gross lottery sales in the last five fiscal years and the portions thereof deposited into the General Fund. The difference is generally the amount of prizes paid and administrative fees.



### State Lottery

| <b>Fiscal Year</b>   | <b>Gross Sales<sup>1</sup><br/>(\$ millions)</b> | <b>Percent<br/>Increase</b> | <b>Deposit into<br/>General Fund<br/>(\$ millions)</b> |
|----------------------|--------------------------------------------------|-----------------------------|--------------------------------------------------------|
| 2020-21              | \$3,805.4                                        | 26.2%                       | \$936.8                                                |
| 2021-22              | 3,887.1                                          | 2.2                         | 929.8                                                  |
| 2022-23              | 4,342.7                                          | 11.7                        | 1,015.2                                                |
| 2023-24              | 5,375.5                                          | 23.4                        | 1,092.3                                                |
| 2024-25 <sup>2</sup> | 6,585.5                                          | 22.5                        | 1,080.1                                                |

Source: North Carolina Education Lottery.

<sup>1</sup> Not adjusted for prize tickets and sales/service bad debt.

<sup>2</sup> Unaudited.

### Other Non-Tax Revenue.

The State receives other non-tax revenue that is deposited in the General Fund. The most important sources are interest earned by the State Treasurer on investments of General Fund money and revenues from the judicial branch. Various fees and other charges and receipts are also classified as "other non-tax revenue."

*Total Tax and Non-Tax Revenue Annual Change.* The following table shows the amount of tax revenue and non-tax revenue (excluding federal, departmental, securities lending and tobacco settlement revenues) reported in the General Fund in each Fiscal Year 2019-20 through 2023-24 with the annual percentage increases/decreases for each of such Fiscal Years:

### General Fund Tax and Non-Tax Revenue (\$ Millions)

| <b>Fiscal Year</b>   | <b>Tax Revenue</b> | <b>Percent<br/>Increase/Decrease<br/>From Previous Year</b> | <b>Tax and Non-<br/>Tax<br/>Revenue</b> | <b>Percent<br/>Increase/Decrease<br/>From Previous Year</b> |
|----------------------|--------------------|-------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------|
| 2020-21              | \$ 29,127.6        | 18.3%                                                       | \$ 29,814.6                             | 18.2%                                                       |
| 2021-22              | 33,478.4           | 14.9                                                        | 34,301.5                                | 15.0                                                        |
| 2022-23              | 33,273.2           | (0.6)                                                       | 34,626.3                                | 0.9                                                         |
| 2023-24              | 32,740.9           | (1.6)                                                       | 34,571.2                                | (0.2)                                                       |
| 2024-25 <sup>1</sup> | 32,815.3           | 0.2                                                         | 34,559.0                                | (0.0)                                                       |

Sources: Office of the State Controller and the North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 (GAAP basis).

See the North Carolina Annual Comprehensive Financial Report for the Fiscal Years ended June 30, 2020 through June 30, 2024 for complete financial statements showing tax revenues and not-tax revenues for such fiscal years.

<sup>1</sup> Unaudited.

## Expenditures

*Education.* Expenditures for education accounted for approximately 58% of General Fund expenditures for Fiscal Year 2023-24.

### Public School System.

The State is primarily responsible for the supervision, administration and funding of the State's public school system. The general cost of operating the system of public schools is paid from the State's General Fund rather than locally levied ad valorem property taxes. State appropriations are allotted in accordance with various formulae, primarily based upon average daily membership. The State pays a substantial portion of current operating expenses such as salaries of teachers and other staff, instructional supplies, textbooks and transportation. These current operating expenditures are supplemented by the counties. Counties are generally responsible for capital improvements, plant maintenance, insurance and energy costs. The State has also assisted counties in their responsibility for capital outlay expenditures.

State law provides the opportunity for individuals or groups to create public "charter schools" through a private non-profit organization. Charter schools are designed to give significant autonomy to individual schools and in turn to hold these schools accountable for results. Charter schools receive funding based on the average per pupil allocation in the local education agency from which a student comes.

According to the North Carolina Department of Public Instruction, as of June 30, 2025, there were currently 1,191 elementary schools (K-5), 422 middle schools (6-9), 510 high schools (9-12) and 24 schools with other grade configurations in the State of North Carolina. In addition, there were 220 charter schools or other independent schools. Based on the first-month average daily membership, for the 2024-25 school year, there were 678,193 elementary students, 364,514 middle school students, and 476,853 secondary students.

### Community College System.

North Carolina has a system of 58 community colleges dedicated to providing technical and vocational training through more than 275 different certificate, diploma and associate curriculum program titles.

In Fiscal Year 2024-25, 632,001 people took one or more courses at a local community college, including 320,408 enrolled in curriculum programs leading toward an associate degree, certificate or diploma. Additionally, approximately 285,267 individuals were enrolled in occupational extension programs.

All 58 community colleges are approved to offer the college transfer curriculum program, allowing students to take the first two years toward a baccalaureate degree at a community college. The system is the State's primary provider of adult literacy training, providing training for approximately 57,643 literacy students in Fiscal Year 2024-25.

For additional information see "*Note 1 – Summary of Significant Accounting Policies – Discretely Presented Components Units – Major – Community Colleges*" in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

### University of North Carolina System.

The University of North Carolina System (the "UNC System") includes (i) the State's 16 public universities which are commonly referred to as the "constituent universities", (ii) a joint research campus, (iii) a constituent high school, (iv) an arboretum, and (v) the University of North Carolina Health Care System.

The UNC System is serving a total of 248,000 students, up 2.2% from the prior academic year. Within the UNC System 83% of students are North Carolina residents. The UNC System has more than 48,000 employees, making it one of the State's largest employers.

For additional information see *"Note 1 – Summary of Significant Accounting Policies – Discretely Presented Components Units – Major – University of North Carolina System"* in North Carolina Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2024 attached as Appendix B to this Official Statement.

*Health and Human Services.* Expenditures for health and human service accounted for approximately 25% of General Fund expenditures for Fiscal Year 2023-24.

The North Carolina Department of Health and Human Services ("DHHS") serves as the state's lead agency for delivering health care and social services to residents, with a focus on supporting populations such as children, older adults, individuals with disabilities, and low-income families. DHHS administers and manages a wide range of programs, including medical assistance ("NC Medicaid"), public health services, mental health services, social services, child welfare programs, and community-based independent living and vocational rehabilitation services for older adults, individuals with disabilities and individuals who are blind or deaf.

The department oversees 16 programmatic divisions and offices. Funding for these programs comes from a combination of State, local and federal funds. Counties and regional agencies are often required to match a percentage of State and/or federal funds. Programs often provide grants to counties and regional agencies using formulas based on population, poverty level, population age and other needs-related bases.

As of December 1, 2023, the State expanded its Medicaid program eligibility requirements ("Medicaid Expansion"). Under Medicaid Expansion adults ages 19 through 64 earning up to 138% of the federal poverty line may be eligible for health coverage. As of August 2025, 675,000 North Carolina residents have enrolled for Medicaid Expansion coverage. Under State and federal law, Medicaid Expansion is 90% funded by the federal government and 10% funded by North Carolina hospitals.

The tax-and-spending legislation approved by 119<sup>th</sup> U.S. Congress and signed into law on July 4, 2025 (the "OBBBA") reduces federal reimbursement levels for health care spending over the next decade, including particular payments relating to Medicaid programs. North Carolina is unable to predict at this time the effect the OBBBA will have on North Carolina's Medicaid Expansion or the related budget effects.

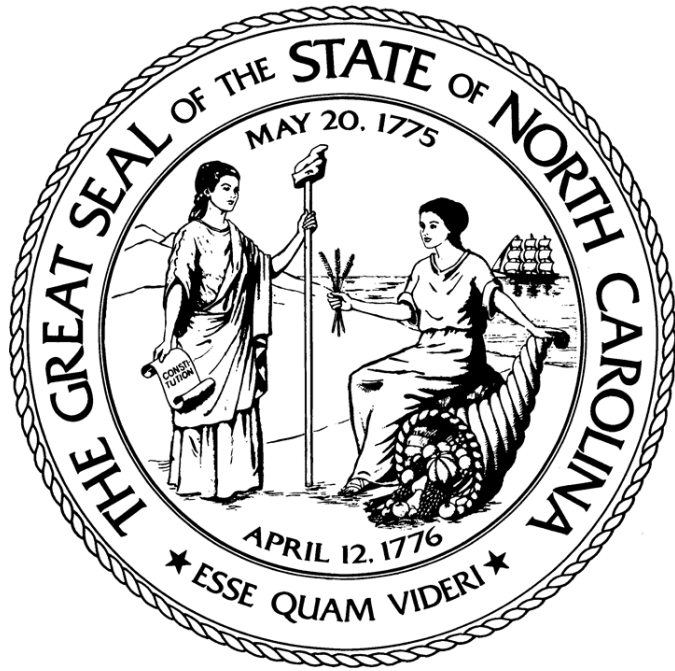
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## **APPENDIX B**

### **STATE OF NORTH CAROLINA FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2024**

The following pages in Appendix B have been lifted from the Annual Comprehensive Financial Report for the State of North Carolina for the fiscal year ended June 30, 2024. All page number references in this Appendix B refer to the original document. Included in addition to the pages lifted from the Annual Comprehensive Financial Report are comparative financial statements of selected funds.

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# FINANCIAL SECTION



## North Carolina Office of the State Auditor

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

# Independent Auditor's Report

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The Honorable Roy Cooper, Governor  
Honorable Members of the North Carolina General Assembly  
Raleigh, North Carolina

### **Report on the Audit of the Financial Statements**

#### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the State of North Carolina's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the following:

- The North Carolina Education Lottery, a major enterprise fund, which represent 2 percent and 76 percent, respectively, of the assets and revenues of the business-type activities.
- The North Carolina Turnpike Authority, a major enterprise fund, which represent 30 percent and 4 percent, respectively, of the assets and revenues of the business-type activities.
- The North Carolina Housing Finance Agency, which represent 6 percent and 2 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The North Carolina State Education Assistance Authority, which represent 9 percent and 2 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.



## Independent Auditor's Report

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- The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc., which represent 2 percent and 1 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, Inc., which represent 3 percent and 6 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The University of North Carolina System - University of North Carolina Health Care System - University of North Carolina Hospitals at Chapel Hill, which represent 9 percent and 11 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The Supplemental Retirement Income Plan of North Carolina, which represent 9 percent and 9 percent, respectively, of the assets and additions of the aggregate remaining fund information.
- The North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent and 1 percent, respectively, of the assets and additions of the aggregate remaining fund information.
- The North Carolina Department of State Treasurer Investment Programs, which represent 28 percent and 2 percent, respectively, of the assets and revenues of the governmental activities; 12 percent and 1 percent respectively of the assets and revenues of the business-type activities; 6 percent and 5 percent, respectively, of the assets and revenues of the aggregate discretely presented component units; and 88 percent and 33 percent, respectively, of the assets and additions of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts, are based solely on the reports of the other auditors.

### *Basis for Opinions*

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

### *Responsibilities of Management for the Financial Statements*

The State of North Carolina'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

## Independent Auditor's Report

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

## Independent Auditor's Report

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### *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 and other auditors 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The combining fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and the statistical section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Independent Auditor's Report

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### **Other Reporting Required by Government Auditing Standards**

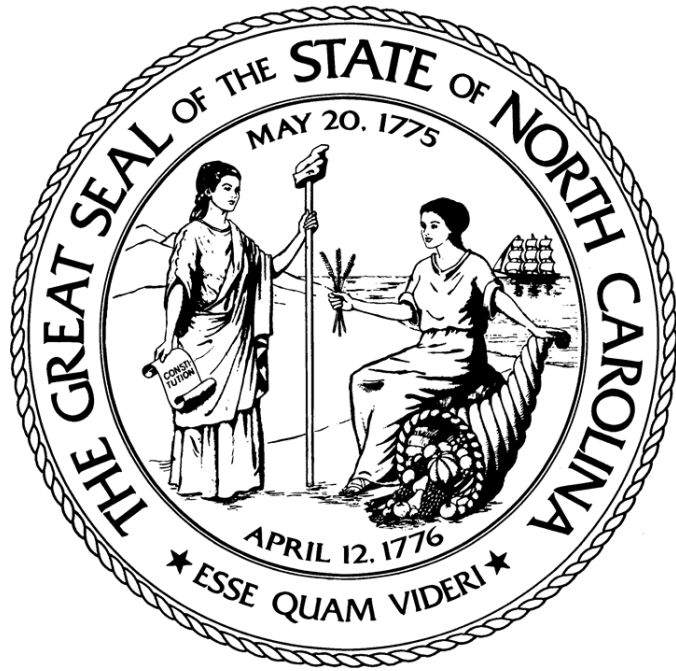
In accordance with *Government Auditing Standards*, we will also issue our report dated December 19, 2024, on our consideration of the State of North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 State of North Carolina's internal control over financial reporting and compliance. The report on internal control over financial reporting and on compliance and other matters will be published at a later date in the State of North Carolina's *Single Audit Report*.



Jessica N. Holmes, J.D.  
State Auditor

Raleigh, North Carolina

December 19, 2024



*MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS*

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)***

The following is a narrative overview and analysis of the State of North Carolina's (the State) financial performance for the fiscal year ended June 30, 2024. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

#### ***Government-wide Financial Statements***

- The State's total net position increased by \$4.89 billion or 5.61% as a result of this year's operations. Net position of governmental activities increased by \$3.79 billion (4.75%) and net position of business-type activities increased by \$1.1 billion (or 15%). At year-end, net position of governmental activities and business-type activities totaled \$83.68 billion and \$8.47 billion, respectively.
- Component units reported net position of \$29.66 billion, an increase of \$3.47 billion or 13.25% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

#### ***Fund Financial Statements***

- The fund balance of the General Fund decreased from \$22.4 billion at June 30, 2023 (as restated) to \$20.89 billion at June 30, 2024, a decrease of 6.73%. The decrease was mainly due to an increase of expenditures for Medicaid expansion, educational state aid to local education agencies, community colleges, and state universities, and economic development initiatives.
- The Highway Fund reported a fund balance of \$1.17 billion at June 30, 2024, a decrease of \$27.69 million from the previous year with a fund balance of \$1.2 billion at June 30, 2023. This decrease was mainly due to the expenditures for highway and other infrastructure maintenance as well as an increase in operating costs that surpassed revenues.
- The Highway Trust Fund reported a fund balance of \$844.46 million, a decrease of 21.46% from the previous year. The fund balance decrease is attributable to expenditures outpacing revenues.
- The Unemployment Compensation Fund reported net position of \$5.24 billion at June 30, 2024 compared to \$4.56 billion at June 30, 2023, as restated, an increase of \$681.23 million or 14.94%. The increase in net position is related to various fluctuations. Unemployment rates remained low during the 2023-24 fiscal year, with a rate of 3.6% reported in June 2024.
- The N.C. State Lottery Fund reported net ticket sales of \$5.38 billion, an increase of 23.78% from the previous year. As required by law, the Lottery transferred \$1.092 billion to the General Fund to support educational programs.
- The N.C. Turnpike Authority (NCTA) reported net position of \$588.3 million, an increase of \$262.86 million or 80.77% from the previous year. The NCTA reported operating income of \$34.31 million, which represents an increase of \$32 million from the prior year, related to a \$17.39 million increase in operating revenues, mostly related to toll revenues, and a \$14.61 million decrease in operating expenses, mostly related to a decrease in capital outlay. NCTA also had a \$31.48 million decrease in nonoperating expenses, mostly related to a decrease of \$30.82 million in debt interest and fees. NCTA also reported \$172.42 million in capital contributions, an increase of \$96.97 million, and \$130.35 million in transfers in, an increase of \$17.37 million, which contributed to the increase in net position.
- The EPA Revolving Loan Fund reported net position of \$2.37 billion, an increase of 6.83% from the previous year. Operating income was \$3.48 million, and net nonoperating revenues of \$124.53 million consisted primarily of federal capitalization grants.

#### ***Capital Assets***

- The State's investment in capital assets (net of accumulated depreciation) was \$73.02 billion, an increase of 5.56% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for state highway projects (\$3 billion), an expressway project (\$981.02 million), a new system for managing and administering social service benefits (\$789.98 million), a relocation project for the DHHS campus (\$175.21 million), and a new education campus to house several educational system offices (\$39.15 million).

#### ***Long-term Debt***

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.19 billion, a decrease of 4.43% from the previous fiscal year-end.
- In connection with the limited obligation bonds, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 14 states with a triple-A rating from all three rating agencies.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The management discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (pension and other postemployment benefits trend information and General Fund budgetary schedule) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

### **Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Position (pages 50 and 51) presents all the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 52 and 52) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In the government-wide financial statements, the State's activities are divided into three categories:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 76. Discretely presented component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 184 and 185).

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 274 begins the individual fund data for the nonmajor funds. The State's funds are divided into three categories (governmental, proprietary, and fiduciary) and they use different accounting approaches.

**Governmental funds** – Most of the State's basic services are reported in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., inflows and outflows of spendable resources) and the balances left at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationships (or differences) between them. Information is presented separately in the governmental fund financial statements for the General Fund, the Highway Fund, and the Highway Trust Fund, all of which are considered to be major funds. Data for all other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds** – When the State charges customers for the services it provides, whether to outside customers or to agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, which is the same method used by private sector businesses. Enterprise funds are used to report activities for which fees are charged to external users for goods and services. The Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the State's most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis,

such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority, all of which are considered to be major funds. Conversely, separately aggregated columns are presented for the nonmajor enterprise funds and the internal service funds. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

***Fiduciary funds*** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These funds include pension and other employee benefit trust funds, private-purpose trust funds, and custodial funds.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 74 of this report.

#### **Required Supplementary Information**

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes: 1) pension plan and employer trend information related to the net pension liability, employer contributions, and investment returns, 2) information related to the total pension liability for pension plans not administered through a trust, 3) other postemployment benefits (OPEB) trend information related to the net OPEB liability, employer contributions, and investment returns, and 4) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

#### **Other Supplementary Information**

Other supplementary information includes the introductory section; combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, and nonmajor discretely presented component units; a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements; and the statistical section.



### **FINANCIAL ANALYSIS OF THE STATE AS A WHOLE**

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$92.14 billion at the close of the most recent fiscal year (see total primary government column). The following table was derived from the government-wide Statement of Net Position:

#### **Net Position as of June 30, 2024 and 2023**

(dollars in thousands)

|                                      | <b>Governmental<br/>Activities</b> |                                 | <b>Business-type<br/>Activities</b> |                               | <b>Total Primary<br/>Government</b> |                                 | <b>Total<br/>Percentage<br/>Change<br/>2023-24</b> |
|--------------------------------------|------------------------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------------|---------------------------------|----------------------------------------------------|
|                                      | <b>2024</b>                        | <b>2023**<br/>(as restated)</b> | <b>2024</b>                         | <b>2023<br/>(as restated)</b> | <b>2024</b>                         | <b>2023**<br/>(as restated)</b> |                                                    |
| Current and other non-current assets | \$43,884,547                       | \$40,500,527                    | \$9,410,173                         | \$8,279,370                   | \$53,294,720                        | \$48,779,897                    | 9.26%                                              |
| Capital assets, net                  | 69,877,598                         | 66,281,599                      | 3,145,675                           | 2,895,503                     | 73,023,273                          | 69,177,102                      | 5.56%                                              |
| Total assets                         | 113,762,145                        | 106,782,126                     | 12,555,848                          | 11,174,873                    | 126,317,993                         | 117,956,999                     | 7.09%                                              |
| Total deferred outflows of resources | 5,935,478                          | 4,056,216                       | 123,333                             | 88,278                        | 6,058,811                           | 4,144,494                       | 46.19%                                             |
| Long-term liabilities                | 16,789,003                         | 16,519,539                      | 3,131,638                           | 2,824,384                     | 19,920,641                          | 19,343,923                      | 2.98%                                              |
| Other liabilities                    | 15,903,561                         | 11,823,700                      | 978,808                             | 1,002,019                     | 16,882,369                          | 12,825,719                      | 31.63%                                             |
| Total liabilities                    | 32,692,564                         | 28,343,239                      | 4,110,446                           | 3,826,403                     | 36,803,010                          | 32,169,642                      | 14.40%                                             |
| Total deferred inflows of resources  | 3,329,737                          | 2,707,431                       | 102,610                             | 75,171                        | 3,432,347                           | 2,782,602                       | 23.35%                                             |
| Net position:                        |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| Net investment in capital assets     | 66,300,651                         | 62,491,254                      | 810,927                             | 598,198                       | 67,111,578                          | 63,089,452                      | 6.38%                                              |
| Restricted                           | 2,050,249                          | 1,788,260                       | 181,140                             | 166,230                       | 2,231,389                           | 1,954,490                       | 14.17%                                             |
| Unrestricted                         | 15,324,422                         | 15,508,158                      | 7,474,058                           | 6,597,149                     | 22,798,480                          | 22,105,307                      | 3.14%                                              |
| Total net position                   | <u>\$83,675,322</u>                | <u>\$79,787,672</u>             | <u>\$8,466,125</u>                  | <u>\$7,361,577</u>            | <u>\$92,141,447</u>                 | <u>\$87,149,249</u>             | <u>5.73%</u>                                       |

\*\* Net position – ending as reported in the 2023 (as restated) columns for Governmental Activities and Total Primary Government in the table on the preceding page (Changes in Net Position for Fiscal Years Ending June 30, 2024 and 2023) is \$100.2 million less than the restated net position at July 1 reported on Exhibit A-2 and Note 23. This difference represents the amount of restated grouped assets in governmental funds related to the adoption of Implementation Guide 2021-1, Section 5.1. in the current fiscal year.

The largest component of the State's net position (72.84% for fiscal year 2024) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. An additional portion of net position represents restricted net position (\$2.23 billion). Net position is restricted when constraints placed on its use is either 1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or, 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

The government-wide statement of net position for governmental activities reflects unrestricted net position of \$15.32 billion at June 30, 2024, a decrease of \$183.74 million from the prior year or 1.18%. The State of North Carolina, like many other state and local governments, issues general obligation debt and special indebtedness and distributes the proceeds to state agencies, local governments, and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings throughout the State, including the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the \$4.81 billion bonds and special indebtedness outstanding for governmental activities at June 30, 2024, approximately \$1.9 billion is attributable to debt issued as state aid to component units and local governments. The statements of net position of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net position (reflected in the unrestricted net position component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances.

Additionally, as of June 30, 2024, the State's governmental activities have significant unfunded liabilities for compensated absences of \$625.04 million, pension liabilities of \$4.15 billion, net OPEB liabilities of \$5.22 billion, workers' compensation of \$608.12 million, and claims and judgments payable of \$731.7 million (see Note 8 to the financial statements).

The State's overall net position increased \$4.89 billion or 5.61% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$3.79 billion or 4.75% and business-type activities increased \$1.1 billion or 15%. The following financial information was derived from the government-wide Statement of Activities:

**Changes in Net Position for the Fiscal Years Ended June 30, 2024 and 2023**  
(dollars in thousands)

|                                           | <b>Governmental<br/>Activities</b> |                                 | <b>Business-type<br/>Activities</b> |                               | <b>Total Primary<br/>Government</b> |                                 | <b>Total<br/>Percentage<br/>Change<br/>2023-24</b> |
|-------------------------------------------|------------------------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------------|---------------------------------|----------------------------------------------------|
|                                           | <b>2024</b>                        | <b>2023**<br/>(as restated)</b> | <b>2024</b>                         | <b>2023<br/>(as restated)</b> | <b>2024</b>                         | <b>2023**<br/>(as restated)</b> |                                                    |
| <b>Revenues:</b>                          |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| <b>Program revenues</b>                   |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| Charges for services                      | \$ 3,688,248                       | \$ 3,275,585                    | \$ 6,565,265                        | \$ 5,436,216                  | \$ 10,253,513                       | \$ 8,711,801                    | 17.70%                                             |
| Operating grants and contributions        | 31,868,809                         | 31,073,628                      | 335,070                             | 320,229                       | 32,203,879                          | 31,393,857                      | 2.58%                                              |
| Capital grants and contributions          | 1,264,471                          | 1,266,732                       | 172,643                             | 75,564                        | 1,437,114                           | 1,342,296                       | 7.06%                                              |
| <b>General revenues</b>                   |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| Taxes:                                    |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| Individual income tax                     | 16,464,017                         | 16,799,392                      | —                                   | —                             | 16,464,017                          | 16,799,392                      | (2.00%)                                            |
| Corporate income tax                      | 1,501,535                          | 1,728,595                       | —                                   | —                             | 1,501,535                           | 1,728,595                       | (13.14%)                                           |
| Sales and use tax                         | 12,099,961                         | 11,657,850                      | —                                   | —                             | 12,099,961                          | 11,657,850                      | 3.79%                                              |
| Motor fuels tax                           | 2,499,716                          | 2,619,790                       | —                                   | —                             | 2,499,716                           | 2,619,790                       | (4.58%)                                            |
| Franchise tax                             | 738,220                            | 857,100                         | —                                   | —                             | 738,220                             | 857,100                         | (13.87%)                                           |
| Highway use tax                           | 1,195,898                          | 1,186,526                       | —                                   | —                             | 1,195,898                           | 1,186,526                       | 0.79%                                              |
| Insurance tax                             | 1,238,193                          | 1,165,117                       | —                                   | —                             | 1,238,193                           | 1,165,117                       | 6.27%                                              |
| Beverage tax                              | 591,463                            | 592,168                         | —                                   | —                             | 591,463                             | 592,168                         | (0.12%)                                            |
| Tobacco products tax                      | 257,414                            | 283,849                         | —                                   | —                             | 257,414                             | 283,849                         | (9.31%)                                            |
| Other taxes                               | 386,324                            | 339,835                         | —                                   | —                             | 386,324                             | 339,835                         | 13.68%                                             |
| Tobacco settlement                        | 119,212                            | 156,549                         | —                                   | —                             | 119,212                             | 156,549                         | (23.85%)                                           |
| Federal COVID-19                          | 470,171                            | 673,203                         | —                                   | —                             | 470,171                             | 673,203                         | (30.16%)                                           |
| Unrestricted investment earnings          | 988,438                            | 553,841                         | —                                   | —                             | 988,438                             | 553,841                         | 78.47%                                             |
| Noncapital contributions                  | 6,843                              | 35,475                          | 325                                 | 747                           | 7,168                               | 36,222                          | (80.21%)                                           |
| Miscellaneous                             | 75,960                             | 79,241                          | 748                                 | —                             | 76,708                              | 79,241                          | (3.20%)                                            |
| Total revenues                            | <u>75,454,893</u>                  | <u>74,344,476</u>               | <u>7,074,051</u>                    | <u>5,832,756</u>              | <u>82,528,944</u>                   | <u>80,177,232</u>               | <u>2.93%</u>                                       |
| <b>Expenses:</b>                          |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| General government                        | 3,086,211                          | 2,751,093                       | —                                   | —                             | 3,086,211                           | 2,751,093                       | 12.18%                                             |
| Primary and secondary education           | 16,203,270                         | 15,512,806                      | —                                   | —                             | 16,203,270                          | 15,512,806                      | 4.45%                                              |
| Higher education                          | 6,546,740                          | 5,665,180                       | —                                   | —                             | 6,546,740                           | 5,665,180                       | 15.56%                                             |
| Health and human services                 | 34,623,699                         | 32,313,673                      | —                                   | —                             | 34,623,699                          | 32,313,673                      | 7.15%                                              |
| Economic development                      | 1,366,638                          | 756,992                         | —                                   | —                             | 1,366,638                           | 756,992                         | 80.54%                                             |
| Environment and natural resources         | 1,188,692                          | 865,794                         | —                                   | —                             | 1,188,692                           | 865,794                         | 37.30%                                             |
| Public safety, corrections and regulation | 4,775,262                          | 4,269,861                       | —                                   | —                             | 4,775,262                           | 4,269,861                       | 11.84%                                             |
| Transportation                            | 4,404,717                          | 3,825,507                       | —                                   | —                             | 4,404,717                           | 3,825,507                       | 15.14%                                             |
| Agriculture                               | 302,166                            | 396,929                         | —                                   | —                             | 302,166                             | 396,929                         | (23.87%)                                           |
| Interest on long-term debt                | 149,195                            | 172,351                         | —                                   | —                             | 149,195                             | 172,351                         | (13.44%)                                           |
| Unemployment compensation                 | —                                  | —                               | 232,396                             | 276,982                       | 232,396                             | 276,982                         | (16.10%)                                           |
| N.C. State Lottery                        | —                                  | —                               | 4,291,544                           | 3,332,492                     | 4,291,544                           | 3,332,492                       | 28.78%                                             |
| EPA Revolving Loan                        | —                                  | —                               | 55,403                              | 21,005                        | 55,403                              | 21,005                          | 163.76%                                            |
| N.C. Turnpike Authority                   | —                                  | —                               | 187,270                             | 224,730                       | 187,270                             | 224,730                         | (16.67%)                                           |
| Regulatory programs                       | —                                  | —                               | 168,506                             | 152,144                       | 168,506                             | 152,144                         | 10.75%                                             |
| Insurance programs                        | —                                  | —                               | 34,925                              | 37,217                        | 34,925                              | 37,217                          | (6.16%)                                            |
| North Carolina State Fair                 | —                                  | —                               | 14,757                              | 16,728                        | 14,757                              | 16,728                          | (11.78%)                                           |
| Other business-type activities            | —                                  | —                               | 16,606                              | 15,852                        | 16,606                              | 15,852                          | 4.76%                                              |
| Total expenses                            | <u>72,646,590</u>                  | <u>66,530,186</u>               | <u>5,001,407</u>                    | <u>4,077,150</u>              | <u>77,647,997</u>                   | <u>70,607,336</u>               | <u>9.97%</u>                                       |
| Increase in net position                  |                                    |                                 |                                     |                               |                                     |                                 |                                                    |
| before contributions and transfers        | 2,808,303                          | 7,814,290                       | 2,072,644                           | 1,755,606                     | 4,880,947                           | 9,569,896                       | (49.00%)                                           |
| Contributions to permanent funds          | 11,048                             | 9,925                           | —                                   | —                             | 11,048                              | 9,925                           | 11.31%                                             |
| Transfers                                 | 968,096                            | 888,056                         | (968,096)                           | (888,056)                     | —                                   | —                               | —                                                  |
| Increase (decrease) in net position       | 3,787,447                          | 8,712,271                       | 1,104,548                           | 867,550                       | 4,891,995                           | 9,579,821                       | (48.93%)                                           |
| Net position - beginning - restated       | 79,887,875                         | 71,075,401                      | 7,361,577                           | 6,494,027                     | 87,249,452                          | 77,569,428                      | 12.48%                                             |
| Net position - ending                     | <u>\$ 83,675,322</u>               | <u>\$ 79,787,672</u>            | <u>\$ 8,466,125</u>                 | <u>\$ 7,361,577</u>           | <u>\$ 92,141,447</u>                | <u>\$ 87,149,249</u>            | <u>5.73%</u>                                       |

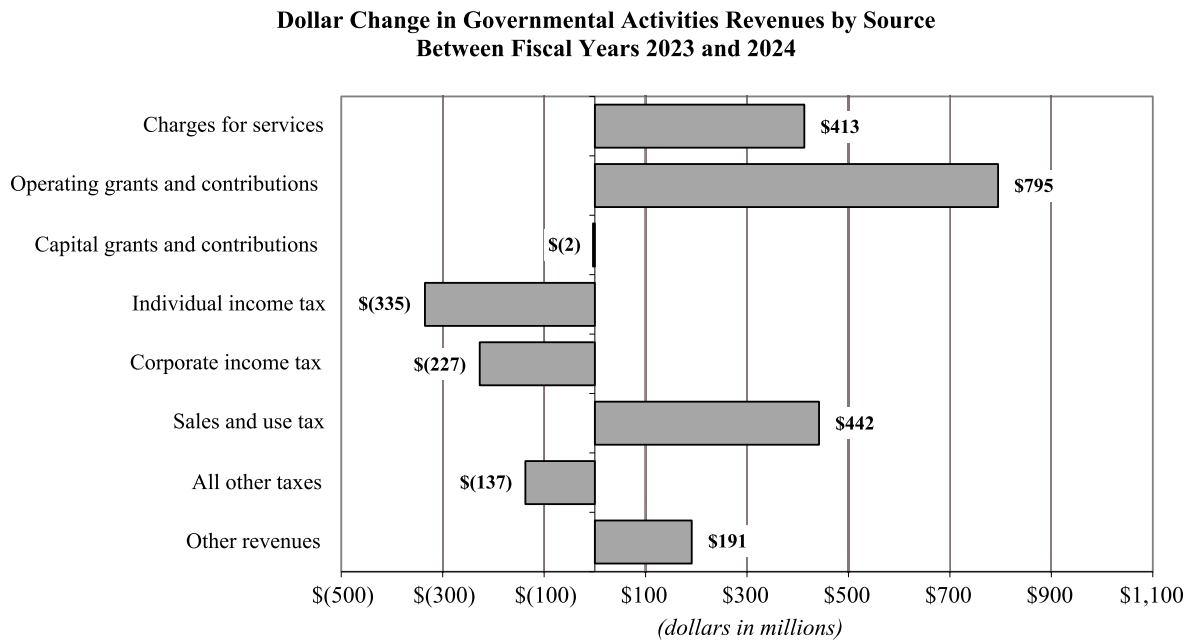
**Governmental Activities.** For fiscal year 2024, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State's business-type activities, an increase in net position of \$3.79 billion (4.75%) resulted for governmental activities. Total revenues increased by \$1.11 billion (1.49%) while total expenses increased by \$6.12 billion (9.19%).

The following factors were the primary reasons for the increase in total revenues:

- Operating grants and contributions saw an increase of \$795.18 million or 2.56%, primarily due to the Medicaid Expansion that commenced on December 1, 2023. This initiative added nearly 500,000 new Medicaid members, with 90% of their costs being funded by federal receipts.
- Sales and use tax experienced an increase of \$442.11 million, representing a growth of 3.79%. This positive trend can be attributed to the sustained strength in consumer spending throughout the year.
- Charges for services rose by \$412.66 million or 12.6%. This increase is primarily attributed to the assessments collected from hospitals related to non-federal shares of the Medicaid expansion program, which encompasses both services and administrative costs.

The reduction in individual income tax partially offset the revenue increases, with a decrease of \$335.38 million (2%) resulting from Session Law 2021-180 that lowered the individual income tax rate from 4.99% to 4.75%, effective January 1, 2023.

The following chart reflects the dollar change in governmental activities revenues by source between fiscal years 2023 and 2024:



For fiscal year 2024, spending significantly increased in almost all of the State's functional areas, except for agriculture and interest on Long-term debt. Activity within agriculture function experienced a decline, primarily driven by a decrease in disaster relief spending when comparing fiscal year 2024 to fiscal year 2023.

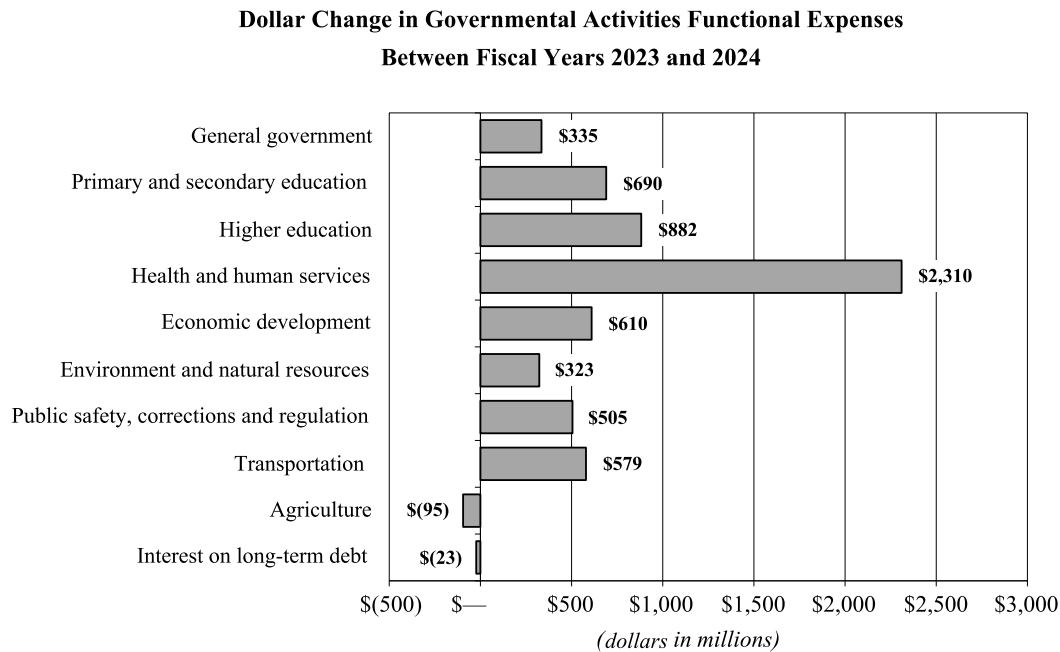
Total health and human services (HHS) spending increased by \$2.31 billion or 7.15%. These increases were driven primarily by three factors: 1) gradual continuing coverage of Medicaid eligibility redetermination since the end of the public health emergency, 2) the implementation of Medicaid Expansion, and 3) increased spending associated with the Healthcare Access and Stabilization Program (HASP). Medicaid Expansion and HASP did not require any increase in State funding, as the expansions were fully supported by federal funds.

In fiscal year 2024, funding for higher education experienced a substantial increase of \$881.56 million, representing a growth of 15.56%. Similarly, primary and secondary education saw an increase of \$690.46 million, or 4.45%. This significant growth in educational funding is primarily attributed to the enhanced state aid allocated to local education agencies (LEAs), community colleges, and state universities, which has been bolstered by the availability of COVID-19 relief funds.

Economic development increased by \$609.65 million, or 80.54%. This significant growth can be attributed in part to increased spending on the recent Job Development Investment Grant (JDIG) initiative with Toyota for job creation, education investment, and workforce development. Additionally, a new state program awarded funding to NCInnovation, a new component unit of the State created to connect public university researchers with industry partners, private sector knowledge, and support services to accelerate effective commercialization strategies across the State.

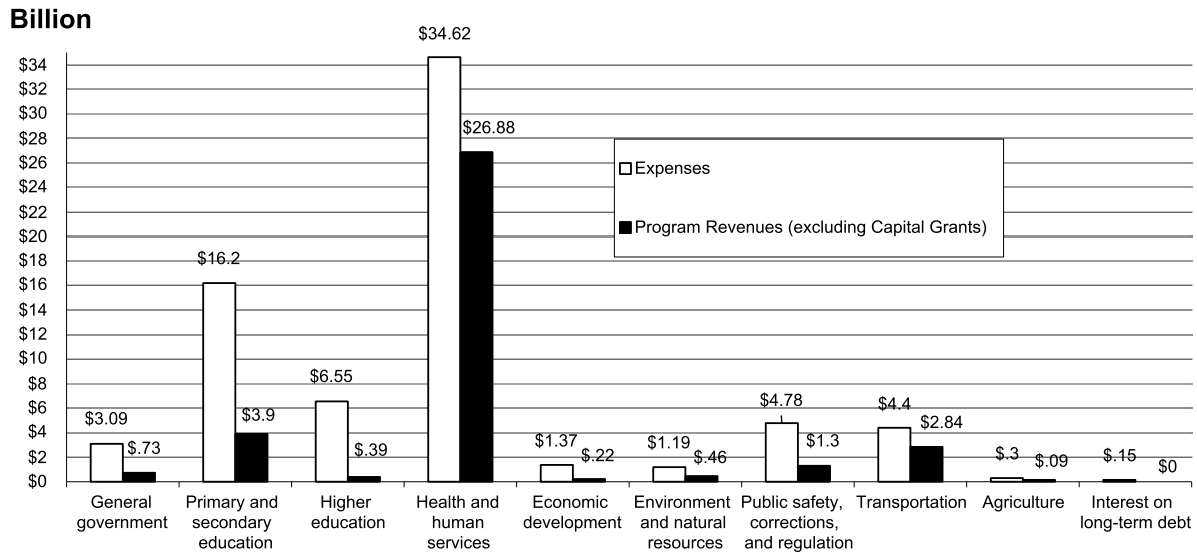
Transportation spending increased by \$579.21 million, a growth of 15.14%. The primary factor for this increase is due to the authorization by Session Law 2023-134 to award grants from the Transportation Reserve Fund to various local county airports for improvements.

The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2023 and 2024:



The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

**Expenses and Program Revenues - Governmental Activities  
For the Fiscal Year Ended June 30, 2024**



**Business-type Activities.** Business-type activities reflect an overall increase in net position of \$1.1 billion or 15%, primarily due to the increase in net position in the Unemployment Compensation Fund. The increase in net position of \$681.23 million or 14.94% in the Unemployment Compensation Fund (Trust Fund) related to various fluctuations. The Trust Fund reported operating income of \$581.12 million, an increase of \$113.06 million or 24.15%. The increase in operating income related to a \$73.63 million or 10.21% increase in employer unemployment contributions received and a \$46.34 million or 16.89% decrease in unemployment benefits paid. The Trust Fund also reported nonoperating revenues of \$117.28 million, which included \$121.13 million in investment earnings, noncapital grants of \$482 thousand, and miscellaneous expenses of \$4.33 million. The N.C. Turnpike Authority's (NCTA) net position increased by \$262.86 million or 80.77% primarily due to receiving \$172.42 million in capital contributions, an increase of \$96.97 million or 128.51% from the prior year. NCTA also received \$130.35 million in transfers related to project participation from the Highway and Highway Trust Funds in the current fiscal year, which is an increase of \$17.37 million or 15.37% from the prior year. Along with the capital contributions and transfers, NCTA reported \$34.31 million in operating income and \$69.47 million in nonoperating expenses. The net position increase of \$151.74 million or 6.83% in the EPA Revolving Loan Fund is due to the Loan Fund continuing to focus on streamlining its processes resulting in more infrastructure projects completed during the year, using a cash flow model to better predict fund disbursements and revenue, and prioritizing the spending of funds from the U.S. EPA (federal) capitalization grant for these projects. The N.C. State Lottery Fund's net position did not change and will continue to remain constant as a result of legislative changes in the methodology used to calculate net revenues to be distributed to the State's governmental activities, as required by statute. A more detailed discussion of the State's business-type enterprise activities is provided in the following section (see Enterprise Funds).

## ***FINANCIAL ANALYSIS OF THE STATE'S FUNDS***

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **GOVERNMENTAL FUNDS**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. At June 30, 2024, the State's governmental funds reported combined fund balances of \$27.63 billion, a decrease of 1.94% from the prior fiscal year-end (as restated). Of this amount, \$5.36 billion is classified as unassigned fund balance in the General Fund (available for spending at the State's discretion). The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (e.g., inventories), 2) restricted for particular purposes by external sources, 3) committed for particular purposes by the General Assembly, or 4) assigned for particular purposes by the Office of State Budget and Management. The major governmental funds are discussed individually below.

#### **General Fund**

The General Fund serves as the primary operating fund for the State. As of June 30, 2024, the General Fund fund balance decreased by 6.73%, or \$1.51 billion, to \$20.89 billion. Although General Fund revenues grew slightly from \$66.64 billion to \$67.31 billion, a 1% increase, expenditures rose at a more significant rate, climbing by \$5.11 billion (8.12%) from \$62.98 billion to \$68.09 billion.

This increase in expenditures was observed across all general fund functions and was primarily driven by Medicaid Expansion, state aid to local education agencies (LEAs), community colleges, state universities, and various economic development initiatives. While revenues from federal funds and fees, licenses, and fines saw substantial gains of \$2.24 billion (8.79%) and \$424.57 million (34.77%), respectively, these were counterbalanced by declines in Federal COVID-19 funds (\$2.06 billion or 38.85%), as well as drops in individual (\$335.38 million or 2%) and corporate income taxes (\$216.22 million or 12.53%).

Historically, the Medicaid program has been a significant driver for the General Fund. In fiscal year 2024, Medicaid enrollment increased by 40,005 members (1.36%). This growth is attributed to the FFCRA requirement, which ensured that beneficiaries receiving enhanced FMAP coverage could not be dropped or downgraded during the COVID-19 public health emergency. Additionally, the State's Medicaid expansion, launched in December 2023, enrolled 479,150 members by the fiscal year-end. As a result, both federal fund receipts and expenditures significantly grew, with 90% of the costs covered by federal funding. Additionally, the Medicaid program concluded the fiscal year with \$4 million in unspent state appropriations, reverting these funds to the General Fund. This marks the 11th consecutive year that the Medicaid program has ended with cash reserves, a contrast to the nearly \$2 billion shortfall experienced over four years prior to fiscal year 2014.

While the increase in federal receipts for Medicaid expansion was significant, it was largely offset by a reduction in Federal COVID-19 relief funds, impacting programs for immunizations, testing, low-income heating subsidies, and childcare assistance. Moreover, overall tax revenues in the General Fund decreased by \$532.22 million (1.6%) in fiscal year 2024. The decline in individual income tax collections was largely due to legislative changes affecting withholding amounts for tax years 2023 and 2024. Specifically, Session Law 2021-180 reduced the individual income tax rate from 4.99% to 4.75%, effective January 1, 2023, while Session Law 2023-134 further lowered this rate to 4.5%, effective January 1, 2024. Corporate income tax revenues also fell by \$216.22 million (12.53%) compared to the previous year, primarily due to a reclassification of business tax collections, shifting from corporate to individual income tax. Although this change does not affect overall General Fund revenue, it results in a notable decrease in corporate income tax collections.

North Carolina's labor market has continued to grow through June 2024. The number of payroll jobs in North Carolina has increased steadily since the pandemic shutdown in 2020, according to data compiled by the Bureau of Labor Statistics. By March 2023, the seasonally adjusted unemployment rate had fallen to 3.3% and has been in the range of 3.3% to 3.6% through June 2024. The number of non-farm jobs was over 5 million in June 2024. In June 2024, there were 67,200 more jobs than in June 2023 and 211,400 more than in June 2022. The trend annualized growth rate for employment was 1.4% during the 2023-2024 fiscal year, which slowed from the prior year.

#### ***General Fund Budget Variances***

The original General Fund budget, including state appropriations and appropriations supported by departmental receipts, serves as a starting point or plan for the Governor to execute the General Fund budget pursuant to the powers granted by the Constitution and State Budget Act. At the state level in North Carolina, it is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate departmental receipts. The General Fund budget supported by state appropriation is a subset of the General Fund financial schedule presented in the ACFR as required supplementary information. The current ACFR schedule reflects all spending required to support the State's General Fund activities and the funding to support those activities, including state tax and non-tax revenues, federal revenues, student tuition, and other fees, licenses, and fines. Under current state budget management practice, particularly related to departmental federal receipts, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

At the state level, budgetary cuts related to state appropriations are implemented by decreasing allowable actual expenditures, as opposed to decreasing the state appropriation through a formal legislative process. The Governor and state agencies maintain legal authority to spend the dollars originally appropriated to them; furthermore, in past years the actual spending has been limited by the collection of tax and non-tax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the authorized and certified state appropriation budget.

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

#### *Variances – Original and Final Budget*

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process as well as budget adjustments that occurred during fiscal year 2023-24. In January 2023, the Office of State Budget and Management (OSBM) finalized the two-year base budget adopted by the General Assembly for the 2023-25 biennium. This was approximately 10 months prior to the adoption of the adjusted biennial budget which started on July 1, 2024. The amounts budgeted for a two-year budget cycle for federal, intra-governmental transfers, fees/licenses/fines, contributions, gifts, grants, and miscellaneous receipts were all estimates. The final budget reflects all budget revisions made throughout the fiscal year based on adjustments to agency grant and receipt revenue and movement from state reserves. Consequently, significant variances are very likely to occur when the original budget is compared to the final budget.

In addition to the normal administrative adjustments that occurred during the fiscal year, the state was still recovering from the COVID-19 pandemic and expending related funding from the American Rescue Plan Act. The state also expanded Medicaid in the 2023 Appropriations Act, which led to additional payments beyond what was originally budgeted.

Additional factors leading to variances between the original and final budget in fiscal year 2023-24 include the following:

- 1) New unanticipated federal grants and/or increased or decreased amounts in long-standing federally supported programs.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2022-23 totaled \$917 million, which increased the budget for fiscal year 2023-24 through administrative action.
- 3) Allocation of hurricane disaster funds that were appropriated and authorized in prior years but not expended until fiscal year 2023-24. State functions agriculture, environment and natural resources, and public safety, corrections and regulation were the biggest recipients.
- 4) Budgeting of cash balance for economic development grants and awarded obligations such as the Economic Development Project Grants, and the Industrial Development Fund Utility Account.
- 5) Allocation of statewide reserves to agencies and universities, including salary pay plan reserve, Clean Water Drinking Reserve, and disaster relief funding from both the State Emergency Response and Disaster Relief Fund and the Hurricane Florence Disaster Reserve.
- 6) Budgeting unspent, but appropriated funds from the State Capital and Infrastructure Fund, which totaled approximately \$3 billion in adjustments in fiscal year 2023-24.
- 7) Budgeting unspent federal State Fiscal Recovery funds, which totaled approximately \$3 billion in fiscal year 2023-24.
- 8) Budgeting of cash balances, over-realized receipts, prior year earned revenue, or unanticipated donations and grants.

#### *Variances - Final Budget and Actual Results*

Actual total own-source General Fund revenue collected (both tax and non-tax) was 2.99% higher than budgeted revenue amounts in fiscal year 2024. Tax revenues were slightly higher than budgeted (3%), mostly related to higher-than-expected sales tax collections.

Collections for individual income taxes, which accounted for 50.42% of total General Fund tax revenue collections in fiscal year 2023-24, were \$35.36 million (0.21%) higher than budgeted (on a cash basis), although refunds were higher than expected. Refunds were \$562 million (32%) above target. Double payments from pass-through business entity elections beginning in fiscal year 2022-23 drove elevated refunds in fiscal year 2024. Combined non-withholding payments were \$66 million (1.2%) above the fiscal year target. Withholding payments from wage earnings were \$475 million (3.7%) above the fiscal year target. Rising business profits for pass-through business entities drove higher-than-expected collections in non-withholding payments, while strong wage and salary growth drove higher-than-expected withholding payments. Sales and use tax collections, which comprised 35.45% of total General Fund tax revenues in fiscal year 2023-24, were \$935.82 million (8.71%) above budgeted revenue (on a cash basis). Inflation has decelerated at a slower pace than anticipated in the May 2023 consensus forecast, resulting in higher nominal consumer spending. This factor, along with strong consumer spending in fiscal year 2024, accounts for higher-than-expected sales and use tax collections. Corporate income tax collections, which accounted for 4.71% of total General Fund tax revenues in fiscal year 2024, were \$132.7 million (7.87%) below budgeted revenues (on a cash basis). Slower growth than expected for corporate profits in the May 2023 consensus forecast account for lower-than expected collections in corporate income tax payments. Following the introduction of

North Carolina's pass-through entity tax, many corporations accrued overpayments in fiscal year 2022-23 while adjusting to the change. The resulting correction for prior year overpayments in fiscal year 2023-24 drove the corporate estimated payments below expectations.

Departmental federal funds received by agencies were less than the final authorized budgeted federal fund revenues. A variance between the budget and actual federal funds occurs because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred by an agency, the actual receipt of federal funds could be significantly less than the budget.

### **Highway Fund**

The Highway Fund dates back to 1921 when the General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, transit, aviation, rail, and ferry system. The primary revenue sources of the Highway Fund are federal funds, 75% of motor fuels taxes, vehicle registration fees, and driver's license fees.

The Highway Fund reported a fund balance of \$1.17 billion at June 30, 2024, a decrease of \$27.69 million from the previous year, which was \$1.2 billion at June 30, 2023. The decrease in fund balance was the result of expenditures for maintaining the highway network and other infrastructure plus increases in operating costs that surpassed revenues.

Total revenues were \$4.72 billion, an increase of 0.96% or \$44.93 million, and total expenditures increased by 9.82% from \$4.88 billion at June 30, 2023 to \$5.36 billion at June 30, 2024. The primary reason for the increase in revenues is the enactment of Session Law 2023-134, Section 2.2.(j), which established \$450 million in transportation reserve funding in fiscal year 2024 to provide grants to various counties for airport improvements and increase funding for general maintenance of State-maintained roads. The legislation also established an additional \$100 million in transportation reserve funding for fiscal year 2025 to be used exclusively for general maintenance. Other factors that increased revenues include a large utility construction project that increased local fund revenue and an increase in the monthly average of the State Treasurer's short-term investment fund (STIF) interest rate from 2.22% in fiscal year 2023 to 4.09% in fiscal year 2024 that increased investment earnings.

Expenditures increased due to the authorization of the NCDOT Division of Aviation to award grants from the Transportation Reserve Fund to various county airports for improvements. Continued increase for capital outlays and increased spending on the maintenance of the State-maintained roads also contributed to the increase.

The State issued \$252.6 million in Grant Anticipation Revenue Vehicles (GARVEE) bonds in September 2021. This innovative financing tool was used to accelerate the construction on a variety of transportation improvement projects across the State by leveraging future federal transportation revenues. As of June 30, 2024, all GARVEE proceeds were spent.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the transportation system, increased cost of supplies, and slow growing revenues, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system. Session Law 2022-74, Section 42.3.(a), established a transfer of a percentage of the sales and use tax to the Highway Fund and Highway Trust Fund. In fiscal year 2024, the percentage transferred to the Highway Fund was 1%. In fiscal year 2025 and thereafter, the percentage to be transferred to the Highway Fund is 1.5%. Session Law 2023-134 increased vehicle registration fees for electric vehicles and plug-in hybrid vehicles. The legislation also created a Transportation Commerce Tax on the gross receipts derived from each for-hire ground transport service that becomes effective July 1, 2025.

Vehicle miles traveled continue to increase each year as conditions from the COVID-19 pandemic continue to rebound. These increases place a heavier burden on the existing infrastructure and accentuate the need for additional capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today. Other aging highways, such as the interstate highway system, will also require increasing investment to maintain acceptable condition.

### **Highway Trust Fund**

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet specific highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides allocations for the debt service on limited obligation bonds issued for highway purposes. The principal revenue sources of the Highway Trust Fund are highway use taxes, 25% percent of motor fuels taxes, and various title and registration fees. The enabling legislation was amended in 2008 to require annual transfers to the NCTA to pay debt service or financing expenses for specified toll road construction projects (see Note 10B to the financial statements).

The fund balance of the Highway Trust Fund decreased 21.46% to \$844.46 billion at June 30, 2024. The fund balance decrease is attributable to expenditures for the Strategic Transportation Improvement Program (STIP) and other projects surpassing revenues.



Total revenues were \$2.22 billion, an increase of 18.56% from the prior year. Sales and use taxes were \$319.85 million in fiscal year 2024, which is the first year the Highway Trust Fund received a transfer of a percentage of the sales and use tax. Motor fuels taxes increased by \$17.54 million and highway use taxes increased by \$4.71 million. The increase in highway use tax was due to an increase in the number of transactions to title a motor vehicle in fiscal year 2024 compared to last fiscal year. This was fueled by increased vehicle purchases as the supply chain issues eased and the continuation of new residents moving into North Carolina who must title a vehicle with North Carolina before registering their vehicle.

The Highway Trust Fund reported \$2.17 billion in total transportation expenditures, a decrease of 5.14% or \$117.69 million from the prior year. A reduction in land acquisition and construction payments were the primary reasons for the decrease.

In May 2022, the State issued \$300 million in special indebtedness (limited obligation Build NC Bonds) as authorized by Session Law 2018-16, Session Law 2020-91 and Session Law 2021-189, which allow for up to \$3 billion in bonds over a ten-year period. To date, there have been three issuances totaling \$1.3 billion. The proceeds from the bonds can be used for certain regional and divisional transportation projects contained in the STIP. As of June 30, 2024, the unspent original proceeds of the Build NC Bonds (including Debt Service Reserve Funds) were \$121.4 million.

As discussed under the Highway Fund section, Session Law 2022-74, Section 42.3.(a), which amends General Statute 105-164.44M, established a transfer of a percentage of the sales and use tax to the Highway Fund and the Highway Trust Fund. In fiscal year 2024, 3% of the net proceeds from the State's sales tax were transferred to the Highway Trust Fund. In fiscal year 2025 and thereafter, the percentage to be transferred to the Highway Trust Fund is 4.5%.

## ENTERPRISE FUNDS

The State's enterprise funds or business-type activities provide the same type of information found in the government-wide financial statements, but in more detail. The major enterprise funds are discussed individually below.

### Unemployment Compensation Fund

The Unemployment Compensation Fund (Unemployment Insurance Trust Fund or "Trust Fund") reported net position of \$5.24 billion at June 30, 2024 compared to a restated net position of \$4.56 billion at June 30, 2023. The \$681.23 million or 14.94% increase in net position is related to various fluctuations in the Trust Fund's activities. Unemployment rates in North Carolina remained low during the 2024 fiscal year, never exceeding 3.6%, which was the unemployment rate in June 2024.

The Trust Fund's operating margin (operating revenues less operating expenses) was \$581.12 million for fiscal year 2024, a \$113.06 million increase or 24.15%. Operating revenues increased by \$66.72 million mostly related to a \$73.63 million increase in employer unemployment contributions received, which were \$794.61 million in the current fiscal year. The increase is attributable to an increase in the number of employers required to make unemployment contributions during the fiscal year compared to the prior year. Operating expenses decreased by \$46.34 million or 16.89% due entirely to a decrease in unemployment benefits paid, which were \$228.06 million for the current fiscal year. The decrease is due to lower unemployment rates in 2023-24 fiscal year compared to the previous fiscal year.

The Trust Fund reported \$117.28 million in nonoperating revenues, which was a decrease of \$54.05 million from the prior year. The Trust Fund reported \$482 thousand in federal noncapital grants during the fiscal year, which is a decrease of \$382 thousand or 382%. In the prior year, the Trust Fund received \$104.77 million in federal COVID-19 funds provided through the CARES ACT (Coronavirus Aid, Relief, and Economic Security Act) and the American Rescue Plan (ARP). These federal COVID-19 funds were not available in the current fiscal year. In addition, the Trust Fund reported \$121.13 million in investment earnings during the year, which was an increase of \$52.14 million or 75.59%. Investment earnings increased due to higher interest rates in the current fiscal year and a \$655.91 million increase in cash balances earning interest.

### N.C. State Lottery Fund

The enabling legislation for the N.C. Education Lottery (NCEL) contains a requirement that the net revenues of the NCEL are transferred at least four times a year to the State's General Fund. The legislation defines net revenues as amounts remaining after accrual of expenses for prizes and operations, excluding balance sheet or prior-period expense adjustments of a specific nature. The NCEL transferred \$1.092 billion to the General Fund in 2024 to support educational programs for the State. The amount transferred in 2023 was \$1.016 billion.

For fiscal year 2023-24, net ticket sales increased 23.78% or \$1.03 billion from the previous fiscal year to \$5.38 billion. With this increase in ticket sales, the NCEL saw a corresponding increase in prize payouts of 32.79% or \$939 million, and an overall increase in operating income of 7.35% or \$74.68 million. Significant financial highlights include the following: awarded \$1 million or more

to an NCEL player for the 958th time; released 48 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$2.9 billion; and released Digital Instants, a new type of game, generating \$1.1 billion in gross sales.

#### **N.C. Turnpike Authority**

Major accomplishments for the N.C. Turnpike Authority (NCTA) include the Complete 540 project, a greenfield project in the greater Raleigh area in North Carolina that will link the towns of Apex, Cary, Clayton, Garner, Fuquay-Varina, Holly Springs, Knightdale and Raleigh. Phase I, which extends the existing Triangle Expressway approximately 18.8 miles from N.C. 55 Bypass in Apex to I-40 in southeast Raleigh to partially complete the “Outer Loop” was completed in September 2024. Complete 540 Phase II is currently under construction and is anticipated to open in late 2028. This project will extend the Triangle Expressway to complete a loop around the greater Raleigh area. In addition, under a public-private partnership arrangement with I-77 Mobility Partners, LLC, the NCTA provides operational support to the I-77 Express Lanes and the I-485 Express Lanes.

The NCTA reported operating income of \$34.31 million for fiscal year 2024, which represents an increase in net operating income of \$32 million or 1,386.05% from the prior year. Contributing to the increase was a \$17.39 million increase in operating revenues. Operating revenues predominantly consist of toll revenues, fees, and sales revenue from the sale of transponders. The increase in operating revenues was related to an increase in traffic levels that created a \$13.15 million increase in toll revenues. Operating expenses decreased by \$14.61 million during the year, mostly due to a decrease of \$19.17 million in expenses for supplies and materials, including a \$17.7 million decrease in capital outlay. With the completion of Phase I Complete 540 during the year, capital outlay costs decreased. In addition to the operating income, NCTA reported \$69.47 million in nonoperating expenses (net), which represents a \$31.48 million or (31.18%) decrease mainly due to a \$30.82 million decrease in debt interest and fees related to a \$32.45 million decrease in bond interest expense. Debt interest and fees decreased as a result of NCTA refunding the Series 2010A Build America Bonds during the year.

Funding for administrative expenses continues to be advanced, as needed, from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest continues to accrue on the unpaid balance of the advance.

The high cost of building, operating, and maintaining a major highway facility is typically more than the revenue a new road can generate through tolls. The gap between what tolling can pay for and the cost of the road requires additional support from the State is known as gap funding. These annual transfers from the Highway Trust Fund to the NCTA are used to pay debt service and fund required reserves on bonds issued to finance turnpike projects. The transfers include funds received from NCDOT’s Highway Fund and Highway Trust Fund during fiscal year 2024 and the Federal Highway Administration State match. Combined transfers in from NCDOT’s Highway Trust Fund and Highway Fund increased by \$17.37 million or 15.37% related to project participation for the construction of the Southern Wake Expressway (Complete 540 project). In addition, the Federal Highway Administration (FHWA) provided additional funding of \$168.96 million in federal capital grants in fiscal year 2024 for the construction of Complete 540. Along with the federal capital funding, NCTA also received \$2.21 million in private capital grants and \$1.25 million in capital gifts. Total capital funding increased by \$96.97 million or 128.51% from the prior year.

NCTA’s operating income, nonoperating net expenses and additional funding from transfers and capital grants and gifts all contributed to an increase of \$262.86 million or 80.77% in net position to \$588.3 million at the end of fiscal year 2024. In addition to factors identified above, the Complete 540 project has significant impacts on NCTA’s balance sheet. Restricted investments increased by \$265.6 million or 84.55% as NCTA invested proceeds from the sale of bonds during the year that were issued to support the Complete 540 project. Land and permanent easements increased by \$46.5 million due to the continued right of way acquisitions for the project, and construction in progress increased by \$237.32 million as the Complete 540 project construction continues. Bonds payable increased by \$291.98 million or 15.23% with the issuance of \$340.36 million of Triangle Expressway System Senior Lien Turnpike Revenue Bonds, Series 2024A and 2024B and \$417.19 million of Triangle Expressway System Revenue Bonds, TIFIA Series 2024. During the year, NCTA also closed on \$182.81 million of Monroe Expressway System State Appropriation Revenue Refunding Bonds, Series 2024 to refund the remaining Series 2010A Build America Bonds. Corresponding to the debt issued during the year, interest payable increased by \$19.08 million or 20.54%.

#### **EPA Revolving Loan Fund**

The Environmental Protection Agency (EPA) Revolving Loan Fund (Loan Fund) is comprised of the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund established by General Statute 159G-22 and receives federal and state funds. This Loan Fund was established to provide loans and grants as allowed under federal laws for wastewater projects and public water systems to meet the water infrastructure needs of the State.

The net position of the Loan Fund increased 6.83% or \$151.74 million to \$2.37 billion in fiscal year 2024. This increase in net position is due to the Loan Fund continuing to focus on streamlining its processes (requiring municipalities to follow specified timelines that resulted in more infrastructure projects being completed during the year), using a cash flow model to better predict fund expenditures and revenue, and prioritizing the expenditures from U.S. EPA (federal) capitalization resources versus state matching funds.

The amount of new loans issued during the current year was \$210.65 million, an increase of \$68.42 million or 48.11%, and the amount of principal received on existing loans during the year was \$92.97 million, a \$6.4 million or 7.39% increase. As a result, notes receivable increased by \$117.68 million or 9.24%. The increase in loans issued during the fiscal year is not unusual for a year-over-year fluctuation. Funds are managed with a long-term focus, typically with more loans issued over time. In any given year, there may be a slight increase or decrease from the previous year.

Operating income (operating revenues less operating expenses) was \$3.48 million, a decrease of \$3.85 million from the previous year, or a 52.5% decrease, due to an increase in operating expenses. The Loan fund reported a \$2.88 million increase in operating expenses, mostly related to a \$1.8 million increase in personal services and a \$1.17 million increase in other services. Net nonoperating revenues were \$124.53 million, a \$37.91 million or 43.76% increase from the prior year. Nonoperating revenues consist of noncapital grants (federal capitalization grants) and investment earnings. Noncapital grants were \$133.64 million, a \$17.93 million or 15.5% increase from the prior year related to increases in capitalization grants received from the Infrastructure and Jobs Act. Investment earnings were \$34.57 million, an increase of \$21.69 million or 168.37%, mostly related to a \$13.92 million increase in interest earnings and a \$6.29 million decrease in unrealized losses. Payments for grants, aid and subsidies were \$42.39 million, an increase of \$1.05 million or 2.54%. As the programs continue to grow and capitalization grant funding increases, the State may issue more grants to local municipalities for Clean Water and Drinking Water projects. In addition, the EPA Revolving Loan Fund received \$23.72 million in transfers for appropriated state match funds for Clean Water and Drinking Water projects, a \$4.85 million or 25.67% increase from the prior year.

**CAPITAL ASSET AND DEBT ADMINISTRATION****CAPITAL ASSETS**

As of June 30, 2024, the State's investment in capital assets was \$73.02 billion, an increase of 5.56% from the previous fiscal year-end (see table below).

**Capital Assets as of June 30**  
(net of depreciation, dollars in thousands)

|                                                            | <b>Governmental<br/>Activities</b> |                               | <b>Business-type<br/>Activities</b> |                               | <b>Total</b>        |                               |
|------------------------------------------------------------|------------------------------------|-------------------------------|-------------------------------------|-------------------------------|---------------------|-------------------------------|
|                                                            | <b>2024</b>                        | <b>2023<br/>(as restated)</b> | <b>2024</b>                         | <b>2023<br/>(as restated)</b> | <b>2024</b>         | <b>2023<br/>(as restated)</b> |
| Land and permanent easements                               | \$23,494,115                       | \$ 22,416,748                 | \$ 650,650                          | \$ 604,102                    | \$24,144,765        | \$ 23,020,850                 |
| Buildings                                                  | 2,781,351                          | 2,995,563                     | 54,528                              | 56,972                        | 2,835,879           | 3,052,535                     |
| Machinery and equipment                                    | 1,329,140                          | 915,852                       | 6,749                               | 7,421                         | 1,335,889           | 923,273                       |
| Infrastructure:                                            |                                    |                               |                                     |                               |                     |                               |
| State highway system                                       | 36,137,609                         | 34,111,784                    | —                                   | —                             | 36,137,609          | 34,111,784                    |
| NC toll road system                                        | —                                  | —                             | 1,269,585                           | 1,299,269                     | 1,269,585           | 1,299,269                     |
| General infrastructure                                     | 227,053                            | 232,494                       | 5,495                               | 5,834                         | 232,548             | 238,328                       |
| Computer software                                          | 311,938                            | 286,067                       | 455                                 | 380                           | 312,393             | 286,447                       |
| Subscription asset                                         | 194,501                            | 208,016                       | 2,258                               | 2,851                         | 196,759             | 210,867                       |
| Art, literature, and other artifacts                       | 190,296                            | 187,454                       | 1,293                               | 1,293                         | 191,589             | 188,747                       |
| Construction in progress                                   | 3,747,771                          | 3,533,054                     | 1,148,695                           | 911,150                       | 4,896,466           | 4,444,204                     |
| Computer software in development                           | 1,053,293                          | 1,010,515                     | —                                   | —                             | 1,053,293           | 1,010,515                     |
| RTU Land and permanent easements                           | 507                                | 442                           | —                                   | —                             | 507                 | 442                           |
| RTU Buildings                                              | 407,966                            | 380,737                       | 5,405                               | 5,930                         | 413,371             | 386,667                       |
| RTU Machinery and equipment                                | 899                                | 1,783                         | 562                                 | 301                           | 1,461               | 2,084                         |
| RTU General infrastructure                                 | 1,159                              | 1,090                         | —                                   | —                             | 1,159               | 1,090                         |
| <b>Total</b>                                               | <b>\$69,877,598</b>                | <b>\$ 66,281,599</b>          | <b>\$ 3,145,675</b>                 | <b>\$ 2,895,503</b>           | <b>\$73,023,273</b> | <b>\$ 69,177,102</b>          |
| Total percent change between<br>fiscal years 2023 and 2024 | <b>5.43 %</b>                      |                               | <b>8.64 %</b>                       |                               | <b>5.56 %</b>       |                               |

Total capital assets in the Governmental Activities and Total 2023 (as restated) columns do not agree to the July 1, as restated balances in Note 5. The table above does not include \$100 thousand in restated grouped assets for machinery and equipment, while Note 5 includes the restated grouped assets in the July 1 restated balances.

The largest component of capital assets is the state highway system. North Carolina has an 80,480 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- The NCDOT reported year-end construction in progress of \$3 billion for state highway projects. Additionally, the NCTA (business-type activity) reported year-end construction in progress of \$981.02 million for the Complete 540 project. This project is being completed in two phases and involves completing the 540 loop around the greater Raleigh area. Phase one extends the Triangle Expressway approximately 18 miles while phase two will extend the Expressway an additional 10 miles to complete the 540 loop. NCTA also has \$40.44 million construction in progress for the Mid-Currituck Bridge project. This project is a 7-mile roadway toll project, which includes a two-lane bridge, that spans the Currituck Sound and connects the Currituck County mainland to the Outer Banks; it also includes a second two-lane bridge that spans Maple Swamp on the Currituck County mainland.
- The NC General Assembly (NCGA) is tasked with the planning and construction of a downtown Raleigh Education Campus as appropriated in Session Law 2022-74. The facility will house The University of North Carolina System Office, the Community Colleges System Office, the Department of Public Instruction, and the Department of Commerce. The project will cost \$325 million and is expected to be completed by October 2026. At June 30, 2024, the NCGA reported \$39.15 million in construction in progress.
- The Department of Administration (DOA) is collaborating with the Department of Health and Human Services on the Dorothea Dix campus relocation project pursuant to Session Law 2020-88. Phase 1 of this project consists of the planning expenses associated with the relocation of the campus. The relocation project is scheduled to be completed in January 2026. At June 30, 2024, the DOA reported \$175.21 million in construction in progress for the first phase of the project.

- The Department of Health and Human Services (DHHS) is replacing seven major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$789.98 million.

As further detailed in Note 21E to the financial statements, the State has commitments of \$6.15 billion for the construction of highway infrastructure (\$5.75 billion for governmental activities and \$399.11 million for business-type activities), which are expected to be financed by motor fuels tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of \$659.43 million for the construction and improvement of state government facilities are expected to be financed primarily by debt proceeds, state appropriations, and federal funds.

More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

## LONG-TERM DEBT

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.19 billion, a decrease of 4.43% from the previous fiscal year-end (see table below).

**Outstanding Debt as of June 30**  
**Bonds, Special Indebtedness, and Notes From Direct Borrowings**  
*(dollars in thousands)*

|                                                            | <b>Governmental<br/>Activities</b> |                     | <b>Business-type<br/>Activities</b> |                     | <b>Total</b>        |                     |
|------------------------------------------------------------|------------------------------------|---------------------|-------------------------------------|---------------------|---------------------|---------------------|
|                                                            | <b>2024</b>                        | <b>2023</b>         | <b>2024</b>                         | <b>2023</b>         | <b>2024</b>         | <b>2023</b>         |
| General obligation bonds                                   | \$ 1,645,060                       | \$ 1,975,940        | \$ —                                | \$ —                | \$ 1,645,060        | \$ 1,975,940        |
| Special Indebtedness:                                      |                                    |                     |                                     |                     |                     |                     |
| Limited obligation bonds                                   | 1,887,790                          | 2,121,490           | —                                   | —                   | 1,887,790           | 2,121,490           |
| GARVEE bonds                                               | 845,715                            | 918,940             | —                                   | —                   | 845,715             | 918,940             |
| Revenue bonds                                              | —                                  | —                   | 2,060,470                           | 1,787,362           | 2,060,470           | 1,787,362           |
| Notes from direct borrowings                               | 70,263                             | 37,651              | 683,118                             | 684,525             | 753,381             | 722,176             |
| Total                                                      | <u>\$ 4,448,828</u>                | <u>\$ 5,054,021</u> | <u>\$ 2,743,588</u>                 | <u>\$ 2,471,887</u> | <u>\$ 7,192,416</u> | <u>\$ 7,525,908</u> |
| Total percent change between<br>fiscal years 2023 and 2024 | <b>(11.97)%</b>                    |                     | <b>10.99 %</b>                      |                     | <b>(4.43)%</b>      |                     |

The State issues two types of tax-supported debt: general obligation (GO) bonds and special indebtedness (i.e., debt not subject to a vote of the people). GO bonds are secured by the full faith, credit, and taxing power of the State and require approval by a majority of voters. The payments on special indebtedness are subject to appropriation by the General Assembly and also may be secured by a lien on facilities or equipment. The General Statutes (Chapter 142, Article 9) prohibit the issuance of special indebtedness except for projects specifically authorized by the General Assembly. Special indebtedness is also known as appropriation-supported debt. Limited obligation bonds may be issued by the State directly rather than through a conduit issuer. The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments. The GARVEE bonds are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues. The State did not issue any new general obligation bonds, special indebtedness bonds or GARVEE bonds for the fiscal year ended June 30, 2024.

The State's total long-term debt (bonds, special indebtedness, and notes from direct borrowings) reported in governmental activities has increased from \$3.48 billion in 2002 to \$4.45 billion in 2024, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects in previous years. Prior to 2003, the State only issued general obligation debt. The NCTA had its first debt issuance in 2010. The NCTA's long-term debt has increased from \$691.56 million in 2010 to \$2.74 billion in 2024.

The following is a summary of recent debt authorizations.

### *Build NC Bond Act of 2018*

The 2017-18 Session of the General Assembly authorized the issuance of up to \$300 million annually over ten years (subsequently extended to 13 years per Session Law 2024-15), not to exceed \$3 billion in total, of special indebtedness. The maturity of the bonds is limited to 15 years and the issuance is contingent upon the N.C. State Treasurer's recommendation. The Build NC Bonds will be repaid from appropriations from the Highway Trust Fund. The proceeds will enable the N.C. Department of Transportation to accelerate Regional and Divisional transportation projects authorized pursuant to the State's Strategic Transportation Investments Act (STI), build a debt service reserve fund and pay costs incurred in connection with the issuance of bonds. The Build NC Bond Act of

2018 became effective January 1, 2019. The State has issued \$1.3 billion of Build NC Bonds to date, and approximately \$1.06 billion remained outstanding at June 30, 2024.

#### *Connect NC Bond Act of 2015*

The 2015-16 Session of the General Assembly authorized, subject to a vote of the qualified voters of the State, the issuance of \$2 billion of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. The Connect NC Bonds were approved by a statewide voter referendum held on March 15, 2016. The general obligation bonds provided financing for various capital improvements throughout the State as follows: University of North Carolina System (\$980 million), North Carolina Community Colleges (\$350 million), local parks and infrastructure (\$312.5 million), National Guard (\$70 million), agriculture (\$179 million), State parks and attractions (\$100 million), and public safety (\$8.5 million). The 2021 Session of the General Assembly (Session Law 2021-180) repealed the remaining authorization of the Connect NC general obligation bonds that had not been issued as of June 30, 2021 and replaces it with pay-as-you-go capital for the remaining amount of \$400 million total authorization.

#### **Credit Ratings**

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. As a barometer of financial stress, credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay.

The State's general obligation bond credit ratings are as follows:

| <b>State of North Carolina<br/>General Obligation Bond Credit Ratings</b> |                      |                       |
|---------------------------------------------------------------------------|----------------------|-----------------------|
| <b><u>Rating Agency</u></b>                                               | <b><u>Rating</u></b> | <b><u>Outlook</u></b> |
| Fitch Ratings                                                             | AAA                  | Stable                |
| Moody's Investors Service                                                 | Aaa                  | Stable                |
| Standard & Poor's Rating Services                                         | AAA                  | Stable                |

These ratings are the highest attainable from all three rating agencies. In 2024, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only 14 states with a triple-A rating from all three rating agencies.

Special indebtedness is not subject to a vote of the people, and its repayment is based on the State's annual debt service appropriation. For these reasons, special indebtedness is rated lower than the State's general obligation bonds and typically carries a higher interest rate.

#### **Limitations on Debt**

The Constitution of North Carolina (Article 5, Section 3) imposes limitations upon the increase of certain state debt. It restricts the General Assembly from contracting debt secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State, except for the following purposes:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;
3. To borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50 percent of such taxes;
4. To suppress riots or insurrections; or to repel invasions;
5. To meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
6. For any other lawful purpose, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the preceding biennium.

The 2013-14 Session of the General Assembly enacted legislation (Session Law 2013-78) to limit the amount of special indebtedness that the State may incur. According to this law, special indebtedness authorized by legislation enacted after January 1, 2013 cannot exceed 25% of the total bond indebtedness of the State supported by the General Fund that was authorized pursuant to legislation enacted after January 1, 2013.

More detailed information about the State's long-term liabilities is presented in Note 8 to the financial statements.

## ***FUTURE OUTLOOK***

### Next Year's Budget and Rates

In the 2023 Legislative Session the General Assembly passed House Bill 259 (Session Law 2023-134). The General Assembly appropriated \$29.7 billion in the General Fund for fiscal year 2023-24, and \$30.8 billion for fiscal year 2024-25. The Legislature did not enact a comprehensive appropriations act to reflect the second year of the biennium. Instead, the General Assembly approved mini-budget legislation that implemented adjustments. For the fiscal year 2025, total General Fund appropriations are set at \$31.6 billion. Key adjustments included the following:

- \$877 million for Hurricane Helene recovery related activities; of this, \$335 million was designated to match federal disaster assistance,
- \$463 million for additional Opportunity Scholarships,
- \$377 million for Medicaid rebase,
- \$95 million for enrollment growth at public schools,
- \$76.7 million for enrollment growth at Community Colleges, and
- \$32.5 million for childcare stabilization grants

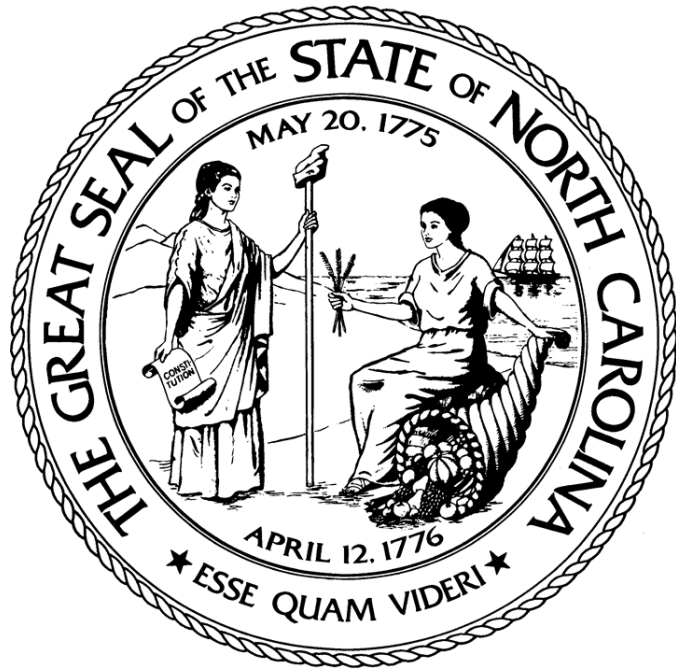
House Bill 259 accelerated personal income tax rate reductions starting in fiscal year 2024 and will reduce the next two years from 4.5% to 4.25% in 2025 and from 4.25% to 3.99% in 2026. The budget also authorizes up to three additional personal income tax rate reductions of 0.5% each in subsequent years that become effective if General Fund revenue meets certain thresholds. Additionally, corporate income tax rate will fall to 2.25% in 2025, 2% in 2026, 1% in 2028, and 0% in 2030.

## ***REQUESTS FOR INFORMATION***

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Accounting and Financial Reporting Section, 1410 Mail Service Center, Raleigh, N.C. 27699-1410. In addition, this financial report is available on the Office of the State Controller's internet home page at <https://www.osc.nc.gov/public-information/reports>.

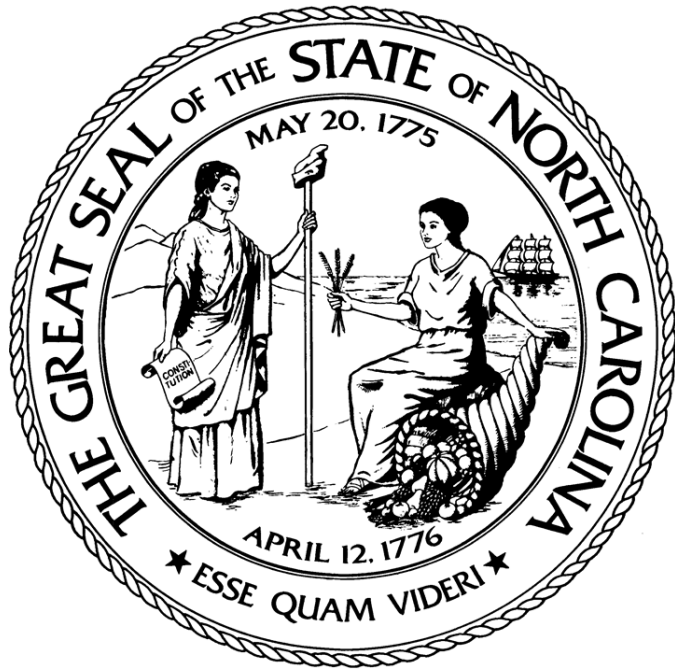
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*BASIC  
FINANCIAL  
STATEMENTS*

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# *GOVERNMENT-WIDE FINANCIAL STATEMENTS*

**STATEMENT OF NET POSITION**

June 30, 2024

*(Dollars in Thousands)*

|                                                           | <b>Primary Government</b>          |                                     |               |                            |
|-----------------------------------------------------------|------------------------------------|-------------------------------------|---------------|----------------------------|
|                                                           | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>  | <b>Component<br/>Units</b> |
| <b>Assets</b>                                             |                                    |                                     |               |                            |
| Cash and cash equivalents (Note 3)                        | \$ 28,610,699                      | \$ 6,028,614                        | \$ 34,639,313 | \$ 5,326,821               |
| Investments (Note 3)                                      | 398,763                            | 427,524                             | 826,287       | 6,699,259                  |
| Securities lending collateral (Note 3)                    | 3,174,543                          | 107,616                             | 3,282,159     | 532,304                    |
| Receivables, net (Note 4)                                 | 7,885,117                          | 964,361                             | 8,849,478     | 2,078,146                  |
| Due from component units (Note 18)                        | 10,459                             | -                                   | 10,459        | 14,909                     |
| Due from primary government (Note 18)                     | -                                  | -                                   | -             | 264,204                    |
| Internal balances                                         | 218,419                            | (218,419)                           | -             | -                          |
| Inventories                                               | 246,250                            | 2,054                               | 248,304       | 185,480                    |
| Prepaid items                                             | 29,648                             | 42,040                              | 71,688        | 162,117                    |
| Hedging derivatives asset                                 | -                                  | -                                   | -             | 782                        |
| Advances to component units                               | 1,441                              | -                                   | 1,441         | -                          |
| Advances to outside entities                              | 9,182                              | -                                   | 9,182         | -                          |
| Notes receivable, net (Note 4)                            | 48,627                             | 1,391,837                           | 1,440,464     | 591,761                    |
| Lease receivable                                          | 6,482                              | 4,796                               | 11,278        | 212,144                    |
| Investment in joint venture                               | -                                  | -                                   | -             | 257,767                    |
| Equity interest in component unit                         | 314,462                            | -                                   | 314,462       | -                          |
| Securities held in trust                                  | 52,766                             | -                                   | 52,766        | -                          |
| Restricted/designated cash and cash equivalents (Note 3)  | 2,357,288                          | 80,024                              | 2,437,312     | 4,787,870                  |
| Restricted investments (Note 3)                           | 488,386                            | 579,726                             | 1,068,112     | 15,573,715                 |
| Restricted due from primary government (Note 18)          | -                                  | -                                   | -             | 3,018                      |
| Restricted due from component units (Note 18)             | -                                  | -                                   | -             | 8,045                      |
| Beneficial interest in assets held by others              | -                                  | -                                   | -             | 4,238                      |
| Net pension asset (Note 12)                               | 32,015                             | -                                   | 32,015        | -                          |
| Capital assets-nondepreciable (Note 5)                    | 28,485,475                         | 1,800,638                           | 30,286,113    | 2,748,246                  |
| Capital assets-depreciable, net (Note 5)                  | 41,392,123                         | 1,345,037                           | 42,737,160    | 19,933,001                 |
| Total Assets                                              | 113,762,145                        | 12,555,848                          | 126,317,993   | 59,383,827                 |
| <b>Deferred Outflows of Resources</b>                     |                                    |                                     |               |                            |
| Accumulated decrease in fair value of hedging derivatives | -                                  | -                                   | -             | 40,665                     |
| Deferred loss on refunding                                | 18,165                             | 21,171                              | 39,336        | 37,689                     |
| Forward funded state aid                                  | 465,914                            | -                                   | 465,914       | -                          |
| Deferred outflows for asset retirement obligation         | -                                  | -                                   | -             | 14,191                     |
| Deferred outflows for pensions (Note 12)                  | 2,831,298                          | 44,993                              | 2,876,291     | 2,213,031                  |
| Deferred outflows for OPEB (Note 14)                      | 2,620,101                          | 57,169                              | 2,677,270     | 1,896,618                  |
| Other deferred outflows                                   | -                                  | -                                   | -             | 872                        |
| Total Deferred Outflows of Resources                      | 5,935,478                          | 123,333                             | 6,058,811     | 4,203,066                  |
| <b>Liabilities</b>                                        |                                    |                                     |               |                            |
| Accounts payable and accrued liabilities                  | 2,405,225                          | 632,659                             | 3,037,884     | 1,879,506                  |
| Medical claims payable                                    | 4,026,513                          | -                                   | 4,026,513     | 368,878                    |
| Unemployment benefits payable                             | -                                  | 3,305                               | 3,305         | -                          |
| Tax refunds payable                                       | 1,560,271                          | -                                   | 1,560,271     | -                          |
| Obligations under securities lending                      | 3,174,543                          | 107,616                             | 3,282,159     | 532,304                    |
| Interest payable                                          | 16,216                             | 160,770                             | 176,986       | 91,114                     |
| Short-term debt (Note 6)                                  | -                                  | -                                   | -             | 19,000                     |
| Due to component units (Note 18)                          | 267,222                            | -                                   | 267,222       | 22,954                     |
| Due to primary government (Note 18)                       | -                                  | -                                   | -             | 10,459                     |
| Unearned revenue                                          | 4,362,481                          | 51,712                              | 4,414,193     | 894,192                    |
| Advance from primary government                           | -                                  | -                                   | -             | 1,441                      |
| Deposits payable                                          | 6                                  | 22,746                              | 22,752        | 32,417                     |
| Funds held for others                                     | 91,084                             | -                                   | 91,084        | 4,583,663                  |
| Hedging derivatives liability (Note 7)                    | -                                  | -                                   | -             | 40,790                     |
| Long-term liabilities (Note 8):                           |                                    |                                     |               |                            |
| Due within one year                                       | 818,200                            | 56,512                              | 874,712       | 734,516                    |
| Due in more than one year                                 | 15,970,803                         | 3,075,126                           | 19,045,929    | 21,191,494                 |
| Total Liabilities                                         | 32,692,564                         | 4,110,446                           | 36,803,010    | 30,402,728                 |

**STATEMENT OF NET POSITION**

June 30, 2024

*Exhibit A-1**(Dollars in Thousands)*

|                                                           | <b>Primary Government</b>          |                                     |                      |                            |
|-----------------------------------------------------------|------------------------------------|-------------------------------------|----------------------|----------------------------|
|                                                           | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>         | <b>Component<br/>Units</b> |
| <b>Deferred Inflows of Resources</b>                      |                                    |                                     |                      |                            |
| Deferred gain on refunding                                | 4,421                              | 34,151                              | 38,572               | -                          |
| Deferred inflows for PPP arrangements                     | 67,254                             | -                                   | 67,254               | 326,261                    |
| Deferred state aid                                        | -                                  | -                                   | -                    | 465,914                    |
| Deferred inflows for lease agreements                     | 6,353                              | 4,403                               | 10,756               | 193,078                    |
| Deferred inflows for pensions (Note 12)                   | 436,353                            | 8,560                               | 444,913              | 63,735                     |
| Deferred inflows for OPEB (Note 14)                       | 2,815,356                          | 55,496                              | 2,870,852            | 2,449,089                  |
| Deferred inflows irrevocable split-interest agreements    | -                                  | -                                   | -                    | 25,648                     |
| Accumulated increase in fair value of hedging derivatives | -                                  | -                                   | -                    | 782                        |
| Other deferred inflows                                    | -                                  | -                                   | -                    | 3,472                      |
| Total Deferred Inflows of Resources                       | <u>3,329,737</u>                   | <u>102,610</u>                      | <u>3,432,347</u>     | <u>3,527,979</u>           |
| <b>Net Position</b>                                       |                                    |                                     |                      |                            |
| Net investment in capital assets                          | 66,300,651                         | 810,927                             | 67,111,578           | 15,808,232                 |
| Restricted for:                                           |                                    |                                     |                      |                            |
| Nonexpendable:                                            |                                    |                                     |                      |                            |
| Environment and natural resources                         | 139,870                            | -                                   | 139,870              | -                          |
| Higher education                                          | -                                  | -                                   | -                    | 3,956,928                  |
| Expendable:                                               |                                    |                                     |                      |                            |
| Primary and secondary education                           | 28,759                             | -                                   | 28,759               | -                          |
| Higher education                                          | 9,825                              | -                                   | 9,825                | 7,157,197                  |
| Higher education student aid                              | 1,431,432                          | -                                   | 1,431,432            | -                          |
| Health and human services                                 | 64,206                             | -                                   | 64,206               | 526,715                    |
| Economic development                                      | 38,730                             | 1,034                               | 39,764               | 1,262,428                  |
| Environment and natural resources                         | 117,169                            | -                                   | 117,169              | -                          |
| Public safety, corrections, and regulation                | 127,257                            | -                                   | 127,257              | -                          |
| Transportation                                            | 3,481                              | 45,899                              | 49,380               | -                          |
| Highway construction/preservation                         | 97                                 | -                                   | 97                   | -                          |
| Agriculture                                               | 1,603                              | -                                   | 1,603                | -                          |
| Debt service                                              | 34,463                             | 131,152                             | 165,615              | -                          |
| Capital projects/repairs and renovations                  | 31,750                             | -                                   | 31,750               | -                          |
| Other purposes                                            | 21,607                             | 3,055                               | 24,662               | -                          |
| Unrestricted                                              | 15,324,422                         | 7,474,058                           | 22,798,480           | 944,686                    |
| Total Net Position                                        | <u>\$ 83,675,322</u>               | <u>\$ 8,466,125</u>                 | <u>\$ 92,141,447</u> | <u>\$ 29,656,186</u>       |

*The accompanying Notes to the Financial Statements are an integral part of this statement.*

**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2024

*(Dollars in Thousands)*

| Functions/Programs                         | Expenses      | Program Revenues        |                                          |                                        | Net (Expense)<br>Revenue |
|--------------------------------------------|---------------|-------------------------|------------------------------------------|----------------------------------------|--------------------------|
|                                            |               | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                          |
| <b>Primary Government</b>                  |               |                         |                                          |                                        |                          |
| <b>Governmental Activities</b>             |               |                         |                                          |                                        |                          |
| General government                         | \$ 3,086,211  | \$ 359,223              | \$ 372,661                               | \$ 2                                   | \$ (2,354,325)           |
| Primary and secondary education            | 16,203,270    | 281,356                 | 3,619,801                                | -                                      | (12,302,113)             |
| Higher education                           | 6,546,740     | 221,817                 | 167,591                                  | -                                      | (6,157,332)              |
| Health and human services                  | 34,623,699    | 798,513                 | 26,084,783                               | -                                      | (7,740,403)              |
| Economic development                       | 1,366,638     | 802                     | 217,558                                  | -                                      | (1,148,278)              |
| Environment and natural resources          | 1,188,692     | 210,738                 | 192,171                                  | 61,068                                 | (724,715)                |
| Public safety, corrections, and regulation | 4,775,262     | 638,339                 | 645,076                                  | 21,204                                 | (3,470,643)              |
| Transportation                             | 4,404,717     | 1,146,090               | 516,892                                  | 1,180,420                              | (1,561,315)              |
| Agriculture                                | 302,166       | 31,370                  | 52,276                                   | 1,777                                  | (216,743)                |
| Interest on long-term debt                 | 149,195       | -                       | -                                        | -                                      | (149,195)                |
| Total Governmental Activities              | 72,646,590    | 3,688,248               | 31,868,809                               | 1,264,471                              | (35,825,062)             |
| <b>Business-type Activities</b>            |               |                         |                                          |                                        |                          |
| Unemployment Compensation                  | 232,396       | 809,182                 | 121,613                                  | -                                      | 698,399                  |
| N.C. State Lottery                         | 4,291,544     | 5,380,177               | 10,568                                   | -                                      | 1,099,201                |
| EPA Revolving Loan                         | 55,403        | 15,199                  | 168,211                                  | -                                      | 128,007                  |
| N.C. Turnpike Authority                    | 187,270       | 129,165                 | 22,949                                   | 172,419                                | 137,263                  |
| Regulatory programs                        | 168,506       | 185,636                 | 4,647                                    | -                                      | 21,777                   |
| Insurance programs                         | 34,925        | 13,719                  | 3,814                                    | -                                      | (17,392)                 |
| North Carolina State Fair                  | 14,757        | 15,520                  | 1,492                                    | -                                      | 2,255                    |
| Other business-type activities             | 16,606        | 16,667                  | 1,776                                    | 224                                    | 2,061                    |
| Total Business-type Activities             | 5,001,407     | 6,565,265               | 335,070                                  | 172,643                                | 2,071,571                |
| Total Primary Government                   | \$ 77,647,997 | \$ 10,253,513           | \$ 32,203,879                            | \$ 1,437,114                           | \$ (33,753,491)          |
| <b>Component Units</b>                     |               |                         |                                          |                                        |                          |
| University of North Carolina System        | \$ 17,980,461 | \$ 12,391,997           | \$ 3,014,846                             | \$ 420,951                             | \$ (2,152,667)           |
| Community Colleges                         | 2,831,993     | 311,646                 | 1,115,226                                | 514,848                                | (890,273)                |
| State Health Plan                          | 4,145,974     | 4,083,521               | 42,938                                   | -                                      | (19,515)                 |
| Other component units                      | 1,680,574     | 540,845                 | 1,091,363                                | 77,960                                 | 29,594                   |
| Total Component Units                      | \$ 26,639,002 | \$ 17,328,009           | \$ 5,264,373                             | \$ 1,013,759                           | \$ (3,032,861)           |

The accompanying Notes to the Financial Statements are an integral part of this statement.

**STATEMENT OF ACTIVITIES**

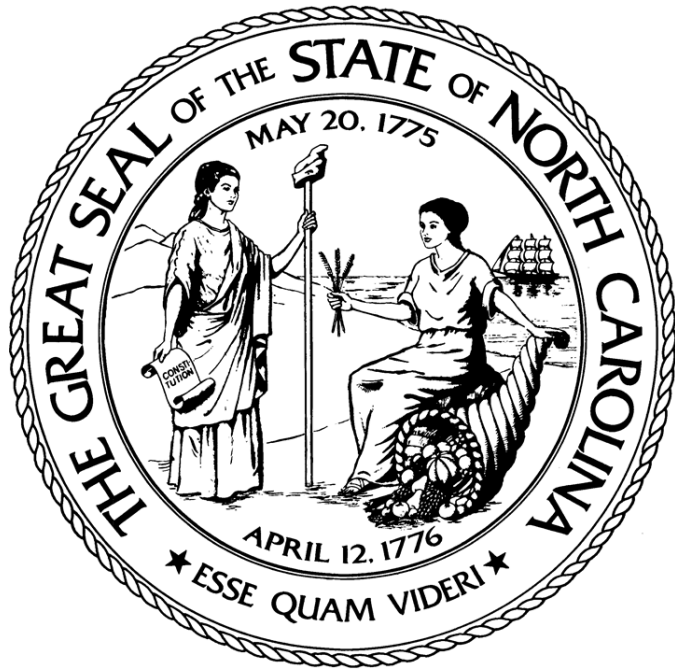
For the Fiscal Year Ended June 30, 2024

*Exhibit A-2**(Dollars in Thousands)*

|                                                      | Primary Government         |                             |                 | Component<br>Units |
|------------------------------------------------------|----------------------------|-----------------------------|-----------------|--------------------|
|                                                      | Governmental<br>Activities | Business-type<br>Activities | Total           |                    |
| <b>Changes in Net Position</b>                       |                            |                             |                 |                    |
| Net (expense) revenue                                | \$ (35,825,062)            | \$ 2,071,571                | \$ (33,753,491) | \$ (3,032,861)     |
| General Revenues:                                    |                            |                             |                 |                    |
| Taxes:                                               |                            |                             |                 |                    |
| Individual income tax                                | 16,464,017                 | -                           | 16,464,017      | -                  |
| Corporate income tax                                 | 1,501,535                  | -                           | 1,501,535       | -                  |
| Sales and use tax                                    | 12,099,961                 | -                           | 12,099,961      | -                  |
| Motor fuels tax                                      | 2,499,716                  | -                           | 2,499,716       | -                  |
| Franchise tax                                        | 738,220                    | -                           | 738,220         | -                  |
| Highway use tax                                      | 1,195,898                  | -                           | 1,195,898       | -                  |
| Insurance tax                                        | 1,238,193                  | -                           | 1,238,193       | -                  |
| Beverage tax                                         | 591,463                    | -                           | 591,463         | -                  |
| Tobacco products tax                                 | 257,414                    | -                           | 257,414         | -                  |
| Other taxes                                          | 386,324                    | -                           | 386,324         | -                  |
| Tobacco settlement                                   | 119,212                    | -                           | 119,212         | -                  |
| Federal COVID-19                                     | 470,171                    | -                           | 470,171         | -                  |
| Unrestricted investment earnings                     | 988,438                    | -                           | 988,438         | 208,105            |
| State aid - coronavirus                              | -                          | -                           | -               | 55,396             |
| State aid                                            | -                          | -                           | -               | 5,767,991          |
| Noncapital contributions                             | 6,843                      | 325                         | 7,168           | 32,631             |
| Miscellaneous                                        | 75,960                     | 748                         | 76,708          | 50,834             |
| Contributions to permanent funds                     | 11,048                     | -                           | 11,048          | -                  |
| Contributions to endowments                          | -                          | -                           | -               | 204,963            |
| Transfers                                            | 968,096                    | (968,096)                   | -               | -                  |
| Total general revenues, contributions, and transfers | 39,612,509                 | (967,023)                   | 38,645,486      | 6,319,920          |
| Change in net position                               | 3,787,447                  | 1,104,548                   | 4,891,995       | 3,287,059          |
| Net position — July 1, as previously reported        | 79,745,375                 | 7,207,862                   | 86,953,237      | 26,186,976         |
| Adjustments to July 1 balances                       | 142,500                    | 153,715                     | 296,215         | 182,151            |
| Net position — July 1, as restated (Note 23)         | 79,887,875                 | 7,361,577                   | 87,249,452      | 26,369,127         |
| Net position — June 30                               | \$ 83,675,322              | \$ 8,466,125                | \$ 92,141,447   | \$ 29,656,186      |

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# *FUND FINANCIAL STATEMENTS*

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2024

Exhibit B-1

(Dollars in Thousands)

|                                                          | General<br>Fund      | Highway<br>Fund     | Highway<br>Trust Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------------------------------------|----------------------|---------------------|-----------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                                            |                      |                     |                       |                                |                                |
| Cash and cash equivalents (Note 3)                       | \$ 23,461,568        | \$ 2,087,029        | \$ 742,449            | \$ 2,203,402                   | \$ 28,494,448                  |
| Investments (Note 3)                                     | 26,226               | -                   | -                     | 346,037                        | 372,263                        |
| Securities lending collateral (Note 3)                   | 2,655,994            | 162,158             | 72,384                | 282,883                        | 3,173,419                      |
| Receivables, net: (Note 4)                               |                      |                     |                       |                                |                                |
| Taxes receivable                                         | 3,149,744            | 175,439             | 59,039                | 10,417                         | 3,394,639                      |
| Accounts receivable                                      | 499,676              | 41,792              | 35                    | 18,706                         | 560,209                        |
| Intergovernmental receivable                             | 3,791,264            | 46,280              | 69                    | 995                            | 3,838,608                      |
| Interest receivable                                      | 27,232               | -                   | -                     | 6,742                          | 33,974                         |
| Contributions receivable                                 | 94                   | -                   | -                     | -                              | 94                             |
| Other receivables                                        | -                    | 6,477               | -                     | -                              | 6,477                          |
| Due from other funds (Note 10)                           | 201,558              | 67,780              | 2,819                 | 14,051                         | 286,208                        |
| Due from component units (Note 18)                       | 8,097                | -                   | -                     | 2,362                          | 10,459                         |
| Inventories                                              | 100,561              | 113,662             | -                     | 31,812                         | 246,035                        |
| Advances to other funds (Note 10)                        | -                    | -                   | 33,872                | -                              | 33,872                         |
| Advances to component units                              | -                    | 1,441               | -                     | -                              | 1,441                          |
| Advances to outside entities                             | 9,182                | -                   | -                     | -                              | 9,182                          |
| Notes receivable, net (Note 4)                           | 21,121               | 119                 | -                     | 27,387                         | 48,627                         |
| Lease receivable                                         | 6,246                | -                   | -                     | 236                            | 6,482                          |
| Securities held in trust                                 | 15                   | 821                 | -                     | 51,930                         | 52,766                         |
| Restricted/designated cash and cash equivalents (Note 3) | 467,377              | -                   | -                     | 1,889,911                      | 2,357,288                      |
| Restricted investments (Note 3)                          | 1,994                | 97                  | 146,823               | 339,472                        | 488,386                        |
| Total Assets                                             | <u>34,427,949</u>    | <u>2,703,095</u>    | <u>1,057,490</u>      | <u>5,226,343</u>               | <u>43,414,877</u>              |
| <b>Deferred Outflows of Resources</b>                    |                      |                     |                       |                                |                                |
| Forward funded state aid                                 | 412,842              | -                   | -                     | 53,072                         | 465,914                        |
| Total Assets and Deferred Outflows                       | <u>\$ 34,840,791</u> | <u>\$ 2,703,095</u> | <u>\$ 1,057,490</u>   | <u>\$ 5,279,415</u>            | <u>\$ 43,880,791</u>           |
| <b>Liabilities</b>                                       |                      |                     |                       |                                |                                |
| Accounts payable and accrued liabilities:                |                      |                     |                       |                                |                                |
| Accounts payable                                         | \$ 355,996           | \$ 404,758          | \$ 125,054            | \$ 62,772                      | \$ 948,580                     |
| Accrued payroll                                          | 4,218                | 50,433              | -                     | 106                            | 54,757                         |
| Intergovernmental payable                                | 897,822              | 192,187             | 4,504                 | 15,671                         | 1,110,184                      |
| Claims payable                                           | -                    | -                   | -                     | 110,000                        | 110,000                        |
| Medical claims payable                                   | 4,026,513            | -                   | -                     | -                              | 4,026,513                      |
| Tax refunds payable                                      | 1,544,482            | 11,842              | 3,947                 | -                              | 1,560,271                      |
| Obligations under securities lending                     | 2,655,994            | 162,158             | 72,384                | 282,883                        | 3,173,419                      |
| Due to fiduciary funds (Note 10)                         | 152,185              | -                   | -                     | -                              | 152,185                        |
| Due to other funds (Note 10)                             | 102,430              | 10,849              | 1,963                 | 12,895                         | 128,137                        |
| Due to component units (Note 18)                         | 256,129              | -                   | -                     | 3,018                          | 259,147                        |
| Unearned revenue                                         | 3,744,163            | 603,496             | 5,175                 | 520                            | 4,353,354                      |
| Deposits payable                                         | -                    | -                   | -                     | 6                              | 6                              |
| Funds held for others                                    | 11,633               | 27,385              | -                     | 52,066                         | 91,084                         |
| Total Liabilities                                        | <u>13,751,565</u>    | <u>1,463,108</u>    | <u>213,027</u>        | <u>539,937</u>                 | <u>15,967,637</u>              |
| <b>Deferred Inflows of Resources</b>                     |                      |                     |                       |                                |                                |
| Unavailable revenue                                      | 191,859              | 3,472               | -                     | 10,051                         | 205,382                        |
| Deferred inflows for PPP arrangements                    | -                    | 67,254              | -                     | -                              | 67,254                         |
| Deferred inflows for lease agreements                    | 6,175                | -                   | -                     | 178                            | 6,353                          |
| Total Deferred Inflows of Resources                      | <u>198,034</u>       | <u>70,726</u>       | <u>-</u>              | <u>10,229</u>                  | <u>278,989</u>                 |
| <b>Fund Balances (Note 11)</b>                           |                      |                     |                       |                                |                                |
| Nonspendable                                             | 100,658              | 113,662             | -                     | 171,882                        | 386,202                        |
| Restricted                                               | 254,447              | 3,578               | 146,823               | 1,763,446                      | 2,168,294                      |
| Committed                                                | 12,625,096           | 1,052,021           | 697,640               | 2,698,549                      | 17,073,306                     |
| Assigned                                                 | 2,552,777            | -                   | -                     | 95,372                         | 2,648,149                      |
| Unassigned                                               | 5,358,214            | -                   | -                     | -                              | 5,358,214                      |
| Total Fund Balances                                      | <u>20,891,192</u>    | <u>1,169,261</u>    | <u>844,463</u>        | <u>4,729,249</u>               | <u>27,634,165</u>              |
| Total Liabilities, Deferred Inflows and Fund Balances    | <u>\$ 34,840,791</u> | <u>\$ 2,703,095</u> | <u>\$ 1,057,490</u>   | <u>\$ 5,279,415</u>            | <u>\$ 43,880,791</u>           |

The accompanying Notes to the Financial Statements are an integral part of this statement.

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2024

Exhibit B-1a

(Dollars in Thousands)

**Total fund balances - governmental funds (see Exhibit B-1)** \$ 27,634,165

Amounts reported for governmental activities in the Statement of Net Position are different because:

- **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:
 

|                                                                   |               |            |
|-------------------------------------------------------------------|---------------|------------|
| Cost of capital assets (excluding internal service funds)         | \$ 70,755,697 |            |
| Less: Accumulated depreciation (excluding internal service funds) | (1,101,840)   |            |
| Net capital assets                                                |               | 69,653,857 |
- **Some assets**, such as receivables, are not available soon enough to pay for current period expenditures and thus, are offset by unavailable revenue in the governmental funds. 205,383
- **Equity interest in component unit** is not a financial resource and, therefore, is not reported in the funds. 314,462
- **Net pension asset** (excluding internal service funds) resulting from contributions in excess of the actuarially determined contribution are not financial resources and, therefore, are not reported in the funds (see Note 12). 32,015
- **Deferred losses on refundings** are reported in the Statement of Net Position (to be amortized as interest expense) but are not reported in the funds. 18,165
- **Deferred gain on refunding** is reported in the Statement of Net Position (to be amortized as a component of interest expense) but is not reported in the funds. (4,421)
- **Deferred outflows for pensions** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12). 2,769,867
- **Deferred outflows for OPEB** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 14). 2,554,224
- **Long-term debt instruments**, such as bonds and notes from direct borrowings, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 8). Also, unamortized debt premiums are reported in the Statement of Net Position but are not reported in the funds. These balances consist of:
 

|                                                                 |             |             |
|-----------------------------------------------------------------|-------------|-------------|
| General obligation bonds payable                                | (1,645,060) |             |
| Limited obligation bonds payable                                | (1,887,790) |             |
| GARVEE bonds payable                                            | (845,715)   |             |
| Unamortized debt premiums (to be amortized as interest expense) | (427,772)   |             |
| Notes from direct borrowings                                    | (70,263)    |             |
| Lease liability (excluding internal service funds)              | (393,902)   |             |
| Subscription liability (excluding internal service funds)       | (132,823)   |             |
| Net long-term debt                                              |             | (5,403,325) |
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of:
 

|                                                                          |             |              |
|--------------------------------------------------------------------------|-------------|--------------|
| Accrued interest payable                                                 | (16,216)    |              |
| Compensated absences (excluding internal service funds)                  | (605,024)   |              |
| Obligations for workers' compensation (excluding internal service funds) | (606,237)   |              |
| Death benefit payable                                                    | (37)        |              |
| Pollution remediation payable                                            | (6,735)     |              |
| Claims and judgments payable                                             | (731,703)   |              |
| Pension liability (excluding internal service funds)                     | (4,065,058) |              |
| Net OPEB liability (excluding internal service funds)                    | (5,094,680) |              |
| Total other liabilities                                                  |             | (11,125,690) |
- **Deferred inflows for pensions** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12). (433,396)
- **Deferred inflows for OPEB** (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 14). (2,772,107)
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position (see Exhibit B-3). 232,123

**Total net position - governmental activities (see Exhibit A-1)** \$ 83,675,322

The accompanying Notes to the Financial Statements are an integral part of this statement.

# STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2024

Exhibit B-2

(Dollars in Thousands)

|                                                | General Fund  | Highway Fund | Highway Trust Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------------------------|---------------|--------------|--------------------|--------------------------|--------------------------|
| <b>Revenues</b>                                |               |              |                    |                          |                          |
| Taxes:                                         |               |              |                    |                          |                          |
| Individual income tax                          | \$ 16,464,017 | \$ -         | \$ -               | \$ -                     | \$ 16,464,017            |
| Corporate income tax                           | 1,509,639     | -            | -                  | -                        | 1,509,639                |
| Sales and use tax                              | 11,683,726    | 106,616      | 319,848            | 9,324                    | 12,119,514               |
| Motor fuels tax                                | -             | 1,855,959    | 614,483            | 27,600                   | 2,498,042                |
| Franchise tax                                  | 743,281       | -            | -                  | -                        | 743,281                  |
| Highway use tax                                | -             | 111,193      | 1,084,705          | -                        | 1,195,898                |
| Insurance tax                                  | 1,238,560     | -            | -                  | -                        | 1,238,560                |
| Beverage tax                                   | 591,309       | -            | -                  | -                        | 591,309                  |
| Tobacco products tax                           | 257,240       | -            | -                  | -                        | 257,240                  |
| Other taxes                                    | 253,160       | -            | -                  | 131,479                  | 384,639                  |
| Federal funds                                  | 27,669,311    | 1,411,545    | -                  | 140,252                  | 29,221,108               |
| Local funds                                    | 135,625       | 82,050       | 7,115              | 9,703                    | 234,493                  |
| Investment earnings (losses)                   | 1,299,273     | 64,627       | 41,694             | 146,503                  | 1,552,097                |
| Interest earnings on loans                     | 30            | -            | 1,033              | 1,571                    | 2,634                    |
| Sales and services                             | 164,889       | 10,752       | -                  | 179,818                  | 355,459                  |
| Rental and lease of property                   | 14,746        | 5,044        | 816                | 1,931                    | 22,537                   |
| Fees, licenses, and fines                      | 1,645,704     | 975,808      | 147,073            | 153,289                  | 2,921,874                |
| Tobacco settlement                             | 139,683       | -            | -                  | -                        | 139,683                  |
| Contributions, gifts, and grants               | 83,032        | 36,494       | 4,443              | 91,063                   | 215,032                  |
| Funds escheated                                | -             | -            | -                  | 221,196                  | 221,196                  |
| Federal COVID-19 funds                         | 3,235,863     | 48,131       | -                  | 75,414                   | 3,359,408                |
| Miscellaneous                                  | 176,970       | 13,557       | 701                | 9,424                    | 200,652                  |
| Total revenues                                 | 67,306,058    | 4,721,776    | 2,221,911          | 1,198,567                | 75,448,312               |
| <b>Expenditures</b>                            |               |              |                    |                          |                          |
| Current:                                       |               |              |                    |                          |                          |
| General government                             | 3,070,559     | -            | -                  | 84,942                   | 3,155,501                |
| Primary and secondary education                | 16,172,663    | -            | -                  | -                        | 16,172,663               |
| Higher education                               | 6,393,038     | -            | -                  | 158,745                  | 6,551,783                |
| Health and human services                      | 34,289,763    | -            | -                  | 105,547                  | 34,395,310               |
| Economic development                           | 1,387,382     | -            | -                  | 2,386                    | 1,389,768                |
| Environment and natural resources              | 910,474       | -            | -                  | 262,853                  | 1,173,327                |
| Public safety, corrections, and regulation     | 4,843,540     | -            | -                  | 329,775                  | 5,173,315                |
| Transportation                                 | -             | 5,213,639    | 2,170,149          | -                        | 7,383,788                |
| Agriculture                                    | 296,606       | -            | -                  | 26,447                   | 323,053                  |
| Capital outlay                                 | -             | -            | -                  | 449,992                  | 449,992                  |
| Debt service:                                  |               |              |                    |                          |                          |
| Principal retirement                           | 583,939       | 92,069       | 69,600             | 5,532                    | 751,140                  |
| Interest and fees                              | 146,396       | 49,487       | 51,907             | 827                      | 248,617                  |
| Debt issuance costs                            | 69            | -            | -                  | -                        | 69                       |
| Total expenditures                             | 68,094,429    | 5,355,195    | 2,291,656          | 1,427,046                | 77,168,326               |
| Excess revenues over (under) expenditures      | (788,371)     | (633,419)    | (69,745)           | (228,479)                | (1,720,014)              |
| <b>Other Financing Sources (Uses)</b>          |               |              |                    |                          |                          |
| Other debt issued                              | 144,421       | 47,518       | -                  | 481                      | 192,420                  |
| Sale of capital assets                         | 7,633         | 5,581        | 839                | 950                      | 15,003                   |
| Insurance recoveries                           | 2,512         | 14,781       | -                  | 318                      | 17,611                   |
| Transfers in (Note 10)                         | 1,358,292     | 600,389      | -                  | 1,678,047                | 3,636,728                |
| Transfers out (Note 10)                        | (2,233,036)   | (62,544)     | (161,801)          | (231,275)                | (2,688,656)              |
| Total other financing sources (uses)           | (720,178)     | 605,725      | (160,962)          | 1,448,521                | 1,173,106                |
| Net change in fund balances                    | (1,508,549)   | (27,694)     | (230,707)          | 1,220,042                | (546,908)                |
| Fund balances — July 1, as previously reported | 22,365,600    | 1,196,955    | 1,075,170          | 3,509,207                | 28,146,932               |
| Adjustments to July 1 balances                 | 34,141        | -            | -                  | -                        | 34,141                   |
| Fund balances — July 1, as restated (Note 23)  | 22,399,741    | 1,196,955    | 1,075,170          | 3,509,207                | 28,181,073               |
| Fund balances — June 30                        | \$ 20,891,192 | \$ 1,169,261 | \$ 844,463         | \$ 4,729,249             | \$ 27,634,165            |

The accompanying Notes to the Financial Statements are an integral part of this statement.

# RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2024

Exhibit B-2a

(Dollars in Thousands)

**Net change in fund balances - total governmental funds (see Exhibit B-2)** \$ (546,908)

Amounts reported for governmental activities in the Statement of Activities are different because:

- **Capital outlays** are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:
 

|                                                                                     |              |           |
|-------------------------------------------------------------------------------------|--------------|-----------|
| Capital outlays (including construction-in-progress and computer soft. in develop.) | \$ 5,131,385 |           |
| Less: Depreciation expense (excluding internal service funds)                       | (1,410,117)  |           |
| Net capital outlay adjustment                                                       |              | 3,721,268 |
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.
 

|  |  |           |
|--|--|-----------|
|  |  | (221,394) |
|--|--|-----------|
- **Pension Contributions** (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities.
 

|  |  |         |
|--|--|---------|
|  |  | 784,328 |
|--|--|---------|
- **OPEB Contributions** (excluding internal service funds) to defined benefit OPEB plans in the current fiscal year are not included on the Statement of Activities.
 

|  |  |         |
|--|--|---------|
|  |  | 408,173 |
|--|--|---------|
- **Benefit payments** to the special separation allowance defined benefit pension plan in the current fiscal year are not included on the Statement of Activities (see Note 12).
 

|  |  |        |
|--|--|--------|
|  |  | 25,005 |
|--|--|--------|
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:
 

|                                                                 |          |         |
|-----------------------------------------------------------------|----------|---------|
| Debt issued or incurred:                                        |          |         |
| Leases (excluding internal service funds)                       | (61,462) |         |
| Subscriptions (excluding internal service funds)                | (92,321) |         |
| Notes from direct borrowings (excluding internal service funds) | (38,637) |         |
| Principal repayments:                                           |          |         |
| Bonds, notes, and similar debt                                  | 643,830  |         |
| Leases (excluding internal service funds)                       | 42,395   |         |
| Subscriptions (excluding internal service funds)                | 70,115   |         |
| Net debt adjustments                                            |          | 563,920 |
- **Some revenues** in the Statement of Activities do not provide current financial resources and, therefore, are deferred inflows of resources in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.
 

|  |  |          |
|--|--|----------|
|  |  | (69,591) |
|--|--|----------|
- **Change in equity interest** of component unit resulting from changes in stockholder's equity are not current financial resources, and therefore, are not recognized in the funds.
 

|  |  |       |
|--|--|-------|
|  |  | 1,213 |
|--|--|-------|
- **Some expenses** reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:
 

|                                                          |             |           |
|----------------------------------------------------------|-------------|-----------|
| Accrued interest                                         | 12,374      |           |
| Compensated absences (excluding internal service funds)  | (31,323)    |           |
| Workers' compensation (excluding internal service funds) | 9,004       |           |
| Pension expense (excluding internal service funds)       | (1,049,360) |           |
| OPEB expense (excluding internal service funds)          | 49,094      |           |
| Pollution remediation                                    | 247         |           |
| Amortization of deferred amounts                         | 87,048      |           |
| Net expense accruals                                     |             | (922,916) |
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).
 

|  |  |        |
|--|--|--------|
|  |  | 44,349 |
|--|--|--------|

**Change in net position - governmental activities (see Exhibit A-2)**

\$ 3,787,447

The accompanying Notes to the Financial Statements are an integral part of this statement.

# STATEMENT OF NET POSITION

## PROPRIETARY FUNDS

June 30, 2024

(Dollars in Thousands)

|                                                          | Business-type Activities —<br>Enterprise Funds |                            |                            |                            |
|----------------------------------------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                                          | Unemployment<br>Compensation<br>Fund           | EPA Revolving<br>Loan Fund | N.C. State<br>Lottery Fund | N.C. Turnpike<br>Authority |
| <b>Assets</b>                                            |                                                |                            |                            |                            |
| <b>Current Assets</b>                                    |                                                |                            |                            |                            |
| Cash and cash equivalents (Note 3)                       | \$ 4,830,600                                   | \$ 794,662                 | \$ 168,556                 | \$ -                       |
| Investments (Note 3)                                     | -                                              | 223,011                    | 8,146                      | -                          |
| Securities lending collateral (Note 3)                   | 5,379                                          | 69,622                     | 15,567                     | 7,440                      |
| Receivables: (Note 4)                                    |                                                |                            |                            |                            |
| Accounts receivable, net                                 | 145,823                                        | -                          | 38,690                     | 60,567                     |
| Intergovernmental receivable                             | 129                                            | 280                        | -                          | 8,311                      |
| Interest receivable                                      | 212                                            | -                          | 501                        | -                          |
| Premiums receivable                                      | -                                              | -                          | -                          | -                          |
| Contributions receivable, net                            | 240,869                                        | -                          | -                          | -                          |
| Notes receivable                                         | -                                              | 102,519                    | -                          | -                          |
| Lease receivable                                         | -                                              | -                          | -                          | -                          |
| Due from other funds (Note 10)                           | 47,449                                         | 2,115                      | -                          | -                          |
| Inventories                                              | -                                              | -                          | -                          | 1,454                      |
| Prepaid items                                            | -                                              | -                          | -                          | -                          |
| Restricted cash and cash equivalents (Note 3)            | -                                              | -                          | -                          | -                          |
| Total current assets                                     | 5,270,461                                      | 1,192,209                  | 231,460                    | 77,772                     |
| <b>Noncurrent Assets</b>                                 |                                                |                            |                            |                            |
| Accounts receivable (Note 4)                             | 459,853                                        | -                          | -                          | -                          |
| Investments (Note 3)                                     | -                                              | -                          | 66,601                     | -                          |
| Notes receivable                                         | -                                              | 1,289,069                  | -                          | -                          |
| Lease receivable                                         | -                                              | -                          | -                          | -                          |
| Prepaid items                                            | -                                              | -                          | 1,747                      | 8,632                      |
| Restricted/designated cash and cash equivalents (Note 3) | -                                              | -                          | -                          | 78,240                     |
| Restricted investments (Note 3)                          | -                                              | -                          | -                          | 579,726                    |
| Capital assets-nondepreciable (Note 5)                   | -                                              | -                          | -                          | 1,785,112                  |
| Capital assets-depreciable, net (Note 5)                 | -                                              | -                          | 3,735                      | 1,269,591                  |
| Total noncurrent assets                                  | 459,853                                        | 1,289,069                  | 72,083                     | 3,721,301                  |
| Total Assets                                             | 5,730,314                                      | 2,481,278                  | 303,543                    | 3,799,073                  |
| <b>Deferred Outflows of Resources</b>                    |                                                |                            |                            |                            |
| Deferred loss on refunding                               | -                                              | -                          | -                          | 21,171                     |
| Deferred outflows for pensions                           | -                                              | 3,326                      | 12,222                     | 1,444                      |
| Deferred outflows for OPEB                               | -                                              | 3,114                      | 9,013                      | 1,592                      |
| Total Deferred Outflows of Resources                     | -                                              | 6,440                      | 21,235                     | 24,207                     |
| <b>Liabilities</b>                                       |                                                |                            |                            |                            |
| <b>Current Liabilities</b>                               |                                                |                            |                            |                            |
| Accounts payable and accrued liabilities:                |                                                |                            |                            |                            |
| Accounts payable                                         | \$ 50,214                                      | \$ 287                     | \$ 52,326                  | \$ 25,353                  |
| Accrued payroll                                          | -                                              | -                          | 998                        | -                          |
| Intergovernmental payable                                | 428,757                                        | 29,116                     | -                          | 2,077                      |
| Claims payable                                           | -                                              | -                          | -                          | -                          |
| Unemployment benefits payable                            | 3,305                                          | -                          | -                          | -                          |
| Obligations under securities lending                     | 5,379                                          | 69,622                     | 15,567                     | 7,440                      |
| Interest payable                                         | -                                              | -                          | -                          | 48,792                     |
| Due to fiduciary funds (Note 10)                         | -                                              | -                          | 548                        | -                          |
| Due to other funds (Note 10)                             | -                                              | -                          | 161,314                    | 72,797                     |
| Due to component units (Note 18)                         | -                                              | -                          | -                          | -                          |
| Unearned revenue                                         | 2,724                                          | -                          | -                          | 91                         |
| Deposits payable                                         | -                                              | -                          | 605                        | 16,621                     |
| Annuity and life income payable (Note 8)                 | -                                              | -                          | 8,146                      | -                          |
| Notes from direct borrowings (Note 8)                    | -                                              | -                          | -                          | 710                        |
| Lease liability (Note 8)                                 | -                                              | -                          | -                          | -                          |
| Subscription liability (Note 8)                          | -                                              | -                          | 628                        | -                          |
| Bonds payable (Note 8)                                   | -                                              | -                          | -                          | 41,806                     |
| Compensated absences (Note 8)                            | -                                              | 68                         | 550                        | 34                         |
| Workers' compensation (Note 8)                           | -                                              | -                          | 22                         | -                          |
| Total current liabilities                                | 490,379                                        | 99,093                     | 240,704                    | 215,721                    |

*Exhibit B-3*

|                              |                              | Governmental<br>Activities — |  |
|------------------------------|------------------------------|------------------------------|--|
| Other<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds | Internal<br>Service<br>Funds |  |
| \$ 234,796                   | \$ 6,028,614                 | \$ 116,251                   |  |
| 99,377                       | 330,534                      | 26,500                       |  |
| 9,608                        | 107,616                      | 1,124                        |  |
| 1,485                        | 246,565                      | 50,005                       |  |
| 4,865                        | 13,585                       | -                            |  |
| 2,303                        | 3,016                        | 200                          |  |
| 473                          | 473                          | 911                          |  |
| -                            | 240,869                      | -                            |  |
| -                            | 102,519                      | -                            |  |
| 528                          | 528                          | -                            |  |
| -                            | 49,564                       | 29,638                       |  |
| 600                          | 2,054                        | 215                          |  |
| 31,381                       | 31,381                       | 29,648                       |  |
| 1,713                        | 1,713                        | -                            |  |
| <u>387,129</u>               | <u>7,159,031</u>             | <u>254,492</u>               |  |
| -                            | 459,853                      | -                            |  |
| 30,389                       | 96,990                       | -                            |  |
| 249                          | 1,289,318                    | -                            |  |
| 4,268                        | 4,268                        | -                            |  |
| 280                          | 10,659                       | -                            |  |
| 71                           | 78,311                       | -                            |  |
| -                            | 579,726                      | -                            |  |
| 15,526                       | 1,800,638                    | 3,089                        |  |
| <u>71,711</u>                | <u>1,345,037</u>             | <u>220,652</u>               |  |
| <u>122,494</u>               | <u>5,664,800</u>             | <u>223,741</u>               |  |
| <u>509,623</u>               | <u>12,823,831</u>            | <u>478,233</u>               |  |
| -                            | 21,171                       | -                            |  |
| 28,001                       | 44,993                       | 61,431                       |  |
| <u>43,450</u>                | <u>57,169</u>                | <u>65,877</u>                |  |
| <u>71,451</u>                | <u>123,333</u>               | <u>127,308</u>               |  |
| \$ 16,068                    | \$ 144,248                   | \$ 20,132                    |  |
| 168                          | 1,166                        | 8,287                        |  |
| 3                            | 459,953                      | 44                           |  |
| 24,237                       | 24,237                       | 1,057                        |  |
| -                            | 3,305                        | -                            |  |
| 9,608                        | 107,616                      | 1,124                        |  |
| 2                            | 48,794                       | -                            |  |
| -                            | 548                          | -                            |  |
| -                            | 234,111                      | 3,162                        |  |
| -                            | -                            | 8,075                        |  |
| 48,897                       | 51,712                       | 9,127                        |  |
| 5,520                        | 22,746                       | -                            |  |
| -                            | 8,146                        | -                            |  |
| 1,231                        | 1,941                        | -                            |  |
| 1,648                        | 1,648                        | 173                          |  |
| 182                          | 810                          | 11,198                       |  |
| -                            | 41,806                       | -                            |  |
| 1,467                        | 2,119                        | 1,224                        |  |
| 20                           | 42                           | 289                          |  |
| <u>109,051</u>               | <u>1,154,948</u>             | <u>63,892</u>                |  |

Continued

# STATEMENT OF NET POSITION

## PROPRIETARY FUNDS (Continued)

June 30, 2024

(Dollars in Thousands)

|                                          | Business-type Activities —<br>Enterprise Funds |                            |                            |                            |
|------------------------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                          | Unemployment<br>Compensation<br>Fund           | EPA Revolving<br>Loan Fund | N.C. State<br>Lottery Fund | N.C. Turnpike<br>Authority |
| <b>Noncurrent Liabilities</b>            |                                                |                            |                            |                            |
| Accounts payable                         | -                                              | -                          | -                          | -                          |
| Interest payable                         | -                                              | -                          | -                          | 111,976                    |
| Advances from other funds (Note 10)      | -                                              | -                          | -                          | 33,872                     |
| Annuity and life income payable (Note 8) | -                                              | -                          | 66,601                     | -                          |
| Notes from direct borrowings (Note 8)    | -                                              | -                          | -                          | 665,035                    |
| Lease liability (Note 8)                 | -                                              | -                          | -                          | -                          |
| Subscription liability (Note 8)          | -                                              | -                          | 1,284                      | -                          |
| Bonds payable, net (Note 8)              | -                                              | -                          | -                          | 2,167,709                  |
| Compensated absences (Note 8)            | -                                              | 942                        | 2,219                      | 472                        |
| Workers' compensation (Note 8)           | -                                              | -                          | -                          | -                          |
| Net pension liability (Note 8)           | -                                              | 4,716                      | 20,246                     | 2,068                      |
| Net OPEB liability (Note 8)              | -                                              | 6,548                      | 29,586                     | 3,008                      |
| Total noncurrent liabilities             | -                                              | 12,206                     | 119,936                    | 2,984,140                  |
| Total Liabilities                        | 490,379                                        | 111,299                    | 360,640                    | 3,199,861                  |
| <b>Deferred Inflows of Resources</b>     |                                                |                            |                            |                            |
| Deferred gain on refunding               | -                                              | -                          | -                          | 34,151                     |
| Deferred inflow for lease agreements     | -                                              | -                          | -                          | -                          |
| Deferred inflows for pensions            | -                                              | 214                        | 434                        | 24                         |
| Deferred inflows for OPEB                | -                                              | 3,524                      | 8,401                      | 944                        |
| Total Deferred Inflows of Resources      | -                                              | 3,738                      | 8,835                      | 35,119                     |
| <b>Net Position</b>                      |                                                |                            |                            |                            |
| Net investment in capital assets         | -                                              | -                          | 1,823                      | 746,189                    |
| Restricted for:                          |                                                |                            |                            |                            |
| Expendable:                              |                                                |                            |                            |                            |
| Economic development                     | -                                              | -                          | -                          | -                          |
| Transportation                           | -                                              | -                          | -                          | 45,899                     |
| Debt service                             | -                                              | -                          | -                          | 131,152                    |
| Other purposes                           | -                                              | -                          | -                          | -                          |
| Unrestricted                             | 5,239,935                                      | 2,372,681                  | (46,520)                   | (334,940)                  |
| Total Net Position                       | \$ 5,239,935                                   | \$ 2,372,681               | \$ (44,697)                | \$ 588,300                 |

The accompanying Notes to the Financial Statements are an integral part of this statement.



## Exhibit B-3

| Other<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds | Governmental<br>Activities — |
|------------------------------|------------------------------|------------------------------|
|                              |                              | Internal<br>Service<br>Funds |
| 2,507                        | 2,507                        | -                            |
| -                            | 111,976                      | -                            |
| -                            | 33,872                       | -                            |
| -                            | 66,601                       | -                            |
| 16,142                       | 681,177                      | -                            |
| 5,038                        | 5,038                        | 753                          |
| 82                           | 1,366                        | 26,742                       |
| -                            | 2,167,709                    | -                            |
| 8,087                        | 11,720                       | 18,790                       |
| 30                           | 30                           | 1,593                        |
| 31,033                       | 58,063                       | 87,916                       |
| 44,280                       | 83,422                       | 127,526                      |
| 107,199                      | 3,223,481                    | 263,320                      |
| 216,250                      | 4,378,429                    | 327,212                      |
| -                            | 34,151                       | -                            |
| 4,403                        | 4,403                        | -                            |
| 7,888                        | 8,560                        | 2,957                        |
| 42,627                       | 55,496                       | 43,249                       |
| 54,918                       | 102,610                      | 46,206                       |
| 62,915                       | 810,927                      | 184,875                      |
| 1,034                        | 1,034                        | -                            |
| -                            | 45,899                       | -                            |
| -                            | 131,152                      | -                            |
| 3,055                        | 3,055                        | -                            |
| 242,902                      | 7,474,058                    | 47,248                       |
| \$ 309,906                   | \$ 8,466,125                 | \$ 232,123                   |

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2024

(Dollars in Thousands)

|                                                  | Business-type Activities —<br>Enterprise Funds |                            |                            |                            |
|--------------------------------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                                  | Unemployment<br>Compensation<br>Fund           | EPA Revolving<br>Loan Fund | N.C. State<br>Lottery Fund | N.C. Turnpike<br>Authority |
| <b>Operating Revenues</b>                        |                                                |                            |                            |                            |
| Employer unemployment contributions              | \$ 794,605                                     | \$ -                       | \$ -                       | \$ -                       |
| Federal funds                                    | 2,388                                          | -                          | -                          | -                          |
| Sales and services                               | -                                              | 3,044                      | 5,375,364                  | 1,155                      |
| Student tuition and fees, net                    | -                                              | -                          | -                          | -                          |
| Interest earnings on loans                       | -                                              | 12,030                     | -                          | -                          |
| Rental and lease earnings                        | -                                              | -                          | -                          | -                          |
| Fees, licenses, and fines                        | -                                              | -                          | 5,402                      | 22,938                     |
| Toll revenues                                    | -                                              | -                          | -                          | 90,596                     |
| Insurance premiums                               | -                                              | -                          | -                          | -                          |
| Miscellaneous                                    | 12,189                                         | 125                        | 159                        | 14,476                     |
| Total operating revenues                         | 809,182                                        | 15,199                     | 5,380,925                  | 129,165                    |
| <b>Operating Expenses</b>                        |                                                |                            |                            |                            |
| Personal services                                | -                                              | 8,770                      | 34,059                     | 4,713                      |
| Supplies and materials                           | -                                              | 114                        | 1,440                      | 24,743                     |
| Services                                         | -                                              | 2,388                      | 442,473                    | 19,510                     |
| Cost of goods sold                               | -                                              | -                          | -                          | 1,239                      |
| Depreciation                                     | -                                              | -                          | 950                        | 29,687                     |
| Lottery prizes                                   | -                                              | -                          | 3,802,659                  | -                          |
| Claims                                           | -                                              | -                          | -                          | -                          |
| Unemployment benefits                            | 228,059                                        | -                          | -                          | -                          |
| Insurance and bonding                            | -                                              | 5                          | 269                        | -                          |
| Other                                            | -                                              | 438                        | 8,539                      | 14,960                     |
| Total operating expenses                         | 228,059                                        | 11,715                     | 4,290,389                  | 94,852                     |
| Operating income (loss)                          | 581,123                                        | 3,484                      | 1,090,536                  | 34,313                     |
| <b>Nonoperating Revenues (Expenses)</b>          |                                                |                            |                            |                            |
| Noncapital grants                                | 482                                            | 133,639                    | -                          | -                          |
| Noncapital gifts, net                            | -                                              | -                          | -                          | -                          |
| Noncapital contributions                         | -                                              | 9                          | 39                         | 4                          |
| Lease interest revenue                           | -                                              | -                          | -                          | -                          |
| Investment earnings (losses)                     | 121,125                                        | 34,572                     | 6,266                      | 19,845                     |
| Insurance recoveries                             | -                                              | -                          | -                          | 127                        |
| Grants, aid, and subsidies                       | -                                              | (42,389)                   | -                          | -                          |
| Gain (loss) on sale of equipment                 | -                                              | -                          | (370)                      | -                          |
| Federal interest subsidy on debt                 | -                                              | -                          | -                          | 2,977                      |
| Interest and fees                                | -                                              | -                          | (37)                       | (84,323)                   |
| Miscellaneous                                    | (4,331)                                        | (1,299)                    | 3,554                      | (8,095)                    |
| Total nonoperating revenues (expenses)           | 117,276                                        | 124,532                    | 9,452                      | (69,465)                   |
| Income (loss) before contributions and transfers | 698,399                                        | 128,016                    | 1,099,988                  | (35,152)                   |
| Capital contributions                            | -                                              | -                          | -                          | 172,419                    |
| Transfers in (Note 10)                           | 259                                            | 23,719                     | -                          | 130,349                    |
| Transfers out (Note 10)                          | (17,427)                                       | -                          | (1,099,988)                | (4,753)                    |
| Change in net position                           | 681,231                                        | 151,735                    | -                          | 262,863                    |
| Net position — July 1, as previously reported    | 4,434,540                                      | 2,191,099                  | (44,697)                   | 325,437                    |
| Adjustments to July 1 balances                   | 124,164                                        | 29,847                     | -                          | -                          |
| Net position — July 1, as restated (Note 23)     | 4,558,704                                      | 2,220,946                  | (44,697)                   | 325,437                    |
| Net position — June 30                           | \$ 5,239,935                                   | \$ 2,372,681               | \$ (44,697)                | \$ 588,300                 |

The accompanying Notes to the Financial Statements are an integral part of this statement.

*Exhibit B-4*

| Other<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds | Governmental<br>Activities — |
|------------------------------|------------------------------|------------------------------|
|                              |                              | Internal<br>Service<br>Funds |
| \$ -                         | \$ 794,605                   | \$ -                         |
| 46                           | 2,434                        | -                            |
| 2,174                        | 5,381,737                    | 577,318                      |
| 18                           | 18                           | -                            |
| 5                            | 12,035                       | -                            |
| 9,649                        | 9,649                        | -                            |
| 203,191                      | 231,531                      | 6,479                        |
| -                            | 90,596                       | -                            |
| 13,299                       | 13,299                       | 42,607                       |
| 3,014                        | 29,963                       | 583                          |
| <u>231,396</u>               | <u>6,565,867</u>             | <u>626,987</u>               |
| 113,713                      | 161,255                      | 305,529                      |
| 3,178                        | 29,475                       | 26,912                       |
| 65,799                       | 530,170                      | 161,206                      |
| 516                          | 1,755                        | 4,830                        |
| 6,973                        | 37,610                       | 33,146                       |
| -                            | 3,802,659                    | -                            |
| 10,451                       | 10,451                       | -                            |
| -                            | 228,059                      | -                            |
| 25,439                       | 25,713                       | 40,155                       |
| 7,222                        | 31,159                       | 36,911                       |
| <u>233,291</u>               | <u>4,858,306</u>             | <u>608,689</u>               |
| <u>(1,895)</u>               | <u>1,707,561</u>             | <u>18,298</u>                |
| -                            | 134,121                      | -                            |
| 2,484                        | 2,484                        | -                            |
| 273                          | 325                          | 167                          |
| 147                          | 147                          | -                            |
| 8,760                        | 190,568                      | 1,329                        |
| -                            | 127                          | 2,023                        |
| -                            | (42,389)                     | -                            |
| (261)                        | (631)                        | 4,742                        |
| -                            | 2,977                        | -                            |
| (833)                        | (85,193)                     | (2,290)                      |
| 75                           | (10,096)                     | 56                           |
| <u>10,645</u>                | <u>192,440</u>               | <u>6,027</u>                 |
| 8,750                        | 1,900,001                    | 24,325                       |
| 224                          | 172,643                      | -                            |
| 1,107                        | 155,434                      | 29,892                       |
| <u>(1,362)</u>               | <u>(1,123,530)</u>           | <u>(9,868)</u>               |
| 8,719                        | 1,104,548                    | 44,349                       |
| 301,483                      | 7,207,862                    | 179,665                      |
| <u>(296)</u>                 | <u>153,715</u>               | <u>8,109</u>                 |
| 301,187                      | 7,361,577                    | 187,774                      |
| <u>\$ 309,906</u>            | <u>\$ 8,466,125</u>          | <u>\$ 232,123</u>            |

# STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2024

*(Dollars in Thousands)*

|                                                                             | Business-type Activities —<br>Enterprise Funds |                            |                            |                            |
|-----------------------------------------------------------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                                                             | Unemployment<br>Compensation<br>Fund           | EPA Revolving<br>Loan Fund | N.C. State<br>Lottery Fund | N.C. Turnpike<br>Authority |
| <b>Cash Flows From Operating Activities</b>                                 |                                                |                            |                            |                            |
| Receipts from customers                                                     | \$ 739,716                                     | \$ 3,441                   | \$ 5,086,076               | \$ 111,138                 |
| Receipts from federal agencies                                              | 2,612                                          | -                          | -                          | -                          |
| Receipts from program loan - interest                                       | -                                              | 12,030                     | -                          | -                          |
| Receipts from program loan - principal                                      | -                                              | 92,972                     | -                          | -                          |
| Receipts from other funds                                                   | -                                              | -                          | -                          | -                          |
| Payments to suppliers                                                       | (959)                                          | (2,663)                    | (166,069)                  | (91,546)                   |
| Payments to employees                                                       | -                                              | (9,239)                    | (33,707)                   | (4,151)                    |
| Payments for prizes, benefits, and claims                                   | (217,407)                                      | -                          | (3,780,217)                | -                          |
| Payments for program loans issued                                           | -                                              | (210,652)                  | -                          | -                          |
| Payments to other funds                                                     | -                                              | -                          | -                          | -                          |
| Other receipts                                                              | 12,195                                         | -                          | 3,456                      | 8,649                      |
| Other payments                                                              | (4,227)                                        | -                          | (748)                      | (124)                      |
| Net cash provided by (used for) operating activities                        | 531,930                                        | (114,111)                  | 1,108,791                  | 23,966                     |
| <b>Cash Flows From Noncapital Financing Activities</b>                      |                                                |                            |                            |                            |
| Grant receipts                                                              | 483                                            | 133,639                    | -                          | -                          |
| Grants, aid, and subsidies                                                  | -                                              | (44,288)                   | -                          | -                          |
| Noncapital contributions                                                    | -                                              | -                          | -                          | -                          |
| Advances from other funds                                                   | -                                              | -                          | -                          | 1,033                      |
| Transfers from other funds                                                  | 259                                            | 23,719                     | -                          | -                          |
| Transfers to other funds                                                    | (17,427)                                       | -                          | (1,068,923)                | -                          |
| Gifts                                                                       | 46                                             | -                          | -                          | -                          |
| Net cash provided by (used for)<br>noncapital financing activities          | (16,639)                                       | 113,070                    | (1,068,923)                | 1,033                      |
| <b>Cash Flows From Capital and Related Financing Activities</b>             |                                                |                            |                            |                            |
| Acquisition and construction of capital assets                              | -                                              | -                          | (515)                      | (303,301)                  |
| Proceeds from the sale of capital assets                                    | -                                              | -                          | -                          | -                          |
| Proceeds from capital debt                                                  | -                                              | -                          | -                          | 568,404                    |
| Transfers from other funds                                                  | -                                              | -                          | -                          | 130,349                    |
| Transfers to other funds                                                    | -                                              | -                          | -                          | (4,753)                    |
| Capital contributions                                                       | -                                              | -                          | -                          | 189,552                    |
| Capital gifts                                                               | -                                              | -                          | -                          | 1,249                      |
| Principal paid on capital debt                                              | -                                              | -                          | (729)                      | (250,280)                  |
| Interest paid on capital debt                                               | -                                              | -                          | (37)                       | (77,425)                   |
| Federal subsidy for interest on debt                                        | -                                              | -                          | -                          | 2,977                      |
| Insurance recoveries                                                        | -                                              | -                          | -                          | 127                        |
| Proceeds from lease arrangements                                            | -                                              | -                          | -                          | -                          |
| Bond issuance costs                                                         | -                                              | -                          | -                          | (7,971)                    |
| Net cash provided by (used for)<br>capital and related financing activities | -                                              | -                          | (1,281)                    | 248,928                    |
| <b>Cash Flows From Investing Activities</b>                                 |                                                |                            |                            |                            |
| Proceeds from the sales/maturities of non-State Treasurer<br>investments    | -                                              | -                          | -                          | 658,780                    |
| Purchase of non-State Treasurer investments                                 | -                                              | -                          | -                          | (920,966)                  |
| Redemptions from State Treasurer investment pool                            | -                                              | -                          | -                          | -                          |
| Investment earnings                                                         | 140,622                                        | 30,667                     | 5,990                      | 16,304                     |
| Net cash provided by<br>investment activities                               | 140,622                                        | 30,667                     | 5,990                      | (245,882)                  |

The accompanying Notes to the Financial Statements are an integral part of this statement.

*Exhibit B-5*

| Other<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds | Governmental<br>Activities — |
|------------------------------|------------------------------|------------------------------|
|                              |                              | Internal<br>Service<br>Funds |
| \$ 230,412                   | \$ 6,170,783                 | \$ 30,199                    |
| -                            | 2,612                        | -                            |
| -                            | 12,030                       | -                            |
| -                            | 92,972                       | -                            |
| -                            | -                            | 555,313                      |
| (92,501)                     | (353,738)                    | (265,490)                    |
| (105,980)                    | (153,077)                    | (289,693)                    |
| (10,867)                     | (4,008,491)                  | -                            |
| -                            | (210,652)                    | -                            |
| -                            | -                            | (17,257)                     |
| 2,175                        | 26,475                       | 2,591                        |
| (18,678)                     | (23,777)                     | -                            |
| 4,561                        | 1,555,137                    | 15,663                       |
| -                            | 134,122                      | -                            |
| -                            | (44,288)                     | -                            |
| 206                          | 206                          | -                            |
| -                            | 1,033                        | -                            |
| 1,003                        | 24,981                       | 29,720                       |
| (492)                        | (1,086,842)                  | (9,868)                      |
| 2,485                        | 2,531                        | -                            |
| 3,202                        | (968,257)                    | 19,852                       |
| (2,089)                      | (305,905)                    | (47,863)                     |
| 37                           | 37                           | 8,405                        |
| -                            | 568,404                      | -                            |
| 102                          | 130,451                      | 172                          |
| (870)                        | (5,623)                      | -                            |
| 224                          | 189,776                      | -                            |
| -                            | 1,249                        | -                            |
| (3,138)                      | (254,147)                    | (19,913)                     |
| (823)                        | (78,285)                     | (2,290)                      |
| -                            | 2,977                        | -                            |
| -                            | 127                          | -                            |
| 907                          | 907                          | -                            |
| -                            | (7,971)                      | -                            |
| (5,650)                      | 241,997                      | (61,489)                     |
| 27,383                       | 686,163                      | -                            |
| (34,163)                     | (955,129)                    | -                            |
| 12,000                       | 12,000                       | -                            |
| 5,254                        | 198,837                      | 423                          |
| 10,474                       | (58,129)                     | 423                          |

Continued

# STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2024

(Dollars in Thousands)

|                                                             | Business-type Activities —<br>Enterprise Funds |                            |                            |                            |
|-------------------------------------------------------------|------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                                             | Unemployment<br>Compensation<br>Fund           | EPA Revolving<br>Loan Fund | N.C. State<br>Lottery Fund | N.C. Turnpike<br>Authority |
| Net increase (decrease) in cash and cash equivalents        | 655,913                                        | 29,626                     | 44,577                     | 28,045                     |
| Cash and cash equivalents at July 1, as previously reported | 4,050,523                                      | 765,036                    | 123,979                    | 50,195                     |
| Adjustments to cash and cash equivalents                    | 124,164                                        | -                          | -                          | -                          |
| Cash and cash equivalents at July 1, as restated            | 4,174,687                                      | 765,036                    | 123,979                    | 50,195                     |
| Cash and cash equivalents at June 30                        | <u>\$ 4,830,600</u>                            | <u>\$ 794,662</u>          | <u>\$ 168,556</u>          | <u>\$ 78,240</u>           |

**Reconciliation of Operating Income to Net Cash Provided****By Operating Activities**

|                                                                                                   |                   |                     |                     |                  |
|---------------------------------------------------------------------------------------------------|-------------------|---------------------|---------------------|------------------|
| Operating income (loss)                                                                           | \$ 581,123        | \$ 3,484            | \$ 1,090,536        | \$ 34,313        |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by operating activities: |                   |                     |                     |                  |
| Depreciation                                                                                      | -                 | -                   | 950                 | 29,687           |
| Lease revenue (amortized deferred inflow for leases)                                              | -                 | -                   | -                   | -                |
| Management fees                                                                                   | -                 | -                   | -                   | (124)            |
| Nonoperating miscellaneous and other income (expense)                                             | (4,221)           | -                   | 3,554               | (8,095)          |
| Change in assets and deferred outflows:                                                           |                   |                     |                     |                  |
| Receivables                                                                                       | 114,374           | -                   | (10,514)            | (2,441)          |
| Intergovernmental receivables                                                                     | -                 | -                   | -                   | (1,111)          |
| Due from other funds                                                                              | (10,618)          | 397                 | -                   | -                |
| Inventories                                                                                       | -                 | -                   | -                   | (380)            |
| Prepaid items                                                                                     | -                 | -                   | 1,018               | -                |
| Notes receivable                                                                                  | -                 | (117,680)           | -                   | -                |
| Deferred outflows for pensions                                                                    | -                 | 34                  | (802)               | (194)            |
| Deferred outflows for OPEB                                                                        | -                 | 626                 | (208)               | 5                |
| Change in liabilities and deferred inflows:                                                       |                   |                     |                     |                  |
| Accounts payable and accrued liabilities                                                          | (147,769)         | 282                 | 23,024              | 8,078            |
| Due to other funds                                                                                | (959)             | -                   | -                   | (38,793)         |
| Due to component units                                                                            | -                 | -                   | -                   | -                |
| Due to fiduciary funds                                                                            | -                 | -                   | 90                  | -                |
| Compensated absences                                                                              | -                 | 35                  | 4                   | 122              |
| Workers' compensation                                                                             | -                 | -                   | (4)                 | -                |
| Unearned revenue                                                                                  | -                 | -                   | -                   | -                |
| Net pension liability                                                                             | -                 | (23)                | 1,567               | 356              |
| Net OPEB liability                                                                                | -                 | (58)                | 2,879               | 562              |
| Deferred inflows for pensions                                                                     | -                 | (16)                | 180                 | (16)             |
| Deferred inflows for OPEB                                                                         | -                 | (1,192)             | (4,088)             | (392)            |
| Deposits payable                                                                                  | -                 | -                   | 605                 | 2,389            |
| Net cash provided by (used for) operations                                                        | <u>\$ 531,930</u> | <u>\$ (114,111)</u> | <u>\$ 1,108,791</u> | <u>\$ 23,966</u> |

**Noncash Investing, Capital, and Financing Activities**

|                                                                                  |       |            |        |          |
|----------------------------------------------------------------------------------|-------|------------|--------|----------|
| Noncash distributions from the State Treasurer                                   |       |            |        |          |
| Bond Index External Investment Pool and/or other agents                          | \$ -  | \$ (1,148) | \$ -   | \$ -     |
| Change in construction in progress as a result of accrual of<br>accounts payable | -     | -          | -      | 9,829    |
| Capital asset writeoff                                                           | -     | -          | 370    | -        |
| Assets acquired through the assumption of a liability                            | -     | -          | -      | 322      |
| Change in fair value of investments                                              | -     | 5,780      | -      | (17,093) |
| Increase in receivables related to nonoperating income                           | -     | -          | 276    | -        |
| Change in securities lending collateral                                          | 4,356 | 54,992     | 13,191 | 6,420    |
| Decrease in net OPEB liability related to<br>noncapital contributions            | -     | (9)        | 39     | (4)      |

*Exhibit B-5*

| Other<br>Enterprise<br>Funds | Total<br>Enterprise<br>Funds | Governmental<br>Activities — |
|------------------------------|------------------------------|------------------------------|
|                              |                              | Internal<br>Service<br>Funds |
| 12,587                       | 770,748                      | (25,551)                     |
| 223,924                      | 5,213,657                    | 141,802                      |
| 69                           | 124,233                      | -                            |
| 223,993                      | 5,337,890                    | 141,802                      |
| <u>\$ 236,580</u>            | <u>\$ 6,108,638</u>          | <u>\$ 116,251</u>            |

\$ (1,895)    \$ 1,707,561    \$ 18,298

|                 |                     |                  |
|-----------------|---------------------|------------------|
| 6,973           | 37,610              | 33,146           |
| (1,462)         | (1,462)             | -                |
| -               | (124)               | -                |
| 280             | (8,482)             | 2,105            |
| (1,183)         | 100,236             | (18,618)         |
| -               | (1,111)             | -                |
| 1,298           | (8,923)             | (21,446)         |
| (146)           | (526)               | (52)             |
| (5,620)         | (4,602)             | (6,322)          |
| -               | (117,680)           | -                |
| (7,657)         | (8,619)             | (4,012)          |
| (23,984)        | (23,561)            | 7,766            |
| 2,293           | (114,092)           | 1,326            |
| -               | (39,752)            | (5,879)          |
| -               | -                   | (758)            |
| -               | 90                  | -                |
| 754             | 915                 | 398              |
| 15              | 11                  | (122)            |
| 3,211           | 3,211               | (617)            |
| 4,398           | 6,298               | 10,198           |
| 6,304           | 9,687               | 17,234           |
| 5,157           | 5,305               | 119              |
| 14,366          | 8,694               | (17,101)         |
| 1,459           | 4,453               | -                |
| <u>\$ 4,561</u> | <u>\$ 1,555,137</u> | <u>\$ 15,663</u> |

\$ 1,211    \$ 63    \$ 614

|         |          |       |
|---------|----------|-------|
| -       | 9,829    | -     |
| (1,065) | (695)    | -     |
| 2,569   | 2,891    | -     |
| 616     | (10,697) | 113   |
| 472     | 748      | 152   |
| 7,674   | 86,633   | 957   |
| (67)    | (41)     | (167) |

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**

June 30, 2024

Exhibit B-6

(Dollars in Thousands)

|                                                   |                                                                 |                                                 | <b>Custodial Funds</b>                                                  |                                      |
|---------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------|
|                                                   | <b>Pension<br/>and Other<br/>Employee<br/>Benefit<br/>Trust</b> | <b>Private-<br/>Purpose<br/>Trust<br/>Funds</b> | <b>External<br/>Investment<br/>Pools and<br/>Investment<br/>Account</b> | <b>Other<br/>Custodial<br/>Funds</b> |
| <b>Assets</b>                                     |                                                                 |                                                 |                                                                         |                                      |
| Cash and cash equivalents (Note 3)                | \$ 1,629,714                                                    | \$ 178,696                                      | \$ 13,843                                                               | \$ 1,770,307                         |
| Investments (Note 3):                             |                                                                 |                                                 |                                                                         |                                      |
| Corporate bonds                                   | -                                                               | -                                               | -                                                                       | 765,177                              |
| Corporate stocks                                  | -                                                               | -                                               | -                                                                       | 914                                  |
| Certificates of deposit                           | -                                                               | 49,527                                          | -                                                                       | 400                                  |
| Collective investment funds                       | 51,802                                                          | -                                               | -                                                                       | -                                    |
| State Treasurer investment pool                   | 123,747,145                                                     | -                                               | 1,900,718                                                               | -                                    |
| Synthetic guaranteed investment contracts         | 2,376,224                                                       | -                                               | -                                                                       | -                                    |
| Non-State Treasurer pooled investments            | 13,624,635                                                      | -                                               | -                                                                       | -                                    |
| Securities lending collateral (Note 3)            | 1,445,713                                                       | 10                                              | 59,138                                                                  | 11,034                               |
| Receivables:                                      |                                                                 |                                                 |                                                                         |                                      |
| Taxes receivable                                  | -                                                               | -                                               | -                                                                       | 291,300                              |
| Accounts receivable                               | 27,262                                                          | -                                               | -                                                                       | 182,444                              |
| Intergovernmental receivable                      | 240                                                             | -                                               | -                                                                       | 2                                    |
| Interest receivable                               | 7,038                                                           | 1                                               | 5,934                                                                   | 5,993                                |
| Contributions receivable                          | 255,845                                                         | -                                               | -                                                                       | -                                    |
| Due from other funds (Note 10)                    | 123,984                                                         | -                                               | -                                                                       | 28,749                               |
| Due from component units                          | 39,830                                                          | -                                               | -                                                                       | -                                    |
| Notes receivable                                  | 276,094                                                         | -                                               | -                                                                       | -                                    |
| Sureties                                          | -                                                               | 966,665                                         | -                                                                       | 15,307                               |
| Capital assets-nondepreciable                     | -                                                               | -                                               | -                                                                       | 3,258                                |
| <b>Total Assets</b>                               | <b>143,605,526</b>                                              | <b>1,194,899</b>                                | <b>1,979,633</b>                                                        | <b>3,074,885</b>                     |
| <b>Liabilities</b>                                |                                                                 |                                                 |                                                                         |                                      |
| Accounts payable and accrued liabilities:         |                                                                 |                                                 |                                                                         |                                      |
| Accounts payable                                  | 1,633                                                           | -                                               | 636                                                                     | 1,007                                |
| Intergovernmental payable                         | -                                                               | -                                               | -                                                                       | 1,362,711                            |
| Benefits payable                                  | 7,825                                                           | -                                               | -                                                                       | -                                    |
| Obligations under securities lending              | 1,445,713                                                       | 10                                              | 59,138                                                                  | 11,034                               |
| Obligations under reverse repurchase agreements   | -                                                               | -                                               | -                                                                       | 2                                    |
| Deposits payable                                  | -                                                               | -                                               | -                                                                       | 249                                  |
| Funds held for others                             | 6,241                                                           | -                                               | -                                                                       | 108,365                              |
| <b>Total Liabilities</b>                          | <b>1,461,412</b>                                                | <b>10</b>                                       | <b>59,774</b>                                                           | <b>1,483,368</b>                     |
| <b>Net Position</b>                               |                                                                 |                                                 |                                                                         |                                      |
| Restricted for:                                   |                                                                 |                                                 |                                                                         |                                      |
| Pension benefits                                  | 135,849,760                                                     | -                                               | -                                                                       | -                                    |
| Other postemployment benefits                     | 3,942,734                                                       | -                                               | -                                                                       | -                                    |
| Other employment benefits                         | 2,351,620                                                       | -                                               | -                                                                       | -                                    |
| Pool participants                                 | -                                                               | -                                               | 1,196,654                                                               | -                                    |
| Individuals, organizations, and other governments | -                                                               | 1,194,889                                       | 723,205                                                                 | 1,591,517                            |
| <b>Total Net Position</b>                         | <b>\$ 142,144,114</b>                                           | <b>\$ 1,194,889</b>                             | <b>\$ 1,919,859</b>                                                     | <b>\$ 1,591,517</b>                  |

The accompanying Notes to the Financial Statements are an integral part of this statement.



# STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2024

Exhibit B-7

(Dollars in Thousands)

|                                                        |                                                            |                                    | Custodial Funds                                              |                             |
|--------------------------------------------------------|------------------------------------------------------------|------------------------------------|--------------------------------------------------------------|-----------------------------|
|                                                        | Pension and<br>Other<br>Employee<br>Benefit Trust<br>Funds | Private-<br>Purpose Trust<br>Funds | External<br>Investment<br>Pools and<br>Investment<br>Account | Other<br>Custodial<br>Funds |
| <b>Additions</b>                                       |                                                            |                                    |                                                              |                             |
| Contributions:                                         |                                                            |                                    |                                                              |                             |
| Employer Contributions                                 | \$ 6,312,808                                               | \$ -                               | \$ -                                                         | \$ -                        |
| Members Contributions                                  | 2,270,140                                                  | -                                  | -                                                            | -                           |
| Trustee deposits                                       | -                                                          | 303,161                            | -                                                            | -                           |
| Other contributions                                    | 60,447                                                     | -                                  | -                                                            | -                           |
| Total contributions                                    | 8,643,395                                                  | 303,161                            | -                                                            | -                           |
| Investment income:                                     |                                                            |                                    |                                                              |                             |
| Investment earnings                                    | 12,098,696                                                 | 184                                | 166,215                                                      | 2,723                       |
| Less investment expenses                               | (432,488)                                                  | -                                  | (1,783)                                                      | (193)                       |
| Net investment income                                  | 11,666,208                                                 | 184                                | 164,432                                                      | 2,530                       |
| Pool share transactions:                               |                                                            |                                    |                                                              |                             |
| Reinvestment of dividends                              | -                                                          | -                                  | 164,432                                                      | -                           |
| Net share purchases/(redemptions)                      | -                                                          | -                                  | (140,361)                                                    | -                           |
| Net pool share transactions                            | -                                                          | -                                  | 24,071                                                       | -                           |
| Property tax collections for local governments         | -                                                          | -                                  | -                                                            | 1,296,471                   |
| Sales and use tax collections for local governments    | -                                                          | -                                  | -                                                            | 5,561,797                   |
| Participant deposits                                   | -                                                          | -                                  | -                                                            | 2,521,051                   |
| Child support deposits                                 | -                                                          | -                                  | -                                                            | 683,547                     |
| Other additions:                                       |                                                            |                                    |                                                              |                             |
| Sales and services                                     | -                                                          | -                                  | -                                                            | 103                         |
| Fees, licenses, and fines                              | 3,133                                                      | -                                  | -                                                            | -                           |
| Interest earnings on loans                             | 15,829                                                     | -                                  | -                                                            | -                           |
| Miscellaneous                                          | 3,719                                                      | -                                  | -                                                            | -                           |
| Total other additions                                  | 22,681                                                     | -                                  | -                                                            | 103                         |
| Total additions                                        | 20,332,284                                                 | 303,345                            | 188,503                                                      | 10,065,499                  |
| <b>Deductions</b>                                      |                                                            |                                    |                                                              |                             |
| Claims and benefits                                    | 8,635,963                                                  | -                                  | -                                                            | -                           |
| Medical insurance premiums                             | 1,222,657                                                  | -                                  | -                                                            | -                           |
| Refund of contributions                                | 203,774                                                    | -                                  | -                                                            | -                           |
| Distributions paid and payable                         | -                                                          | -                                  | 164,432                                                      | -                           |
| Payments in accordance with trust arrangements         | -                                                          | 178,687                            | -                                                            | -                           |
| Payments of property tax to local governments          | -                                                          | -                                  | -                                                            | 1,296,393                   |
| Payments of sales and use tax to local governments     | -                                                          | -                                  | -                                                            | 5,561,797                   |
| Payments in accordance with custodial arrangements     | -                                                          | -                                  | -                                                            | 1,397,273                   |
| Payments in accordance with child support arrangements | -                                                          | -                                  | -                                                            | 688,721                     |
| Payments of refunds to grantors                        | -                                                          | -                                  | -                                                            | 27                          |
| Administrative expenses                                | 38,980                                                     | -                                  | -                                                            | 930                         |
| Other deductions                                       | 877                                                        | -                                  | -                                                            | -                           |
| Total deductions                                       | 10,102,251                                                 | 178,687                            | 164,432                                                      | 8,945,141                   |
| Change in net position                                 | 10,230,033                                                 | 124,658                            | 24,071                                                       | 1,120,358                   |
| Net position — July 1, as previously reported          | 131,914,081                                                | 1,070,231                          | 1,895,788                                                    | 471,159                     |
| Net position — June 30                                 | \$ 142,144,114                                             | \$ 1,194,889                       | \$ 1,919,859                                                 | \$ 1,591,517                |

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**A. Financial Reporting Entity**

The accompanying government-wide financial statements present the State of North Carolina and its component units. The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government has a separately elected governing body (the General Assembly), and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. The State's financial accountability is normally determined in one of two ways. First, the State has substantive appointment of a majority of the organization's governing board plus the State is able to either impose its will upon the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Financial accountability also exists when an organization is fiscally dependent on the State and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans are reported as fiduciary component units in the State's fiduciary fund financial statements.

The State's non-fiduciary component units are discretely presented. The "Component Units" column in the accompanying financial statements includes the financial data of the State's discretely presented component units. They are combined and reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the State.

**Fiduciary Component Units****Teachers' and State Employees' Retirement System**

The Teachers' and State Employees' Retirement System (TSERS) pension plan is a legally separate entity 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 and eligible charter schools not in the reporting entity. The TSERS plan is governed by a 13-member board, with eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer, the State Superintendent, and the Director of the Office of State Human Resources who serve as ex officio members. The State is legally required to make contributions to the plan creating a financial benefit/burden relationship.

**Local Governmental Employees' Retirement System**

The Local Governmental Employees' Retirement System (LGERS) pension plan is a legally separate entity established by the State to provide benefits for employees of participating local governments. The LGERS plan is governed by a 13-member board, with nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent who serve as ex officio members. The State can impose its will on the LGERS plan.

**Firefighters' and Rescue Squad Workers' Pension Fund**

The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a legally separate entity established by the State to provide pension benefits for all eligible firefighters and rescue squad workers. The FRSWPF is governed by the LGERS Board of Trustees. The State is legally obligated to contribute to the plan creating a financial benefit/burden relationship.

**Register of Deeds' Supplemental Pension Fund**

The Register of Deeds' Supplemental Pension Fund (RODSPF) is a legally separate entity established by the State to provide supplemental pension benefits for all eligible, retired county registers of deeds. The RODSPF is governed by the LGERS Board of Trustees. The State can impose its will on the RODSPF.

**Consolidated Judicial Retirement System**

The Consolidated Judicial Retirement System (CJRS) pension plan is a legally separate entity established by the State to provide pension benefits for eligible employees of the State Judicial System. The CJRS is governed by the TSERS Board of Trustees. The State is legally required to make contributions to the plan creating a financial benefit/burden relationship.

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**NOTES TO THE FINANCIAL STATEMENTS****Legislative Retirement System**

The Legislative Retirement System (LRS) pension plan is a legally separate entity established by the State to provide retirement and disability benefits for members of the General Assembly. The LRS is governed by the TSERS Board of Trustees. The State is required to make contributions to the plan creating a financial benefit/burden relationship.

**North Carolina National Guard Pension Fund**

The North Carolina National Guard Pension Fund (NGPF) is a legally separate entity established by the State to provide pension benefits for members of the North Carolina National Guard. The NGPF is governed by the TSERS Board of Trustees. The State is legally obligated to make contributions to the plan creating a financial benefit/burden relationship.

**Retiree Health Benefit Fund**

The Retiree Health Benefit Fund (RHBF) is a legally separate entity in which the State is currently funding on a pay-as-you-go basis with appropriated contributions matching benefit payments, creating a financial benefit/burden relationship. The RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, community colleges, Local Education Agencies, charter schools and select local governments. Retiree health benefit programs and premiums are determined by the State Health Plan Board of Trustees. The State Health Plan Board of Trustees consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the state Senate, two appointed by the state House of Representatives, and State Treasurer and the Director of State Budget and Management who serve as ex officio members.

**Disability Income Plan of North Carolina**

The Disability Income Plan of North Carolina (DIPNC) is a legally separate entity in which the State is legally required to make contributions towards creating a financial benefit/burden relationship. DIPNC is a cost-sharing, multiple-employer defined benefit plan for eligible members of TSERS providing other post-employment (OPEB) benefits. The plan provides extended short-term and long-term disability income benefits to eligible members. DIPNC is governed by the Department of State Treasurer and the TSERS Board of Trustees.

**Death Benefit Plan**

The Death Benefit Plan consists of the TSERS death benefit plan, the LGERS death benefit plan, separate insurance benefits plan for law enforcement officers, and the retirees' contributory death benefit plan which are legally separate. The Plan provides a group life insurance option to members of the TSERS, LGERS, CJRS, and LRS. The Death Benefit Plan is governed by the TSERS and LGERS Boards of Trustees. The State can impose its will on the Plan. The Plan's assets are administered through a trust committed to providing benefits to recipients and the assets are protected from creditors.

**Supplemental Retirement Income Plan**

The Supplemental Retirement Income Plan of North Carolina (NC 401(k) Plan) is a State-sponsored, qualified defined contribution pension plan under Internal Revenue Code (Code) Section 401(k) that is available to members of TSERS, LGERS, CJRS, LRS, and certain other governmental defined benefit plans, as well as state and local law enforcement officers and others eligible under the Code and is a legally separate entity. The NC 401(k) Plan is governed by the Department of State Treasurer and the Supplemental Retirement Board of Trustees (Board), a nine-member board, with six members appointed by the Governor, one appointed by the State Senate, and one appointed by the State House of Representatives. The State Treasurer serves as an ex officio member and chair of the Board. The State can impose its will on the NC 401(k) Plan.

**Public Employee Deferred Compensation Plan**

The North Carolina Public Employee Deferred Compensation Plan (NC 457 Plan) is a State-sponsored, eligible defined contribution plan under Code Section 457(b) that is available to the employees of the State and participating local governmental entities. The NC 457 Plan is a legally separate entity and is governed by the Department of State Treasurer and the Supplemental Retirement Board of Trustees. The State can impose its will on the NC 457 Plan. The NC 457 Plan's assets are administered through a trust committed to providing benefits to recipients and the assets are protected from creditors.

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**NOTES TO THE FINANCIAL STATEMENTS**
**Discretely Presented Component Units - Major****University of North Carolina System**

The Board of Governors of the consolidated University of North Carolina (UNC) System is a legally separate body, composed of 24 members elected by the General Assembly. The Board of Governors establishes system-wide administrative policies while budgetary decisions are exercised at the State level. Within the consolidated UNC System are UNC System Office, which is the administrative arm of the Board of Governors; the 16 constituent universities; a joint research campus; a constituent high school; an arboretum; and the University of North Carolina Health Care System (UNCHCS). Each of the 16 universities, the joint research campus, and the high school, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. The arboretum and the UNCHCS are each governed by its own separate board of directors. Funding for the UNC System is accomplished by State appropriations, tuition and fees, sales and services, federal grants, state grants, and private donations and grants.

Also included in the UNC System are the financial data of the universities' significant fund-raising foundations (and other organizations that support the UNC System's mission). Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements. Certain foundations are private not-for-profits that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The financial statement formats of the private foundations were modified to make them compatible with the universities' financial statement formats.

The following constituent institutions comprise the UNC System for financial reporting purposes:

|                                                            |                                                  |
|------------------------------------------------------------|--------------------------------------------------|
| UNC System Office                                          | University of North Carolina School of the Arts  |
| Appalachian State University                               | Western Carolina University                      |
| East Carolina University                                   | Winston-Salem State University                   |
| Elizabeth City State University                            | Gateway Research Park, Inc.                      |
| Fayetteville State University                              | North Carolina School of Science and Mathematics |
| North Carolina Agricultural and Technical State University | North Carolina Arboretum                         |
| North Carolina Central University                          | University of North Carolina Health Care System  |
| North Carolina State University                            |                                                  |
| University of North Carolina at Asheville                  |                                                  |
| University of North Carolina at Chapel Hill                |                                                  |
| University of North Carolina at Charlotte                  |                                                  |
| University of North Carolina at Greensboro                 |                                                  |
| University of North Carolina at Pembroke                   |                                                  |
| University of North Carolina at Wilmington                 |                                                  |

**Community Colleges**

There are currently 58 community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. However, the State is financially accountable for these institutions because the State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college and because the State provides significant funding to these institutions. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no single community college are considered major in relation to the operations of all community colleges in the system. Therefore, aggregated financial information is presented in this ACFR for all community colleges.

The aggregated financial information for community colleges also includes the financial data of the institutions' significant fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. Certain foundations are private not-for-profits that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The financial statement formats of the private foundations were modified to make them compatible with the community colleges' financial statement formats.

**NOTES TO THE FINANCIAL STATEMENTS**

The following are the State's 58 community colleges:

|                                                    |                                      |
|----------------------------------------------------|--------------------------------------|
| Alamance Community College                         | Martin Community College             |
| Asheville-Buncombe Technical Community College     | Mayland Community College            |
| Beaufort County Community College                  | McDowell Technical Community College |
| Bladen Community College                           | Mitchell Community College           |
| Blue Ridge Community College                       | Montgomery Community College         |
| Brunswick Community College                        | Nash Community College               |
| Caldwell Community College and Technical Institute | Pamlico Community College            |
| Cape Fear Community College                        | Piedmont Community College           |
| Carteret Community College                         | Pitt Community College               |
| Catawba Valley Community College                   | Randolph Community College           |
| Central Carolina Community College                 | Richmond Community College           |
| Central Piedmont Community College                 | Roanoke-Chowan Community College     |
| Cleveland Community College                        | Robeson Community College            |
| Coastal Carolina Community College                 | Rockingham Community College         |
| College of The Albemarle                           | Rowan-Cabarrus Community College     |
| Craven Community College                           | Sampson Community College            |
| Davidson-Davie Community College                   | Sandhills Community College          |
| Durham Technical Community College                 | South Piedmont Community College     |
| Edgecombe Community College                        | Southeastern Community College       |
| Fayetteville Technical Community College           | Southwestern Community College       |
| Forsyth Technical Community College                | Stanly Community College             |
| Gaston College                                     | Surry Community College              |
| Guilford Technical Community College               | Tri-County Community College         |
| Halifax Community College                          | Vance-Granville Community College    |
| Haywood Community College                          | Wake Technical Community College     |
| Isothermal Community College                       | Wayne Community College              |
| James Sprunt Community College                     | Western Piedmont Community College   |
| Johnston Community College                         | Wilkes Community College             |
| Lenoir Community College                           | Wilson Community College             |

**State Health Plan**

The State Health Plan (Plan) is a legally separate organization established to provide medical and pharmacy benefits to employees and retirees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan is governed by a ten-member board of trustees including the State Treasurer, an ex officio member who serves as chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the General Assembly. Health benefit programs and premium rates are recommended by the State Treasurer and approved by the board of trustees. The State of North Carolina makes significant contributions to the Plan as an employer.

**Discretely Presented Component Units - Other****The Golden LEAF (Long-term Economic Advancement Foundation), Inc.**

The Golden LEAF, Inc. (Foundation) is a legally separate not-for-profit corporation ordered to be created by the Consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris, et al. The Foundation was established to receive and distribute 50% of the tobacco settlement funds allocated to North Carolina, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. The 2013 General Assembly enacted legislation repealing the requirement for 50% of tobacco settlement funds to be allocated to the Foundation. In fiscal years 2014 and 2015, these funds were distributed to the State's General Fund rather than the Foundation. The 2015 General Assembly enacted legislation providing for the appropriation of \$10 million of tobacco settlement funds to the Foundation each year. The 2017 General Assembly enacted legislation increasing the annual appropriation to \$17.5 million. The Foundation is governed by a 15-member board, all of whom are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. The Foundation provides grants to State agencies and component units, creating a financial benefit/burden relationship.

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**NOTES TO THE FINANCIAL STATEMENTS****North Carolina Housing Finance Agency**

The North Carolina Housing Finance Agency (Agency) is a legally separate organization established to administer programs to finance housing opportunities for low- and moderate-income individuals. The Agency has a 13-member board of directors, with 12 appointed by either the Governor or the General Assembly. The 13th member is elected by the other 12. The Agency's mission is defined in its authorizing statute, which is modified or expanded from time to time by the General Assembly. The General Assembly also appropriates funds that assist the Agency in its mission to finance housing for very low-income individuals and those with special needs; therefore, a financial benefit/burden relationship exists between the State and the Agency.

**State Education Assistance Authority**

The State Education Assistance Authority (Authority) is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education by attending public or private educational institutions. The Authority is governed by a nine-member board of directors, four of whom are appointed by the Governor, three of whom are appointed by the UNC Board of Governors, and two of whom serve ex officio by virtue of their positions with the North Carolina Community College System and the UNC System. The State provides program subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

**North Carolina Global TransPark Authority**

The North Carolina Global TransPark Authority (Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the 20-member governing board, 19 are voting members. Six of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. Effective July 2011, the General Assembly enacted legislation that made the Authority subject to the direction and supervision of the North Carolina Secretary of Transportation. Also included in the Authority is the financial data of its discretely presented component unit, the North Carolina Global TransPark Foundation.

**North Carolina State Ports Authority**

The North Carolina State Ports Authority (Authority) is a legally separate authority established to operate the State's port facilities in Wilmington and Morehead City and an inland terminal in Charlotte. It is governed by an 11-member board, all of whom are appointed by either the Governor or the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. Effective July 2011, the General Assembly enacted legislation that made the Authority subject to and under the direct supervision of the North Carolina Secretary of Transportation.

**North Carolina Railroad Company**

The North Carolina Railroad Company (Railroad) is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within North Carolina and advancing the economic interests of the State. The Railroad is governed by a 13-member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad. Also, the State is financially accountable since the State's intent in owning the Railroad's stock is to directly enhance the State's ability to provide governmental services.

**The North Carolina Partnership for Children, Inc.**

The North Carolina Partnership for Children, Inc. (Partnership) is a legally separate organization established to develop and oversee a comprehensive long-range strategic plan for high-quality early childhood education and development. A 26-member board governs the Partnership. Certain elected state officials appoint 22 of the members, while three members serve ex officio by virtue of their state positions, and one serves as the Director of the North Carolina Pre-Kindergarten Program. The State provides significant operating subsidies to the Partnership, creating a financial benefit/burden relationship.

**North Carolina Biotechnology Center**

The North Carolina Biotechnology Center (NCBiotech) is a legally separate nonprofit corporation established for the purpose of furthering economic development and job creation in North Carolina through life science technology, company, and sector development statewide. NCBiotech is governed by a 40-member board. Twelve of the board members are appointed by the Governor or General Assembly; four serve as a result of their positions with the UNC System, a component unit of the State; two serve ex officio by virtue of their state positions; and two serve ex officio by virtue of their positions with private universities. The President of NCBiotech serves as an ex officio member. The other members are elected by the board of directors. The State has provided significant funding to NCBiotech since its inception; therefore, a financial benefit/burden relationship exists between the State and NCBiotech.

**Centennial Authority**

The Centennial Authority (Authority) is a legally separate authority created to study, design, plan, construct, own, promote, finance, and operate a regional facility in Wake County, North Carolina. The regional facility consists of an arena where sports, fitness, health, recreational, entertainment or cultural activities can be conducted. The Authority is governed by a 21-member board comprised of ten members appointed by the General Assembly, four members appointed by the Wake County Board of Commissioners, four members appointed by the Raleigh City Council, one member appointed by the Chancellor of North Carolina State University or the Chancellor's



## NOTES TO THE FINANCIAL STATEMENTS

designee, and two members appointed jointly by the mayors of all the cities in Wake County. The facility is located on land owned by the State and leased to the Authority at an annual rent of \$1 per year. Therefore, a financial benefit/burden relationship exists between the State and the Authority.

### **Economic Development Partnership of North Carolina**

Economic Development Partnership of North Carolina (EDPNC) is a legally separate nonprofit corporation created to consolidate and enhance the State's economic development marketing and sales functions previously conducted by the North Carolina Department of Commerce. These functions include export promotion, tourism marketing, existing industry support, small business assistance, and business recruitment. EDPNC is governed by an 18-member board comprised of nine members appointed by the Governor and eight members appointed by the General Assembly, and the Secretary of the North Carolina Department of Commerce as an ex officio member. The State has the ability to remove board members at will. The State's contract with EDPNC provides recurring financial support to EDPNC, creating a financial benefit/burden relationship.

### **NCInnovation, Inc.**

NCInnovation, Inc. (NCInnovation) is a legally separate nonprofit corporation created to connect public university researchers with industry partners, private sector knowledge, and support services to accelerate effective commercialization strategies across the state. NCInnovation specifically funds the research and development stage between proof of concept and market readiness to transform research breakthroughs that improve economic opportunities in all regions of North Carolina. NCInnovation is governed by a 13-member board comprised of eight members appointed by the General Assembly and five members elected by NCInnovation. The State has the ability to remove board members at will. Additionally, the State has provided significant funding to NCInnovation since its inception, creating a financial benefit/burden relationship.

### **Availability of Financial Statements**

Complete financial statements for the Supplemental Retirement Plan of North Carolina (the NC 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the NC 457 Plan) can be obtained from the North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604.

Unless otherwise noted, complete financial statements for the following component units can be obtained from the Office of the State Auditor, 20601 Mail Service Center, Raleigh, NC 27699-0600 or can be accessed from the Office of the State Auditor internet home page at <https://www.auditor.nc.gov>.

Constituent institutions in the UNC System (excluding Gateway Research Park, Inc., North Carolina Arboretum, and University of North Carolina Health Care System)

North Carolina Global TransPark Authority

North Carolina State Ports Authority

The North Carolina Partnership for Children, Inc.

Complete financial statements for the following component units can be obtained from the respective administrative offices of those units listed below:

The Golden LEAF, Inc.  
301 North Winstead Avenue  
Rocky Mount, NC 27804

North Carolina Railroad Company  
2809 Highwoods Boulevard  
Raleigh, NC 27604-1000

Gateway Research Park, Inc.  
2901 East Gate City Boulevard Ste 2500  
Greensboro, NC 27401-4904

North Carolina Housing Finance Agency  
3508 Bush Street  
Raleigh, NC 27609

North Carolina Biotechnology Center  
P.O. Box 13547  
Research Triangle Park, NC 27709-3547

Economic Development Partnership of  
North Carolina  
150 Fayetteville St. Ste 1200  
Raleigh, NC 27601

State Education Assistance Authority  
P.O. Box 41349  
Raleigh, NC 27629

Centennial Authority  
1400 Edwards Mill Road  
Raleigh, NC 27607

NCInnovation  
3040 East Cornwallis Road  
Research Triangle Park, NC 27709

Complete financial statements of the individual community colleges can be obtained from their respective administrative offices. The addresses of the individual community colleges are available on the internet home page for the North Carolina Community College System as follows: <https://www.nccommunitycolleges.edu> (click "Find a College"). The State's defined pension plans, other employee benefit plans, State Health Plan, North Carolina Arboretum, and the University of North Carolina Health Care System do not issue separate financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS****B. Basis of Presentation**

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. The financial statements of the North Carolina Railroad Company, a for-profit corporation, and the North Carolina Biotechnology Center (discretely presented component units) have been prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2024, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2023, and the North Carolina Deferred Compensation Plan (the NC 457 Plan), the Supplemental Retirement Income Plan of North Carolina (the NC 401(k) Plan), and the North Carolina Railroad Company whose statements are as of and for the fiscal year ended December 31, 2023. Occupational licensing boards have financial statements with various fiscal year ending dates.

The basic financial statements include both government-wide (based on the State as a whole) and fund financial statements as follows:

**Government-wide Financial Statements**

The statement of net position and the statement of activities display information on all the non-fiduciary activities of the primary government (the State) and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the State's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between functions. Elimination of these charges would misstate both the expenses of the purchasing function and the program revenues of the selling function. These statements distinguish between the governmental and business-type activities of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Certain charges to other funds or programs for "centralized" expenses also include an overhead markup that is included in direct expenses. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity (including fees, fines and forfeitures and certain grants and contracts that are essentially contracts for services) and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity (including restricted investment earnings or losses). Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Unrestricted resources internally dedicated by the State's governing body (General Assembly) are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

**Fund Financial Statements**

The fund financial statements provide information about the State's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

**General Fund**

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

**Highway Fund**

This fund accounts for most of the activities of the Department of Transportation, including the maintenance and some construction of the State's primary and secondary road systems. In addition, it supports areas such as the North Carolina Ferry System, the Division of Motor Vehicles, public transportation, and railroad operations. The principal revenues of the Highway Fund are motor fuels taxes, motor vehicle registration fees, driver's license fees, and federal aid. A portion of the motor fuels taxes is distributed to municipalities for local transportation projects.

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**NOTES TO THE FINANCIAL STATEMENTS****Highway Trust Fund**

This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. The fund makes transfers to the General Fund, the Highway Fund, and the North Carolina Turnpike Authority. The fund also provides revenue to the North Carolina State Ports Authority to support modernization initiatives. Session Law 2013-183 amends the Highway Trust Fund allocation of resources. It eliminates individually legislated projects and implements a new way for the Department of Transportation to fund and prioritize necessary infrastructure improvements while utilizing existing revenue sources more efficiently. In June 2015, the Board of Transportation approved the 10-year State Transportation Improvement Program, fully implementing the new legislation. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

**Unemployment Compensation Fund**

This fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The administrative costs of this program are reported in the General Fund and financed through the distribution of employer paid federal unemployment insurance taxes. The state unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund. State unemployment benefits are financed by the employer paid state unemployment insurance taxes. Certain unemployment benefits for civilian and military employees are paid through the trust fund but reimbursed from federal funds. In addition, when triggered, some extended benefits and emergency related benefits are also reimbursed from federal funds.

**North Carolina State Lottery Fund**

This fund accounts for the activities of the North Carolina Education Lottery Commission. The North Carolina Education Lottery Commission was created as an independent, self-supporting, and revenue raising entity. The purpose of the lottery is to generate funds to provide educational opportunities as directed by the General Assembly. The net profits of the fund are transferred periodically to the General Fund as required by general statutes.

**EPA Revolving Loan Fund**

This fund accounts for the activities of the State's clean water and drinking water revolving loan programs, which provide low cost loans to units of local government for the construction of wastewater facilities and drinking water infrastructure. These programs are financed primarily by federal capitalization grants from the United States Environmental Protection Agency (EPA), interest earnings on loans, loan repayments, and state funds (i.e., bond proceeds and State appropriations).

**North Carolina Turnpike Authority**

This fund accounts for the activities of the North Carolina Turnpike Authority (Authority), which was created to study, design, plan, construct, finance, and operate a system of toll roads, bridges, and/or tunnels supplementing the traditional non-toll transportation serving the citizens of the State. Effective July 2009, the General Assembly enacted legislation that transferred the functions and funds of the Authority to the Department of Transportation.

Additionally, the State reports the following fund types:

**Internal Service Funds**

These funds account for state property fire insurance coverages, motor fleet management services, mail services, temporary staffing services, computing and telecommunication services, and surplus property services provided to other departments or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis.

**Pension and Other Employee Benefit Trust Funds**

These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution pension plans, Internal Revenue Code Section 457 plan, death benefit plan, disability income plan, and retiree health benefit fund.

**Private-purpose Trust Funds**

These funds account for resources held in trust for insurance carriers, and designated beneficiaries by the Administrative Office of the Courts.

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**NOTES TO THE FINANCIAL STATEMENTS****Custodial Funds**

These funds account for resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments. This includes sales tax and vehicle tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, and insurance company receivership assets, held by the Commissioner of Insurance exclusively in his capacity as Receiver. Custodial funds include the external portions of investment pools sponsored by the Department of State Treasurer and individual investment accounts held by the Department of State Treasurer. Resources are also held by the State for Local Fiscal Recovery under the federal American Rescue Plan Act, the Swain County Settlement with the federal government, and other Departmental funds.

**C. Measurement Focus and Basis of Accounting****Government-wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Lottery games are sold to the public by contracted retailers. For the North Carolina Education Lottery Commission's Fast Play and draw games, Powerball, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, Lucky for Life, and Keno, revenue is recognized at the time of sale on a daily basis. For scratch ticket games, revenue is recognized at the time a pack of tickets is settled. For Powerball, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and Lucky for Life, prize expense is recorded at 50% of sales on a daily basis. EZ Match is recorded at 63.36% of sales on a daily basis. Keno is recorded at 65.73% of sales on a daily basis. Fast Play prize expense is recorded daily based on each game's particular prize structure percentage. For scratch games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on the value of packs settled. For the scratch-off games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Digital Instant's prize expense is recorded daily based on each game's particular return player structure, which has set the return to player to 87% of sales. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

Nonexchange transactions, in which the State receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes, fines and forfeitures, grants (and similar assistance), entitlements, and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Income taxes, sales taxes, and other similar taxes on earnings or consumption are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when the underlying exchange transaction has occurred. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants (and similar assistance), entitlements, and donations are recognized by providers as expenses and by recipients as revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met (excluding time requirements) are reported as assets by the provider and as liabilities by the recipient. Resources received or recognized as a receivable before time requirements are met, but after all other eligibility requirements have been met, are reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient.

**Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Generally, the State considers revenues reported in the governmental funds to be available if they are collected within 31 days after year-end. Exceptions are individual income tax revenues and federal and county funds accrued for the matching share of Medicaid claims payable, which the State considers to be available if they are collected within 12 months after year-end. Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., refunds payable and applied refunds). Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers' compensation, pollution remediation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension and other postemployment benefit contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

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**NOTES TO THE FINANCIAL STATEMENTS****D. Cash and Cash Equivalents**

This classification includes undeposited receipts; petty cash; deposits held by the State Treasurer in the Short-term Investment Fund, a portfolio within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool); demand and time deposits with private financial institutions, excluding certificates of deposit; and deposits with the United States Treasury. The Short-term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

**E. Investments**

This classification includes deposits held by the State Treasurer in certain investment portfolios (see Note 3A) as well as investments held separately by the State and its component units. Investments are generally reported at fair value, with significant exceptions as follows. Repurchase agreements and certain money market mutual funds are reported at cost. Fully benefit responsive synthetic guaranteed investment contracts and unallocated insurance contracts that are nonparticipating interest-earning investment contracts are reported at contract value.

The net increase (decrease) in the fair value of investments is recognized as a component of investment income. Additional information regarding investments is provided in Note 3.

**F. Securities Lending**

Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value with the exception of repurchase agreements, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement.

**G. Receivables and Payables**

Receivables in all funds represent amounts that have arisen in the ordinary course of business and are shown net of allowances for uncollectible amounts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/due from other funds” (i.e., current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans except “advances to outside entities”). Coronavirus relief funds were advanced to entities outside the State’s financial reporting entity. These current advances are classified as “advances to outside entities.” All other outstanding balances between funds related to services provided and used, reimbursements, and transfers are classified as “due to/due from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**H. Inventories and Prepaid Items**

The inventories of the State and component units are valued at cost using either the first-in, first-out (FIFO); last invoice cost; or average cost method. These inventories consist of general supplies and materials. Institutions of the UNC System and community colleges also use these valuations along with the retail inventory method for some bookstore operations. The State Highway Fund accounts for its maintenance and construction inventories using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Prepaid items of governmental funds are recorded as expenditures when purchased, and balances of prepaid items are not reported as assets.

**I. Securities Held in Trust**

Securities held in trust include various assets, including securities from insurance companies and bail bondsmen doing business within North Carolina. These securities have been placed in safekeeping with a financial institution or the State Treasurer, as required by applicable general statutes.

**NOTES TO THE FINANCIAL STATEMENTS****J. Restricted/Designated Assets**

In the government-wide and enterprise fund financial statements, certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. The following resources are not available for current operations and are reported as restricted assets: 1) resources restricted for the acquisition/construction of the government's own capital assets, 2) resources legally segregated for the payment of principal and interest as required by debt covenants, 3) temporarily invested debt proceeds, and 4) nonexpendable resources of permanent funds. This financial statement caption also includes resources designated by management for the acquisition/construction of the government's own capital assets and thus not available for current operations.

**K. Capital Assets**

Capital assets, which include property, plant, equipment; easements; and infrastructure assets (e.g., State highway network, utility systems, and similar items), are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. The State highway network constructed prior to July 1, 2001 is recorded at estimated historical cost. Since July 1, 2001, the State highway network is recorded at cost. The initial estimated historical cost of the network is based on construction expenditures reported by the Department of Transportation less amounts estimated for the cost of right-of-ways and land improvements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation except that capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Right-to-use lease assets are measured as the sum of the initial lease liability plus prepayments made at or before the commencement of the lease term less lease incentives received plus initial direct costs that are ancillary charges necessary to place the lease asset in service. Subscription assets are measured as the sum of the initial subscription liability plus any prepayments made at the commencement of the subscription term plus the capitalizable initial implementation costs less subscription incentives received.

Generally, capital assets are defined by the State and component units as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of two or more years, except for internally generated computer software and other intangible assets, which are capitalized when the value or cost is greater than or equal to \$1 million and \$100 thousand, respectively. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of two or more years but are individually below the \$5,000 threshold are capitalized. Intangible right-to-use lease assets and subscription assets associated with leases/subscriptions of the primary government are defined by the State as leased assets whose future lease/subscription payments through the lease/subscription term are respectively \$10,000 or greater and \$400,000 or greater. Component units of the State have established their own thresholds for defining lease and subscription assets whose future lease/subscription payments through the lease/subscription term; leased assets range from \$5,000 or greater to \$1,100,000 and greater, or by specific asset class, and subscription assets range from \$5,000 or greater to \$400,000 and greater by specific asset class.

The value of assets constructed by the State and its component units for their own use includes all material direct and indirect construction costs that are incurred as a result of the construction. In proprietary funds and component units, interest costs incurred (if material) are capitalized during the period of construction.

The depreciation methods and estimated useful lives generally used by the State and its component units are as follows:

| <u>Asset Class</u>                                | <u>Method</u>                      | <u>Estimated Useful Life</u>                 |
|---------------------------------------------------|------------------------------------|----------------------------------------------|
| Buildings                                         | Straight-line                      | 10-100 years                                 |
| Machinery and equipment                           | Straight-line                      | 2-30 years                                   |
|                                                   | Units of output for motor vehicles | 90,000 miles                                 |
| Art, literature, and other artifacts              | Straight-line                      | 2-25 years                                   |
| General infrastructure                            | Straight-line                      | 10-75 years                                  |
| State highway network                             | Composite                          | 50 years                                     |
| Computer software                                 | Straight-line                      | 2-30 years                                   |
| Other intangible assets                           | Straight-line                      | 2-100 years                                  |
| Right-to-use lease asset – land                   | Straight-line                      | Lease term                                   |
| Right-to-use lease asset – building               | Straight-line                      | Shorter of lease term or useful life*        |
| Right-to-use lease asset – machinery & equipment  | Straight-line                      | Shorter of lease term or useful life*        |
| Right-to-use lease asset – general infrastructure | Straight-line                      | Shorter of lease term or useful life*        |
| Subscription asset (SBITAs)                       | Straight-line                      | Shorter of subscription term or useful life* |

*\*Useful life for right-to-use lease and subscription assets are the same amount of time as the tangible asset categories*

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**NOTES TO THE FINANCIAL STATEMENTS**

For the State highway network (including toll roads), depreciation is based on a weighted average of the estimated useful lives of dissimilar assets in the network (e.g., subsurface foundations, roadway surfaces, bridges, traffic control devices, guardrails, markings, signage, etc.).

**L. Tax Refund Liabilities**

Tax refund liabilities consist primarily of accrued income and sales and use tax refunds due to taxpayers. During the calendar year, the State collects employee withholdings and taxpayers' payments for income taxes. At June 30, the State estimates the amount it owes taxpayers for income tax overpayments during the preceding six months. Sales and use tax refund liabilities are also estimated at June 30. These liabilities are recorded as "Tax refunds payable."

**M. Compensated Absences**

Employees of the State and component units are permitted to accumulate earned, but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The State's 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. Also, any accumulated vacation leave in excess of 30 days at calendar year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30-day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

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

**N. Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. If material, debt premiums and discounts of the State are deferred and amortized over the life of the debt using the effective interest method. If material, debt premiums and discounts of the UNC System (component unit) are generally deferred and amortized using the straight-line method. Long-term debt is reported net of the applicable debt premium, and/or discount.

In the fund financial statements, governmental fund types recognize debt premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and premiums received are reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

**O. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents 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. The State and its component units have items that qualify for reporting in this category. Some of these items include 1) the accumulated decrease in fair value of hedging derivative instruments, 2) deferred loss on refunding, 3) State aid transmitted to a component unit that cannot be spent until a future period (but all other eligibility requirements, if any, have been met), 4) deferred outflows for asset retirement obligations (AROs), 5) deferred outflows for pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer's contributions and proportionate share of contributions, and contributions subsequent to the measurement date), 6) deferred outflows for OPEB (i.e., difference between actual and expected experience, net difference between projected and actual earnings on OPEB plan investments, change in proportion, differences between employer's contributions and proportionate share of contributions, and contributions subsequent to the measurement date), and 7) a deferred loss on a sale-leaseback transaction reported by a community college (other deferred outflows). A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The primary government amortizes the deferred loss on refunding using the effective interest method, and the UNC System (component unit) generally amortizes this amount using the straight-line method.



## NOTES TO THE FINANCIAL STATEMENTS

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents 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 that time. The State and its component units have the following items that qualify for reporting in this category. Some of these items include 1) public-private and public-public partnership arrangement revenue applicable to future years, 2) State aid received by a component unit that cannot be spent until a future period (but all other eligibility requirements, if any, have been met), 3) deferred inflows for pensions (i.e., difference between actual and expected experience, changes of assumptions, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions), 4) deferred inflows for OPEB (i.e., difference between actual and expected experience, changes in assumptions, net difference between projected and actual earnings on OPEB plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions), 5) deferred inflows for irrevocable split interest agreements that universities are beneficiaries of, and 6) unavailable revenues in governmental funds. The governmental funds report unavailable revenues primarily from the following sources: sales and use taxes; other taxes; tobacco settlement; and fees, licenses, and fines. These amounts are deferred and recognized as revenues in the period that the amounts become available.

Deferred outflows of resources resulting from the difference between projected and actual earnings on pension plan investments are included in pension expense over a closed five-year period, beginning in the current measurement period. Deferred outflows of resources, with the exception of employer contributions after the measurement date, and deferred inflows of resources are included in pension expense, beginning in the current measurement period, over a closed period (see Note 12). The closed period is equal to the average of the expected remaining service lives of all employees (both active and inactive) that are provided with pensions through the pension plan determined as of the beginning of the measurement period.

Deferred outflows and inflows of resources resulting from the difference between projected and actual earnings on OPEB plan investments are included in OPEB expense over a closed five-year period, beginning in the current measurement period. Deferred outflows of resources, with the exception of employer contributions after the measurement date, and all other deferred outflows and inflows of resources are included in OPEB expense, beginning in the current measurement period, over a closed period (see Note 14). The closed period is equal to the average of the expected remaining service lives of all employees (both active and inactive) that are provided with OPEB benefits through the OPEB plans determined as of the beginning of the measurement period.

## P. Net Position/Fund Balance

### Net Position

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions. Constraints placed on net position use by enabling legislation are not reported as net position restrictions since such constraints are not legally enforceable. Legal enforceability means that the State can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net position is presented as unrestricted.

For governmental activities, the State considers restricted amounts to have been spent first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. For business-type activities and component units, when both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then State appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

### Fund Balance

Fund balance for governmental funds is reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

- The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.
- Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.



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**NOTES TO THE FINANCIAL STATEMENTS**

- Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carryforward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the “budget as enacted by the General Assembly shall be administered by the Governor.” The Governor has delegated the authority to perform certain powers and duties of the Governor’s role as the Director of the Budget to OSBM.
- Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

For classification of governmental fund balances, the State considers an expenditure to be made from the most restrictive resource (i.e., restricted, committed, assigned, and unassigned in that order) when more than one fund balance classification is available for use.

In accordance with General Statute 143C–4–2, the Savings Reserve is established as a reserve in the General Fund and is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve are available for expenditure in an aggregate amount that does not exceed 7.5% of the prior fiscal year’s General Fund operating budget appropriations, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and House of Representatives present and voting for any of the following purposes:

- To cover a decline in General Fund revenue from one fiscal year to another.
- To cover the difference between that fiscal year’s General Fund operating budget appropriations, excluding departmental receipts, and projected revenue.
- To pay costs imposed by a court or administrative order.
- To provide relief and assistance from the effects of an emergency.

Each year the OSBM and Fiscal Research Division of the General Assembly shall jointly develop and produce an evaluation of the adequacy of the Savings Reserve based on the volatility of North Carolina’s General Fund tax structure. After completing the evaluation, these entities may revise the methodology as needed to estimate the target for the Savings Reserve balance, which shall be calculated so as to be sufficient to cover two years of need for nine out of ten scenarios involving a decline in General Fund revenue from one fiscal year to the next fiscal year.

In 2024, the OSBM along with the Fiscal Research Division of the General Assembly recommended a Savings Reserve target balance of 11.7% of prior fiscal year’s General Fund operating budget appropriations. At June 30, 2024, the balance of the Savings Reserve was \$4.75 billion, which represents 17.01% of the prior year’s General Fund appropriation budget. The Savings Reserve is included with unassigned fund balance.

## **Q. Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

## **R. Food and Nutrition Services**

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the State recognizes distributions of food and nutrition services benefits as revenue and expenditures in the General Fund. Revenues and expenditures are recognized based on the fair value at the time the benefits are distributed to the individual recipients. In North Carolina, benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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**CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2024, the State implemented the following pronouncements and implementation guides issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 99, *Omnibus 2022* (paragraphs 4-10),
- Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*,
- Implementation Guide 2021-1 (Question 5.1), and
- Implementation Guide 2023-1.

Statement No. 99 provides clarification on the requirements related to financial guarantees and the classification and reporting of derivative instruments.

Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error correction and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information.

Implementation Guide 2021-1 question 5.1 provides guidance and clarification for questions related to capital assets whose individual costs are less than the capitalization for an individual asset, stating such assets should be capitalized when significant in aggregate.

Implementation Guide 2023-1 provides additional guidance and clarification on leases, subscription-based information technology arrangements (SBITAs), and Statement No. 100, *Accounting Changes and Error Corrections*.

## NOTES TO THE FINANCIAL STATEMENTS

**NOTE 3: DEPOSITS AND INVESTMENTS****A. Deposits and Investments with State Treasurer**

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to invest money with the State Treasurer. Expenditures for the primary government and certain component units are made by wire transfers, ACH transactions, and warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these transactions each day. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund (collectively referred to as the pension and OPEB trust funds in this note), the Register of Deeds' Supplemental Pension Fund, the Disability Income Plan of N.C., the Escheat Fund, the State Public Education Property Insurance Fund, the Local Government Other Post-Employment Benefits (OPEB) Trust, public hospitals, local government Law Enforcement Officer Special Separation Allowance (LEOSSA) trusts, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension and OPEB trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

**North Carolina Department of State Treasurer External Investment Pool (External Investment Pool)**

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for other investment programs, is maintained in the External Investment Pool. Other investment programs may include the public hospitals, certain investments of the Escheat Fund, certain investments of other funds and component units of the reporting entity, the Local Government OPEB Trust, local government LEOSSA trusts, and bond proceeds investment accounts. This pool, a government sponsored external investment pool, consists of the following individual investment portfolios:

*Short-term Investment* – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund, Highway Fund, Highway Trust Fund, and the remaining portfolios listed below. Other participants include universities and various boards, commissions, community colleges, the Local Government OPEB Trust, and school administrative units that make voluntary deposits with the State Treasurer.

*Long-term Investment* – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher yield than those held in the Short-term Investment portfolio. The State's pension and OPEB trust funds are the sole participants in this portfolio.

*Fixed Income Investment* – This portfolio may hold fixed income investments authorized by General Statute 147-69.2. Investments in this portfolio generally have a short to intermediate term horizon. The State's pension and OPEB trust funds are the sole participants in this portfolio.

*Equity Investment* – This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily holds an equity-based trust. The State's pension and OPEB trust funds are the sole participants in this portfolio.

*Real Estate Investment* – This portfolio holds investments in real estate-based trust funds, limited partnerships and other limited liability investment vehicles, and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension and OPEB trust funds are the sole participants in this portfolio.

*Alternative Investment* – This portfolio holds investments in various limited partnerships and limited liability companies, hedge funds, U.S. Treasuries, and equities, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension and OPEB trust funds are the sole participants in this portfolio.

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**NOTES TO THE FINANCIAL STATEMENTS**

*Opportunistic Fixed Income Investment* – This portfolio may hold investments in debt-related strategies made primarily through limited partnerships or other limited liability vehicles as defined by General Statute 147-69.2(b)(6c). The State’s pension and OPEB trust funds are the sole participants in this portfolio.

*Inflation Sensitive Investment* – This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation made primarily through limited partnerships, other limited liability vehicles, or fixed income securities managed pursuant to General Statute 147-69.2(b)(9a). The State’s pension and OPEB trust funds are the sole participants in this portfolio.

All of the preceding investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed previously. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the External Investment Pool. The External Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

The external portion of the External Investment Pool is presented in the State’s financial statements as a custodial fund. Each fund and component unit’s share of the internal equity in the External Investment Pool is reported in the State’s financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, Fixed Income Investment, Opportunistic Fixed Income Investment, Inflation Sensitive Investment, and Alternative Investment portfolios is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions.

Net investment income earned by the External Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2024, \$202.81 million of investment income associated with other funds was credited to the General Fund.

The External Investment Pool is included in the North Carolina Department of State Treasurer Investment Programs (“State Treasurer Investments”) separate 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 – Investment Management Division internet page at <https://www.nctreasurer.com/investment-management-division/imd-reports> in the Audited Financial Statements section.

**Bond Index External Investment Pool (BIF)**

The North Carolina Department of State Treasurer operates a government sponsored bond index external investment pool (BIF) in which the State Treasurer is authorized to invest funds for governmental entities that are outside the State’s pension and OPEB trust funds as defined in this note. The BIF invests in high quality debt securities eligible under General Statute 147-69.2(b) (1 through 6).

Participants in the BIF may include public hospitals, Local Government OPEB Trusts, Local Government LEOSSA Trusts, the Death Benefit Plan of N.C., the Disability Income Plan of N.C., the Register of Deeds’ Supplemental Pension Fund, and other funds and component units of the reporting entity with investment authority under General Statute 147-69.2. Participation in the BIF is voluntary.

The deposits are commingled; and therefore, the State Treasurer considers all funds to be part of a single pool. The BIF contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). The BIF is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

The external portion of the BIF is presented in the State’s financial statements as a custodial fund. Each fund and component unit’s share of the internal equity in the BIF is reported in the State’s financial statements as an investment asset of those funds or component units. Net investment income earned by the BIF is distributed on a pro rata basis.

The BIF is included in the State Treasurer Investments separate 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 – Investment Management Division internet page at <https://www.nctreasurer.com/investment-management-division/imd-reports> in the Audited Financial Statements section.

**NOTES TO THE FINANCIAL STATEMENTS****Bond Proceeds Investment Accounts**

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. In the State's financial statements, each fund's equity in these accounts is reported as investments.

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

| <u>Investment Type</u> | <u>Carrying Amount</u> | <u>Weighted Average Maturity (Days)</u> |
|------------------------|------------------------|-----------------------------------------|
| Debt investments:      |                        |                                         |
| U.S. Treasuries        | \$ 128,473             | 44                                      |

*Interest Rate Risk and Credit Risk.* As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1 and are invested in short-term maturities and/or securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

*Custodial Credit Risk.* Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial credit risk policy related to these investments.

U.S. Treasuries are valued at fair value at June 30, 2024 (\$128.47 million) and are classified as Level 2 in the fair value hierarchy. The valuation technique for these securities is the market approach where the pricing vendor gathers real-time market data and uses direct observations to compute an independent price.

**Equity Index Investment Account (EIF)**

The State Treasurer has contracted with an external party (Trustee) to create the equity index investment account (EIF). The primary participants of this equity index investment account are public hospitals and Local Government OPEB Trust (OPEB) funds. Other participants include local government LEOSSA trusts, other entities as permitted by General Statute 147-69.2, and certain funds of the reporting entity. These funds are part of a commingled equity index investment trust (Trust). The Trustee manages the assets in the Trust, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records.

Pursuant to General Statute 159-30.1, the State Treasurer manages the OPEB trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2024, there were 29 OPEB trust participants in the EIF. Each participant is responsible for making its own investment decision.

The State Treasurer also manages the public hospitals' assets. As of June 30, 2024, there were three participants consisting of the Margaret R. Pardee Hospital, Columbus Regional Healthcare, and Watauga Medical Center. Two public hospitals also participate in the BIF. Each participant is responsible for making its own decision.

The Equity Index Investment Account is included in the State Treasurer Investments separate 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 – Investment Management Division internet page at <https://www.nctreasurer.com/investment-management-division/imd-reports> in the Audited Financial Statements section.

**NOTES TO THE FINANCIAL STATEMENTS****Escheat Investment Account**

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments and recurring fair value measurements (dollars in thousands):

|                                        | Fair Value       | Unfunded    |
|----------------------------------------|------------------|-------------|
| Investments Measured at the NAV        | 6/30/2024        | Commitments |
| Private credit limited partnership     | \$ 12,856        | \$ 309      |
| Private equity investment partnerships | 34,106           | 5,912       |
| Total investments measured at the NAV  | <u>\$ 46,962</u> |             |

*Private Credit Limited Partnership.* This type includes two private credit funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

*Private Equity Investment Partnership.* This type includes four private equity funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of buyout, venture capital, growth equity, and private special situations vehicles. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

**B. Deposits Outside the State Treasurer**

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained outside the State Treasurer by the primary government and certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

**Primary Government**

The majority of the uninsured and uncollateralized deposits held outside the State Treasurer were maintained by the USS N.C. Battleship Commission. The USS N.C. Battleship Commission does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

|                                |                 |
|--------------------------------|-----------------|
| Uninsured and Uncollateralized | <u>\$ 5,536</u> |
|--------------------------------|-----------------|

**Component Units**

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

|                                                                                                         |                   |
|---------------------------------------------------------------------------------------------------------|-------------------|
| Uninsured and Uncollateralized                                                                          | \$ 447,173        |
| Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name | 1,025             |
| Total                                                                                                   | <u>\$ 448,198</u> |

**NOTES TO THE FINANCIAL STATEMENTS****C. Investments Outside the State Treasurer****Primary Government**

At year-end, 94% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan.

**Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan**

The Iran Divestment Act (North Carolina General Statutes Sections 147-86.55 through 147-86.63) places investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the NC 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the NC 457 Plan). Specifically, pursuant to the North Carolina Department of State Treasurer's "Iran Divestment Policy", adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in certain investment activities in Iran.

The Divestment from Companies Boycotting Israel Act (North Carolina General Statutes Sections 147-86.80 through 147-86.84) places investment restrictions on the NC 401(k) Plan and the NC 457 Plan. Specifically, pursuant to the North Carolina Department of State Treasurer's "Boycott Israel Divestment Policy," adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in certain boycotting activities against Israel.

In addition, the State Treasurer is required to comply with certain restrictions issued by the United States government, including Executive Order 14032, which restricts investment activity in certain Chinese entities as identified by the Secretary of Treasury (generally military-related companies), as well as restrictions issued by the Office of Foreign Assets Control. The form of governance over the investments is the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent and intelligent judgment and care.

At December 31, 2023, the NC 401(k) and NC 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands). Investments in the Pooled Account totaled \$13.6 billion. The NC 401(k) and NC 457 Plans' investments are held in a group trust established as of January 4, 2016. Their Board authorized the establishment of the North Carolina Supplemental Retirement Plans Group Trust (the "Group Trust") for the purpose of commingling the corpus of the separate trusts of the Plans; and the Board adopted the Declaration of Trust establishing the Group Trust. The Pooled Account offers six equity funds, an inflation responsive fund, an inflation protected securities fund and two fixed income funds. The actively managed separate account funds have multiple investment managers, and the passively managed separate accounts each have a single investment manager. The remainder of the investments is the Stable Value Fund, which consists of five synthetic guaranteed investment contracts and a short-term investment fund.

| Investment Type                                  | Carrying Amount      | Investment Maturities (in Years) |                     |                     |                     |
|--------------------------------------------------|----------------------|----------------------------------|---------------------|---------------------|---------------------|
|                                                  |                      | Less Than 1                      | 1 to 5              | 6 to 10             | More Than 10        |
| Debt investments:                                |                      |                                  |                     |                     |                     |
| U.S. Treasuries                                  | \$ 1,394,643         | \$ 113,262                       | \$ 866,426          | \$ 288,661          | \$ 126,294          |
| U.S. agencies                                    | 121,163              | 7,550                            | 52,420              | 39,817              | 21,376              |
| Mortgage pass-throughs                           | 871,839              | 261,357                          | 817                 | 10,089              | 599,576             |
| Collateralized mortgage obligations              | 50,083               | -                                | 17                  | 541                 | 49,525              |
| State and local government                       | 66,702               | 8,281                            | 25,519              | 24,435              | 8,467               |
| Asset-backed securities                          | 441,119              | 29,704                           | 192,220             | 40,640              | 178,555             |
| Fixed income collective investment funds         | 91,608               | -                                | -                   | 91,608              | -                   |
| Debt mutual funds                                | 33,232               | -                                | 33,232              | -                   | -                   |
| Pooled debt funds                                | 1,164,006            | -                                | -                   | 1,164,006           | -                   |
| Domestic corporate bonds                         | 796,613              | 49,033                           | 383,912             | 224,856             | 138,812             |
| Foreign corporate bonds                          | 175,819              | 13,029                           | 110,372             | 44,425              | 7,993               |
| Foreign government bonds                         | 12,342               | 201                              | 3,940               | 7,635               | 566                 |
|                                                  | 5,219,169            | <u>\$ 482,417</u>                | <u>\$ 1,668,875</u> | <u>\$ 1,936,713</u> | <u>\$ 1,131,164</u> |
| Other investments:                               |                      |                                  |                     |                     |                     |
| Equity collective investment trusts              | 4,863,630            |                                  |                     |                     |                     |
| Domestic stocks                                  | 2,888,721            |                                  |                     |                     |                     |
| Foreign stocks                                   | 2,164,703            |                                  |                     |                     |                     |
| Short-term investment collective trust           | 232,860              |                                  |                     |                     |                     |
| Hedge/commodity/debt collective investment trust | 561,165              |                                  |                     |                     |                     |
| Total investments                                | <u>\$ 15,930,248</u> |                                  |                     |                     |                     |

**NOTES TO THE FINANCIAL STATEMENTS**

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Position, SGICs are reported at contract value. At year-end, the contract value exceeded the fair value of the underlying investments of fully benefit-responsive SGICs by \$122.4 million.

*Interest Rate Risk.* The NC 401(k) and NC 457 Plans do not have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The managers within the NC Fixed Income Fund and the NC TIPS Fund have duration targets relative to a specified benchmark. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which holds securities with maturities ranging from short to intermediate in duration. As a result, the collective investment funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

*Credit Risk.* The NC 401(k) and NC 457 Plans do not have a formal investment policy on credit risk. The investment guidelines applicable to the NC Fixed Income Fund places restrictions on the total risk exposure of the fund and specifically the concentration of the debt securities in which the fund invests. The investment guidelines for the NC TIPS Fund limit non-cash sweep investments to U.S. Treasury Inflation Protected Securities (TIPS) and TIPS futures. At December 31, 2023, the NC 401(k) and NC 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type                          | Carrying Amount by Credit Rating - Moody's/S&P/Fitch |                   |                   |                   |                            |                     |
|------------------------------------------|------------------------------------------------------|-------------------|-------------------|-------------------|----------------------------|---------------------|
|                                          | Aaa/AAA                                              | Aa/AA             | A                 | Baa/BBB           | Less than Investment Grade | Unrated             |
| U.S. agencies                            | \$ -                                                 | \$ 121,163        | \$ -              | \$ -              | \$ -                       | \$ -                |
| Mortgage pass-throughs                   | -                                                    | 557,226           | -                 | -                 | -                          | 202,016             |
| Collateralized mortgage obligations      | 11,015                                               | 6,853             | 1,055             | -                 | 27,765                     | 3,395               |
| State and local government               | 16,382                                               | 43,908            | 5,224             | 207               | -                          | 981                 |
| Asset-backed securities                  | 399,668                                              | 20,460            | 3,676             | -                 | 16,519                     | 796                 |
| Fixed income collective investment funds | -                                                    | -                 | -                 | -                 | -                          | 91,608              |
| Debt mutual funds                        | -                                                    | -                 | -                 | -                 | -                          | 33,232              |
| Pooled debt funds                        | -                                                    | -                 | -                 | -                 | -                          | 1,164,006           |
| Domestic corporate bonds                 | 46,885                                               | 26,015            | 224,215           | 428,922           | 40,090                     | 30,486              |
| Foreign corporate bonds                  | 1,093                                                | 1,958             | 87,552            | 83,174            | 1,997                      | 45                  |
| Foreign government bonds                 | -                                                    | 5,386             | 1,193             | 2,955             | 2,808                      | -                   |
|                                          | <u>\$ 475,043</u>                                    | <u>\$ 782,969</u> | <u>\$ 322,915</u> | <u>\$ 515,258</u> | <u>\$ 89,179</u>           | <u>\$ 1,526,565</u> |

*Custodial Credit Risk.* The NC 401(k) and NC 457 Plans do not have formal investment policies that address custodial credit risk.



**NOTES TO THE FINANCIAL STATEMENTS**

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The NC 401(k) and NC 457 Plans do not have formal investment policies that address foreign currency risk. Investment manager guidelines describe how and if foreign currency hedging can be utilized in the portfolio. At December 31, 2023, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

| Currency              | Carrying Amount |           |
|-----------------------|-----------------|-----------|
|                       | Foreign stocks  |           |
| Euro                  | \$              | 639,843   |
| Japanese Yen          |                 | 405,210   |
| Pound Sterling        |                 | 284,280   |
| Hong Kong Dollar      |                 | 134,612   |
| New Taiwan Dollar     |                 | 104,570   |
| Indian Rupee          |                 | 94,153    |
| Canadian Dollar       |                 | 75,110    |
| Swedish Krona         |                 | 70,715    |
| Swiss Franc           |                 | 65,749    |
| Danish Krone          |                 | 53,531    |
| South Korean Won      |                 | 53,063    |
| Chinese Yuan Renminbi |                 | 34,811    |
| Singapore Dollar      |                 | 26,360    |
| Australian Dollar     |                 | 19,568    |
| Norwegian Krone       |                 | 18,954    |
| Brazilian Real        |                 | 18,887    |
| Mexican Peso          |                 | 17,591    |
| South African Rand    |                 | 13,226    |
| Saudi Riyal           |                 | 13,150    |
| Indonesian Rupiah     |                 | 12,531    |
| UAE Dirham            |                 | 7,557     |
| Thai Baht             |                 | 2,979     |
| Vietnamese Dong       |                 | 2,765     |
| Polish Zloty          |                 | 1,944     |
| Malaysian Ringgit     |                 | 1,472     |
| Turkish Lira          |                 | 1,042     |
| Israeli Shekel        |                 | 901       |
| Egyptian Pound        |                 | 290       |
| Qatari Riyal          |                 | 74        |
| New Zealand Dollar    |                 | 22        |
| Total                 | \$              | 2,174,960 |

Note: The total in this table does not agree to the total disclosed in the investment table above because the foreign currency total of \$2.175 billion includes \$2.165 billion of foreign corporate stocks and \$10 million in foreign corporate bonds denominated in foreign currency.

The fair value measurements of the NC 401(k) and NC 457 Plans' investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**NOTES TO THE FINANCIAL STATEMENTS**

At December 31, 2023, the investments of these Plans maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

|                                                   | 6/30/2024            | Fair Value Measurements Using                                              |                                                        |
|---------------------------------------------------|----------------------|----------------------------------------------------------------------------|--------------------------------------------------------|
|                                                   |                      | Quoted Prices<br>in Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) |
| Investments by fair value level                   |                      |                                                                            |                                                        |
| U.S. Treasuries                                   | \$ 1,394,643         | \$ -                                                                       | \$ 1,394,643                                           |
| U.S. agencies                                     | 121,163              | -                                                                          | 121,163                                                |
| Mortgage pass-throughs                            | 871,839              | -                                                                          | 871,839                                                |
| Collateralized mortgage obligations               | 50,083               | -                                                                          | 50,083                                                 |
| State and local government                        | 66,702               | -                                                                          | 66,702                                                 |
| Asset-backed securities                           | 441,119              | -                                                                          | 441,119                                                |
| Domestic corporate bonds                          | 796,613              | -                                                                          | 796,613                                                |
| Foreign corporate bonds                           | 175,819              | -                                                                          | 175,819                                                |
| Foreign government bonds                          | 12,342               | -                                                                          | 12,342                                                 |
| Domestic stocks                                   | 2,888,721            | 2,888,721                                                                  | -                                                      |
| Foreign stocks                                    | 2,164,703            | 2,164,703                                                                  | -                                                      |
| Total investments by fair value level             | 8,983,747            | <u>\$ 5,053,424</u>                                                        | <u>\$ 3,930,323</u>                                    |
| Investments measured at the net asset value (NAV) |                      |                                                                            |                                                        |
| Short-term investment collective trust            | 232,860              |                                                                            |                                                        |
| Hedge/commodity/debt collective investment trust  | 561,165              |                                                                            |                                                        |
| Fixed income collective investment funds          | 91,608               |                                                                            |                                                        |
| Debt mutual funds                                 | 33,232               |                                                                            |                                                        |
| Pooled mutual funds                               | 1,164,006            |                                                                            |                                                        |
| Equity collective investment trusts               | 4,863,630            |                                                                            |                                                        |
| Total investments measured at the NAV             | <u>6,946,501</u>     |                                                                            |                                                        |
| Total investments measured at fair value          | <u>\$ 15,930,248</u> |                                                                            |                                                        |

U.S. Treasuries, U.S. agencies, mortgage pass-throughs, collateralized mortgage obligations, and state and local government securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities, domestic corporate bonds, foreign corporate bonds, and foreign government bonds classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques.

Investments measured at the net asset value (NAV) per share are presented on the following table (dollars in thousand):

| Investments Measured at the NAV                  | Fair Value<br>6/30/2024 | Redemption<br>Frequency (if<br>Currently Eligible) | Redemption<br>Notice<br>Period |
|--------------------------------------------------|-------------------------|----------------------------------------------------|--------------------------------|
| Short-term investment collective trust           | \$ 232,860              | Daily                                              | 1 day                          |
| Hedge/commodity/debt collective investment trust | 561,165                 | Daily                                              | 1 day                          |
| Fixed income collective investment funds         | 91,608                  | Daily                                              | 1 day                          |
| Debt mutual funds                                | 33,232                  | Daily                                              | 1 day                          |
| Pooled debt funds                                | 1,164,006               | Daily                                              | 1 day                          |
| Equity collective investment trusts              | 4,863,630               | Daily                                              | 1 day                          |
| Total investments measured at the NAV            | <u>\$ 6,946,501</u>     |                                                    |                                |

Short-term Investment Collective Trust - This type includes 2 funds, the BNY Mellon EB Temporary Investment Fund and the Short-Term Investment Fund II, trustee by SEI Trust Company and managed by Blackrock. The BNY Mellon EB Temporary Investment Fund primarily invests in instruments issued by the U.S. Government and federal agencies, short-term corporate obligations, commercial paper, and certificates of deposit. The Short-Term Investment Fund II is invested in a diversified portfolio of money market instruments. The average weighted maturities of the funds do not exceed 60 days. The funds are valued with a NAV at \$1/unit.

**NOTES TO THE FINANCIAL STATEMENTS**

Hedge/Commodity/Debt Collective Investment Trust – This type includes one fund, the NC Inflation Response Fund. The Fund invests wholly in shares of a collective investment trust, the BlackRock Strategic Completion Non-Lendable Fund, managed by BlackRock. This Fund seeks returns that provide a hedge to inflation over the medium to long-term. The Strategic Completion Fund currently allocates to three underlying asset classes: U.S. Treasury Inflation Protected Securities (TIPS), commodities and global real estate investment trusts (REITs). The Fund's net asset value is based on the fair value of the Fund's assets on the valuation date minus the Fund's liabilities on the valuation date. The Fund's unit value is calculated by dividing the Fund's net asset value on the valuation date by the number of units of the Fund that are outstanding on the valuation date.

Fixed Income Collective Investment Funds – This type includes one fund, the Commingled BlackRock Fixed Income Index Fund. The Commingled BlackRock Fixed Income Index Fund seeks to replicate the composition and performance of the Bloomberg U.S. Aggregate Index. The Commingled BlackRock Fixed Income Index Fund is valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Debt Mutual Funds – This type includes two funds in Fixed Income. The MetWest High Yield Bond Fund invests primarily in high yield bonds with the investment objective of maximizing long-term total return. The MetWest Floating Rate Income Fund invests primarily in floating rate securities and seeks to maximize current income. The net asset value is determined by dividing the total value of the fund's portfolio investments and other assets attributable to the fund, less liabilities, by the total number of shares outstanding. The value is determined at the end of each day the New York Stock Exchange is open.

Pooled Debt Funds – This type includes one fund, the Prudential Core Plus Bond Fund in Fixed Income. The fund is an actively managed bond fund that seeks an excess return over the Bloomberg U.S. Aggregate Bond Index. The fund invests in a diversified portfolio of fixed income securities including corporate obligations, structured products, and U.S. Treasuries. The fund actively allocates to both benchmark and non-benchmark sectors, with heavy emphasis on the credit-oriented sectors. The fund is valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Equity Collective Investment Trusts – This type includes five equity index funds. The BlackRock Large Cap Index Fund seeks to replicate the composition and performance of the S&P 500 Index. The BlackRock Small Mid Cap Index Fund seeks to replicate the composition and performance of the Russell 2500 Index. The BlackRock International Index Fund seeks to replicate the composition and performance of the MSCI ACWI Ex-USA IMI Index. Included in the NC Large Cap Core Fund and the NC Small Mid Cap Fund are investments in the Russell 1000 Index Fund and the Russell 2500 Index Fund, respectively. Each are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

**Other Primary Government Investments**

The other primary government investments held outside the State Treasurer consisted almost entirely of separate investment accounts held by trustees for special obligation and revenue debt issues to comply with IRS regulations on bond arbitrage, and escheated securities held for owners.

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

| Investment Type             | Carrying Amount | Investment Maturities (in Years) |            |            |              |
|-----------------------------|-----------------|----------------------------------|------------|------------|--------------|
|                             |                 | Less Than 1                      | 1 to 5     | 6 to 10    | More Than 10 |
| Debt investments:           |                 |                                  |            |            |              |
| U.S. Treasuries             | \$ 446,813      | \$ 101,697                       | \$ 222,966 | \$ 122,150 | \$ -         |
| U.S. agencies               | 18,303          | 4,053                            | 14,250     | -          | -            |
| Repurchase agreements       | 85,863          | 85,863                           | -          | -          | -            |
| Commercial paper            | 1,487           | 1,487                            | -          | -          | -            |
| Annuity contracts           | 74,747          | 8,146                            | 32,584     | 32,584     | 1,433        |
| Money market mutual funds   | 209,308         | 209,308                          | -          | -          | -            |
| Debt mutual funds           | 3,092           | -                                | 2,915      | -          | 177          |
| Pooled debt funds           | 402             | 402                              | -          | -          | -            |
|                             | 840,015         | \$ 410,956                       | \$ 272,715 | \$ 154,734 | \$ 1,610     |
| Other investments:          |                 |                                  |            |            |              |
| Domestic stocks             | 154,724         |                                  |            |            |              |
| Equity mutual funds         | 8,329           |                                  |            |            |              |
| Total investment securities | \$ 1,003,068    |                                  |            |            |              |

**NOTES TO THE FINANCIAL STATEMENTS**

*Interest Rate Risk and Credit Risk.* The special obligation debt proceeds are invested in repurchase agreements and U.S. Treasuries. As established in the debt covenants for certain issues, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank; or 2) any commercial bank, trust company, or national banking association reporting to the Federal Reserve. There are no formally adopted investment policies or debt covenants that address interest rate or credit risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type           | Carrying Amount by Credit Rating - Moody's/S&P/Fitch |                  |               |               |               |
|---------------------------|------------------------------------------------------|------------------|---------------|---------------|---------------|
|                           | Aaa/AAA                                              | Aa/AA            | A             | Baa/BBB       | Unrated       |
| U.S. agencies             | \$ 18,303                                            | \$ -             | \$ -          | \$ -          | \$ -          |
| Commercial paper          | -                                                    | 1,487            | -             | -             | -             |
| Annuity contracts         | -                                                    | 74,747           | -             | -             | -             |
| Money market mutual funds | 209,308                                              | -                | -             | -             | -             |
| Debt mutual funds         | 105                                                  | 2,055            | 456           | 476           | -             |
| Pooled debt funds         | -                                                    | -                | -             | -             | 402           |
| Total                     | <u>\$ 227,716</u>                                    | <u>\$ 78,289</u> | <u>\$ 456</u> | <u>\$ 476</u> | <u>\$ 402</u> |

*Custodial Credit Risk.* There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

The fair value measurements of the other primary government investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At year-end, the other primary government investments maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

|                                                          | 6/30/2024         | Fair Value Measurements Using                                           |                                                        |
|----------------------------------------------------------|-------------------|-------------------------------------------------------------------------|--------------------------------------------------------|
|                                                          |                   | Quoted Prices<br>in Active Markets<br>for Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) |
| Investments by fair value level                          |                   |                                                                         |                                                        |
| U.S. Treasuries                                          | \$ 446,813        | \$ 432,308                                                              | \$ 14,505                                              |
| U.S. agencies                                            | 18,303            | -                                                                       | 18,303                                                 |
| Commercial paper                                         | 1,487             | -                                                                       | 1,487                                                  |
| Annuity contracts                                        | 74,747            | 74,747                                                                  | -                                                      |
| Debt mutual funds                                        | 3,092             | 3,092                                                                   | -                                                      |
| Equity mutual funds                                      | 8,329             | 8,329                                                                   | -                                                      |
| Domestic stocks                                          | 154,724           | 154,724                                                                 | -                                                      |
| Total investments by fair value level                    | <u>707,495</u>    | <u>\$ 673,200</u>                                                       | <u>\$ 34,295</u>                                       |
| Investments as a position in an External Investment Pool |                   |                                                                         |                                                        |
| Pooled debt funds                                        | 402               |                                                                         |                                                        |
| Total investments measured at fair value                 | <u>\$ 707,897</u> |                                                                         |                                                        |

Note: The total in this table does not agree to the total disclosed in the previous investment maturities table because this table does not include investments reported at cost. See Note 1E for additional information.

**NOTES TO THE FINANCIAL STATEMENTS**

U.S. Treasuries classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques. U.S. agency securities and commercial paper classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pooled debt funds are valued based on the ownership interest of the External Investment Pool Short Term Investment Fund (STIF), which is determined on a fair value basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

**Component Units****University of North Carolina System**

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC System). However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill (the University) operates the UNC Investment Fund, LLC (Investment Fund), which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University and other institutions within the UNC System. Separate financial statements for the Investment Fund may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

| Investment Type                     | Carrying Amount      | Investment Maturities (in Years) |                   |                   |                  |
|-------------------------------------|----------------------|----------------------------------|-------------------|-------------------|------------------|
|                                     |                      | Less Than 1                      | 1 to 5            | 6 to 10           | More Than 10     |
| Debt investments:                   |                      |                                  |                   |                   |                  |
| U.S. Treasuries                     | \$ 964,533           | \$ 767,667                       | \$ 195,929        | \$ 847            | \$ 90            |
| U.S. agencies                       | 33,212               | -                                | 6,945             | 3,643             | 22,624           |
| Collateralized mortgage obligations | 18,015               | 290                              | 571               | 2,239             | 14,915           |
| Asset-backed securities             | 49,009               | 117                              | 7,445             | 23,059            | 18,388           |
| Collective investment funds         | 119,857              | 94,889                           | -                 | 24,968            | -                |
| Annuity contracts                   | 180                  | 180                              | -                 | -                 | -                |
| Debt mutual funds                   | 562,892              | 1,672                            | 461,719           | 96,625            | 2,876            |
| Money market mutual funds           | 891,776              | 891,776                          | -                 | -                 | -                |
| Pooled debt funds                   | 636                  | -                                | -                 | 636               | -                |
| Domestic corporate bonds            | 931                  | 17                               | 613               | 270               | 31               |
| Other                               | 35                   | 35                               | -                 | -                 | -                |
|                                     | <u>2,641,076</u>     | <u>\$ 1,756,643</u>              | <u>\$ 673,222</u> | <u>\$ 152,287</u> | <u>\$ 58,924</u> |
| Other investments:                  |                      |                                  |                   |                   |                  |
| Balanced mutual funds               | 2,671                |                                  |                   |                   |                  |
| International mutual funds          | 27,718               |                                  |                   |                   |                  |
| Equity mutual funds                 | 70,605               |                                  |                   |                   |                  |
| Investments in real estate          | 163,092              |                                  |                   |                   |                  |
| Real estate investment trust        | 91,586               |                                  |                   |                   |                  |
| Hedge funds                         | 4,469,181            |                                  |                   |                   |                  |
| Private equity limited partnerships | 4,662,986            |                                  |                   |                   |                  |
| Real assets limited partnerships    | 794,838              |                                  |                   |                   |                  |
| Other limited partnerships          | 451,089              |                                  |                   |                   |                  |
| Domestic stocks                     | 580,358              |                                  |                   |                   |                  |
| Foreign stocks                      | 46,936               |                                  |                   |                   |                  |
| Other                               | 4,847                |                                  |                   |                   |                  |
| Total investments                   | <u>\$ 14,006,983</u> |                                  |                   |                   |                  |

**NOTES TO THE FINANCIAL STATEMENTS**

*Interest Rate Risk and Credit Risk.* The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type                     | Carrying Amount by Credit Rating - Moody's/S&P/Fitch |                   |                   |                   |                            |                   |
|-------------------------------------|------------------------------------------------------|-------------------|-------------------|-------------------|----------------------------|-------------------|
|                                     | Aaa/AAA                                              | Aa/AA             | A                 | Baa/BBB           | Less than Investment Grade | Unrated           |
| U.S. agencies                       | \$ 153                                               | \$ 30,529         | \$ -              | \$ 182            | \$ 2,348                   | \$ -              |
| Collateralized mortgage obligations | 259                                                  | 269               | 1,410             | 5,768             | 6,963                      | 3,346             |
| Asset-backed securities             | 251                                                  | -                 | 1,539             | 6,100             | 30,030                     | 11,089            |
| Collective investment funds         | -                                                    | 24,968            | -                 | -                 | -                          | 94,889            |
| Annuity contracts                   | -                                                    | -                 | -                 | -                 | -                          | 180               |
| Debt mutual funds                   | 5,412                                                | 102,707           | 318,993           | 119,016           | 1,845                      | 14,919            |
| Money market mutual funds           | 886,732                                              | -                 | -                 | -                 | -                          | 5,044             |
| Pooled debt funds                   | -                                                    | -                 | -                 | -                 | -                          | 636               |
| Domestic corporate bonds            | 39                                                   | 34                | 419               | 439               | -                          | -                 |
| Other                               | 35                                                   | -                 | -                 | -                 | -                          | -                 |
| Total                               | <u>\$ 892,881</u>                                    | <u>\$ 158,507</u> | <u>\$ 322,361</u> | <u>\$ 131,505</u> | <u>\$ 41,186</u>           | <u>\$ 130,103</u> |

*Custodial Credit Risk.* The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

| Investment Type | Carrying Amount      |
|-----------------|----------------------|
|                 | Held by Counterparty |
| Domestic stocks | \$ 22,257            |
| Foreign stocks  | 18                   |
| Total           | <u>\$ 22,275</u>     |

*Foreign Currency Risk.* The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

| Currency               | Carrying Amount  |                                     |                                  |                |
|------------------------|------------------|-------------------------------------|----------------------------------|----------------|
|                        | Hedge funds      | Private equity limited partnerships | Real assets limited partnerships | Foreign stocks |
| Euro                   | \$ 26,454        | \$ 180,215                          | \$ 585                           | \$ -           |
| British Pound Sterling | -                | 86,971                              | -                                | 906            |
| Canadian Dollar        | -                | 3,396                               | -                                | -              |
| Australian Dollar      | -                | 403                                 | -                                | -              |
| Total                  | <u>\$ 26,454</u> | <u>\$ 270,985</u>                   | <u>\$ 585</u>                    | <u>\$ 906</u>  |

**NOTES TO THE FINANCIAL STATEMENTS**

The fair value measurements of the UNC System's investments maintained outside the State Treasurer are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At year-end, the UNC System's investments maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

|                                                   | 6/30/2024            | Fair Value Measurements Using                                              |                                                        |                                                    |
|---------------------------------------------------|----------------------|----------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|
|                                                   |                      | Quoted Prices<br>in Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Investments by fair value level                   |                      |                                                                            |                                                        |                                                    |
| U.S. Treasuries                                   | \$ 964,533           | \$ 964,533                                                                 | \$ -                                                   | \$ -                                               |
| U.S. agencies                                     | 33,212               | 153                                                                        | 33,059                                                 | -                                                  |
| Collateralized mortgage obligations               | 18,015               | -                                                                          | 18,015                                                 | -                                                  |
| Asset-backed securities                           | 49,009               | 118                                                                        | 48,891                                                 | -                                                  |
| Collective investment funds                       | 119,857              | 119,857                                                                    | -                                                      | -                                                  |
| Annuity contracts                                 | 180                  | -                                                                          | 180                                                    | -                                                  |
| Debt mutual funds                                 | 562,892              | 562,892                                                                    | -                                                      | -                                                  |
| Money market mutual funds                         | 854,499              | 854,499                                                                    | -                                                      | -                                                  |
| Pooled debt funds                                 | 636                  | 636                                                                        | -                                                      | -                                                  |
| Balanced mutual funds                             | 2,671                | 2,671                                                                      | -                                                      | -                                                  |
| International mutual funds                        | 27,718               | 27,718                                                                     | -                                                      | -                                                  |
| Equity mutual funds                               | 70,605               | 70,605                                                                     | -                                                      | -                                                  |
| Domestic corporate bonds                          | 931                  | 931                                                                        | -                                                      | -                                                  |
| Domestic stocks                                   | 580,358              | 434,310                                                                    | -                                                      | 146,048                                            |
| Foreign stocks                                    | 46,936               | 45,479                                                                     | 86                                                     | 1,371                                              |
| Investments in real estate                        | 163,092              | 297                                                                        | 143,882                                                | 18,913                                             |
| Real estate investment trust                      | 88,516               | 88,516                                                                     | -                                                      | -                                                  |
| Other                                             | 4,697                | 318                                                                        | -                                                      | 4,379                                              |
| Total investments by fair value level             | 3,588,357            | <u>\$ 3,173,533</u>                                                        | <u>\$ 244,113</u>                                      | <u>\$ 170,711</u>                                  |
| Investments measured at the net asset value (NAV) |                      |                                                                            |                                                        |                                                    |
| Real estate investment trust                      | 3,070                |                                                                            |                                                        |                                                    |
| Hedge funds                                       | 4,469,181            |                                                                            |                                                        |                                                    |
| Private equity limited partnerships               | 4,662,986            |                                                                            |                                                        |                                                    |
| Real assets limited partnerships                  | 794,838              |                                                                            |                                                        |                                                    |
| Other limited partnerships                        | 451,089              |                                                                            |                                                        |                                                    |
| Other                                             | 185                  |                                                                            |                                                        |                                                    |
| Total investments measured at the NAV             | <u>10,381,349</u>    |                                                                            |                                                        |                                                    |
| Total investments measured at fair value          | <u>\$ 13,969,706</u> |                                                                            |                                                        |                                                    |

The majority of debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing relies on the securities' relationship to other benchmark quoted securities. In general, domestic stocks classified in Level 3 of the fair value hierarchy are valued based on recent company stock valuation. Investments in real estate classified in Level 2 of the fair value hierarchy are valued using a market multiples technique. The market multiples technique uses multiples or ratios derived from identical or similar assets, liabilities, or groups of assets and liabilities to determine the fair value of an asset or liability. The majority of investments in real estate classified in Level 3 of the fair value hierarchy are valued using a combination of recent sales or historical appraisals.

**NOTES TO THE FINANCIAL STATEMENTS**

The University of North Carolina at Chapel Hill holds the majority of the investments measured at net asset value in the previous table. Below are additional disclosures for these investments (dollars in thousands):

| Investments Measured at the NAV       | Fair Value<br>6/30/2024 | Unfunded<br>Commitments | Redemption Frequency<br>(if Currently Eligible)      | Redemption<br>Notice Period                                                                            |
|---------------------------------------|-------------------------|-------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| UNC at Chapel Hill:                   |                         |                         |                                                      |                                                                                                        |
| Hedge funds                           | \$ 4,425,055            | \$ —                    | Ranges from 30 days to 3+ years with certain notices | 30-180 days                                                                                            |
| Private equity limited partnerships   | 4,490,889               | 1,212,349               | Not currently eligible                               | These funds do not have redemption rights, but have terms of 10 years and make periodic distributions. |
| Real assets limited partnerships      | 794,618                 | 475,319                 | Not currently eligible                               | These funds do not have redemption rights, but have terms of 10 years and make periodic distributions. |
| Total investments measured at the NAV | <u>\$ 9,710,562</u>     |                         |                                                      |                                                                                                        |

*Hedge Funds.* UNC at Chapel Hill reports a combination of the following asset strategies for its hedge funds: long biased equity, long/short equity, diversifying, fixed income, and hedge funds in liquidation. The long biased equity strategy is characterized by primarily holding long positions in publicly listed securities to gain equity market exposure globally. The long/short equity strategy is characterized by buying and/or selling short individual securities that fund managers believe the market has mispriced. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities. Both long biased equity and long/short equity hedge fund managers occasionally invest in equity index futures, options on equity index futures, and specific risk options. The diversifying strategy is characterized by its lack of correlation with major equity indices. These managers may use derivatives such as fixed income and equity futures both as hedging tools and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets. The fixed income strategy includes credit-based commingled hedge funds and is characterized by a focus on income generation and portfolio diversification. These managers may use futures and options on global fixed income and currency markets and enter into swap agreements to hedge or gain exposure to certain markets. The hedge funds in liquidation strategy is characterized by investment in hedge funds that are either in the process of being terminated or have received notice of termination.

*Private Equity Limited Partnerships.* Private equity managers typically invest in equity investments and transactions in private companies. These investments are typically illiquid and are expected to control volatility and provide higher returns over the long term than public equity investments. The energy subsection of the private equity strategy, including direct energy investments, energy security investments, and limited partnerships, is primarily used to hedge against unanticipated inflation. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

*Real Assets Limited Partnerships.* Real estate managers invest in private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public real estate investment trusts that provide a more liquid means of gaining exposure to this asset class. These investments primarily serve as a hedge against unanticipated general price inflation but are also a source of current income.



**NOTES TO THE FINANCIAL STATEMENTS****NOTE 4: RECEIVABLES**

Receivables at June 30, 2024, are reported net of allowances for doubtful accounts as follows (dollars in thousands):

**Governmental Activities:**

|                                      | General<br>Fund     | Highway<br>Fund   | Highway<br>Trust<br>Fund | Other<br>Governmental<br>Funds | Internal<br>Service<br>Fund | Total               |
|--------------------------------------|---------------------|-------------------|--------------------------|--------------------------------|-----------------------------|---------------------|
| Receivables, gross (excluding notes) | \$ 10,088,132       | \$ 285,451        | \$ 59,143                | \$ 362,083                     | \$ 51,116                   | \$ 10,845,925       |
| Allowance for doubtful accounts      | (2,620,122)         | (15,463)          | -                        | (325,223)                      | -                           | (2,960,808)         |
| Receivables, net                     | <u>\$ 7,468,010</u> | <u>\$ 269,988</u> | <u>\$ 59,143</u>         | <u>\$ 36,860</u>               | <u>\$ 51,116</u>            | <u>\$ 7,885,117</u> |
| Notes receivable, gross              | \$ 21,121           | \$ 119            | \$ -                     | \$ 27,422                      | \$ -                        | \$ 48,662           |
| Allowance for doubtful accounts      | -                   | -                 | -                        | (35)                           | -                           | (35)                |
| Notes receivable, net                | <u>\$ 21,121</u>    | <u>\$ 119</u>     | <u>\$ -</u>              | <u>\$ 27,387</u>               | <u>\$ -</u>                 | <u>\$ 48,627</u>    |

Within governmental activities, the significant receivables not expected to be collected within one year total \$173.68 million. Amounts not expected to be collected within one year in the General Fund are \$150.77 million, \$780 thousand in Special Revenue Funds, and \$22.13 million in Capital Projects Funds.

**Business-type Activities:**

|                                      | Unemployment<br>Compensation<br>Fund | EPA<br>Revolving<br>Loan Fund | NC State<br>Lottery<br>Fund | N.C. Turnpike<br>Authority | Other<br>Enterprise<br>Funds | Total             |
|--------------------------------------|--------------------------------------|-------------------------------|-----------------------------|----------------------------|------------------------------|-------------------|
| Receivables, gross (excluding notes) | \$ 1,128,370                         | \$ 280                        | \$ 39,191                   | \$ 149,196                 | \$ 9,126                     | \$ 1,326,163      |
| Allowance for doubtful accounts      | (281,484)                            | -                             | -                           | (80,318)                   | -                            | (361,802)         |
| Receivables, net                     | <u>\$ 846,886</u>                    | <u>\$ 280</u>                 | <u>\$ 39,191</u>            | <u>\$ 68,878</u>           | <u>\$ 9,126</u>              | <u>\$ 964,361</u> |

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 5: CAPITAL ASSETS**

**Primary Government** A summary of changes in capital assets for the year ended June 30, 2024 is presented below (dollars in thousands).

| <b>Governmental Activities</b>                | <b>Balance<br/>July 1, 2023<br/>(as restated)</b> | <b>Increases</b> | <b>Decreases</b> | <b>Balance<br/>June 30, 2024</b> |
|-----------------------------------------------|---------------------------------------------------|------------------|------------------|----------------------------------|
| <b>Capital Assets, nondepreciable</b>         |                                                   |                  |                  |                                  |
| Land and permanent easements                  | \$ 22,416,748                                     | \$ 1,092,025     | \$ (14,658)      | \$ 23,494,115                    |
| Art, literature, and other artifacts          | 187,454                                           | 2,847            | (5)              | 190,296                          |
| Construction in progress                      | 3,533,054                                         | 3,360,995        | (3,146,278)      | 3,747,771                        |
| Computer software in development              | 1,010,515                                         | 79,261           | (36,483)         | 1,053,293                        |
| Total Capital Assets-nondepreciable           | 27,147,771                                        | 4,535,128        | (3,197,424)      | 28,485,475                       |
| <b>Capital Assets, depreciable</b>            |                                                   |                  |                  |                                  |
| Buildings                                     | 4,692,207                                         | 26,565           | (240,109)        | 4,478,663                        |
| Machinery and equipment                       | 2,352,043                                         | 481,193          | (95,895)         | 2,737,341                        |
| General infrastructure                        | 390,620                                           | 7,510            | (11,573)         | 386,557                          |
| State highway system                          | 49,439,782                                        | 3,076,144        | (164,345)        | 52,351,581                       |
| Computer software                             | 433,247                                           | 52,741           | (331)            | 485,657                          |
| Subscription asset                            | 256,501                                           | 93,195           | (14,240)         | 335,456                          |
| <b>Right to use lease assets, depreciable</b> |                                                   |                  |                  |                                  |
| Land and permanent easements                  | 514                                               | 109              | -                | 623                              |
| Buildings                                     | 473,096                                           | 73,724           | (11,577)         | 535,243                          |
| Machinery and equipment                       | 4,486                                             | 342              | (642)            | 4,186                            |
| General infrastructure                        | 1,634                                             | -                | -                | 1,634                            |
| Total Capital Assets-depreciable              | 58,044,130                                        | 3,811,523        | (538,712)        | 61,316,941                       |
| <b>Less accumulated depreciation for</b>      |                                                   |                  |                  |                                  |
| <b>Capital assets, depreciable</b>            |                                                   |                  |                  |                                  |
| Buildings                                     | (1,696,644)                                       | (94,873)         | 94,205           | (1,697,312)                      |
| Machinery and equipment                       | (1,335,988)                                       | (131,889)        | 59,676           | (1,408,201)                      |
| General infrastructure                        | (158,126)                                         | (8,476)          | 7,098            | (159,504)                        |
| State highway system                          | (15,327,998)                                      | (1,047,032)      | 161,058          | (16,213,972)                     |
| Computer software                             | (147,180)                                         | (26,545)         | 6                | (173,719)                        |
| Subscription asset                            | (48,485)                                          | (92,474)         | 4                | (140,955)                        |
| <b>Right to use lease assets, depreciable</b> |                                                   |                  |                  |                                  |
| Land and permanent easements                  | (72)                                              | (44)             | -                | (116)                            |
| Buildings                                     | (92,359)                                          | (40,669)         | 5,751            | (127,277)                        |
| Machinery and equipment                       | (2,703)                                           | (984)            | 400              | (3,287)                          |
| General infrastructure                        | (544)                                             | (277)            | 346              | (475)                            |
| Total accumulated depreciation                | (18,810,099)                                      | (1,443,263)      | 328,544          | (19,924,818)                     |
| Total Capital Assets-depreciable, net         | 39,234,031                                        | 2,368,260        | (210,168)        | 41,392,123                       |
| <b>Governmental activities</b>                |                                                   |                  |                  |                                  |
| Capital Assets, net                           | \$ 66,381,802                                     | \$ 6,903,388     | \$ (3,407,592)   | \$ 69,877,598                    |

**NOTES TO THE FINANCIAL STATEMENTS****Business-type Activities**

|                                               | Balance<br>July 1, 2023<br>(as restated) | Increases  | Decreases  | Balance<br>June 30, 2024 |
|-----------------------------------------------|------------------------------------------|------------|------------|--------------------------|
| <b>Capital Assets, nondepreciable</b>         |                                          |            |            |                          |
| Land and permanent easements                  | \$ 604,102                               | \$ 46,548  | \$ -       | \$ 650,650               |
| Art, literature, and other artifacts          | 1,293                                    | -          | -          | 1,293                    |
| Construction in progress                      | 911,150                                  | 237,545    | -          | 1,148,695                |
| Total Capital Assets-nondepreciable           | 1,516,545                                | 284,093    | -          | 1,800,638                |
| <b>Capital Assets, depreciable</b>            |                                          |            |            |                          |
| Buildings                                     | 114,628                                  | 375        | (38)       | 114,965                  |
| Machinery and equipment                       | 27,128                                   | 1,761      | (2,147)    | 26,742                   |
| General infrastructure                        | 20,240                                   | -          | -          | 20,240                   |
| NC toll road system                           | 1,534,469                                | -          | -          | 1,534,469                |
| Computer software                             | 1,891                                    | 152        | (6)        | 2,037                    |
| Subscription asset                            | 3,617                                    | 280        | -          | 3,897                    |
| <b>Right to use lease assets, depreciable</b> |                                          |            |            |                          |
| Buildings                                     | 9,472                                    | 2,547      | (2,850)    | 9,169                    |
| Machinery and equipment                       | 617                                      | 483        | (205)      | 895                      |
| Total Capital Assets-depreciable              | 1,712,062                                | 5,598      | (5,246)    | 1,712,414                |
| <b>Less accumulated depreciation for</b>      |                                          |            |            |                          |
| <b>Capital Assets, depreciable</b>            |                                          |            |            |                          |
| Buildings                                     | (57,656)                                 | (2,819)    | 38         | (60,437)                 |
| Machinery and equipment                       | (19,707)                                 | (1,852)    | 1,566      | (19,993)                 |
| General infrastructure                        | (14,406)                                 | (339)      | -          | (14,745)                 |
| NC toll road system                           | (235,200)                                | (29,684)   | -          | (264,884)                |
| Computer software                             | (1,511)                                  | (77)       | 6          | (1,582)                  |
| Subscription asset                            | (766)                                    | (873)      | -          | (1,639)                  |
| <b>Right to use lease assets, depreciable</b> |                                          |            |            |                          |
| Buildings                                     | (3,542)                                  | (1,752)    | 1,530      | (3,764)                  |
| Machinery and equipment                       | (316)                                    | (214)      | 197        | (333)                    |
| Total accumulated depreciation                | (333,104)                                | (37,610)   | 3,337      | (367,377)                |
| Total Capital Assets-depreciable, net         | 1,378,958                                | (32,012)   | (1,909)    | 1,345,037                |
| Business-type activities                      |                                          |            |            |                          |
| Capital Assets, net                           | \$ 2,895,503                             | \$ 252,081 | \$ (1,909) | \$ 3,145,675             |

**NOTES TO THE FINANCIAL STATEMENTS****Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):*****Governmental activities***

|                                            |    |                  |
|--------------------------------------------|----|------------------|
| General government                         | \$ | 71,591           |
| Primary and secondary education            |    | 18,918           |
| Higher education                           |    | 1,316            |
| Health and human services                  |    | 87,751           |
| Economic development                       |    | 4,038            |
| Environment and natural resources          |    | 28,275           |
| Public safety, corrections, and regulation |    | 91,286           |
| Transportation                             |    | 1,127,007        |
| Agriculture                                |    | 13,081           |
| Total depreciation expense                 | \$ | <u>1,443,263</u> |

***Business-type activities***

|                                |    |               |
|--------------------------------|----|---------------|
| N.C. State Lottery             | \$ | 950           |
| N.C. Turnpike Authority        |    | 29,687        |
| Regulatory programs            |    | 4,997         |
| North Carolina State Fair      |    | 936           |
| Other business-type activities |    | 1,040         |
| Total depreciation expense     | \$ | <u>37,610</u> |

**Public-Private Partnership Arrangements for the North Carolina Department of Transportation**

In June 2014, the North Carolina Department of Transportation (NCDOT) entered into a public-private partnership (PPP) arrangement with I-77 Mobility Partners LLC (MP LLC) to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. During fiscal year 2020, improvements were completed along approximately 26 miles of the I-77 corridor, in Mecklenburg and Iredell Counties. This included the conversion of HOV (high occupancy vehicles) lanes to express lanes or high occupancy toll (HOT) lanes and the construction of new HOT lanes and two major interchanges. Under the arrangement, MP LLC will operate the HOT lanes for 50 years and have the exclusive right to impose tolls and incidental charges to express lane users. NCDOT maintains title of the real property underlying the I-77 toll lanes and reports the I-77 HOT lanes as a capital asset with a carrying value of \$189.19 million at fiscal year-end and a related deferred inflow of resources of \$67.25 million that is amortized using the straight-line method over the term of the PPP agreement. NCDOT recognized \$1.48 million in revenue during the fiscal year related to the amortization of the deferred inflow of resources.

**Public-Private Partnership Arrangements for the North Carolina Department of Natural and Cultural Resources**

In May 2007, the Department of Natural and Cultural Resources (DNCR) entered in to a public-private partnership arrangement with Chimney Rock Management, LLC (CRM LLC) in which DNCR conveyed control of the right to operate public facilities within the Chimney Rock Section of Chimney Rock State Park (the Park). Since 2007, this agreement has been amended and extended, and the most recent amendment term is set to expire on December 31, 2032.

In the arrangement, CRM LLC is given exclusive use of the existing buildings, trails, furnishings, vehicles and equipment for the operation of the Park. While the operating plan is subject to the approval of the DNCR, CRM LLC makes all employment and business decisions as it relates to the operations of the park and is responsible for collecting fees from Park visitors, including fees collected for various Park services and use of facilities. DNCR receives a certain percentage of Park revenues, with no minimum payment requirements. The percentage received is based on annual gross sales and a fee schedule outlined in the arrangement as amended. DNCR received and recognized \$911 thousand in sales and services related to Park revenues in fiscal year 2024. DNCR reported capital assets for the park and the associated public facilities with a carrying value of \$1.21 million at the fiscal year-end.

**NOTES TO THE FINANCIAL STATEMENTS**

**Component Units** (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2024, was as follows (dollars in thousands):

**University of North Carolina System**

|                                               | Balance<br>July 1, 2023<br>(as restated) | Increases  | Decreases    | Balance<br>June 30, 2024 |
|-----------------------------------------------|------------------------------------------|------------|--------------|--------------------------|
| <b>Capital Assets, nondepreciable</b>         |                                          |            |              |                          |
| Land and permanent easements                  | \$ 544,811                               | \$ 20,124  | \$ (32)      | \$ 564,903               |
| Art, literature, and other artifacts          | 259,455                                  | 4,404      | (151)        | 263,708                  |
| Construction in progress                      | 1,016,379                                | 635,201    | (434,320)    | 1,217,260                |
| Computer software in development              | 7,065                                    | 12,508     | (16,809)     | 2,764                    |
| Other intangible assets                       | 24,436                                   | -          | (4,748)      | 19,688                   |
| Total Capital Assets-nondepreciable           | 1,852,146                                | 672,237    | (456,060)    | 2,068,323                |
| <b>Capital Assets, depreciable</b>            |                                          |            |              |                          |
| Buildings                                     | 17,539,668                               | 418,844    | (44,374)     | 17,914,138               |
| Machinery and equipment                       | 3,470,751                                | 387,542    | (196,203)    | 3,662,090                |
| Art, literature, and other artifacts          | 202                                      | -          | -            | 202                      |
| General infrastructure                        | 2,452,688                                | 67,999     | (1,374)      | 2,519,313                |
| Computer software                             | 459,018                                  | 36,018     | (2,201)      | 492,835                  |
| Subscription asset                            | 312,024                                  | 162,903    | (20,061)     | 454,866                  |
| Other intangible assets                       | 1,371                                    | -          | (1,371)      | -                        |
| <b>Right to use lease assets, depreciable</b> |                                          |            |              |                          |
| Land and permanent easements                  | 10,550                                   | 825        | (58)         | 11,317                   |
| Buildings                                     | 771,195                                  | 94,562     | (44,244)     | 821,513                  |
| Machinery and equipment                       | 34,262                                   | 16,964     | (2,470)      | 48,756                   |
| General infrastructure                        | 6,573                                    | -          | -            | 6,573                    |
| Total Capital Assets-depreciable              | 25,058,302                               | 1,185,657  | (312,356)    | 25,931,603               |
| <b>Less accumulated depreciation for</b>      |                                          |            |              |                          |
| <b>Capital Assets, depreciable</b>            |                                          |            |              |                          |
| Buildings                                     | (6,228,567)                              | (413,655)  | 21,955       | (6,620,267)              |
| Machinery and equipment                       | (2,163,610)                              | (208,379)  | 179,648      | (2,192,341)              |
| Art, literature, and other artifacts          | (197)                                    | (1)        | -            | (198)                    |
| General infrastructure                        | (1,117,986)                              | (67,200)   | 1,051        | (1,184,135)              |
| Computer software                             | (377,508)                                | (42,514)   | 2,049        | (417,973)                |
| Subscription asset                            | (82,183)                                 | (99,526)   | 6,776        | (174,933)                |
| Other intangible assets                       | (2,559)                                  | -          | 117          | (2,442)                  |
| <b>Right to use lease assets, depreciable</b> |                                          |            |              |                          |
| Land and permanent easements                  | (257)                                    | (326)      | 30           | (553)                    |
| Buildings                                     | (257,253)                                | (90,644)   | 4,439        | (343,458)                |
| Machinery and equipment                       | (12,980)                                 | (7,768)    | 1,582        | (19,166)                 |
| General infrastructure                        | (1,532)                                  | (766)      | -            | (2,298)                  |
| Total accumulated depreciation                | (10,244,632)                             | (930,779)  | 217,647      | (10,957,764)             |
| Total Capital Assets-depreciable, net         | 14,813,670                               | 254,878    | (94,709)     | 14,973,839               |
| University of North Carolina System           |                                          |            |              |                          |
| Capital Assets, net                           | \$ 16,665,816                            | \$ 927,115 | \$ (550,769) | \$ 17,042,162            |

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2024, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$52.468 million and net depreciable capital assets of \$127.538 million.

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**NOTES TO THE FINANCIAL STATEMENTS****Public-Private Partnership Arrangements for Noble Hall at Western Carolina University**

In August 2016, construction was completed on Noble Hall pursuant to a public-private partnership agreement between Western Carolina University (University) and a third party developer, Collegiate Housing Foundation (Foundation), under which the Foundation designed and built a mixed use facility that includes residential units, commercial, and dining establishments. The building is on land owned by the Board of Trustees of the University's Endowment Fund, a body established under the State of North Carolina, and leased to the Foundation for 40 years. The student housing facility is managed by the University under the terms of the management agreement. The University is operating the facility with budgetary oversight from the Foundation. At the end of the arrangement, the Foundation will transfer its interest in the facility at no cost to the University or, if directed by the University, to the Board of Trustees of the University's Endowment Fund.

In order to promote economic, cultural, and community development opportunities, including the creation of employment, and the stimulation of economic activity, the University entered into this agreement with the Foundation to construct the facility. Under this arrangement, the University is responsible for providing electricity to the facility over the course of the 40-year lease agreement. The University reports the facility as a capital asset with a carrying amount of \$23.64 million at year-end and a related deferred inflow of resources of \$20.54 million that is amortized using the straight-line method over the terms of the lease agreement.

**Public-Private Partnership Arrangements for Student Housing**

The University of North Carolina at Wilmington, Appalachian State University, and North Carolina Central University (collectively "the universities") completed construction on student housing facilities pursuant to separate agreements with third-party developers, under which such developers will construct and operate the facilities for 50 years, in certain cases with the budgetary oversight of the developer. Each student housing facility is located on property either owned or leased by each individual university. Residence life programming will be managed by each individual university under the terms of the management agreements and operating agreements established with each third-party developer. At the end of each arrangement, the third-party developers will transfer interest in the facilities at no cost to the universities. North Carolina Central University retains the right to buy out its ground lease prior to the expiration of its lease.

The universities entered into these agreements to address shortages in student housing caused by enrollment growth as well as increased demand for updated on-campus housing, while avoiding the issuance of debt. Under its specific arrangement, Appalachian State University is required to provide certain services related to the facility under the agreement, including facility management, maintenance, and security. Collectively, the universities report the facilities as capital assets with an aggregate carrying amount of \$315.43 million at year-end and a related deferred inflow of resources of \$305.72 million.

**NOTES TO THE FINANCIAL STATEMENTS****Community Colleges**

|                                               | Balance<br>July 1, 2023<br>(as restated) | Increases  | Decreases    | Balance<br>June 30, 2024 |
|-----------------------------------------------|------------------------------------------|------------|--------------|--------------------------|
| <b>Capital Assets, nondepreciable</b>         |                                          |            |              |                          |
| Land and permanent easements                  | \$ 228,843                               | \$ 7,690   | \$ (343)     | \$ 236,190               |
| Art, literature, and other artifacts          | 1,161                                    | -          | -            | 1,161                    |
| Construction in progress                      | 307,427                                  | 166,984    | (299,703)    | 174,708                  |
| Other intangible assets                       | 2,292                                    | -          | -            | 2,292                    |
| Total Capital Assets-nondepreciable           | 539,723                                  | 174,674    | (300,046)    | 414,351                  |
| <b>Capital Assets, depreciable</b>            |                                          |            |              |                          |
| Buildings                                     | 4,348,824                                | 296,287    | (3,320)      | 4,641,791                |
| Machinery and equipment                       | 763,115                                  | 83,502     | (27,078)     | 819,539                  |
| Art, literature, and other artifacts          | 771                                      | 290        | -            | 1,061                    |
| General infrastructure                        | 283,740                                  | 7,611      | (327)        | 291,024                  |
| Computer software                             | 60                                       | 660        | -            | 720                      |
| Subscription asset                            | 27,827                                   | 11,628     | (1,425)      | 38,030                   |
| <b>Right to use lease assets, depreciable</b> |                                          |            |              |                          |
| Land and permanent easements                  | 2,245                                    | -          | -            | 2,245                    |
| Buildings                                     | 55,865                                   | 933        | (872)        | 55,926                   |
| Machinery and equipment                       | 11,888                                   | 2,536      | (1,207)      | 13,217                   |
| General infrastructure                        | 9,451                                    | -          | -            | 9,451                    |
| Total Capital Assets-depreciable              | 5,503,786                                | 403,447    | (34,229)     | 5,873,004                |
| <b>Less accumulated depreciation for</b>      |                                          |            |              |                          |
| <b>Capital Assets, depreciable</b>            |                                          |            |              |                          |
| Buildings                                     | (1,288,751)                              | (86,575)   | 1,383        | (1,373,943)              |
| Machinery and equipment                       | (336,638)                                | (49,449)   | 20,129       | (365,958)                |
| Art, literature, and other artifacts          | (297)                                    | (24)       | -            | (321)                    |
| General infrastructure                        | (90,850)                                 | (6,733)    | 69           | (97,514)                 |
| Computer software                             | (7)                                      | (95)       | -            | (102)                    |
| Subscription asset                            | (8,234)                                  | (9,673)    | 1,250        | (16,657)                 |
| <b>Right to use lease assets, depreciable</b> |                                          |            |              |                          |
| Land and permanent easements                  | (564)                                    | (54)       | -            | (618)                    |
| Buildings                                     | (10,930)                                 | (4,643)    | 532          | (15,041)                 |
| Machinery and equipment                       | (5,555)                                  | (2,871)    | 887          | (7,539)                  |
| General infrastructure                        | (2,120)                                  | (561)      | 117          | (2,564)                  |
| Total accumulated depreciation                | (1,743,946)                              | (160,678)  | 24,367       | (1,880,257)              |
| Total Capital Assets-depreciable, net         | 3,759,840                                | 242,769    | (9,862)      | 3,992,747                |
| Community Colleges                            |                                          |            |              |                          |
| Capital Assets, net                           | \$ 4,299,563                             | \$ 417,443 | \$ (309,908) | \$ 4,407,098             |

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2024, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$12.719 million and net depreciable capital assets of \$7.249 million.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 6: SHORT-TERM DEBT**

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**Component Units****University of North Carolina System**

The University of North Carolina at Chapel Hill issued commercial paper to provide interim financing for the construction of capital projects. In June of 2012, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of commercial paper for the University of North Carolina at Chapel Hill under this program to \$250 million. As of June 30, 2024, the amount of outstanding commercial paper was \$19 million. The outstanding commercial paper contains a provision that in an event of default, the commercial paper may become immediately due and payable if the University fails to pay any outstanding obligations.

North Carolina State University has available commercial paper program financing for short-term credit up to \$100 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. The University had no net draws during the year to bring the total amount of outstanding commercial paper as of June 30, 2024 to zero. The outstanding commercial paper contains provisions that in an event of default, the commercial paper may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

The North Carolina State University Partnership Corporation has a revolving line of credit for an amount up to \$300 thousand to be used for operations at the Lonnie Poole Golf Course. As of June 30, 2024, the total amount outstanding on the revolving line of credit was zero resulting in an unused line of credit of \$300 thousand. The outstanding line of credit contains an event of default provision that if the North Carolina State University Partnership Corporation is unable to make any payment when due, all commitments and obligations of the lender immediately will terminate and, at lender's option, all indebtedness immediately will become due and payable. Also, upon default, the interest rate on the line of credit will be increased by an additional 3% margin, subject to the maximum interest rate limitations under applicable law.



**NOTES TO THE FINANCIAL STATEMENTS****NOTE 7: DERIVATIVE INSTRUMENTS****A. Summary Information****Component Unit – University of North Carolina System**

The following table summarizes the University of North Carolina (UNC) System's significant derivative instruments. It includes the fair value balances and notional amounts of derivative instruments outstanding at June 30, 2024, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended (dollars in thousands).

| Type                          | (a)<br>Changes in<br>Fair Value | (b)<br>Fair Value at<br>June 30, 2024 | Fair Value Measurements Using                                                 |                                                           | Notional   |
|-------------------------------|---------------------------------|---------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|------------|
|                               |                                 |                                       | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) |            |
| UNC at Chapel Hill:           |                                 |                                       |                                                                               |                                                           |            |
| Cash flow hedges:             |                                 |                                       |                                                                               |                                                           |            |
| Pay-fixed interest rate swaps | \$ 11,525                       | \$ (39,748)                           | \$ -                                                                          | \$ (39,748)                                               | \$ 250,000 |
| Investment derivatives:       |                                 |                                       |                                                                               |                                                           |            |
| Pay-fixed interest rate swaps | \$ 90                           | \$ (71)                               | \$ -                                                                          | \$ (71)                                                   | \$ 4,075   |
| U.S. dollar equity futures    | 107,191                         | 8,032                                 | 8,032                                                                         | -                                                         | 747,335    |
| Foreign currency forwards     | 3,892                           | 3,388                                 | -                                                                             | 3,388                                                     | 100,000    |
| Total                         | \$ 111,173                      | \$ 11,349                             | \$ 8,032                                                                      | \$ 3,317                                                  |            |

- (a) For the fiscal year ended June 30, 2024, the changes in fair value of cash flow hedges are classified as both *deferred outflows of resources* and *deferred inflows of resources*, and the changes in fair value of investment derivatives are classified as *operating grants and contributions*.
- (b) At June 30, 2024, the fair value balances of cash flow hedges outstanding are classified as *hedging derivative asset and hedging derivative liability*. The fair value balances of investment derivatives outstanding are classified as *investments*, except that investment derivatives with a negative fair value are classified as *accounts payable and accrued liabilities*.

For the UNC System, the total fair value of cash flow hedges that are classified as both hedging derivative asset and hedging derivative liability at June 30, 2024, was negative \$39.49 million.

The fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The U.S. dollar futures classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The pay-fixed interest rate swaps (cash flow hedges and investment derivatives) classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques. The foreign currency forwards classified in Level 2 of the fair value hierarchy are transacted over-the-counter and valued directly from underlying exchange listed exchange rates.

**B. Hedging Derivative Instruments****Component Unit – University of North Carolina System**

The following table displays the objectives and terms of the UNC System's significant hedging derivative instruments outstanding at June 30, 2024 (dollars in thousands):

| Type                         | Objective                                         | Notional<br>Amount | Effective<br>Date | Maturity<br>Date | Terms                                             |
|------------------------------|---------------------------------------------------|--------------------|-------------------|------------------|---------------------------------------------------|
| UNC at Chapel Hill:          |                                                   |                    |                   |                  |                                                   |
| Pay-fixed interest rate swap | Hedge changes in cash flows on variable rate debt | \$ 100,000         | 12/1/07           | 12/1/36          | Pay 3.314%; receive 67% of SOFR + 7.4 basis point |
| Pay-fixed interest rate swap | Hedge changes in cash flows on variable rate debt | \$ 150,000         | 12/1/11           | 12/1/41          | Pay 4.375%; receive 67% of SOFR + 7.4 basis point |

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**NOTES TO THE FINANCIAL STATEMENTS**

The UNC System's significant hedging derivative instruments are exposed to the following risks that could give rise to financial loss:

*UNC at Chapel Hill*

*Interest rate risk.* UNC at Chapel Hill (University) is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, the swaps have a negative fair value as of June 30, 2024. The fair values are calculated as of June 30, 2024, and based on the implied forward rate for 67% of SOFR plus 7.4 basis points, which trended up during fiscal year 2024. As a result, the fair values have increased on a year over year basis, which decreases the liability.

*Basis risk.* The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

*Termination risk.* The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

Information on debt service requirements on long-term debt of the primary government and component units and net cash flows on associated hedging derivative instruments is presented in Note 8E.

## **C. Investment Derivative Instruments**

### **Primary Government**

The North Carolina Department of State Treasurer External Investment Pool (External Investment Pool) has investments in equity and commodity futures, foreign currency forward and spot currency contracts. More detailed information about the External Investment Pool is available in a separate report (see Note 3A).

### **Component Unit – University of North Carolina System**

The University of North Carolina System's investment derivative instruments are exposed to the following risks that could give rise to financial loss:

*UNC at Chapel Hill*

*Interest rate risk.* The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value as of June 30, 2024. The negative fair value may be countered by a reduction in total interest paid under the variable-rate bonds, creating lower synthetic interest rates. As forward rates rise, the fair value of the swap will increase and as rates fall, the fair value of the swap decreases. The University pays 5.24% and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2024, SIFMA was 3.88%. The interest rate swap has a notional amount of \$4.08 million and matures November 1, 2025.

*Foreign Currency Risk:* Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure to fluctuations in the exchange rates of foreign currencies. Forward contracts based in foreign currency obligate the buyer to purchase an asset (or seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The University's foreign currency investment derivatives are presented in U.S. dollars.

*Credit Risk:* The University does not have a formal policy that requires collateral or other security to support investment derivative instruments subject to credit risk, or a formal policy regarding entering into master netting arrangements. The University uses a third-party consulting firm to execute on derivative positions. The team evaluates the available counter parties to the trade, including their creditworthiness, and enter into contracts with highly stable and investment-quality credit ratings financial institutions. In the fiscal year 2024, the University entered into \$100 thousand of Japanese Yen short forward contract with no collateral required.

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**NOTES TO THE FINANCIAL STATEMENTS****D. Synthetic Guaranteed Investment Contracts****Primary Government**

In the Supplemental Retirement Income Plan of North Carolina, NC 401(k) Plan, there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is one SGIC with The Prudential Insurance Company of America (Prudential), one SGIC with Nationwide Life Insurance Company (Nationwide Life), one SGIC with American General Life Insurance Company (American General), one SGIC with Transamerica Life Insurance Company (Transamerica Life), and one SGIC with Metropolitan Tower Life Insurance Company (Met Tower) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.97%, 2.67%, 2.78%, 2.82%, and 2.79%, respectively. The fair value of the securities covered by the contracts as of December 31, 2023, is \$1.91 billion and the contract value is \$2.01 billion. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, NC 457 Plan, there are SGICs within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is one SGIC with Prudential, one SGIC with Nationwide Life, one SGIC with American General, one SGIC with Transamerica Life, and one SGIC with Met Tower which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.97%, 2.67%, 2.78%, 2.82%, and 2.79%, respectively. The fair value of the securities covered by the contracts as of December 31, 2023, is \$344.83 million and the contract value is \$363.56 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan have wrap contracts with Prudential, Nationwide Life, American General, Transamerica Life, and Met Tower to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential, Nationwide Life, American General, Transamerica Life, and Met Tower were determined to have no value.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 8: LONG-TERM LIABILITIES****A. Changes in Long-Term Liabilities**

**Primary Government.** Long-term liability activity for the year ended June 30, 2024, was as follows (dollars in thousands):

|                                      | Balance<br>July 1, 2023<br>(as restated) | Increases    | Decreases      | Balance<br>June 30, 2024 | Due Within<br>One Year |
|--------------------------------------|------------------------------------------|--------------|----------------|--------------------------|------------------------|
| <b>Governmental Activities</b>       |                                          |              |                |                          |                        |
| Bonds and similar debt payable:      |                                          |              |                |                          |                        |
| General obligation bonds             | \$ 1,975,940                             | \$ -         | \$ (330,880)   | \$ 1,645,060             | \$ 232,420             |
| Special indebtedness:                |                                          |              |                |                          |                        |
| Limited obligation bonds             | 2,121,490                                | -            | (233,700)      | 1,887,790                | 208,845                |
| GARVEE bonds                         | 918,940                                  | -            | (73,225)       | 845,715                  | 76,885                 |
| Issuance premium                     | 521,621                                  | -            | (93,849)       | 427,772                  | -                      |
| Total bonds and similar debt payable | 5,537,991                                | -            | (731,654)      | 4,806,337                | 518,150                |
| Notes from direct borrowings         | 37,651                                   | 38,637       | (6,025)        | 70,263                   | 6,021                  |
| Lease liability                      | 378,780                                  | 61,462       | (45,414)       | 394,828                  | 41,430                 |
| Subscription liability               | 180,581                                  | 92,321       | (102,139)      | 170,763                  | 71,194                 |
| Compensated absences                 | 593,318                                  | 369,328      | (337,608)      | 625,038                  | 42,236                 |
| Pension liability (Note 12)          | 3,763,028                                | 400,299      | (10,353)       | 4,152,974                | 25,005                 |
| Net OPEB liability (Note 14)         | 4,672,223                                | 550,676      | (693)          | 5,222,206                | -                      |
| Workers' compensation                | 617,245                                  | 215,097      | (224,223)      | 608,119                  | 113,856                |
| Death benefit payable                | 37                                       | -            | -              | 37                       | -                      |
| Pollution remediation payable        | 6,982                                    | -            | (247)          | 6,735                    | 308                    |
| Claims and judgments payable         | 731,703                                  | -            | -              | 731,703                  | -                      |
| Governmental activity                |                                          |              |                |                          |                        |
| long-term liabilities                | \$ 16,519,539                            | \$ 1,727,820 | \$ (1,458,356) | \$ 16,789,003            | \$ 818,200             |
| <b>Business-type Activities</b>      |                                          |              |                |                          |                        |
| Bonds payable:                       |                                          |              |                |                          |                        |
| Revenue bonds                        | \$ 1,787,362                             | \$ 523,170   | \$ (250,062)   | \$ 2,060,470             | \$ 41,806              |
| Issuance premium                     | 130,177                                  | 45,233       | (26,365)       | 149,045                  | -                      |
| Total bonds payable                  | 1,917,539                                | 568,403      | (276,427)      | 2,209,515                | 41,806                 |
| Notes from direct borrowings         | 684,525                                  | -            | (1,407)        | 683,118                  | 1,941                  |
| Lease liability                      | 6,718                                    | 2,941        | (2,973)        | 6,686                    | 1,648                  |
| Subscription liability               | 2,802                                    | 279          | (905)          | 2,176                    | 810                    |
| Annuity and life income payable      | 74,185                                   | 562          | -              | 74,747                   | 8,146                  |
| Compensated absences                 | 12,932                                   | 9,667        | (8,760)        | 13,839                   | 2,119                  |
| Net pension liability (Note 12)      | 51,764                                   | 6,299        | -              | 58,063                   | -                      |
| Net OPEB liability (Note 14)         | 73,860                                   | 10,752       | (1,190)        | 83,422                   | -                      |
| Workers' compensation                | 59                                       | 42           | (29)           | 72                       | 42                     |
| Business-type activity               |                                          |              |                |                          |                        |
| long-term liabilities                | \$ 2,824,384                             | \$ 598,945   | \$ (291,691)   | \$ 3,131,638             | \$ 56,512              |

For governmental activities, the compensated absences, pension liability, net OPEB liability, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences, the pension liability, the net OPEB liability, and workers' compensation liabilities is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of \$20.014 million, net pension liability of \$87.916 million, net OPEB liability of \$127.526 million, workers' compensation liability of \$1.882 million, lease liability of \$926 thousand, and subscription liability of \$37.94 million. The claims and judgments liability of \$731.7 million is paid from State appropriations as approved by the N.C. General Assembly. Funds were not appropriated in the current fiscal year nor the next fiscal year.

**NOTES TO THE FINANCIAL STATEMENTS****Governmental Activities**

The Master Trust Indenture of the State's outstanding limited obligation bonds of \$1.888 billion contain a provision that in an event of default, all outstanding limited obligation bond amounts may become immediately due if the State fails to pay any outstanding limited obligation bond amount by its due date, or if the State fails to budget and appropriate moneys sufficient to make payment on such bonds coming due in any fiscal year.

The outstanding notes from direct borrowings of \$28.062 million contain provisions that in the event of default, (1) outstanding amounts become immediately due and payable, (2) the project can be sold and the proceeds applied to outstanding amounts due, (3) the custodian could be directed to apply all acquisition fund amounts to the outstanding amounts due, or (4) proceed by appropriate court action to enforce performance of the applicable covenants in the agreement.

**Business-type Activities**

The outstanding notes from direct borrowings of \$665.744 million contain provisions that in the event of default, the lender may terminate its obligations to disburse any remaining undisbursed loan proceeds immediately.

The occupational licensing boards have pledged buildings and land as collateral for its outstanding notes from direct borrowings of \$8.638 million.

**Component Unit (University of North Carolina System).** Long-term liability activity for the year ended June 30, 2024, was as follows (dollars in thousands):

|                                            | Balance<br>July 1, 2023<br>(as restated) | Increases           | Decreases             | Balance<br>June 30, 2024 | Due Within<br>One Year |
|--------------------------------------------|------------------------------------------|---------------------|-----------------------|--------------------------|------------------------|
| <b>University of North Carolina System</b> |                                          |                     |                       |                          |                        |
| Bonds payable:                             |                                          |                     |                       |                          |                        |
| Revenue bonds                              | \$ 4,315,514                             | \$ 208,095          | \$ (242,424)          | \$ 4,281,185             | \$ 163,212             |
| Direct placements                          | 179,261                                  | 88,550              | (20,657)              | 247,154                  | 81,889                 |
| Certificates of participation              | 2,815                                    | -                   | (368)                 | 2,447                    | 378                    |
| Limited obligation bonds                   | 174,450                                  | 14,970              | (23,845)              | 165,575                  | 9,290                  |
| Issuance premium                           | 275,564                                  | 7,511               | (20,253)              | 262,822                  | -                      |
| Issuance discount                          | (2,709)                                  | -                   | 139                   | (2,570)                  | -                      |
| Total bonds payable                        | 4,944,895                                | 319,126             | (307,408)             | 4,956,613                | 254,769                |
| Notes from direct borrowings               | 310,820                                  | 14,954              | (43,521)              | 282,253                  | 25,076                 |
| Lease liability                            | 584,559                                  | 111,604             | (135,114)             | 561,049                  | 107,004                |
| Subscription liability                     | 164,684                                  | 158,532             | (121,910)             | 201,306                  | 80,255                 |
| Annuity and life income payable            | 51,706                                   | 15,678              | (12,018)              | 55,366                   | 1,102                  |
| Compensated absences                       | 595,614                                  | 529,993             | (498,931)             | 626,676                  | 110,919                |
| Net pension liability (Note 12)            | 2,350,980                                | 367,643             | (19,353)              | 2,699,270                | -                      |
| Net OPEB liability (Note 14)               | 6,018,101                                | 746,219             | (330)                 | 6,763,990                | -                      |
| Workers' compensation                      | 48,340                                   | 8,494               | (16,687)              | 40,147                   | 12,622                 |
| Pollution remediation payable              | 4,373                                    | -                   | (506)                 | 3,867                    | 107                    |
| Asset retirement obligation                | 15,600                                   | 573                 | -                     | 16,173                   | -                      |
| Liability insurance trust fund payable     | 27,247                                   | 4,360               | -                     | 31,607                   | 9,515                  |
| Total long-term liabilities                | <u>\$ 15,116,919</u>                     | <u>\$ 2,277,176</u> | <u>\$ (1,155,778)</u> | <u>\$ 16,238,317</u>     | <u>\$ 601,369</u>      |

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At year-end, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$256.635 million, of which \$33.748 million was due within one year and \$222.887 million was due in more than one year.

The University of North Carolina at Chapel Hill has unused line of credit in the amount of \$10 million.

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**NOTES TO THE FINANCIAL STATEMENTS***Revenue Bonds*

Various universities within the University of North Carolina System (UNC System) have outstanding revenue bonds totaling \$2.154 billion that contain provisions that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

Various universities within the UNC System have outstanding revenue bonds totaling \$1.595 billion that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

The University of North Carolina Hospitals has pledged future revenues as collateral for the revenue bonds payable of \$381.51 million, and certain funds held have been reserved as restricted equal to 7.5% of gross patient revenues as stipulated by the bond covenants. As of June 30, 2024, the amount pledged as collateral is \$516.201 million. In the event of default, the bonds will become immediately due and payable. At such time, the Board of Governors may require a sum sufficient to pay all matured installments of principal and interest due, be deposited with the Hospitals' Trustee. Additionally, the bonds can be replaced with a replacement indenture. The owners of the outstanding bonds may be required to accept the replacement bonds in lieu of the bonds held by them. Any such replacement may result in a reduction or material alteration in the covenants and other provisions provided to secure payment of the outstanding bonds.

Rex Healthcare has outstanding revenue bonds of \$150 million secured by a lien on substantially all of Rex's real and personal property and by a security interest in Rex's unrestricted revenues.

Fayetteville State University has pledged all buildings and other improvements and additions for its outstanding revenue bonds of \$6.868 million.

*Direct Placement Bonds*

Various universities within the UNC System have outstanding direct placement bonds totaling \$176.421 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

Various universities within the UNC System have outstanding direct placement bonds totaling \$70.733 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice (\$64.243 million) or a period of 60 days after written notice (\$6.49 million).

*Special Indebtedness*

The University of North Carolina at Wilmington has outstanding limited obligation bonds (LOBs) of \$91.975 million secured by revenues which include rentals payable by the University under leases and use agreements on the facilities financed and refinanced with the LOBs. The LOBs are further secured by a deed of trust on the property financed and refinanced with the LOBs. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. Additionally, the bonds become immediately due and payable if an event of default occurs under the leases or use agreements or under the deed of trust. The Trustee may also take property secured under the deed of trust held as security, including foreclosure on the property held as security.

Western Carolina University has outstanding limited obligation bonds of \$40.085 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable.

The University of North Carolina at Pembroke has outstanding limited obligation bonds of \$19.895 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

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**NOTES TO THE FINANCIAL STATEMENTS**

Fayetteville State University has outstanding limited obligation bonds totaling \$13.62 million and the University of North Carolina School of the Arts has outstanding certificates of participation totaling \$2.447 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. The University of North Carolina School of the Arts has pledged an apartment complex as collateral for its outstanding certificates of participation of \$2.447 million.

*Notes from Direct Borrowings*

Various universities within the UNC System have outstanding notes from direct borrowings totaling \$71.985 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to pay any outstanding debt service.

The UNC System has pledged the energy savings improvements installed in its buildings and other structures as collateral for Guaranteed Energy Savings Installment Financing Agreements in relation to the outstanding notes from direct borrowings of \$64.259 million. These agreements contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days. Upon the occurrence of any event of default, the lender may declare the outstanding amount 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.

Appalachian State University has outstanding notes from direct borrowings of \$69.06 million to finance construction of a residence hall and to make site improvements. The University assigned to the financial institution the right, title, and interest in lease and use agreements and upon default, the base rentals, which includes all rental revenue from the facility, and payments received or receivable under these agreements, and a continuing security interest in the base rentals as well as the lease and use agreements after commencement of any proceeding under the bankruptcy code. The financial institution 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 university.

Elizabeth City State University has outstanding notes from direct borrowings of \$18.594 million that contain: (1) a provision that in an event of default, the direct borrowings may become immediately due if pledged revenues during the year are less than 100 percent of debt service coverage due in the following year and (2) a provision that if the University is unable to make payment, outstanding amounts are due immediately. These notes contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs. These notes are secured by student housing facilities.

Various universities within the UNC System have outstanding notes from direct borrowings totaling \$27.043 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 15 days after written notice (\$14.933 million) or a period of 30 days after written notice (\$12.110 million). Appalachian State University has pledged land for its outstanding notes from direct borrowings of \$13.875 million. The University of North Carolina at Pembroke has pledged machinery and equipment as security for its outstanding notes from direct borrowings of \$2.093 million.

Gateway Research Park has outstanding notes from direct borrowings of \$16.548 million secured with collateral of real estate and a vehicle.

**NOTES TO THE FINANCIAL STATEMENTS****B. Bonds, Special Indebtedness, Direct Placements, and Notes from Direct Borrowings**

Bonds, special indebtedness, direct placements and notes from direct borrowings at June 30, 2024 were as follows (dollars in thousands):

|                                            | Interest<br>Rates | Maturing<br>Through<br>Fiscal Year | Original<br>Borrowing | Outstanding<br>Balance |
|--------------------------------------------|-------------------|------------------------------------|-----------------------|------------------------|
| <b>Primary Government</b>                  |                   |                                    |                       |                        |
| <u>Governmental activities</u>             |                   |                                    |                       |                        |
| General obligation bonds                   | 1.50% - 5.00%     | 2039                               | \$ 3,071,158          | \$1,645,060            |
| Special indebtedness:                      |                   |                                    |                       |                        |
| Limited obligation bonds                   | 2.00% - 5.00%     | 2037                               | 2,799,030             | 1,887,790              |
| GARVEE bonds                               | 2.00% - 5.00%     | 2036                               | 1,342,165             | 845,715                |
| Notes from direct borrowings               | 2.10% - 4.02%     | 2046                               | 120,190               | 70,263                 |
| <u>Business-type activities</u>            |                   |                                    |                       |                        |
| Revenue bonds                              | 1.83% - 7.10%     | 2058                               | \$ 2,676,519          | \$2,060,470            |
| Notes from direct borrowings               | 1.83% - 6.25%     | 2058                               | 689,320               | 683,118                |
| <b>Component Units</b>                     |                   |                                    |                       |                        |
| <u>University of North Carolina System</u> |                   |                                    |                       |                        |
| Revenue bonds**                            | 0.50% - 6.52%*    | 2054                               | \$ 5,241,470          | \$4,281,185            |
| Direct Placements                          | 1.29% - 6.45%*    | 2051                               | 333,627               | 247,154                |
| Certificates of participation              | 2.00% - 2.00%     | 2030                               | 5,400                 | 2,447                  |
| Limited obligation bonds                   | 2.00% - 6.23%     | 2043                               | 214,710               | 165,575                |
| Notes from direct borrowings**             | 0.00% - 7.50%*    | 2057                               | 406,923               | 282,253                |

\* For variable rate debt, interest rates in effect at June 30, 2024 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

\*\* The issuer has elected to treat a portion of these obligations as federally taxable "Build America Bonds" for purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury for a specified percentage of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was \$29.22 million for component units. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness, which include certificates of participation (COPs) and limited obligation bonds, are subject to appropriation by the N.C. General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

**C. Debt Authorized but Unissued**

At June 30, 2024, the State had no authorized but unissued general obligation bonds. At June 30, 2024, the State had no authorized but unissued special indebtedness supported by the General Fund. At June 30, 2024, the State had \$1.7 billion in authorized but unissued special indebtedness supported by the Highway Trust Fund.

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

General Statute 143-64.17 as amended allows state agencies and universities to utilize Guaranteed Energy Savings Contracts to implement and finance major facility upgrades which save energy and reduce utility expenditures. The State and universities currently are authorized to finance up to \$500 million for such projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. At June 30, 2024, a total of \$310 million of such contracts have been entered into by the State and universities.



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**NOTES TO THE FINANCIAL STATEMENTS****D. Demand Bonds**

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer’s remarketing or paying agents.

**Component Unit****University of North Carolina System***The University of North Carolina at Chapel Hill*

With regard to the following direct placement demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

*General Revenue Bonds, Series 2012D*

On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence".

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina’s (the “Board”) obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. “Adjusted SOFR Rate” means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2024, no accrued interest payable remained for the 2012D direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements. On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30 million and extending the maturity to June 1, 2042. All other terms remained the same.

*General Revenue Bonds, Series 2021A*

On March 24, 2021, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Indoor Practice Facility and Fetzer Field), Series 2021A" (the "2021A Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to the Indoor Practice Facility and Fetzer Field on the University's campus.

Interest will be payable on the 2021A Bond on each July 1st, commencing July 1, 2021, and on the prepayment date of the 2021A Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2021A Bond, together

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**NOTES TO THE FINANCIAL STATEMENTS**

with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2021A Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2021A Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal of and interest on the 2021A Bond made directly by the University to the Owner of the 2021A Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2021A Bond to the Debt Service Fund under the General Indenture.

The 2021A Bond may be tendered by the Owner of the 2021A Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2021A Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2021A Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. "Adjusted SOFR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2024, no accrued interest payable remained for the 2021A direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

*The University of North Carolina Hospitals*

With regards to the following demand bonds, UNC Hospitals have entered into take-out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

*Revenue Bonds, Series 2001A and Series 2001B*

On January 31, 2001, UNC Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of \$55 million (2001A) and \$55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse UNC Hospitals for \$75 million spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

On September 11, 2020, UNC Hospitals exercised its prerogative under Section 9.4 of the Series Indenture to remove Wells Fargo Bank, N.A., as the remarketing agent for both series. On that date, TD Securities (USA) LLC agreed to act as the exclusive agent in connection with the remarketing and sale of both series. While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. UNC Hospitals' Remarketing Agent, TD Securities (USA) LLC has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears, on the first business day of each February, May, August, and November, commencing November 1, 2020, and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between UNC Hospitals and TD Bank, N.A., a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November, thereafter until the expiration date or the termination date of the Agreements. On September 11, 2020, UNC Hospitals entered into a new multiple year agreement with TD Bank, N.A. to provide liquidity service at a fee of 0.32%, effective September 11, 2020. The applicable percentage will be determined based upon the long-term ratings of the Bonds (without regard to any credit enhancement) as follows:

**NOTES TO THE FINANCIAL STATEMENTS**

| <u>S&amp;P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| A+             | A1             | 0.32%                  |
| A              | A2             | 0.57%                  |
| A-             | A3             | 0.89%                  |

In the event that there is a disparity between Moody's and S&P's ratings on the bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur or the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.50% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5% or 3%) until 180 days after the initial purchase date and thereafter bear interest at the Base Rate plus 1% per annum and thereafter. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2024, there were no Bank Bonds held by the 2001 Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow UNC Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take-out agreement were to be exercised because the entire outstanding \$73 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay \$23.97 million, \$22.60 million, \$20.89 million, and \$19.18 million in years one, two, three, and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 8.5% (Prime Rate) for the first 180 days and a rate of 9.5% (Base Rate plus 1.00%) thereafter. The expiration date of the Agreements is September 10, 2027.

*Revenue Refunding Bonds, Series 2003A and Series 2003B*

On February 13, 2003, UNC Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of \$63.77 million (2003A) and \$34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund \$88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

On July 24, 2020, UNC Hospitals entered into a Standby Bond Purchase Agreement with TD Bank, N.A. replacing Wells Fargo Bank, N.A. Also, on July 24, 2020, UNC Hospitals exercised its prerogative under Section 9.4 of the Series Indenture and signed a new remarketing agent agreement with TD Securities (USA) LLC (Series 2003B) removing Wells Fargo Bank, N.A. as remarketing agent.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, U.S. Bank, National Association. UNC Hospitals' Remarketing Agents, Bank of America Securities, LLC (Series 2003A) and TD Securities (USA) LLC (Series 2003B), have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.05% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B. Bank of America Securities, LLC agreed to reduce their remarketing fee to 0.05% effective June 16, 2021 for the Series 2003A.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between UNC Hospitals, Bank of America, N.A. (Series 2003A) and TD Securities (USA) LLC (Series 2003B), Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, N.A. required a Commitment Fee of 0.25% for fiscal year 2024. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter until the expiration date or termination date of the Agreement. The Commitment Rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

**NOTES TO THE FINANCIAL STATEMENTS**

| <u>S&amp;P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| A+             | A1             | 0.25%                  |
| A              | A2             | 0.51%                  |
| A- or lower    | A3 or lower    | 0.71%                  |

Provided, however, that the Commitment Rate shall be increased (A) by 150 basis points (1.5%) upon the occurrence and during the continuance of an Event of Default, and (B) by 150 basis points (1.5%) if either Moody's or S&P withdraws or suspends its rating for any reason (other than for the payment in full or defeasance of the Bonds). Any such increase in the Commitment Rate shall take effect as of the date of any such event described in the preceding sentence. All such increases in the Commitment Rate contemplated above shall be cumulative.

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate (equal to the greater of the Prime Rate plus 1.5% or the Federal Funds Rate plus 3%), the Base Rate, for the first 90 days and then the Base Rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2024, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows UNC Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take-out agreement were to be exercised because the entire outstanding \$24.91 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay \$10.67 million, \$9.9 million, and \$8.99 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a Base Rate of 10% (Prime plus 1.50%). The current expiration date of the Agreement is July 2, 2024.

The 2003B Agreement with TD Bank, N.A. required a Commitment Fee of 0.32% for fiscal year 2024. Payments are to be made quarterly in arrears, on the first business day of each February, May, August, and November, commencing August 3, 2020. The Commitment Rate remains in effect over the life of the Agreement, so long as the rating assigned to Parity Debt by Moody's and S&P is A+/A1 or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A+ or A1, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

| <u>S&amp;P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| A1 or higher   | A+             | 0.32%                  |
| A2             | A              | 0.57%                  |
| A3             | A-             | 0.89%                  |

In the event that there is a disparity between Moody's and S&P's ratings on the Bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur on the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.5% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5%, or 3%), until 180 days after the initial date of purchase, and thereafter at the Base Rate plus 1% per annum. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2024, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows UNC Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take out agreement were to be exercised because the entire outstanding \$13.4 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay \$4.4 million, \$4.15 million, \$3.83 million, and \$3.52 million in years one, two, three, and four, respectively,

**NOTES TO THE FINANCIAL STATEMENTS**

following the termination date under the installment loan agreement assuming a Base Rate of 8.5% (Prime Rate) for the first 180 days and a rate of 9.5% (Base Rate plus 1.00%) thereafter. The expiration date of the agreement is July 8, 2027.

**E. Debt Service Requirements**

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component unit (University of North Carolina System). The debt service requirements of variable rate debt are based on rates as of June 30, 2024 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, direct placements and notes from direct borrowings are as follows (dollars in thousands).

**Primary Government**

| Fiscal Year<br>Ending June 30 | Governmental Activities  |                   |                          |                   |
|-------------------------------|--------------------------|-------------------|--------------------------|-------------------|
|                               | General Obligation Bonds |                   | Limited Obligation Bonds |                   |
|                               | Principal                | Interest          | Principal                | Interest          |
| 2025                          | \$ 232,420               | \$ 64,823         | \$ 208,845               | \$ 86,251         |
| 2026                          | 173,320                  | 53,202            | 205,145                  | 76,010            |
| 2027                          | 156,620                  | 44,536            | 205,710                  | 66,136            |
| 2028                          | 129,230                  | 36,936            | 208,460                  | 55,850            |
| 2029                          | 112,900                  | 30,677            | 201,270                  | 46,314            |
| 2030-2034                     | 479,005                  | 89,564            | 716,940                  | 110,542           |
| 2035-2039                     | 361,565                  | 26,463            | 141,420                  | 8,083             |
| Total                         | <u>\$ 1,645,060</u>      | <u>\$ 346,201</u> | <u>\$ 1,887,790</u>      | <u>\$ 449,186</u> |

| Fiscal Year<br>Ending June 30 | Governmental Activities |                   |                              |                  |
|-------------------------------|-------------------------|-------------------|------------------------------|------------------|
|                               | GARVEE Bonds            |                   | Notes from Direct Borrowings |                  |
|                               | Principal               | Interest          | Principal                    | Interest         |
| 2025                          | \$ 76,885               | \$ 41,198         | \$ 6,021                     | \$ 2,271         |
| 2026                          | 80,730                  | 37,354            | 7,184                        | 2,092            |
| 2027                          | 84,775                  | 33,318            | 5,710                        | 1,876            |
| 2028                          | 89,010                  | 29,079            | 4,732                        | 1,732            |
| 2029                          | 93,460                  | 24,628            | 3,870                        | 1,618            |
| 2030-2034                     | 377,205                 | 60,070            | 15,601                       | 6,579            |
| 2035-2039                     | 43,650                  | 1,746             | 9,898                        | 4,532            |
| 2040-2044                     | -                       | -                 | 13,585                       | 2,196            |
| 2045-2049                     | -                       | -                 | 3,662                        | 92               |
| Total                         | <u>\$ 845,715</u>       | <u>\$ 227,393</u> | <u>\$ 70,263</u>             | <u>\$ 22,988</u> |

| Fiscal Year<br>Ending June 30 | Business-type Activities |                     |                              |                   |
|-------------------------------|--------------------------|---------------------|------------------------------|-------------------|
|                               | Revenue Bonds            |                     | Notes from Direct Borrowings |                   |
|                               | Principal                | Interest            | Principal                    | Interest          |
| 2025                          | \$ 41,806                | \$ 81,985           | \$ 1,941                     | \$ 6,173          |
| 2026                          | 45,609                   | 83,881              | 2,351                        | 8,554             |
| 2027                          | 49,788                   | 82,182              | 2,238                        | 10,907            |
| 2028                          | 53,690                   | 80,141              | 2,418                        | 12,498            |
| 2029                          | 54,635                   | 78,036              | 2,799                        | 15,035            |
| 2030-2034                     | 311,044                  | 413,150             | 23,836                       | 77,375            |
| 2035-2039                     | 401,709                  | 402,741             | 27,723                       | 74,358            |
| 2040-2044                     | 308,138                  | 268,272             | 143,025                      | 75,203            |
| 2045-2049                     | 281,101                  | 221,834             | 199,722                      | 52,577            |
| 2050-2054                     | 220,970                  | 200,568             | 177,619                      | 33,797            |
| 2055-2059                     | 291,980                  | 36,175              | 99,446                       | 12,183            |
| Total                         | <u>\$ 2,060,470</u>      | <u>\$ 1,948,965</u> | <u>\$ 683,118</u>            | <u>\$ 378,660</u> |

**NOTES TO THE FINANCIAL STATEMENTS****Component Unit****University of North Carolina System**

| Fiscal Year<br>Ending June 30 | Revenue Bonds       |                     |                             | Direct Placements |                   | Certificates of Participation |               |
|-------------------------------|---------------------|---------------------|-----------------------------|-------------------|-------------------|-------------------------------|---------------|
|                               | Principal           | Interest            | Interest Rate<br>Swaps, Net | Principal         | Interest          | Principal                     | Interest      |
| 2025                          | \$ 158,422          | \$ 161,776          | \$ 730                      | \$ 21,889         | \$ 10,079         | \$ 378                        | \$ 49         |
| 2026                          | 165,915             | 156,999             | 715                         | 21,782            | 9,504             | 390                           | 41            |
| 2027                          | 170,160             | 151,158             | 718                         | 18,242            | 8,934             | 401                           | 34            |
| 2028                          | 173,679             | 145,132             | 731                         | 18,527            | 8,411             | 413                           | 26            |
| 2029                          | 185,687             | 138,850             | 745                         | 14,286            | 7,870             | 426                           | 17            |
| 2030-2034                     | 1,065,273           | 583,900             | 3,768                       | 62,638            | 32,269            | 439                           | 9             |
| 2035-2039                     | 950,464             | 373,910             | 5,137                       | 29,380            | 23,254            | -                             | -             |
| 2040-2044                     | 835,045             | 205,913             | 2,631                       | 30,410            | 14,348            | -                             | -             |
| 2045-2049                     | 486,365             | 72,142              | -                           | -                 | 9,669             | -                             | -             |
| 2050-2054                     | 90,175              | 6,493               | -                           | 30,000            | 2,740             | -                             | -             |
| Total                         | <u>\$ 4,281,185</u> | <u>\$ 1,996,273</u> | <u>\$ 15,175</u>            | <u>\$ 247,154</u> | <u>\$ 127,078</u> | <u>\$ 2,447</u>               | <u>\$ 176</u> |

| Fiscal Year<br>Ending June 30 | Limited Obligation Bonds |                  | Notes from Direct Borrowings |                  |
|-------------------------------|--------------------------|------------------|------------------------------|------------------|
|                               | Principal                | Interest         | Principal                    | Interest         |
| 2025                          | \$ 9,290                 | \$ 6,722         | \$ 25,076                    | \$ 8,649         |
| 2026                          | 9,700                    | 6,319            | 23,539                       | 7,795            |
| 2027                          | 10,110                   | 5,909            | 39,374                       | 6,795            |
| 2028                          | 10,525                   | 5,488            | 28,035                       | 5,493            |
| 2029                          | 10,995                   | 5,019            | 12,453                       | 4,685            |
| 2030-2034                     | 60,170                   | 17,938           | 96,695                       | 14,015           |
| 2035-2039                     | 48,840                   | 6,112            | 43,706                       | 4,858            |
| 2040-2044                     | 5,945                    | 607              | 4,816                        | 1,166            |
| 2045-2049                     | -                        | -                | 3,288                        | 819              |
| 2050-2054                     | -                        | -                | 3,675                        | 432              |
| 2055-2059                     | -                        | -                | 1,596                        | 54               |
| Total                         | <u>\$ 165,575</u>        | <u>\$ 54,114</u> | <u>\$ 282,253</u>            | <u>\$ 54,761</u> |

For revenue bonds and direct placements of the University of North Carolina System, the fiscal year 2024 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

**F. Bond Defeasances**

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net position.

**Primary Government****Governmental Activities**

On February 7, 2024, the State extinguished \$20 million of outstanding General Obligation Bonds, Series 2020A (CUSIP 658256 5Q1) using only existing resources from the State Capital Infrastructure Fund (SCIF), which is held by the Office of State Budget Management (OSBM). The debt was extinguished when the State had the opportunity to purchase a portion of the bond on the open market at less than the par value. CUSIP 658256 5Q1 of \$20 million par value was acquired with \$14.8 million of existing resources from SCIF. The difference between the reacquisition price and the net carrying amount was recognized as a gain in the government-wide financial statements. As a result, the bond's CUSIP is considered to be extinguished, and the liability has been removed from the statement of net position.

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**NOTES TO THE FINANCIAL STATEMENTS****Component Unit****University of North Carolina System**

Significant bond defeasances of the University of North Carolina System are as follows:

*The University of North Carolina at Greensboro*

On January 16, 2024, the University of North Carolina at Greensboro issued \$92.39 million in direct placement General Revenue Refunding Bonds, Series 2024, with an average interest rate of 2.71%. The bonds were issued for a current refunding of \$77.39 million of outstanding General Revenue Bonds, Series 2014, with an average interest rate of 4.89%. The refunding was undertaken to reduce total debt service payments by \$1.1 million over the next 15 years and resulted in an economic gain of \$1.03 million.

*East Carolina University*

On July 12, 2023, East Carolina University issued \$11.17 million in in direct placement General Revenue Refunding Bonds, Series 2023, with an average interest rate of 2.22%. The bonds were issued for a current refunding of \$10.91 million of outstanding General Obligation Bonds, Series 2013A, with an average interest rate of 2.94%. The refunding was undertaken to reduce total debt service payments by \$404 thousand over the next 11 years and resulted in an economic gain of \$487 thousand.

**Prior Year Defeasances**

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2024, the primary government had no outstanding balance of prior year defeased bonds. The outstanding balance of prior year defeased bonds was \$148.18 million for the University of North Carolina System (component unit). The substitution of essentially risk-free securities with securities that are not essentially risk-free is not prohibited for \$103.24 million of the prior year defeased bonds for the University of North Carolina System (component unit).

**G. Pollution Remediation Payable****Primary Government****Governmental Activities**

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environmental Quality (DEQ) assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 22 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

At year-end, the State recognized a pollution remediation liability of \$6.735 million for leaking underground fuel tanks at DOT. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

**Component Unit****University of North Carolina System**

N.C. State University recognized a pollution remediation liability of \$3.837 million for remediation of a lot the University used as a burial site for hazardous chemical and low level radioactive waste generated in its laboratories. The amount of the liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Fayetteville State University recognized a pollution remediation liability of \$30 thousand for underground storage tank removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

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**NOTES TO THE FINANCIAL STATEMENTS****H. Asset Retirement Obligation****Component Unit****University of North Carolina System**

N.C. State University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the N.C. State PULSTAR facility. Costs were also adjusted for the effects of inflation. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 39 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of General Statute 116-11(9)(a).



**NOTES TO THE FINANCIAL STATEMENTS****NOTE 9: LEASE AND SUBSCRIPTION LIABILITY OBLIGATIONS****A. Summary Information**

**Primary Government** – Lease activity for the year ended June 30, 2024, was as follows (dollars in thousands):

| Classification:                      | Lease<br>Receivable<br>(Liability)<br>June 30, 2024 | Current<br>Portion | Lease Terms<br>in Years | Interest<br>Rate |
|--------------------------------------|-----------------------------------------------------|--------------------|-------------------------|------------------|
| <b>Governmental Activities</b>       |                                                     |                    |                         |                  |
| Lessee:                              |                                                     |                    |                         |                  |
| Right-to-Use Land                    | \$ (572)                                            | \$ (119)           | 1 - 26                  | 3.25%            |
| Right-to-Use Buildings               | (391,449)                                           | (40,316)           | 1 - 30                  | 2.50% - 8.50%    |
| Right-to-Use Machinery and Equipment | (2,129)                                             | (890)              | 1 - 5                   | 2.10% - 4.85%    |
| Right-to-Use General Infrastructure  | (678)                                               | (105)              | 2 - 10                  | 3.25%            |
| <b>Total</b>                         | <b>\$ (394,828)</b>                                 | <b>\$ (41,430)</b> |                         |                  |
| Lessors:                             |                                                     |                    |                         |                  |
| Right-to-Use Land                    | \$ 262                                              | \$ 84              | 2 - 20                  | 3.25% - 8.50%    |
| Right-to-Use Buildings               | 4,655                                               | 470                | 1 - 12                  | 3.25% - 7.00%    |
| Right-to-Use General Infrastructure  | 1,565                                               | 68                 | 15 - 26                 | 3.25%            |
| <b>Total</b>                         | <b>\$ 6,482</b>                                     | <b>\$ 622</b>      |                         |                  |
| <b>Business-type Activities</b>      |                                                     |                    |                         |                  |
| Lessee:                              |                                                     |                    |                         |                  |
| Right-to-Use Buildings               | \$ (6,202)                                          | \$ (1,499)         | 1 - 9                   | 2.62% - 8.50%    |
| Right-to-Use Machinery and Equipment | (484)                                               | (149)              | 1 - 5                   | 2.32% - 5.68%    |
| <b>Total</b>                         | <b>\$ (6,686)</b>                                   | <b>\$ (1,648)</b>  |                         |                  |
| Lessors:                             |                                                     |                    |                         |                  |
| Right-to-Use Land                    | \$ 4,641                                            | \$ 446             | 2 - 25                  | 3.30% - 8.30%    |
| Right-to-Use Buildings               | 155                                                 | 83                 | 1 - 10                  | 3.00% - 8.50%    |
| <b>Total</b>                         | <b>\$ 4,796</b>                                     | <b>\$ 529</b>      |                         |                  |

Measurements of the lease receivable and liability for primary government excluded the following variable payment amounts: the increase or decrease in payments after the initial measurement of the receivable and liability that depend on an index or rate (such as the Consumer Price Index). For lease liability, measurement of the liability excluded any variable payments that are based on future performance or usage of the underlying assets.

Subscription liability activity for the year ended June 30, 2024, was as follows (dollars in thousands):

| Classification:                 | Subscription<br>(Liability)<br>June 30, 2024 | Current<br>Portion | Subscription<br>Terms<br>in Years | Interest<br>Rate |
|---------------------------------|----------------------------------------------|--------------------|-----------------------------------|------------------|
| <b>Governmental Activities</b>  |                                              |                    |                                   |                  |
| Lessee:                         |                                              |                    |                                   |                  |
| Subscription Asset              | \$ (170,763)                                 | \$ (71,194)        | 1 - 17                            | 3.25% - 8.95%    |
| <b>Total</b>                    | <b>\$ (170,763)</b>                          | <b>\$ (71,194)</b> |                                   |                  |
| <b>Business-type Activities</b> |                                              |                    |                                   |                  |
| Lessee:                         |                                              |                    |                                   |                  |
| Subscription Asset              | \$ (2,176)                                   | \$ (810)           | 1 - 10                            | 4.85% - 7.82%    |
| <b>Total</b>                    | <b>\$ (2,176)</b>                            | <b>\$ (810)</b>    |                                   |                  |

**NOTES TO THE FINANCIAL STATEMENTS**

The subscription liability for primary government excluded the amount of outflow of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability. The N.C. Department of Information Technology recognized outflow of resources of \$9.34 million that was excluded from the above table.

**Component Units** - Lease activity for the year ended June 30, 2024, was as follows (dollars in thousands):

| Classification:                            | Lease<br>Receivable<br>(Liability)<br>June 30, 2024 | Current<br>Portion  | Lease Terms<br>in Years | Interest<br>Rate |
|--------------------------------------------|-----------------------------------------------------|---------------------|-------------------------|------------------|
| <b>University of North Carolina System</b> |                                                     |                     |                         |                  |
| Lessee:                                    |                                                     |                     |                         |                  |
| Right-to-Use Land                          | \$ (2,279)                                          | \$ (553)            | 1 - 98                  | 1.34% - 8.25%    |
| Right-to-Use Buildings                     | (465,698)                                           | (98,934)            | 1 - 72                  | 0.39% - 10.05%   |
| Right-to-Use Machinery and Equipment       | (26,409)                                            | (6,731)             | 1 - 14                  | 0.50% - 25.00%   |
| Right-to-Use General Infrastructure        | (4,687)                                             | (786)               | 1 - 49                  | 0.75% - 5.25%    |
| <b>Total</b>                               | <b>\$ (499,073)</b>                                 | <b>\$ (107,004)</b> |                         |                  |
| Lessor:                                    |                                                     |                     |                         |                  |
| Right-to-Use Land                          | 44,797                                              | 989                 | 1 - 90                  | 0.20% - 8.50%    |
| Right-to-Use Buildings                     | 65,616                                              | 18,144              | 1 - 99                  | 0.19% - 9.50%    |
| Right-to-Use Machinery and Equipment       | 2,819                                               | 291                 | 2 - 20                  | 2.69% - 3.18%    |
| Right-to-Use General Infrastructure        | 132                                                 | 132                 | 4 - 5                   | 0.90% - 1.10%    |
| <b>Total</b>                               | <b>\$ 113,364</b>                                   | <b>\$ 19,556</b>    |                         |                  |
| <b>Community Colleges</b>                  |                                                     |                     |                         |                  |
| Lessee:                                    |                                                     |                     |                         |                  |
| Right-to-Use Land                          | \$ (1,619)                                          | \$ (45)             | 5 - 35                  | 1.50% - 8.00%    |
| Right-to-Use Buildings                     | (44,875)                                            | (3,278)             | 1 - 30                  | 0.29% - 8.29%    |
| Right-to-Use Machinery and Equipment       | (6,420)                                             | (2,907)             | 1 - 25                  | 0.29% - 8.50%    |
| Right-to-Use General Infrastructure        | (2,952)                                             | (770)               | 13 - 40                 | 3.25% - 3.74%    |
| <b>Total</b>                               | <b>\$ (55,866)</b>                                  | <b>\$ (7,000)</b>   |                         |                  |
| Lessor:                                    |                                                     |                     |                         |                  |
| Right-to-Use Land                          | \$ 83                                               | \$ 34               | 3 - 5                   | 4.00%            |
| Right-to-Use Buildings                     | 621                                                 | 406                 | 1 - 4                   | 3.00% - 24.00%   |
| Right-to-Use General Infrastructure        | 1,899                                               | 229                 | 2 - 20                  | 1.24% - 6.25%    |
| <b>Total</b>                               | <b>\$ 2,603</b>                                     | <b>\$ 669</b>       |                         |                  |

Measurements of the lease receivable and liability for component units excluded the following variable payment amounts: the increase or decrease in payments after the initial measurement of the receivable and liability that depend on an index or rate (such as the Consumer Price Index). For lease liability, measurement of the liability excluded any variable payments that are based on future performance or usage of the underlying assets.

Leasing arrangements between discretely presented component units of the University of North Carolina System are excluded from the above amounts as follows:

The University of North Carolina at Chapel Hill is in multiple leasing arrangements with UNC Healthcare to lease building space. UNC Chapel Hill recognized a lease liability as the lessee of \$18.66 million. UNC Healthcare recognized a lease receivable as the lessor of \$18.66 million. North Carolina State University (NCSU) is in a leasing arrangement with the Centennial Authority to lease building space. NCSU recognized a lease liability as the lessee of \$43.32 million. The Centennial Authority recognized a lease receivable as the lessor of \$44.44 million. NCSU's reported lease liability amount and the Centennial Authority's reported lease receivable amount differ by \$1.12 million due to each entity using different interest rates. Leasing arrangements of nongovernmental component units of the University of North Carolina System are excluded from the above amounts.

**NOTES TO THE FINANCIAL STATEMENTS**

The University of North Carolina at Chapel Hill had commitments under leases for a ten year lease agreement for right-to-use building space beginning on August 8, 2024 with total payments over the period of \$6.65 million.

Subscription liability activity for the year ended June 30, 2024, was as follows (dollars in thousands):

| Classification:                            | Subscription<br>(Liability)<br>June 30, 2024 | Current<br>Portion | Subscription<br>Terms<br>in Years | Interest<br>Rate |
|--------------------------------------------|----------------------------------------------|--------------------|-----------------------------------|------------------|
| <b>University of North Carolina System</b> |                                              |                    |                                   |                  |
| Lessee:                                    |                                              |                    |                                   |                  |
| Subscription Asset                         | \$ (201,306)                                 | \$ (80,255)        | 1 - 9                             | 1.55% - 9.76%    |
| <b>Total</b>                               | <u>\$ (201,306)</u>                          | <u>\$ (80,255)</u> |                                   |                  |
| <b>Community Colleges</b>                  |                                              |                    |                                   |                  |
| Lessee:                                    |                                              |                    |                                   |                  |
| Subscription Asset                         | \$ (17,167)                                  | \$ (7,386)         | 1 - 10                            | 1.58% - 8.50%    |
| <b>Total</b>                               | <u>\$ (17,167)</u>                           | <u>\$ (7,386)</u>  |                                   |                  |

**B. Principal and Interest Requirements for Lease Liability**

Future principal and interest lease payments as of June 30, 2024, were as follows (dollars in thousands):

| Fiscal Year   | Primary Government      |                   |                          |               | Component Units                     |                  |                   |                  |
|---------------|-------------------------|-------------------|--------------------------|---------------|-------------------------------------|------------------|-------------------|------------------|
|               | Governmental Activities |                   | Business-type Activities |               | University of North Carolina System |                  | Community College |                  |
|               | Principal               | Interest          | Principal                | Interest      | Principal                           | Interest         | Principal         | Interest         |
| 2025          | \$ 41,430               | \$ 15,560         | \$ 1,648                 | \$ 246        | \$ 107,004                          | \$ 8,861         | \$ 7,000          | \$ 2,034         |
| 2026          | 37,851                  | 14,028            | 988                      | 193           | 97,834                              | 7,055            | 4,991             | 1,826            |
| 2027          | 36,249                  | 12,440            | 1,006                    | 153           | 86,999                              | 5,423            | 3,924             | 1,648            |
| 2028          | 40,510                  | 12,996            | 736                      | 117           | 71,557                              | 4,123            | 3,136             | 1,515            |
| 2029          | 39,654                  | 10,396            | 679                      | 88            | 55,564                              | 3,206            | 2,919             | 1,399            |
| 2030 - 2034   | 92,829                  | 31,957            | 1,629                    | 140           | 90,485                              | 9,470            | 9,123             | 5,848            |
| 2035 - 2039   | 55,482                  | 16,198            | -                        | -             | 6,456                               | 6,518            | 8,468             | 4,201            |
| 2040 - 2044   | 36,978                  | 5,934             | -                        | -             | 695                                 | 6,432            | 9,835             | 2,393            |
| 2045 - 2049   | 13,244                  | 1,097             | -                        | -             | 657                                 | 6,305            | 6,470             | 404              |
| 2050 - 2054   | 601                     | 129               | -                        | -             | 153                                 | 6,163            | -                 | -                |
| 2055 - 2059   | -                       | -                 | -                        | -             | 169                                 | 6,018            | -                 | -                |
| 2060 - 2064   | -                       | -                 | -                        | -             | 85                                  | 5,785            | -                 | -                |
| 2065 - 2069   | -                       | -                 | -                        | -             | 2,886                               | 5,450            | -                 | -                |
| 2070 - 2074   | -                       | -                 | -                        | -             | 4,047                               | 4,989            | -                 | -                |
| 2075 - Beyond | -                       | -                 | -                        | -             | 36,458                              | 12,054           | -                 | -                |
|               | <u>\$ 394,828</u>       | <u>\$ 120,735</u> | <u>\$ 6,686</u>          | <u>\$ 937</u> | <u>\$ 561,049</u>                   | <u>\$ 97,852</u> | <u>\$ 55,866</u>  | <u>\$ 21,268</u> |

**NOTES TO THE FINANCIAL STATEMENTS****C. Principal and Interest Requirements for Subscription Liability**

Future principal and interest subscription liability payments as of June 30, 2024, were as follows (dollars in thousands):

| Fiscal Year | Primary Government      |                  |                          |               | Component Units                     |                  |                   |                 |
|-------------|-------------------------|------------------|--------------------------|---------------|-------------------------------------|------------------|-------------------|-----------------|
|             | Governmental Activities |                  | Business-type Activities |               | University of North Carolina System |                  | Community College |                 |
|             | Principal               | Interest         | Principal                | Interest      | Principal                           | Interest         | Principal         | Interest        |
| 2025        | \$ 71,194               | \$ 10,126        | \$ 810                   | \$ 50         | \$ 80,255                           | \$ 5,667         | \$ 7,386          | \$ 684          |
| 2026        | 46,286                  | 6,266            | 742                      | 39            | 63,609                              | 4,296            | 4,802             | 410             |
| 2027        | 17,759                  | 3,466            | 624                      | 20            | 32,918                              | 2,217            | 2,835             | 221             |
| 2028        | 5,913                   | 2,060            | -                        | -             | 16,319                              | 882              | 1,526             | 90              |
| 2029        | 6,516                   | 2,099            | -                        | -             | 5,636                               | 237              | 217               | 10              |
| 2030 - 2034 | 12,341                  | 4,678            | -                        | -             | 2,569                               | 112              | 401               | 19              |
| 2035 - 2039 | 10,237                  | 1,543            | -                        | -             | -                                   | -                | -                 | -               |
| 2040 - 2044 | 517                     | 6                | -                        | -             | -                                   | -                | -                 | -               |
|             | <u>\$ 170,763</u>       | <u>\$ 30,244</u> | <u>\$ 2,176</u>          | <u>\$ 109</u> | <u>\$ 201,306</u>                   | <u>\$ 13,411</u> | <u>\$ 17,167</u>  | <u>\$ 1,434</u> |

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 10: INTERFUND BALANCES AND TRANSFERS****A. Interfund Balances****Due To/From Fiduciary Funds**

The General Fund balance of \$152.19 million due to fiduciary funds is composed of \$28.75 million related to local sales taxes collected in the General Fund and due to the custodial fund, as well as \$123.44 million related to retirement contributions payable to retirement systems at year end.

Amounts payable to or receivable from fiduciary funds are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net position.

**Due To/From Other Funds**

Balances due to/from other funds at June 30, 2024 consisted of the following (dollars in thousands):

|                               | <b>Due From Other Funds</b> |                     |                           |                                 |                                       |                                |                               | <b>Total</b>     |
|-------------------------------|-----------------------------|---------------------|---------------------------|---------------------------------|---------------------------------------|--------------------------------|-------------------------------|------------------|
|                               | <b>General Fund</b>         | <b>Highway Fund</b> | <b>Highway Trust Fund</b> | <b>Other Governmental Funds</b> | <b>Unemployment Compensation Fund</b> | <b>EPA Revolving Loan Fund</b> | <b>Internal Service Funds</b> |                  |
| <b>Due To Other Funds</b>     |                             |                     |                           |                                 |                                       |                                |                               |                  |
| General Fund.....             | \$ —                        | \$14,071            | \$ 2,819                  | \$ 9,388                        | \$ 47,449                             | \$ 2,115                       | \$26,588                      | \$102,430        |
| Highway Fund.....             | 6,405                       | —                   | —                         | 1,634                           | —                                     | —                              | 2,810                         | 10,849           |
| Highway Trust Fund.....       | —                           | 1,963               | —                         | —                               | —                                     | —                              | —                             | 1,963            |
| Other Governmental Funds..... | 12,788                      | —                   | —                         | 19                              | —                                     | —                              | 88                            | 12,895           |
| N.C. State Lottery Fund.....  | 161,314                     | —                   | —                         | —                               | —                                     | —                              | —                             | 161,314          |
| N.C. Turnpike Authority.....  | 21,051                      | 51,746              | —                         | —                               | —                                     | —                              | —                             | 72,797           |
| Internal Service Funds.....   | —                           | —                   | —                         | 3,010                           | —                                     | —                              | 152                           | 3,162            |
| <b>Total.....</b>             | <b>\$201,558</b>            | <b>\$67,780</b>     | <b>\$ 2,819</b>           | <b>\$ 14,051</b>                | <b>\$ 47,449</b>                      | <b>\$ 2,115</b>                | <b>\$29,638</b>               | <b>\$365,410</b> |

These balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the funds as interfund receivables and payables were eliminated in the governmental and business-type activities columns of the government-wide statement of net position, except for the net residual amounts due between governmental and business-type activities, which were presented as internal balances.

**Advances To/From Other Funds**

The advance of \$33.87 million to the N.C. Turnpike Authority from the Highway Trust Fund is related to operating costs.

**NOTES TO THE FINANCIAL STATEMENTS****B. Interfund Transfers**

Transfers in/out of other funds for the fiscal year ended June 30, 2024, consisted of the following (dollars in thousands):

|                                | Transfers In        |                |                          |                                |                         |                       |                        |                        | Total               |
|--------------------------------|---------------------|----------------|--------------------------|--------------------------------|-------------------------|-----------------------|------------------------|------------------------|---------------------|
|                                | General Fund        | Highway Fund   | Other Governmental Funds | Unemployment Compensation Fund | EPA Revolving Loan Fund | NC Turnpike Authority | Other Enterprise Funds | Internal Service Funds |                     |
| <b>Transfers Out</b>           |                     |                |                          |                                |                         |                       |                        |                        |                     |
| General Fund                   | -                   | 555,555        | 1,632,561                | 259                            | 23,656                  | -                     | 1,005                  | 20,000                 | 2,233,036           |
| Highway Fund                   | 36,307              | -              | 18,608                   | -                              | -                       | 7,629                 | -                      | -                      | 62,544              |
| Highway Trust Fund             | 906                 | 38,175         | -                        | -                              | -                       | 122,720               | -                      | -                      | 161,801             |
| Other Governmental Funds       | 203,516             | 1,906          | 25,517                   | -                              | 63                      | -                     | 102                    | 171                    | 231,275             |
| Unemployment Compensation Fund | 17,427              | -              | -                        | -                              | -                       | -                     | -                      | -                      | 17,427              |
| NC State Lottery Fund          | 1,098,988           | -              | 1,000                    | -                              | -                       | -                     | -                      | -                      | 1,099,988           |
| NC Turnpike Authority          | -                   | 4,753          | -                        | -                              | -                       | -                     | -                      | -                      | 4,753               |
| Other Enterprise Funds         | 1,001               | -              | 361                      | -                              | -                       | -                     | -                      | -                      | 1,362               |
| Internal Service Funds         | 147                 | -              | -                        | -                              | -                       | -                     | -                      | 9,721                  | 9,868               |
| <b>Total</b>                   | <b>\$ 1,358,292</b> | <b>600,389</b> | <b>1,678,047</b>         | <b>259</b>                     | <b>23,719</b>           | <b>130,349</b>        | <b>1,107</b>           | <b>29,892</b>          | <b>\$ 3,822,054</b> |

Transfers are primarily used to (1) transfer revenues and bond proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) provide unrestricted revenues collected in the General Fund to finance operating and capital programs accounted for in other funds in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management or legislative requirements.

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005-344] as amended by Senate Bill 99 [Session Law 2018-5], all “Net Revenues” of the N.C. State Lottery Fund are required to be transferred to the Education Lottery Fund (General Fund) for educational purposes. Transfers of \$1.092 billion were made to the Education Lottery Fund for this fiscal year, as set forth in General Statute 18C-164.

House Bill 817 [Session Law 2013-183] amends the law that created the Highway Trust Fund. The amendment directs that funds are to be transferred to the N.C. Turnpike Authority (NCTA) to pay debt service or related financing expenses on revenue bonds or notes issued for the following toll road construction projects: Triangle Expressway and Monroe Connector/Bypass. Debt has been issued for the Triangle Expressway and the Monroe Connector/Bypass, and \$122.7 million was transferred to the NCTA during fiscal year 2024.

House Bill 103 [Session Law 2022-74] Section 2.2.(p) as amended by House Bill 259 [Session Law 2023-134] established that the Department of Environment Quality received a transfer of \$1 billion for the Clean Water and Drinking Water Reserve.

House Bill 259 [Session Law 2023-134] Section 2.2(j) established in the General Fund a Transportation Reserve and directed a transfer of \$450 million to the Transportation Reserve in fiscal year 2024.

Senate Bill 105 [Session Law 2021-180] authorized a transfer of \$44.3 million from the Capital Infrastructure Fund to the Department of Natural and Cultural Resources for the new NC Zoo Asia and Australia exhibits.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 11: FUND BALANCE**

**Fund Balance.** The details of the fund balance classifications for governmental funds at June 30, 2024 are as follows (dollars in thousands):

| Fund Balance                                           | Governmental Funds   |                     |                    |                          |                          |
|--------------------------------------------------------|----------------------|---------------------|--------------------|--------------------------|--------------------------|
|                                                        | General Fund         | Highway Fund        | Highway Trust Fund | Other Governmental Funds | Total Governmental Funds |
| <b>Nonspendable:</b>                                   |                      |                     |                    |                          |                          |
| Inventories                                            | \$ 100,561           | \$ 113,662          | \$ -               | \$ 31,812                | \$ 246,035               |
| Permanent corpus                                       | -                    | -                   | -                  | 140,070                  | 140,070                  |
| Long-term portion of notes receivable                  | 97                   | -                   | -                  | -                        | 97                       |
| <b>Restricted for:</b>                                 |                      |                     |                    |                          |                          |
| General government                                     | 19,039               | -                   | -                  | 2,568                    | 21,607                   |
| Primary and secondary education                        | 28,759               | -                   | -                  | -                        | 28,759                   |
| Higher education                                       | 6,737                | -                   | -                  | 3,088                    | 9,825                    |
| Higher education student aid                           | -                    | -                   | -                  | 1,431,432                | 1,431,432                |
| Health and human services                              | 62,513               | -                   | -                  | 1,493                    | 64,006                   |
| Economic development                                   | 38,730               | -                   | -                  | -                        | 38,730                   |
| Environment and natural resources                      | 29,069               | -                   | -                  | 88,100                   | 117,169                  |
| Public safety, corrections, and regulation             | 69,600               | -                   | -                  | 25,642                   | 95,242                   |
| Transportation                                         | -                    | 3,481               | -                  | -                        | 3,481                    |
| Highway construction/preservation                      | -                    | 97                  | -                  | -                        | 97                       |
| Agriculture                                            | -                    | -                   | -                  | 1,603                    | 1,603                    |
| Debt service                                           | -                    | -                   | 146,823            | 36,947                   | 183,770                  |
| Capital projects/repairs and renovations               | -                    | -                   | -                  | 172,573                  | 172,573                  |
| <b>Committed to:</b>                                   |                      |                     |                    |                          |                          |
| General government                                     | 5,253,744            | -                   | -                  | 63,581                   | 5,317,325                |
| Primary and secondary education                        | 597,262              | -                   | -                  | -                        | 597,262                  |
| Public school capital projects/repairs and renovations | 1,447,622            | -                   | -                  | -                        | 1,447,622                |
| Higher education                                       | 611,324              | -                   | -                  | -                        | 611,324                  |
| Health and human services                              | 1,511,409            | -                   | -                  | 89,139                   | 1,600,548                |
| Economic development                                   | 1,384,298            | -                   | -                  | 306                      | 1,384,604                |
| Environment and natural resources                      | 319,070              | -                   | -                  | 413,982                  | 733,052                  |
| Public safety, corrections, and regulation             | 394,137              | -                   | -                  | 286,983                  | 681,120                  |
| Transportation                                         | -                    | 268,896             | 697,640            | 204                      | 966,740                  |
| Highway construction/preservation                      | -                    | 783,125             | -                  | -                        | 783,125                  |
| Agriculture                                            | 93,578               | -                   | -                  | 67,556                   | 161,134                  |
| Disaster relief                                        | 748,555              | -                   | -                  | -                        | 748,555                  |
| Capital projects/repairs and renovations               | 264,097              | -                   | -                  | 1,776,798                | 2,040,895                |
| <b>Assigned to:</b>                                    |                      |                     |                    |                          |                          |
| Subsequent year's budget                               | 2,196,360            | -                   | -                  | -                        | 2,196,360                |
| General government                                     | 13,231               | -                   | -                  | 114                      | 13,345                   |
| Primary and secondary education                        | 7,715                | -                   | -                  | -                        | 7,715                    |
| Higher education                                       | 741                  | -                   | -                  | -                        | 741                      |
| Health and human services                              | 302,582              | -                   | -                  | 1,701                    | 304,283                  |
| Economic development                                   | 1,538                | -                   | -                  | -                        | 1,538                    |
| Environment and natural resources                      | 9,504                | -                   | -                  | 93,025                   | 102,529                  |
| Public safety, corrections, and regulation             | 19,307               | -                   | -                  | 532                      | 19,839                   |
| Agriculture                                            | 1,799                | -                   | -                  | -                        | 1,799                    |
| <b>Unassigned</b>                                      | <b>5,358,214</b>     | <b>-</b>            | <b>-</b>           | <b>-</b>                 | <b>5,358,214</b>         |
| <b>Total fund balance</b>                              | <b>\$ 20,891,192</b> | <b>\$ 1,169,261</b> | <b>\$ 844,463</b>  | <b>\$ 4,729,249</b>      | <b>\$ 27,634,165</b>     |

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 12: RETIREMENT PLANS**

The State reports nine retirement plans as pension trust funds, seven defined benefit public employee retirement plans administered by the State as well as two defined contribution plans, one of which is administered by the State and the other is overseen and administered by a third party under the auspices of the State. Although the assets of the plans directly administered by the State are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for the administrative costs in accordance with the terms of each plan. Eight of the pension plans held in trust in this note do not issue separate financial statements, and none of the plans are reported as part of other entities. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information (RSI)* section of this ACFR. The Supplemental Retirement Income Plan of North Carolina (NC 401(k) Plan) issues separately audited financial statements. Information on how to obtain the NC 401(k) Plan financial statements is found in Section B.10. The State also provides a defined benefit special separation allowance for eligible sworn law enforcement officers and a defined contribution optional retirement plan for university employees.

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

The financial statements of these plans 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.

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. The Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund participate in the Long-term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The Registers of Deeds' Supplemental Pension Fund is invested in the Bond Index External Investment Pool.

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. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

**B. Plan Descriptions*****Cost-Sharing, Multiple-Employer, Defined Benefit Plans*****1. TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM**

*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, LEAs, and certain proprietary component units along with charter schools that elect to join the Retirement System. Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2024, the number of participating employers was as follows:

|                                     |            |
|-------------------------------------|------------|
| State of North Carolina             | 1          |
| LEAs                                | 116        |
| Charter Schools                     | 55         |
| Community Colleges                  | 58         |
| University of North Carolina System | 19         |
| Other Component Units               | 5          |
|                                     | <u>254</u> |



## NOTES TO THE FINANCIAL STATEMENTS

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*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 unreduced 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 reduced retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with unreduced retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO 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 (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

*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 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 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 General Assembly. The State's and other participating employers' contractually required contribution rate for the year ended June 30, 2024, was 17.64% of covered payroll. This was equal to the actuarially determined contribution. The actuarially determined contribution included 1.20% of covered payroll to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.27.(a) of Session Law 2023-134 and paid in October 2023. This amount, combined with plan member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability and administrative expenses. Actual contributions are reported in Section F of this note.

*Refunds of contributions.* Members who have terminated service as contributing members, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by TSERS.

## 2. LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

*Plan administration.* The State of North Carolina administers the Local Governmental Employees' Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees, local law enforcement officers of participating local governmental entities, firefighters and rescue squad workers. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly. At June 30, 2024, the number of participating local governments was as follows:

|                   |            |
|-------------------|------------|
| Cities            | 429        |
| Counties          | 100        |
| Special Districts | 365        |
|                   | <u>894</u> |

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**NOTES TO THE FINANCIAL STATEMENTS**

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

*Benefits provided.* LGERS provides retirement, disability and survivor benefits. Retirement benefits are determined as 1.85% 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 unreduced retirement benefits at age 65 with five years of creditable 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 reduced retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad workers who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with unreduced retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO 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 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The required contribution rates for employers are set periodically and affirmed annually by the LGERS Board of Trustees. The Board establishes a funding policy from which accrued liability rates and normal contribution rates are developed by the consulting actuary for general employees and firefighters as well as for law enforcement officers. The sum of those two rates developed under the funding policy and the past service liability contribution rates, if applicable, is the actuarially determined contribution rate (ADC). Further, the required employer contribution rates set by the Board of Trustees may not be less than the normal contribution rates developed under the established funding policy. For the fiscal year ended June 30, 2024, all employers made contributions of 14.10% of covered payroll for law enforcement officers and 12.85% for general employees and firefighters. These were different than the actuarially determined contributions. The employer contribution rate for law enforcement officers was greater than the actuarially determined contribution of 12.39%. The employer contribution rate for general employees and firefighters was greater than the actuarially determined contribution of 10.43%. These amounts, combined with member contributions and investment income, fund the benefits earned by plan members during the year, a payment to reduce the net pension liability, a payment for past service liability, if applicable, and administrative expenses. In addition, employers with an unfunded liability, established when the employer initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only.

*Refunds of contributions.* Members who have terminated service as contributing members, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LGERS.

### **3. FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND**

*Plan administration.* The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2024, there were 1,653 participating fire and rescue units.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

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**NOTES TO THE FINANCIAL STATEMENTS**

*Benefits provided.* FRSWPF provides retirement, disability and survivor benefits. The present retirement benefit is \$170 per month. As a result of Session Law 2024-29 enacted July 2, 2024, and Session Law 2024-42 enacted July 8, 2024, the retirement benefit will increase to \$175 per month effective January 1, 2025. Plan members are eligible to receive the monthly retirement benefit at age 55 with 20 years of fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. Disabled members may be able to receive benefits after attaining age 55 under certain plan provisions. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected. A survivorship benefit in the case of pre-retirement death in the line of duty provides that beneficiaries may receive the same benefit the deceased member would have received beginning when the deceased would have reached age 55, 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 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation developed under a funding policy adopted by the LGERS Board of Trustees, which may recommend to the North Carolina General Assembly an appropriation that is higher than the actuarially determined contribution. As a result of Session Law 2024-29 enacted July 2, 2024, and Session Law 2024-42 enacted July 8, 2024, the contribution rate for members will increase to \$15 per month effective January 1, 2025. Actual contributions are reported in Section F of this note.

*Refunds of contributions.* Members who are no longer eligible or choose not to participate in the fund may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by FRSWPF.

#### **4. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND**

*Plan administration.* The State of North Carolina administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2024, there were 108 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

*Benefits provided.* An individual's eligibility to receive benefits under the RODSPF is based on at least 10 years of service as a register of deeds. An individual's benefit amount in a given year is limited to the lesser of the following:

1. the member's years of service multiplied by the value of one share of accumulated contributions available for benefits for that year, as specified in General Statute 161-50.3; and
2. the benefit amount is limited to the lesser of the following:
  - a. seventy-five percent (75%) of a member's annual compensation, computed on the latest monthly rate (including any and all supplements); for registers of deeds who began serving after September 10, 2009, this 75% limit is applied to the benefit after combining the benefit with the maximum retirement allowance upon retirement under the Local Governmental Employees' Retirement System or equivalent locally sponsored retirement plan; or
  - b. one thousand five hundred dollars (\$1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed. The plan does not provide for automatic post-retirement benefit increases.

*Contributions.* Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution for the fiscal year ending 2024 is zero. Registers of Deeds do not contribute.

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**NOTES TO THE FINANCIAL STATEMENTS*****Single-Employer Defined Benefit Plans*****5. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM**

*Plan administration.* The State of North Carolina administers the Consolidated Judicial Retirement System (CJRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders and clerks of court. Benefit provisions are established by Article 4 of General Statute 135 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*Benefits provided.* The plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's final compensation times the member's years of creditable service. The percentage used is determined by the position held by the member. A member's final compensation is the annual equivalent of the rate of compensation most recently applicable to the retiree as a member of the Retirement System. Plan members are eligible to retire with unreduced retirement benefits at age 65 with five years of membership service, or at age 50 with 24 years of creditable service. Plan members are eligible to retire with reduced retirement benefits at age 50 with five years of membership service. The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. The unreduced benefit from CJRS, when combined with the same member's unreduced benefits calculated under TSERS, LGERS, or Legislative Retirement System (LRS), if any, is limited to an amount no greater than 75% of the member's final compensation. Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to spouses of deceased retirees and spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases.

*Contributions.* Contribution provisions are established by General Statutes 135-68 and 135-69 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 the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate developed by the consulting actuary. The Board of Trustees must recommend a contribution rate that is no less than the actuarially determined rate. The Board of Trustees may adopt a contribution rate policy that results in a recommendation greater than the actuarially determined rate. The State's contractually required contribution for the year ended June 30, 2024 was 35.28% of covered payroll. This was equal to the actuarially determined contribution. The actuarially determined contribution included 2.44% of covered payroll to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.27.(b) of Session Law 2023-134 and paid in October 2023. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability and administrative expenses. Actual contributions are reported in Section F of this note.

*Refund of contributions.* Members who have terminated service as contributing members may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by CJRS.

**6. LEGISLATIVE RETIREMENT SYSTEM**

*Plan administration.* The State of North Carolina administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position requiring participation in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System. Benefit provisions are established by Article 1A of General Statute 120 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*Benefits provided.* LRS provides retirement, disability and survivor benefits. Retirement benefits are determined as 4.02% of the highest annual compensation as a member of the General Assembly times years of creditable service. A member's highest annual compensation is the 12 consecutive months of salary authorized during the member's final legislative term for the highest position ever held as a member of the General Assembly. Plan members are eligible to retire with unreduced retirement benefits at age 65 after five years of service. Plan members are eligible to retire with reduced retirement benefits at age 60 after five years of service or at age 50 with 20 years of service. Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of contributing

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**NOTES TO THE FINANCIAL STATEMENTS**

members of the General Assembly who die while in active service. The beneficiary will receive a return of the member's contributions with interest. If the member dies while in active service after 12 years of creditable service or after reaching age 60 with five years of service, the surviving beneficiary may choose to receive a lifetime monthly benefit instead of a return of contributions with interest. The plan does not provide for automatic post-retirement benefit increases.

*Contributions.* Contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the consulting actuary. The annual contributions by the State in a given year when combined with the LRS assets in the pension accumulation fund at the beginning of the year may not be less than the projected retirement allowances and other expected benefits to be paid during that year. For the fiscal year ended June 30, 2024, the State's contractually required contribution was 20.65% of covered payroll. This was equal to the actuarially determined contribution. The actuarially determined contribution included 2.04% of covered payroll to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.27.(c) of Session Law 2023-134 and paid in October 2023. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability and administrative expenses. Actual contributions are reported in Section F of this note.

*Refunds of contributions.* Members who have terminated service as contributing members may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LRS.

## **7. NORTH CAROLINA NATIONAL GUARD PENSION FUND**

*Plan administration.* The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*Benefits provided.* NGPF provides a pension of \$105 per month for 20 years of creditable military service with an additional \$10.50 per month for each additional year of such service; provided, however that the total pension shall not exceed \$210 per month. The plan does not provide for automatic post-retirement benefit increases.

*Contributions.* Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability and administrative expenses are funded by investment income and an actuarially determined state appropriation based on the actuarially determined contribution amount developed by the consulting actuary. The Board of Trustees must recommend a contribution amount that is no less than the actuarially determined amount. The Board of Trustees may adopt a contribution policy that results in a recommendation greater than the actuarially determined amount. NGPF members do not contribute. Actual contributions are reported in Section F of this note.

## **8. SPECIAL SEPARATION ALLOWANCE**

*Plan administration.* The State provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11c) or General Statutes 143-166.30(a)(4) that were employed by State agencies and retired on a basic service retirement under the provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement.

*Benefits provided.* Each eligible officer is paid an annual separation allowance equal to 0.85% of the officer's most recent base rate of compensation for each year of creditable service. These benefits are funded on a pay-as-you-go basis with each state agency responsible for the benefits to their former employees. The benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

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**NOTES TO THE FINANCIAL STATEMENTS**

There is no statewide administration of the SSA. The SSA is not administered through a trust and therefore no assets are accumulated. Funds for this allowance are appropriated annually in the budget of each affected state agency.

***Defined Contribution Plans*****9. SHERIFFS' SUPPLEMENTAL PENSION FUND**

*Plan administration.* This plan is a defined contribution pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2024, there were 107 sheriffs, and zero beneficiaries enrolled in the plan with 79 of the State's 100 counties participating.

*Benefits provided.* An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan. If the plan purchases any investments, they are held as part of the State Treasurer's External Investment Pool. The State's only cost in the plan is administration.

*Contributions.* Receipts collected by each county's Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. At the beginning of each calendar year, the Department of Justice invoices and collects from county governments, on a pro rata basis by population, an amount of funds needed in addition to the receipts collected, to pay the pension benefits for that year. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2024, the Clerks remitted \$715 thousand and \$1.04 million was invoiced to the county governments, with \$803 thousand collected. All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes and may be amended only by the North Carolina General Assembly.

**10. IRC SECTION 401 (K) PLAN**

Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the NC 401(k) Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department of State Treasurer (the Department) have the responsibility for administering the NC 401(k) Plan according to the plan document, the North Carolina General Statutes, and the IRC, with the Department serving as the primary administrator carrying out the provisions of the plan, as directed by the Board. Empower Retirement, LLC (Employer) began providing recordkeeping, administration, and education services after acquiring Prudential Retirement Insurance and Annuity Company on April 1, 2022. The full migration to the Empower platform was completed in the first quarter of calendar year 2024.

All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC, law enforcement officers as defined under North Carolina General Statutes 143-166.30 and 143-166.50 and individuals who are required under the IRC to be eligible for participation in the NC 401(k) Plan, are eligible to enroll in the NC 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. The assets of the NC 401(k) Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. All contributions and costs of administering the NC 401(k) Plan are the responsibility of the participants. All contributions and earnings are immediately vested in the name of each participant, subject to the felony forfeiture provisions for law enforcement officers in General Statutes 143-166 30(g1) and 143-165 50(e2). At December 31, 2023, there were approximately 289,450 employees enrolled with 998 participating employers.

The NC 401(k) Plan is a defined contribution pension plan and benefits of the Plan depend solely on amounts contributed to the plan plus investment earnings net of expenses. Members of the NC 401(k) Plan may receive their benefits upon retirement, termination, hardship, death, or the attainment of age 59 ½.

Participants may choose from several withdrawal options, including systematic withdrawals, full or partial lump-sum withdrawals, or transfer of their balance to an eligible employer-sponsored retirement plan or IRA.

Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2023, are presented in this financial report as a pension and other employee benefit trust fund. The NC 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. The NC 401(k) Plan's financial statements are available online at [myNCRetirement.com](http://myNCRetirement.com) or by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

**NOTES TO THE FINANCIAL STATEMENTS**

In addition to the voluntary contribution criteria above, General Statutes 143-166.30 and 143-166.50 require employer contributions to the NC 401(k) Plan to provide benefits for all law enforcement officers (LEOs) employed by State and local governments. Participation begins at the date of employment. Employers are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. In addition, State law enforcement officers receive a contribution into the NC 401(k) equal to a pro rata share of \$.50 for each court cost assessed and collected under General Statute 7A-304, while \$1.25 of this assessment goes to local law enforcement officers, except Sheriffs. All contributions are immediately vested in the name of each participant, subject to the felony forfeiture provisions for law enforcement officers in General Statutes 143-166.30(g1) and 143-166.50(e2). At December 31, 2023, 54 state agencies and component units along with 434 local governmental units outside the reporting entity contributed the required 5%. In addition, five state agencies and 516 local government employers contributed to the NC 401(k) Plan on a voluntary basis. There were approximately 13,300 LEOs actively contributing to the NC 401(k) Plan and approximately 26,000 LEOs receiving employer contributions as of December 31, 2023.

The NC 401(k) Plan reported total member contributions of \$487.09 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2023, amounted to \$340.14 million for the State, \$37.72 million for universities, and \$10.12 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$17.01 million, by universities for \$1.89 million, and by the remaining component units, public schools and community colleges for \$506 thousand. In addition, the State contributed \$273 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The NC 401(k) Plan discloses a related party transaction in Note 20 of this ACFR. The NC 401(k) Plan's investment risks are described in Note 3.

**11. OPTIONAL RETIREMENT PROGRAM**

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 of North Carolina (UNC) System may join the ORP instead of the Teachers' and State Employees' Retirement System. The ORP is administered by the UNC System. At June 30, 2024, the plan had 24,212 participants with 19 constituent institutions of the UNC System participating.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association (TIAA) and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statutes 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%. The universities contributed \$168.52 million for the fiscal year ended June 30, 2024. Annual covered payroll was \$2.46 billion and employer contributions expressed as a percentage of annual payroll were 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6% with actual employee contributions of \$147.82 million for the fiscal year ended June 30, 2024. The amount of pension expense recognized in the current fiscal year related to ORP was \$138.96 million. Forfeitures reduced the universities' pension expense by \$29.55 million for the fiscal year ended June 30, 2024. Any liabilities reported by the universities are immaterial to this ACFR.

**C. Plan Membership**

The following table summarizes membership information by plan at the actuarial valuation date:

|                                                                     | Cost-Sharing, Multiple-Employer |                    |                                |                     | Single-Employer       |             |                               |                              |
|---------------------------------------------------------------------|---------------------------------|--------------------|--------------------------------|---------------------|-----------------------|-------------|-------------------------------|------------------------------|
|                                                                     | Teachers' and State Employees'  | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard | Special Separation Allowance |
| Inactive plan members or beneficiaries currently receiving benefits | 252,036                         | 85,027             | 15,263                         | 108                 | 850                   | 294         | 4,825                         | 1,217                        |
| Inactive plan members entitled to but not yet receiving benefits    | 226,099                         | 108,697            | 99                             | -                   | 70                    | 120         | 2,500                         | -                            |
| Active plan members                                                 | 303,068                         | 141,269            | 44,394                         | 100                 | 582                   | 170         | 5,336                         | 4,809                        |
|                                                                     | <u>781,203</u>                  | <u>334,993</u>     | <u>59,756</u>                  | <u>208</u>          | <u>1,502</u>          | <u>584</u>  | <u>12,661</u>                 | <u>6,026</u>                 |
| Valuation date                                                      | 12-31-23                        | 12-31-23           | 12-31-23                       | 12-31-23            | 12-31-23              | 12-31-23    | 12-31-23                      | 12-31-22                     |

**NOTES TO THE FINANCIAL STATEMENTS****D. Investments**

*Investment policy.* The pension plans' policy regarding the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

For all plans participating in the External Investment Pool, the following table displays the adopted asset allocation policy as of June 30, 2024:

| Asset Class                | Target Allocation |
|----------------------------|-------------------|
| Fixed Income               | 33%               |
| Global Equity              | 38%               |
| Real Estate                | 8%                |
| Alternatives               | 8%                |
| Opportunistic Fixed Income | 7%                |
| Inflation Sensitive        | 6%                |
| <b>Total</b>               | <b>100%</b>       |

The Registers of Deeds' Supplemental Pension fund is 100% invested in the Bond Index External Investment Pool.

*Rate of return.* For the year ended June 30, 2024, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

|                               | Cost-Sharing, Multiple-Employer |                    |                                |                     | Single-Employer       |             |                               |
|-------------------------------|---------------------------------|--------------------|--------------------------------|---------------------|-----------------------|-------------|-------------------------------|
|                               | Teachers' and State Employees'  | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard |
| Money-weighted Rate of Return | 8.18%                           | 8.20%              | 8.17%                          | 2.79%               | 8.17%                 | 8.07%       | 8.07%                         |

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**E. Net Pension Liability of Participating Employers**

The components of the net pension liability of the participating employers at June 30, 2024, were as follows (dollars in thousands):

|                                                                            | Cost-Sharing, Multiple-Employer |                     |                                |                     | Single-Employer       |                 |                               |
|----------------------------------------------------------------------------|---------------------------------|---------------------|--------------------------------|---------------------|-----------------------|-----------------|-------------------------------|
|                                                                            | Teachers' and State Employees'  | Local Governmental  | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative     | North Carolina National Guard |
| Total pension liability                                                    | \$101,125,956                   | \$40,361,637        | \$ 512,870                     | \$ 34,288           | \$ 926,852            | \$ 30,565       | \$ 152,337                    |
| Plan fiduciary net position                                                | 86,309,278                      | 33,620,166          | 527,010                        | 45,811              | 718,371               | 29,419          | 179,931                       |
| Net pension liability (asset)                                              | <u>\$ 14,816,678</u>            | <u>\$ 6,741,471</u> | <u>\$ (14,140)</u>             | <u>\$ (11,523)</u>  | <u>\$ 208,481</u>     | <u>\$ 1,146</u> | <u>\$ (27,594)</u>            |
| Plan fiduciary net position as a percentage of the total pension liability | 85.35%                          | 83.30%              | 102.76%                        | 133.61%             | 77.51%                | 96.25%          | 118.11%                       |



**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial assumptions.* The total pension liability was determined by actuarial valuations as of December 31, 2023, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2024 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2023 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019. The actuarial assumptions used in the December 31, 2022 valuation for the Special Separation Allowance were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

|                               | Cost-Sharing, Multiple-Employer |                    |                                |                     | Single-Employer       |             |                               |
|-------------------------------|---------------------------------|--------------------|--------------------------------|---------------------|-----------------------|-------------|-------------------------------|
|                               | Teachers' and State Employees'  | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard |
|                               | (1)                             | (1)                | (1)                            | (1)                 | (1)                   | (1)         | (1)                           |
| Valuation date                | 12/31/23                        | 12/31/23           | 12/31/23                       | 12/31/23            | 12/31/23              | 12/31/23    | 12/31/23                      |
| Inflation                     | 2.5%                            | 2.5%               | 2.5%                           | 2.5%                | 2.5%                  | 2.5%        | 2.5%                          |
| Salary Increases              | 3.25-8.05%                      | 3.25-8.25%         | N/A                            | 3.25-8.25%          | 3.25-4.75%            | 3.25%       | N/A                           |
| Investment Rate of Return (2) | 6.5%                            | 6.5%               | 6.5%                           | 3%                  | 6.5%                  | 6.5%        | 6.5%                          |

(1) - Salary increases include 3.25% inflation and productivity factor

(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.

N/A - Not Applicable

Benefit recipients of the TSERS, CJRS, and LRS received a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in October 2023, as granted by the North Carolina General Assembly for the fiscal year ending June 30, 2024. The one-time supplements do not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

The retirement 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 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.

Future ad hoc COLA 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, 2024 (see the discussion of the pension plan's investment policy in Section D) are summarized in the following table:

| Asset Class                | Long-Term Expected Real Rate of Return |
|----------------------------|----------------------------------------|
| Fixed Income               | 2.4%                                   |
| Global Equity              | 6.9%                                   |
| Real Estate                | 6.0%                                   |
| Alternatives               | 8.6%                                   |
| Opportunistic Fixed Income | 5.3%                                   |
| Inflation Sensitive        | 4.3%                                   |

The information in the preceding table is based on 30 year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return

**NOTES TO THE FINANCIAL STATEMENTS**

expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

*Discount rate.* The discount rate used to measure the total pension liability was 6.5% except for Registers of Deeds' Supplemental Pension Fund which was 3% for the December 31, 2023 valuation. The 6.5% 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 plans' 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 Plans' net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of the plans at June 30, 2024 calculated using the discount rate of 6.5% (3% for RODSPF), as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%; RODSPF 2%) or 1-percentage-point higher (7.5%; RODSPF 4%) than the current rate (dollars in thousands):

|                                        | 1% Decrease<br>(5.5%) | Current<br>Discount<br>Rate (6.5%) | 1% Increase<br>(7.5%) |
|----------------------------------------|-----------------------|------------------------------------|-----------------------|
| <u>Cost-Sharing, Multiple-Employer</u> |                       |                                    |                       |
| TSERS's net pension liability          | \$ 27,179,553         | \$ 14,816,678                      | \$ 4,621,676          |
| LGERS's net pension liability          | 11,946,084            | 6,741,471                          | 2,459,961             |
| FRSWPF's net pension liability (asset) | 50,992                | (14,140)                           | (67,380)              |
| <u>Single-Employer</u>                 |                       |                                    |                       |
| CJRS's net pension liability           | \$ 307,902            | \$ 208,481                         | \$ 123,944            |
| LRS's net pension liability (asset)    | 3,992                 | 1,146                              | (1,285)               |
| NCNG's net pension asset               | (10,984)              | (27,594)                           | (41,180)              |
| <br>                                   |                       |                                    |                       |
|                                        | 1% Decrease<br>(2%)   | Current<br>Discount<br>Rate (3%)   | 1% Increase<br>(4%)   |
| <u>Cost-Sharing, Multiple-Employer</u> |                       |                                    |                       |
| RODSPF's net pension asset             | \$ (7,635)            | \$ (11,523)                        | \$ (14,798)           |

**NOTES TO THE FINANCIAL STATEMENTS****F. GASB Statements 68 and 73 Employer Reporting****1. EMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the pension plans at June 30, 2024 (dollars in thousands):

|                                     | Teachers'<br>and State<br>Employees' | Firefighters'<br>and Rescue<br>Squad | Consolidated<br>Judicial | Legislative   | Total              |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------|---------------|--------------------|
| Primary Government                  | \$ 742,441                           | \$ 20,052                            | \$ 35,574                | \$ 748        | \$ 798,815         |
| Component Units                     |                                      |                                      |                          |               |                    |
| University of North Carolina System | \$ 503,969                           | \$ —                                 | \$ —                     | \$ —          | \$ 503,969         |
| Community Colleges                  | 188,162                              | —                                    | —                        | —             | 188,162            |
| Other Component Units               | 7,047                                | —                                    | —                        | —             | 7,047              |
| Total Contributions                 | <u>\$ 1,441,619</u>                  | <u>\$ 20,052</u>                     | <u>\$ 35,574</u>         | <u>\$ 748</u> | <u>\$1,497,993</u> |

For the year ended June 30, 2024, Session Law 2023-134 Section 2.1.(a) did not appropriate contributions to the North Carolina National Guard pension plan.

**2. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

As of June 30, 2024, the primary government and component units reported pension liabilities for the defined benefit pension plans administered by the State and the defined benefit pension plan provided by the State as follows (dollars in thousands):

|                                                  |                       | Component Units                                          |                       |                                            |
|--------------------------------------------------|-----------------------|----------------------------------------------------------|-----------------------|--------------------------------------------|
|                                                  | Primary<br>Government | University of<br>North Carolina<br>System <sup>(1)</sup> | Community<br>Colleges | Other<br>Component<br>Units <sup>(2)</sup> |
| Proportionate Share of the Net Pension Liability |                       |                                                          |                       |                                            |
| Teachers' and State Employees' Retirement System | \$ 3,662,113          | \$ 2,580,319                                             | \$ 937,035            | \$ 32,922                                  |
| Firefighters' and Rescue Squad                   | 9,309                 | —                                                        | —                     | —                                          |
| Consolidated Judicial                            | 201,054               | —                                                        | —                     | —                                          |
| Legislative                                      | 1,685                 | —                                                        | —                     | —                                          |
| Pension Liability                                |                       |                                                          |                       |                                            |
| Special Separation Allowance                     | 336,876               | —                                                        | —                     | —                                          |
| Total Pension Liability                          | <u>\$ 4,211,037</u>   | <u>\$ 2,580,319</u>                                      | <u>\$ 937,035</u>     | <u>\$ 32,922</u>                           |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. The net pension liability of Rex's retirement plan is excluded from the above amounts. At June 30, 2024, Rex Healthcare had a net pension liability of \$118.951 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. The net pension liability of Centennial Authority's retirement plan is excluded from the above amounts. At June 30, 2024, Centennial Authority had a net pension liability of \$184 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

As of June 30, 2024, the primary government reported a net pension asset of \$32.02 million for the North Carolina National Guard defined benefit pension plan that is administered by the State.

Each net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate each net pension liability was determined by an actuarial valuation as of December 31, 2022. Update procedures were used to roll forward the total pension liability to June 30, 2023. For TSERS, the primary government's and each component unit's proportion of the collective net pension liability was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net pension liability was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year pension contributions.

For SSA, the primary government's pension liability was measured as of June 30, 2023. The total pension liability was determined by an actuarial valuation as of December 31, 2022. Update procedures were used to roll forward the total pension liability to June 30, 2023. The discount rate used to measure the total pension liability was 3.65% at June 30, 2023. The economic assumptions used for the discount rate are based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.

The primary government's and component units' proportions of the collective net pension liability for the Teachers' and State Employees' Retirement System as of June 30, 2023 and 2022 were as follows:

|                                                  | Primary<br>Government | Component Units                           |                       |                             |
|--------------------------------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
|                                                  |                       | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
| Teachers' and State Employees' Retirement System |                       |                                           |                       |                             |
| Proportion – June 30, 2023                       | 21.97%                | 15.48%                                    | 5.62%                 | 0.20%                       |
| Proportion – June 30, 2022                       | 22.29%                | 14.91%                                    | 5.53%                 | 0.19%                       |
| Change – Increase (Decrease)                     | (0.32)                | 0.57                                      | 0.09                  | 0.01                        |

For the year ended June 30, 2024, the primary government and component units recognized pension expense for the defined benefit pension plans administered by the State and the defined benefit pension plan provided by the State as follows (dollars in thousands):

|                                                  | Primary<br>Government | Component Units                           |                       |                             |
|--------------------------------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
|                                                  |                       | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
| Pension Expense                                  |                       |                                           |                       |                             |
| Teachers' and State Employees' Retirement System | \$ 991,730            | \$ 679,987                                | \$ 244,741            | \$ 9,426                    |
| Consolidated Judicial                            | 59,787                | –                                         | –                     | –                           |
| Legislative                                      | 1,044                 | –                                         | –                     | –                           |
| Special Separation Allowance                     | 43,816                | –                                         | –                     | –                           |
| Total Pension Expense                            | <u>\$ 1,096,377</u>   | <u>\$ 679,987</u>                         | <u>\$ 244,741</u>     | <u>\$ 9,426</u>             |

As a result of its requirement to contribute, the primary government recognized expense of \$9.65 million for FRSWPF and \$(13.95) million for NCNG for the year ended June 30, 2024. The primary government's proportion of the collective net pension liability for Firefighters' and Rescue Squad Workers' and for North Carolina National Guard was 100% and 100%, respectively, as of June 30, 2023 and 2022.

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2024, the primary government and component units reported deferred outflows of resources related to the defined benefit pension plans administered by the State and the defined benefit pension plan provided by the State from the following sources (dollars in thousands):

|                                                                                                              | Deferred Outflows of Resources |                                |                       |                 |                               |                              | Total               |
|--------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|-----------------------|-----------------|-------------------------------|------------------------------|---------------------|
|                                                                                                              | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative     | North Carolina National Guard | Special Separation Allowance |                     |
| <b>Primary Government:</b>                                                                                   |                                |                                |                       |                 |                               |                              |                     |
| Difference between actual and expected experience                                                            | \$ 298,521                     | \$ 154                         | \$ 35,186             | \$ —            | \$ —                          | \$ 48,289                    | \$ 382,150          |
| Changes of assumptions                                                                                       | 128,624                        | 1,629                          | 11,654                | —               | —                             | 29,042                       | 170,949             |
| Net difference between projected and actual earnings on pension plan investments                             | 1,019,915                      | 28,226                         | 39,206                | 1,690           | 10,033                        | —                            | 1,099,070           |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 400,302                        | —                              | —                     | —               | —                             | —                            | 400,302             |
| Contributions subsequent to the measurement date                                                             | 742,441                        | 20,052                         | 35,574                | 748             | —                             | —                            | 798,815             |
| Transactions subsequent to the measurement date                                                              | —                              | —                              | —                     | —               | —                             | 25,005                       | 25,005              |
| Total                                                                                                        | <u>\$ 2,589,803</u>            | <u>\$ 50,061</u>               | <u>\$ 121,620</u>     | <u>\$ 2,438</u> | <u>\$ 10,033</u>              | <u>\$ 102,336</u>            | <u>\$ 2,876,291</u> |
| <b>Component Units:</b>                                                                                      |                                |                                |                       |                 |                               |                              |                     |
| <b>University of North Carolina System</b>                                                                   |                                |                                |                       |                 |                               |                              |                     |
| Difference between actual and expected experience                                                            | \$ 210,357                     |                                |                       |                 |                               |                              |                     |
| Changes of assumptions                                                                                       | 90,617                         |                                |                       |                 |                               |                              |                     |
| Net difference between projected and actual earnings on pension plan investments                             | 718,618                        |                                |                       |                 |                               |                              |                     |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 57,405                         |                                |                       |                 |                               |                              |                     |
| Contributions subsequent to the measurement date                                                             | 503,969                        |                                |                       |                 |                               |                              |                     |
| Total <sup>(1)</sup>                                                                                         | <u>\$ 1,580,966</u>            |                                |                       |                 |                               |                              |                     |
| <b>Community Colleges</b>                                                                                    |                                |                                |                       |                 |                               |                              |                     |
| Difference between actual and expected experience                                                            | \$ 76,391                      |                                |                       |                 |                               |                              |                     |
| Changes of assumptions                                                                                       | 32,907                         |                                |                       |                 |                               |                              |                     |
| Net difference between projected and actual earnings on pension plan investments                             | 260,964                        |                                |                       |                 |                               |                              |                     |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 20,284                         |                                |                       |                 |                               |                              |                     |
| Contributions subsequent to the measurement date                                                             | 188,162                        |                                |                       |                 |                               |                              |                     |
| Total                                                                                                        | <u>\$ 578,708</u>              |                                |                       |                 |                               |                              |                     |
| <b>Other Component Units</b>                                                                                 |                                |                                |                       |                 |                               |                              |                     |
| Difference between actual and expected experience                                                            | \$ 2,684                       |                                |                       |                 |                               |                              |                     |
| Changes of assumptions                                                                                       | 1,156                          |                                |                       |                 |                               |                              |                     |
| Net difference between projected and actual earnings on pension plan investments                             | 9,169                          |                                |                       |                 |                               |                              |                     |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 1,696                          |                                |                       |                 |                               |                              |                     |
| Contributions subsequent to the measurement date                                                             | 7,047                          |                                |                       |                 |                               |                              |                     |
| Total <sup>(2)</sup>                                                                                         | <u>\$ 21,752</u>               |                                |                       |                 |                               |                              |                     |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. Deferred outflows of resources of Rex's retirement plan are excluded from the above amounts. At June 30, 2024, Rex Healthcare had deferred outflows of resources of \$31.468 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. Deferred outflows of resources of Centennial Authority's retirement plan are excluded from the above amounts. At June 30, 2024, Centennial Authority had deferred outflows of resources of \$137 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2024, the primary government and component units reported deferred inflows of resources related to the defined benefit pension plans administered by the State and the defined benefit pension plan provided by the State from the following sources (dollars in thousands):

|                                                                                                              | Deferred Inflows of Resources  |                                |                       |              |                               |                              |                   |
|--------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|-----------------------|--------------|-------------------------------|------------------------------|-------------------|
|                                                                                                              | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative  | North Carolina National Guard | Special Separation Allowance | Total             |
| Primary Government:                                                                                          |                                |                                |                       |              |                               |                              |                   |
| Difference between actual and expected experience                                                            | \$ 27,031                      | \$ 8,112                       | \$ —                  | \$ 46        | \$ 4,647                      | \$ —                         | \$ 39,836         |
| Changes of assumptions                                                                                       | —                              | 958                            | —                     | —            | —                             | 23,940                       | 24,898            |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 380,179                        | —                              | —                     | —            | —                             | —                            | 380,179           |
| Total                                                                                                        | <u>\$ 407,210</u>              | <u>\$ 9,070</u>                | <u>\$ —</u>           | <u>\$ 46</u> | <u>\$ 4,647</u>               | <u>\$ 23,940</u>             | <u>\$ 444,913</u> |
| Component Units:                                                                                             |                                |                                |                       |              |                               |                              |                   |
| University of North Carolina System                                                                          |                                |                                |                       |              |                               |                              |                   |
| Difference between actual and expected experience                                                            | \$ 19,044                      |                                |                       |              |                               |                              |                   |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 22,508                         |                                |                       |              |                               |                              |                   |
| Total <sup>(1)</sup>                                                                                         | <u>\$ 41,552</u>               |                                |                       |              |                               |                              |                   |
| Community Colleges                                                                                           |                                |                                |                       |              |                               |                              |                   |
| Difference between actual and expected experience                                                            | \$ 6,916                       |                                |                       |              |                               |                              |                   |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 9,740                          |                                |                       |              |                               |                              |                   |
| Total                                                                                                        | <u>\$ 16,656</u>               |                                |                       |              |                               |                              |                   |
| Other Component Units                                                                                        |                                |                                |                       |              |                               |                              |                   |
| Difference between actual and expected experience                                                            | \$ 243                         |                                |                       |              |                               |                              |                   |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 84                             |                                |                       |              |                               |                              |                   |
| Total <sup>(2)</sup>                                                                                         | <u>\$ 327</u>                  |                                |                       |              |                               |                              |                   |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. Deferred inflows of resources of Rex's retirement plan are excluded from the above amounts. At June 30, 2024, Rex Healthcare had deferred inflows of resources of \$5.193 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. Deferred inflows of resources of Centennial Authority's retirement plan are excluded from the above amounts. At June 30, 2024, Centennial Authority had deferred inflows of resources of seven thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

Amounts reported as deferred outflows of resources related to contributions or transactions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

## Teachers' and State Employees'

| Year Ending June 30 | Primary Government | Component Units                     |                    |                       |
|---------------------|--------------------|-------------------------------------|--------------------|-----------------------|
|                     |                    | University of North Carolina System | Community Colleges | Other Component Units |
| 2025                | \$ 491,784         | \$ 338,508                          | \$ 123,120         | \$ 4,914              |
| 2026                | 244,330            | 188,442                             | 68,549             | 2,896                 |
| 2027                | 660,418            | 477,799                             | 171,074            | 6,176                 |
| 2028                | 43,620             | 30,696                              | 11,147             | 392                   |

## Other Plans

| Year Ending June 30 | Primary Government             |                       |             |                               |                              |
|---------------------|--------------------------------|-----------------------|-------------|-------------------------------|------------------------------|
|                     | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard | Special Separation Allowance |
| 2025                | \$ 3,499                       | \$ 35,992             | \$ 376      | \$ 253                        | \$ 19,000                    |
| 2026                | 1,598                          | 19,450                | 271         | (527)                         | 13,597                       |
| 2027                | 14,653                         | 28,910                | 920         | 5,207                         | 10,373                       |
| 2028                | 1,189                          | 1,694                 | 77          | 453                           | 6,107                        |
| 2029                | —                              | —                     | —           | —                             | 2,741                        |
| Thereafter          | —                              | —                     | —           | —                             | 1,573                        |

Unrestricted net position has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources related to the defined benefit pension plans administered by the State and the defined benefit pension plan provided by the State. As of June 30, 2024, the effect of these transactions on unrestricted net position is presented as follows (dollars in thousands):

|                                           | Governmental Activities | Business- type Activities | Total Primary Government | Component Units       |
|-------------------------------------------|-------------------------|---------------------------|--------------------------|-----------------------|
| <b>Unrestricted net position</b>          | <u>\$ 15,203,393</u>    | <u>\$ 7,474,058</u>       | <u>\$ 22,677,451</u>     | <u>\$ 1,131,592</u>   |
| Effect on unrestricted net position       |                         |                           |                          |                       |
| TSERS                                     | \$ (1,457,889)          | \$ (21,631)               | \$ (1,479,520)           | \$ (1,427,385)        |
| FRSWPF                                    | 31,682                  | —                         | 31,682                   | —                     |
| CJRS                                      | (79,434)                | —                         | (79,434)                 | —                     |
| LRS                                       | 707                     | —                         | 707                      | —                     |
| SSA                                       | (258,480)               | —                         | (258,480)                | —                     |
| Total effect on unrestricted net position | <u>\$ (1,763,414)</u>   | <u>\$ (21,631)</u>        | <u>\$ (1,785,045)</u>    | <u>\$ (1,427,385)</u> |
| <b>Restricted net position</b>            | <u>\$ 2,049,919</u>     | <u>\$ 181,140</u>         | <u>\$ 2,231,059</u>      | <u>\$ 12,913,178</u>  |
| Effect on restricted net position         |                         |                           |                          |                       |
| NCNG                                      | \$ 37,401               | \$ —                      | \$ 37,401                | \$ —                  |
| Total effect on restricted net position   | <u>\$ 37,401</u>        | <u>\$ —</u>               | <u>\$ 37,401</u>         | <u>\$ —</u>           |

**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial assumptions.* The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                               | Teachers'<br>and State<br>Employees' | Firefighters'<br>and Rescue<br>Squad | Consolidated<br>Judicial | Legislative | North<br>Carolina<br>National<br>Guard | Special<br>Separation<br>Allowance |
|-------------------------------|--------------------------------------|--------------------------------------|--------------------------|-------------|----------------------------------------|------------------------------------|
|                               | (1)                                  |                                      | (1)                      | (1)         |                                        | (3)                                |
| Valuation date                | 12/31/22                             | 12/31/22                             | 12/31/22                 | 12/31/22    | 12/31/22                               | 12/31/22                           |
| Inflation                     | 2.5%                                 | 2.5%                                 | 2.5%                     | 2.5%        | 2.5%                                   | 2.5%                               |
| Salary Increases              | 3.25-8.05%                           | N/A                                  | 3.25-4.75%               | 3.25%       | N/A                                    | 3.25% - 8.05%                      |
| Investment Rate of Return (2) | 6.5%                                 | 6.5%                                 | 6.5%                     | 6.5%        | 6.5%                                   | N/A                                |

(1) - Salary increases include 3.25% inflation and productivity factor.

(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.

(3) - Salary increases include 2.5% inflation and 0.75% real wage growth.

N/A - Not Applicable

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2023:

| <u>Asset Class</u>         | <u>Target Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|----------------------------|--------------------------|---------------------------------------------------|
| Fixed Income               | 33%                      | 0.9%                                              |
| Global Equity              | 38%                      | 6.5%                                              |
| Real Estate                | 8%                       | 5.9%                                              |
| Alternatives               | 8%                       | 8.2%                                              |
| Opportunistic Fixed Income | 7%                       | 5.0%                                              |
| Inflation Sensitive        | 6%                       | 2.7%                                              |
| <b>Total</b>               | <b>100%</b>              |                                                   |



**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the primary government's and component units' net pension liability (asset) calculated using the discount rate of 6.5%, as well as what the proportionate share of the net pension liability (asset) 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 (dollars in thousands):

|                                                       | <u>Net Pension Liability (Asset)</u> |                                             |                               |
|-------------------------------------------------------|--------------------------------------|---------------------------------------------|-------------------------------|
|                                                       | <u>1% Decrease<br/>(5.5%)</u>        | <u>Current<br/>Discount<br/>Rate (6.5%)</u> | <u>1% Increase<br/>(7.5%)</u> |
| Teachers' and State Employees'<br>Proportionate Share |                                      |                                             |                               |
| Primary Government                                    | \$ 6,286,986                         | \$ 3,662,113                                | \$ 1,496,674                  |
| University of North Carolina System                   | 4,429,801                            | 2,580,319                                   | 1,054,554                     |
| Community Colleges                                    | 1,608,670                            | 937,035                                     | 382,959                       |
| Other Component Units                                 | 56,520                               | 32,922                                      | 13,455                        |
| Firefighters' and Rescue Squad                        | \$ 73,581                            | \$ 9,309                                    | \$ (43,243)                   |
| Consolidated Judicial                                 | \$ 294,847                           | \$ 201,054                                  | \$ 121,206                    |
| Legislative                                           | \$ 4,515                             | \$ 1,685                                    | \$ (736)                      |
| North Carolina National Guard                         | \$ (14,784)                          | \$ (32,015)                                 | \$ (46,119)                   |

*Sensitivity of the total pension liability to changes in the discount rate.* The following presents the total pension liability calculated using the discount rate of 3.65%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.65%) or 1-percentage-point higher (4.65%) than the current rate (dollars in thousands):

|                              | <u>Total Pension Liability</u> |                                              |                                |
|------------------------------|--------------------------------|----------------------------------------------|--------------------------------|
|                              | <u>1% Decrease<br/>(2.65%)</u> | <u>Current<br/>Discount<br/>Rate (3.65%)</u> | <u>1% Increase<br/>(4.65%)</u> |
| Special Separation Allowance | \$ 361,394                     | \$ 336,876                                   | \$ 314,355                     |

**NOTES TO THE FINANCIAL STATEMENTS****3. CHANGES IN PENSION LIABILITY FOR SINGLE-EMPLOYER, DEFINED-BENEFIT PLANS**

The following schedule presents the changes in the pension liability for the single-employer, defined-benefit plans as of June 30, 2024 (dollars in thousands):

|                                                             | <b>Consolidated<br/>Judicial</b> | <b>Legislative</b>      | <b>Special<br/>Separation<br/>Allowance</b> |
|-------------------------------------------------------------|----------------------------------|-------------------------|---------------------------------------------|
| <b>Total pension liability</b>                              |                                  |                         |                                             |
| Service Cost                                                | \$ 15,796                        | \$ 797                  | \$ 12,157                                   |
| Interest                                                    | 53,741                           | 1,933                   | 10,571                                      |
| Changes of benefit terms                                    | 2,197                            | 94                      | -                                           |
| Differences between expected and actual experience          | 29,934                           | (92)                    | 29,688                                      |
| Changes of assumptions                                      | -                                | -                       | (2,597)                                     |
| Benefit payments, including refunds of member contributions | (57,587)                         | (2,449)                 | (23,139)                                    |
| <b>Net change in total pension liability</b>                | <u>44,081</u>                    | <u>283</u>              | <u>26,680</u>                               |
| <b>Total pension liability - beginning (a)</b>              | <u>839,335</u>                   | <u>30,150</u>           | <u>310,196</u>                              |
| <b>Total pension liability - ending (c)</b>                 | <u><u>\$ 883,416</u></u>         | <u><u>\$ 30,433</u></u> | <u><u>\$ 336,876</u></u>                    |
| <b>Plan fiduciary net position</b>                          |                                  |                         |                                             |
| Contributions-employer                                      | \$ 34,952                        | \$ 901                  | \$ —                                        |
| Contributions-member                                        | 6,103                            | 259                     | —                                           |
| Net investment income                                       | 34,201                           | 1,441                   | —                                           |
| Benefit payments, including refunds of member contributions | (57,587)                         | (2,449)                 | —                                           |
| Administrative expense                                      | (71)                             | (23)                    | —                                           |
| Other                                                       | -                                | (1)                     | —                                           |
| <b>Net change in plan fiduciary net position</b>            | <u>17,598</u>                    | <u>128</u>              | <u>—</u>                                    |
| <b>Plan fiduciary net position - beginning (b)</b>          | <u>664,764</u>                   | <u>28,620</u>           | <u>—</u>                                    |
| <b>Plan fiduciary net position - ending (d)</b>             | <u><u>\$ 682,362</u></u>         | <u><u>\$ 28,748</u></u> | <u><u>\$ —</u></u>                          |
| <b>Net pension liability - beginning (a) - (b)</b>          | <u>174,571</u>                   | <u>1,530</u>            | <u>—</u>                                    |
| <b>Net pension liability - ending (c) - (d)</b>             | <u><u>\$ 201,054</u></u>         | <u><u>\$ 1,685</u></u>  | <u><u>\$ —</u></u>                          |

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 13: DEFERRED COMPENSATION PLANS**

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**1. IRC SECTION 457 PLAN**

General Statute 143B-426.24 authorized the creation of the North Carolina Public Employee Deferred Compensation Plan (the NC 457 Plan) to offer a uniform deferred compensation plan to the employees of the State, any county or municipality, the North Carolina Community College System, any political subdivision of the State and any other entity whose employees are eligible to participate in the plan pursuant to the North Carolina General Statutes and Internal Revenue Code (IRC). The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department of State Treasurer (the Department) have the responsibility for administering the NC 457 Plan according to the plan document, the North Carolina General Statutes, and Internal Revenue Code (IRC) Section 457, with the Department serving as the primary administrator carrying out the provisions of the plan, as directed by the Board. The Board and the Department currently have an agreement with Empower Retirement (Empower) to perform recordkeeping, administration, and education services. Empower began providing these services after acquiring Prudential Retirement Insurance and Annuity Company on April 1, 2022. The full migration to the Empower platform was completed in the first quarter of calendar year 2024. At December 31, 2023, there were approximately 57,220 plan members with 612 employers adopting the NC 457 Plan.

The NC 457 Plan is a defined contribution plan. Benefits of the NC 457 Plan depend solely on amounts contributed to the plan plus investment earnings net of expenses. The assets of the NC 457 Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. The deferred compensation is available to employees upon separation from service, death, retirement, financial hardships or attainment of age 59 ½. All costs of administering and funding the NC 457 Plan are the responsibility of the plan participants.

The audited statements for the year ended December 31, 2023 are presented in this financial report as a pension and other employee benefit trust fund. The NC 457 Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. The NC 457 Plan's financial statements are available online at [myNCRetirement.com](https://myNCRetirement.com) or by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The NC 457 Plan discloses a related party transaction in Note 20 of this ACFR. The NC 457 Plan's investment risks are described in Note 3.

**2. IRC SECTION 403(B) PLAN**

Effective January 1, 2009, the University of North Carolina System established the UNC System 403(b) Plan for all constituent institutions. Employees can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). All employees who receive compensation reportable on a W-2 and pay FICA are eligible to participate in the 403(b) Plan, so long as the employee elects to contribute at least \$200 each calendar year. The University System administers the UNC 403(b) Plan and Teachers Insurance and Annuity Association (TIAA) and Fidelity serve as the record keepers of the plan. The plan is designed to provide a low-cost retirement savings option to university employees. At December 31, 2023, there were 16,202 employees participating in the plan. No direct costs are incurred by the State.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 14: OTHER POSTEMPLOYMENT BENEFITS**

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for related administrative costs. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information* section of this Annual Comprehensive Financial Report (ACFR).

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

The financial statements of these plans are 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.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

**B. Plan Descriptions*****Cost-Sharing, Multiple-Employer, Defined Benefit Plans*****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 financial reporting entity also participate. The Plan is reported as a major component unit. Management of the Plan is vested in the State Health Plan Board of Trustees, which consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the state Senate, two appointed by the state House of Representatives, and the State Treasurer and the Director of State Budget and Management who serve as ex officio members. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2024, the number of participating employers was as follows:

|                                     |            |
|-------------------------------------|------------|
| State of North Carolina             | 1          |
| LEAs                                | 116        |
| Charter Schools                     | 55         |
| Community Colleges                  | 58         |
| University of North Carolina System | 19         |
| Other Component Units               | 5          |
| Local governments                   | 11         |
|                                     | <u>265</u> |

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**NOTES TO THE FINANCIAL STATEMENTS**

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members. 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 State Health Plan. The State Treasurer, with the approval of the State Health 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 State Health Plan.

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

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

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

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

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Act. For the fiscal year ended June 30, 2024, the State and the other employers contributed the legislatively mandated 7.14% of covered payroll. This amount, combined with investment income, funds the benefits received during the year. RHBF is reported as an employee benefit trust fund. Actual contributions are reported in Section F of this note.

**NOTES TO THE FINANCIAL STATEMENTS****2. DISABILITY INCOME**

*Plan administration.* As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. At June 30, 2024, the number of participating employers was as follows:

|                                     |            |
|-------------------------------------|------------|
| State of North Carolina             | 1          |
| LEAs                                | 116        |
| Charter Schools                     | 55         |
| Community Colleges                  | 58         |
| University of North Carolina System | 19         |
| Other Component Units               | <u>5</u>   |
|                                     | <u>254</u> |

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*Benefits provided.* Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to becoming disabled or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. A general employee is eligible to receive an unreduced retirement benefit from the 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. A member who is a law enforcement officer is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 55 and completing five years of creditable service as an officer, or (2) at any age with 30 years of creditable service.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

*Contributions* Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2024, the State and the other employers made a statutory contribution of 0.11% of covered payroll. This was equal to the actuarially determined contribution. Actual contributions are reported in Section F of this note.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

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

**C. Plan Membership**

The following tables summarize membership information by plan at the actuarial valuation date:

|                                                                                    | Retiree<br>Health Benefit<br>Fund | Disability<br>Income Plan<br>of N.C. |
|------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------|
| Retired members and beneficiaries<br>currently receiving benefits                  | 253,687                           | N/A                                  |
| Disabled members and survivors of deceased<br>members currently receiving benefits | N/A                               | 3,820                                |
| Terminated members entitled to but not yet<br>receiving benefits                   | 55,907                            | -                                    |
| Active members                                                                     | 260,967                           | 320,953                              |
| Total                                                                              | 570,561                           | 324,773                              |
| Date of valuation                                                                  | 12/31/23                          | 12/31/23                             |
| N/A - Not Applicable                                                               |                                   |                                      |

**D. Investments**

*Investment policy.* The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

**NOTES TO THE FINANCIAL STATEMENTS**

The adopted asset allocation policies for the Disability Income Plan of North Carolina are primarily in the Bond Index Investment Pool as of June 30, 2024 as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2024:

| <u>Asset Class</u>         | <u>Target Allocation</u> |
|----------------------------|--------------------------|
| Fixed Income               | 33%                      |
| Global Equity              | 38%                      |
| Real Estate                | 8%                       |
| Alternatives               | 8%                       |
| Opportunistic Fixed Income | 7%                       |
| Inflation Sensitive        | 6%                       |
| <b>Total</b>               | <b>100%</b>              |

*Rate of return.* For the year ended June 30, 2024, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense was:

|                                  | <u>Cost-Sharing, Multiple-Employer</u>     |                                               |
|----------------------------------|--------------------------------------------|-----------------------------------------------|
|                                  | <u>Retiree<br/>Health Benefit<br/>Fund</u> | <u>Disability<br/>Income Plan<br/>of N.C.</u> |
| Money-weighted<br>Rate of Return | 6.74%                                      | 2.76%                                         |

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**E. Net OPEB Liability (Asset) of Participating Employers**

The components of the net OPEB liability (asset) of the participating employers at June 30, 2024, were as follows (dollars in thousands):

|                                                                            | <u>Retiree<br/>Health Benefit<br/>Fund</u> | <u>Disability<br/>Income Plan<br/>of N.C.</u> |
|----------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------|
| Total OPEB liability                                                       | \$ 37,702,714                              | \$ 219,683                                    |
| Plan fiduciary net position                                                | <u>3,690,125</u>                           | <u>252,609</u>                                |
| Net OPEB liability (asset)                                                 | <u>\$ 34,012,589</u>                       | <u>\$ (32,926)</u>                            |
| Plan fiduciary net position as a<br>percentage of the total OPEB liability | 9.79%                                      | 114.99%                                       |



**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial Assumptions.* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2023, 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, 2024 utilizing update procedures incorporating the actuarial assumptions.

|                                                            | Retiree<br>Health Benefit<br>Fund                                                          | Disability<br>Income Plan<br>of N.C. |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------------------------------|
|                                                            | (1)                                                                                        | (1)                                  |
| Valuation Date                                             | 12/31/2023                                                                                 | 12/31/2023                           |
| Inflation                                                  | 2.5%                                                                                       | 2.5%                                 |
| Salary Increases                                           | 3.25% to 8.05%                                                                             | 3.25% - 8.05%                        |
| Investment Rate of Return (2)                              | 6.5%                                                                                       | 3%                                   |
|                                                            | 6.5% grading down to<br>5% by 2030                                                         |                                      |
| Healthcare Cost Trend Rate - Medical (3)                   |                                                                                            | N/A                                  |
|                                                            | 10% grading down to<br>5% by 2033                                                          |                                      |
| Healthcare Cost Trend Rate - Prescription Drug (3)         |                                                                                            | N/A                                  |
|                                                            | 7% through 2030<br>grading down to 5% by<br>2033                                           |                                      |
| Healthcare Cost Trend Rate - Prescription Drug Rebates (3) |                                                                                            | N/A                                  |
|                                                            | Premium adjustments<br>for IRA impact through<br>2027, 6.17% in 2028<br>down to 5% by 2034 |                                      |
| Healthcare Cost Trend Rate - Medicare Advantage (3)        |                                                                                            | N/A                                  |
| Healthcare Cost Trend Rate - Administrative (3)            | 3%                                                                                         | N/A                                  |

(1) - Salary increases include 3.25% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

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

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2024.

**NOTES TO THE FINANCIAL STATEMENTS**

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2024 (see the discussion of the OPEB plans' investment policy in Section D) are summarized in the following table:

| Asset Class                | Long-Term Expected<br>Real Rate of Return |
|----------------------------|-------------------------------------------|
| Fixed Income               | 2.4%                                      |
| Global Equity              | 6.9%                                      |
| Real Estate                | 6.0%                                      |
| Alternatives               | 8.6%                                      |
| Opportunistic Fixed Income | 5.3%                                      |
| Inflation Sensitive        | 4.3%                                      |

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024, is 2.76%.

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 the TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and 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, 2023 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount rate.* The discount rate used to measure the total OPEB liability for RHBF was 3.93% at June 30, 2024 compared to 3.65% at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.93% was used as the discount rate used to measure the total OPEB liability. The 3.93% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2024.

The discount rate used to measure the total OPEB liability for DIPNC was 3% at June 30, 2024 and at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members.

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability (asset) to changes in the discount rate.* The following presents the net OPEB liability (asset) of the plans at June 30, 2024, as well as what each plan's 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 (dollars in thousands):

|                         | 1% Decrease<br>(2.93%) | Current<br>Discount<br>Rate (3.93%) | 1% Increase<br>(4.93%) |
|-------------------------|------------------------|-------------------------------------|------------------------|
| RHBF net OPEB liability | \$ 40,466,179          | \$ 34,012,589                       | \$ 28,830,921          |
|                         | 1% Decrease<br>(2%)    | Current<br>Discount<br>Rate (3%)    | 1% Increase<br>(4%)    |
| DIPNC net OPEB asset    | \$ (29,359)            | \$ (32,926)                         | \$ (36,675)            |

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability of the plans, as well as what each plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (dollars in thousands):

|                         | 1% Decrease<br>(Medical - 4% - 5.5%,<br>Pharmacy - 4% - 9%,<br>Pharmacy Rebate - 4% - 6%<br>Med. Advantage - 4% - 5.17%,<br>Administrative - 2%) | Current Healthcare<br>Cost Trend Rates<br>(Medical - 5% - 6.5%,<br>Pharmacy - 5% - 10%,<br>Pharmacy Rebate - 5% - 7%<br>Med. Advantage - 5% - 6.17%,<br>Administrative - 3%) | 1% Increase<br>(Medical - 6% - 7.5%,<br>Pharmacy - 6% - 11%,<br>Pharmacy Rebate - 6% - 8%<br>Med. Advantage - 6% - 7.17%,<br>Administrative - 4%) |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| RHBF net OPEB liability | \$ 28,074,951                                                                                                                                    | \$ 34,012,589                                                                                                                                                                | \$ 41,700,675                                                                                                                                     |

The sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

**NOTES TO THE FINANCIAL STATEMENTS****F. GASB Statement 75 Employer Reporting****1. EMPLOYER AND NONEMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the OPEB plans at June 30, 2024 (dollars in thousands):

|                                     | Retiree<br>Health Benefit<br>Fund | Disability<br>Income Plan<br>of N.C. | Total             |
|-------------------------------------|-----------------------------------|--------------------------------------|-------------------|
| Primary Government                  | \$ 405,234                        | \$ 4,621                             | \$ 409,855        |
| Component Units                     |                                   |                                      |                   |
| University of North Carolina System | \$ 386,884                        | \$ 5,956                             | \$ 392,840        |
| Community Colleges                  | 75,439                            | 1,179                                | 76,618            |
| Other Component Units               | 2,953                             | 45                                   | 2,998             |
| Total Contributions                 | <u>\$ 870,510</u>                 | <u>\$ 11,801</u>                     | <u>\$ 882,311</u> |

In fiscal year 2023, the State Health Plan (the Plan) transferred \$35 million to the Retiree Health Benefit Fund as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2024, the primary government and component units recognized noncapital contributions for the RHBF as follows (dollars in thousands):

|                          | Primary<br>Government | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
|--------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
| Noncapital Contributions | \$ 6,965              | \$ 8,877                                  | \$ 1,702              | \$ 59                       |

**2. OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB**

As of June 30, 2024, the primary government and component units reported net OPEB liabilities for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

|                                               | Primary<br>Government | Component Units                           |                       |                             |
|-----------------------------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
|                                               |                       | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
| Proportionate Share of the Net OPEB Liability |                       |                                           |                       |                             |
| Retiree Health Benefit Fund                   | \$ 5,300,543          | \$ 6,757,009                              | \$ 1,295,344          | \$ 44,999                   |
| Disability Income Plan of N.C.                | 5,085                 | 6,981                                     | 1,292                 | 46                          |
|                                               | <u>\$ 5,305,628</u>   | <u>\$ 6,763,990</u>                       | <u>\$ 1,296,636</u>   | <u>\$ 45,045</u>            |

**NOTES TO THE FINANCIAL STATEMENTS**

Each net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate each net OPEB liability was determined by an actuarial valuation as of December 31, 2022. Update procedures were used to roll forward the total OPEB liability to June 30, 2023. For RHBF and DIPNC, the primary government's and each component unit's proportion of the collective net OPEB liability was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net OPEB liability was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year OPEB contributions.

The primary government's and component units' proportions of the collective net OPEB liability for the Retiree Health Benefit Fund and Disability Income Plan of N.C. as of June 30, 2023 and 2022 were as follows:

|                                | Primary<br>Government | Component Units                           |                       |                             |
|--------------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
|                                |                       | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
| Retiree Health Benefit Fund    |                       |                                           |                       |                             |
| Proportion – June 30, 2023     | 19.89%                | 25.36%                                    | 4.86%                 | 0.17%                       |
| Proportion – June 30, 2022     | 19.96%                | 25.31%                                    | 4.76%                 | 0.17%                       |
| Change – Increase (Decrease)   | (0.07)                | 0.05                                      | 0.10                  | 0.00                        |
| Disability Income Plan of N.C. |                       |                                           |                       |                             |
| Proportion – June 30, 2023     | 19.12%                | 26.25%                                    | 4.86%                 | 0.17%                       |
| Proportion – June 30, 2022     | 19.45%                | 25.52%                                    | 4.79%                 | 0.17%                       |
| Change – Increase (Decrease)   | (0.33)                | 0.73                                      | 0.07                  | 0.00                        |

For the fiscal year ended June 30, 2024, the primary government and component units recognized OPEB expense for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

|                                | Primary<br>Government | Component Units                           |                       |                             |
|--------------------------------|-----------------------|-------------------------------------------|-----------------------|-----------------------------|
|                                |                       | University of<br>North Carolina<br>System | Community<br>Colleges | Other<br>Component<br>Units |
| OPEB Expense                   |                       |                                           |                       |                             |
| Retiree Health Benefit Fund    | \$ (39,450)           | \$ 38,441                                 | \$ (26,227)           | \$ 1,950                    |
| Disability Income Plan of N.C. | 7,429                 | 9,469                                     | 1,888                 | 68                          |
| Total OPEB Expense             | <u>\$ (32,021)</u>    | <u>\$ 47,910</u>                          | <u>\$ (24,339)</u>    | <u>\$ 2,018</u>             |

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2024, the primary government and component units reported deferred outflows of resources related to defined benefit OPEB plans administered by the State from the following sources (dollars in thousands):

|                                                                                                                 | Deferred Outflows of Resources    |                                      |                    |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------|--------------------|
|                                                                                                                 | Retiree<br>Health Benefit<br>Fund | Disability<br>Income Plan<br>of N.C. | Total              |
| <b>Primary Government:</b>                                                                                      |                                   |                                      |                    |
| Difference between actual and expected experience                                                               | \$ 58,369                         | \$ 4,456                             | \$ 62,825          |
| Changes of assumptions                                                                                          | 574,201                           | 371                                  | 574,572            |
| Net difference between projected and actual earnings<br>on OPEB plan investments                                | 42,344                            | 6,641                                | 48,985             |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | 1,578,318                         | 2,715                                | 1,581,033          |
| Contributions subsequent to the measurement date                                                                | 405,234                           | 4,621                                | 409,855            |
| Total                                                                                                           | <u>\$ 2,658,466</u>               | <u>\$ 18,804</u>                     | <u>\$2,677,270</u> |
| <b>Component Units:</b>                                                                                         |                                   |                                      |                    |
| <b>University of North Carolina System</b>                                                                      |                                   |                                      |                    |
| Difference between actual and expected experience                                                               | \$ 74,408                         | \$ 6,118                             | \$ 80,526          |
| Changes of assumptions                                                                                          | 731,990                           | 509                                  | 732,499            |
| Net difference between projected and actual earnings<br>on OPEB plan investments                                | 53,978                            | 9,118                                | 63,096             |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | 286,424                           | 587                                  | 287,011            |
| Contributions subsequent to the measurement date                                                                | 386,884                           | 5,956                                | 392,840            |
| Total                                                                                                           | <u>\$ 1,533,684</u>               | <u>\$ 22,288</u>                     | <u>\$1,555,972</u> |
| <b>Community Colleges</b>                                                                                       |                                   |                                      |                    |
| Difference between actual and expected experience                                                               | \$ 14,264                         | \$ 1,132                             | \$ 15,396          |
| Changes of assumptions                                                                                          | 140,325                           | 94                                   | 140,419            |
| Net difference between projected and actual earnings<br>on OPEB plan investments                                | 10,348                            | 1,688                                | 12,036             |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | 80,862                            | 381                                  | 81,243             |
| Contributions subsequent to the measurement date                                                                | 75,439                            | 1,179                                | 76,618             |
| Total                                                                                                           | <u>\$ 321,238</u>                 | <u>\$ 4,474</u>                      | <u>\$ 325,712</u>  |
| <b>Other Component Units</b>                                                                                    |                                   |                                      |                    |
| Difference between actual and expected experience                                                               | \$ 496                            | \$ 40                                | \$ 536             |
| Changes of assumptions                                                                                          | 4,875                             | 3                                    | 4,878              |
| Net difference between projected and actual earnings<br>on OPEB plan investments                                | 359                               | 60                                   | 419                |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | 6,079                             | 24                                   | 6,103              |
| Contributions subsequent to the measurement date                                                                | 2,953                             | 45                                   | 2,998              |
| Total                                                                                                           | <u>\$ 14,762</u>                  | <u>\$ 172</u>                        | <u>\$ 14,934</u>   |

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2024, the primary government and component units reported deferred inflows of resources related to defined benefit OPEB plans administered by the State from the following sources (dollars in thousands):

|                                                                                                                 | Deferred Inflows of Resources     |                                      |                     |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------|---------------------|
|                                                                                                                 | Retiree<br>Health Benefit<br>Fund | Disability<br>Income Plan<br>of N.C. | Total               |
| <b>Primary Government:</b>                                                                                      |                                   |                                      |                     |
| Difference between actual and expected experience                                                               | \$ 5,194                          | \$ 2,816                             | \$ 8,010            |
| Changes of assumptions                                                                                          | 1,414,204                         | 868                                  | 1,415,072           |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | <u>1,445,737</u>                  | <u>2,033</u>                         | <u>1,447,770</u>    |
| Total                                                                                                           | <u>\$ 2,865,135</u>               | <u>\$ 5,717</u>                      | <u>\$ 2,870,852</u> |
| <b>Component Units:</b>                                                                                         |                                   |                                      |                     |
| <b>University of North Carolina System</b>                                                                      |                                   |                                      |                     |
| Difference between actual and expected experience                                                               | \$ 6,621                          | \$ 3,867                             | \$ 10,488           |
| Changes of assumptions                                                                                          | 1,802,715                         | 1,192                                | 1,803,907           |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | <u>203,100</u>                    | <u>1,203</u>                         | <u>204,303</u>      |
| Total                                                                                                           | <u>\$ 2,012,436</u>               | <u>\$ 6,262</u>                      | <u>\$ 2,018,698</u> |
| <b>Community Colleges</b>                                                                                       |                                   |                                      |                     |
| Difference between actual and expected experience                                                               | \$ 1,269                          | \$ 716                               | \$ 1,985            |
| Changes of assumptions                                                                                          | 345,587                           | 221                                  | 345,808             |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | <u>69,396</u>                     | <u>112</u>                           | <u>69,508</u>       |
| Total                                                                                                           | <u>\$ 416,252</u>                 | <u>\$ 1,049</u>                      | <u>\$ 417,301</u>   |
| <b>Other Component Units</b>                                                                                    |                                   |                                      |                     |
| Difference between actual and expected experience                                                               | \$ 44                             | \$ 25                                | \$ 69               |
| Changes of assumptions                                                                                          | 12,005                            | 8                                    | 12,013              |
| Change in proportion and differences between agency's<br>contributions and proportionate share of contributions | <u>995</u>                        | <u>13</u>                            | <u>1,008</u>        |
| Total                                                                                                           | <u>\$ 13,044</u>                  | <u>\$ 46</u>                         | <u>\$ 13,090</u>    |

**NOTES TO THE FINANCIAL STATEMENTS**

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 (asset) in the year ended June 30, 2025. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (dollars in thousands):

## Retiree Health Benefit Fund

| Year Ending June 30 | Primary<br>Government | Component Units                 |                       |                             |
|---------------------|-----------------------|---------------------------------|-----------------------|-----------------------------|
|                     |                       | University of<br>North Carolina | Community<br>Colleges | Other<br>Component<br>Units |
|                     |                       | System                          |                       |                             |
| 2025                | \$ (232,521)          | \$ (313,980)                    | \$ (82,700)           | \$ (427)                    |
| 2026                | (316,503)             | (444,815)                       | (85,714)              | (1,140)                     |
| 2027                | (150,524)             | (224,456)                       | (30,832)              | (499)                       |
| 2028                | 87,645                | 117,615                         | 28,793                | 831                         |

## Disability Income Plan of N.C.

| Year Ending June 30 | Primary<br>Government | Component Units                 |                       |                             |
|---------------------|-----------------------|---------------------------------|-----------------------|-----------------------------|
|                     |                       | University of<br>North Carolina | Community<br>Colleges | Other<br>Component<br>Units |
|                     |                       | System                          |                       |                             |
| 2025                | \$ 2,834              | \$ 3,160                        | \$ 720                | \$ 27                       |
| 2026                | 1,784                 | 1,904                           | 451                   | 18                          |
| 2027                | 2,417                 | 3,058                           | 637                   | 21                          |
| 2028                | 936                   | 1,025                           | 261                   | 8                           |
| 2029                | 305                   | 506                             | 113                   | 3                           |
| Thereafter          | 190                   | 417                             | 64                    | 4                           |

Restricted and unrestricted net position have been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources related to the defined benefit OPEB plans administered by the State. The effect of these transactions on restricted and unrestricted net position is presented as follows (dollars in thousands):

|                                           | Governmental<br>Activities | Business- type<br>Activities | Total Primary<br>Government | Component<br>Units  |
|-------------------------------------------|----------------------------|------------------------------|-----------------------------|---------------------|
| <b>Unrestricted net position</b>          | <u>\$ 15,203,393</u>       | <u>\$ 7,474,058</u>          | <u>\$ 22,677,451</u>        | <u>\$ 1,131,592</u> |
| Effect on unrestricted net position       |                            |                              |                             |                     |
| RHBF                                      | \$ (5,425,338)             | \$ (81,878)                  | \$ (5,507,216)              | \$ (8,669,220)      |
| DIPNC                                     | <u>7,877</u>               | <u>125</u>                   | <u>8,002</u>                | <u>11,258</u>       |
| Total effect on unrestricted net position | <u>(5,417,461)</u>         | <u>(81,753)</u>              | <u>(5,499,214)</u>          | <u>(8,657,962)</u>  |



**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial assumptions.* The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                                            | Retiree<br>Health Benefit<br>Fund<br>(1) | Disability<br>Income Plan<br>of N.C.<br>(1) |
|------------------------------------------------------------|------------------------------------------|---------------------------------------------|
| Valuation Date                                             | 12/31/22                                 | 12/31/22                                    |
| Inflation                                                  | 2.5%                                     | 2.5%                                        |
| Salary Increases                                           | 3.25% - 8.05%                            | 3.25% - 8.05%                               |
| Investment Rate of Return (2)                              | 6.5%                                     | 3%                                          |
| Healthcare Cost Trend Rate - Medical (3)                   | 6.5% grading down<br>to 5% by 2029       | N/A                                         |
| Healthcare Cost Trend Rate - Prescription Drug (3)         | 10% grading down to<br>5% by 2033        | N/A                                         |
| Healthcare Cost Trend Rate - Prescription Drug Rebates (3) | 7% grading down to<br>5% by 2033         | N/A                                         |
| Healthcare Cost Trend Rate - Medicare Advantage (3)        | 0% through 2025, 5%<br>thereafter        | N/A                                         |
| Healthcare Cost Trend Rate - Administrative (3)            | 3%                                       | N/A                                         |

(1) - Salary increases include 3.25% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

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

N/A - Not Applicable

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2023:

| Asset Class                | Target Allocation | Long-Term Expected<br>Real Rate of Return |
|----------------------------|-------------------|-------------------------------------------|
| Fixed Income               | 33%               | 0.9%                                      |
| Global Equity              | 38%               | 6.5%                                      |
| Real Estate                | 8%                | 5.9%                                      |
| Alternatives               | 8%                | 8.2%                                      |
| Opportunistic Fixed Income | 7%                | 5.0%                                      |
| Inflation Sensitive        | 6%                | 2.7%                                      |
| <b>Total</b>               | <b>100%</b>       |                                           |

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the primary government's and component units' net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (dollars in thousands):

|                                     |              | <u>Net OPEB Liability</u> |                     |                |
|-------------------------------------|--------------|---------------------------|---------------------|----------------|
|                                     |              | Current                   |                     |                |
|                                     |              | 1% Decrease               | Discount            | 1% Increase    |
|                                     |              | <u>(2.65%)</u>            | <u>Rate (3.65%)</u> | <u>(4.65%)</u> |
| Retiree Health Benefit Fund         |              |                           |                     |                |
| Proportionate Share                 |              |                           |                     |                |
| Primary Government                  | \$ 6,253,001 | \$ 5,300,543              | \$ 4,524,832        |                |
| University of North Carolina System | 7,971,177    | 6,757,009                 | 5,768,148           |                |
| Community Colleges                  | 1,528,105    | 1,295,344                 | 1,105,776           |                |
| Other Component Units               | 53,085       | 44,999                    | 38,414              |                |

|                                     |          | <u>Net OPEB Liability</u> |                  |             |
|-------------------------------------|----------|---------------------------|------------------|-------------|
|                                     |          | Current                   |                  |             |
|                                     |          | 1% Decrease               | Discount         | 1% Increase |
|                                     |          | <u>(2%)</u>               | <u>Rate (3%)</u> | <u>(4%)</u> |
| Disability Income Plan of N.C.      |          |                           |                  |             |
| Proportionate Share                 |          |                           |                  |             |
| Primary Government                  | \$ 6,112 | \$ 5,085                  | \$ 4,038         |             |
| University of North Carolina System | 8,392    | 6,981                     | 5,544            |             |
| Community Colleges                  | 1,553    | 1,292                     | 1,026            |             |
| Other Component Units               | 55       | 46                        | 36               |             |

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the primary government's and component units' net OPEB liability calculated using the healthcare cost trend rates, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current health care cost trend rates (dollars in thousands):

|                                     | Current Healthcare                                                                                                              |                                                                                                                                  |                                                                                                                                  |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
|                                     | 1% Decrease                                                                                                                     | Cost Trend Rates                                                                                                                 | 1% Increase                                                                                                                      |
|                                     | (Medical - 4% - 5.5%,<br>Pharmacy - 4% - 9%,<br>Pharmacy Rebate - 4% - 6%,<br>Med. Advantage - 0% - 4%,<br>Administrative - 2%) | (Medical - 5% - 6.5%,<br>Pharmacy - 5% - 10%,<br>Pharmacy Rebate - 5% - 7%,<br>Med. Advantage - 0% - 5%,<br>Administrative - 3%) | (Medical - 6% - 7.5%,<br>Pharmacy - 6% - 11%,<br>Pharmacy Rebate - 6% - 8%,<br>Med. Advantage - 0% - 6%,<br>Administrative - 4%) |
| Retiree Health Benefit Fund         |                                                                                                                                 |                                                                                                                                  |                                                                                                                                  |
| Proportionate Share                 |                                                                                                                                 |                                                                                                                                  |                                                                                                                                  |
| Primary Government                  | \$ 4,376,075                                                                                                                    | \$ 5,300,543                                                                                                                     | \$ 6,492,629                                                                                                                     |
| University of North Carolina System | 5,578,516                                                                                                                       | 6,757,009                                                                                                                        | 8,276,649                                                                                                                        |
| Community Colleges                  | 1,069,423                                                                                                                       | 1,295,344                                                                                                                        | 1,586,665                                                                                                                        |
| Other Component Units               | 37,151                                                                                                                          | 44,999                                                                                                                           | 55,120                                                                                                                           |

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

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 15: RISK MANAGEMENT AND INSURANCE****A. Public Entity Risk Pool****State Public Education Property Insurance Fund**

The State Public Education Property Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 58, Article 31A, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board must give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 72 out of 123 LEAs and 32 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period. The Fund does not hold any annuity contracts. The Fund does not agree to structured settlements to pay specific amounts on fixed or determinable dates.

The only acquisition costs are related to proposal costs and inspection costs for insured members. Since the Fund can only insure the LEAs and the community colleges, new contracts are immaterial. Since existing contracts are renewed once a year, the Fund's costs are for policy maintenance. Therefore, acquisition costs do not need to be amortized.

The following schedule shows the changes in the reported liability for the past two years (dollars in thousands):

|                                    | <b>Fiscal Year</b> |             |
|------------------------------------|--------------------|-------------|
|                                    | <b>2024</b>        | <b>2023</b> |
| Unpaid claims at beginning of year | \$ 5,056           | \$ 8,119    |
| <b>Incurred claims:</b>            |                    |             |
| Provision for insured events       |                    |             |
| of the current year                | 917                | 2,156       |
| Increases (decreases) in provision |                    |             |
| for insured events of prior years  | 195                | (1,706)     |
| Total incurred claims              | 1,112              | 450         |
| <b>Payments:</b>                   |                    |             |
| Claims attributable to insured     |                    |             |
| events of the current year         | 998                | 904         |
| Claims attributable to insured     |                    |             |
| events of the prior years          | 1,207              | 2,609       |
| Total payments                     | 2,205              | 3,513       |
| Total unpaid claims at end         |                    |             |
| of the year                        | \$ 3,963           | \$ 5,056    |

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is \$200 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of \$200 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by Hartford Steam & Boiler with a combined limit of \$50 million per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. As of June 30, 2024, there were claims for reinsurance. There were no premium

**NOTES TO THE FINANCIAL STATEMENTS**

deficiencies in fiscal year 2024 that resulted in a 20% rate increase of the excess reinsurance. Investment income was not considered in the determination of premium deficiencies.

**B. Employee Benefit Plans****1. State Health Plan**

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. These benefits are extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

The Plan is reported as a major component unit. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self-funded. Medicare retirees also had the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options in Calendar Year 2023 and in Calendar Year 2024. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Some of the plans also require an employee or retiree contribution, depending on the plan selected or the employee's or retiree's willingness to participate in wellness activities that reduce employee contributions. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as another postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance<br>at Fiscal<br>Year-End |
|---------|------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 409,058                               | \$ 3,961,616                                          | \$ (3,955,641)    | \$ 415,033                       |
| 2023-24 | 415,033                                  | 3,990,700                                             | (4,036,855)       | 368,878                          |

**2. Death Benefit Plan of North Carolina**

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of LEAs and miscellaneous educational units which are not part of the reporting entity are also included. Benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of \$25,000 and to a maximum of \$50,000.

For the period July 1, 2023 to June 30, 2024, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.13% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2023 to June 2024.

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported).

**NOTES TO THE FINANCIAL STATEMENTS**

Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance<br>at Fiscal<br>Year-End |
|---------|------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 3,599                                 | \$ 76,722                                             | \$ (76,132)       | \$ 4,189                         |
| 2023-24 | 4,189                                    | 59,623                                                | (57,931)          | 5,881                            |

**3. Disability Income Plan of North Carolina**

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System (TSERS) which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of LEAs and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. Short-term benefits during the initial short-term disability period are payable by the employer outside of DIPNC, for a period of up to 365 days following the waiting period. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days, provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by DIPNC directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as another postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

**C. Other Risk Management and Insurance Activities****1. Automobile, Fire and Other Property Losses**

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first \$1 million of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$1 million up to \$10 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums. The Fund insures losses up to \$10 million per occurrence. All losses covered by the Fund are subject to varying deductible per occurrence. Deductible selections lead annual rate and premium costs.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of \$50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach

**NOTES TO THE FINANCIAL STATEMENTS**

\$10 million in any one annual period, the Fund's retention for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims of \$10,000 or higher are paid when the Council of State approves the request for payment. Claims less than \$10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability<br>(as restated) | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance at<br>Fiscal<br>Year-End |
|---------|-----------------------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 35,889                                                 | \$ 14,850                                             | \$ (21,501)       | \$ 29,238                        |
| 2023-24 | 21,129                                                    | —                                                     | (8,987)           | 12,142                           |

**2. Medical Malpractice Protection****a. Professional Liability Insurance for State Medical Personnel**

Agencies of the State and participating component units are insured under the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. This act allows partial waiver of sovereign immunity up to \$1 million that the State may pay cumulatively to all claimants on account of injury and damage to any one person arising out of a single occurrence. The State has purchased commercial liability insurance for state employees which is in excess over recovery from the Tort Claims Act and Defense of State Employees Act; however, claims involving medical malpractice are generally excluded from this coverage.

The University of North Carolina at Chapel Hill Medical School and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. East Carolina University (ECU) provides medical malpractice insurance for the Brody School of Medicine faculty physicians and independently licensed allied health providers. There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice insurance is with a private insurance company with coverage of \$3 million per occurrence, \$5 million annual aggregate, and a \$200,000 deductible; as well as an excess policy in the amount of \$10 million. All other universities purchase medical professional liability insurance.

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environmental Quality, and the Department of Public Safety to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environmental Quality, and the Department of Public Safety purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is \$1 million per individual, claim, or incidence, and \$3 million total or aggregate. Some departments and institutions have purchased higher limits to provide additional coverage above that provided by the primary policy for medical liability. The policies are written on a claims made or occurrence basis, with the majority of the policies being claims made. The claims liabilities are not measurable.

**b. Self-Insurance through the Liability Insurance Trust Fund**

The Liability Insurance Trust Fund (Trust Fund) is an unincorporated entity created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (the Hospitals) and the University of North Carolina at Chapel Hill Faculty Physicians (UNCFP). The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

For the periods ending June 30, 2023 and June 30, 2024, the Trust Fund provided coverage on an occurrence basis of \$3 million per individual and \$7 million in the aggregate per claim. Excess reinsurance coverage was not purchased for the policy years ending June 30,

## NOTES TO THE FINANCIAL STATEMENTS

2023 and June 30, 2024, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed \$10 million in the aggregate into the Reimbursement Fund during previous fiscal years for future losses.

For the fiscal year ending June 30, 2024, the Trust Fund purchased a direct insurance policy to cover the first \$1 million per occurrence and \$3 million in the aggregate for dental residents. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to \$30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of \$27.247 million and \$31.607 million are the present values of the aggregate actuarially determined claims liabilities of \$28.629 million and \$33.409 million, discounted at 2.5% at June 30, 2023 and 2.5% at June 30, 2024.

These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability<br>(as restated) | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance<br>at Fiscal<br>Year-End |
|---------|-----------------------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 26,765                                                 | \$ 7,713                                              | \$ (4,728)        | \$ 29,750                        |
| 2023-24 | 27,247                                                    | 11,132                                                | (6,772)           | 31,607                           |

### 3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides \$2 million excess insurance per person over the \$1 million statutory limit payable for any one claim under the State Tort Claims Act. The policy aggregate limit is \$10 million. The first \$150,000 of an award against a state agency is the responsibility of the state agency's General Fund budget code or up to \$1 million if a Non-General Fund budget code. For General Fund budget codes, any award greater than \$150,000 but less than \$1 million is funded by proportionate shares of estimated lapse salaries from all agencies' General Fund budget codes. Since state agencies and component units are responsible for funding any tort claims of \$1 million or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums to a private insurer through the State's Agent of Record. Settled claims have not exceeded coverage in any of the past three fiscal years.

### 4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is available for agencies of the State and its component units with a limit of \$5 million per occurrence, subject to a \$100,000 deductible. This coverage is placed on a master policy and is handled by the Office of State Fire Marshal. Agencies of the State and its component units are charged premiums by the private insurance company and pays through the State's Agent of Record. A small number of state agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

### 5. Statewide Workers' Compensation Program

The State has two separate workers' compensation programs that cover employees statewide. The workers' compensation program authorized by Chapter 143, Article 63 administered by the Office of State Human Resources (OSHR) covers workplace injuries of State employees (excluding Department of Public Instruction (DPI) employees), universities, and community college employees paid with State funds. The workers' compensation program authorized by Chapter 115C, Article 23, and Chapter 115, Article 2 administered by the Department of Public Instruction (DPI) covers workplace injuries of DPI and Local Education Agencies' (LEAs) employees.

The State and its component units are self-insured for workers' compensation liabilities. The OSHR and DPI programs separately contract with third party administrators and other vendors to handle their program's respective claims. Workers' compensation budgets for most state agencies and participating component units are based on the prior year's loss experience. Workers' compensation liabilities are



## NOTES TO THE FINANCIAL STATEMENTS

recognized when probable and reasonably estimated. This liability is presented as a component of the Governmental Activities and University of North Carolina System Long-Term Liabilities.

The third party administrators receive claim administration fees and draw down funds daily to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act, Chapter 97 of the General Statutes. Each state agency and participating component unit is billed for claims costs and administrative fees by their respective third party administrator. State agencies and participating component units contribute to a fund administered by the Office of the State Controller (OSC) to cover their workers' compensation claims. This fund is reported in the general fund.

An injury is covered if it is caused by an injury by accident or specific traumatic incident (back injuries only) that arose out of and in the course and scope of employment as defined by Chapter 97, the North Carolina Workers' Compensation Act. Also, certain occupational diseases specifically designated in state law are compensable. The employee has the responsibility to claim compensation. If the injured employee or his representative does not notify the employer within thirty (30) days from the date of injury, the employer may have a defense to the claim. A claim must be filed with the North Carolina Industrial Commission (NCIC), the governing body that administers the Workers' Compensation Act, within two years from the date of knowledge thereof; otherwise, the claim may be barred by law. When an employee sustains a compensable injury, the employer's primary responsibilities are to direct medical treatment and pay all benefits due. The employer tries to provide the best possible medical care for injured employees to help them reach maximum medical improvement and return to work as soon as possible.

Losses payable by these programs include indemnity compensation, medical expenses, permanent bodily injury ratings, and death benefits as well as administrative costs. Indemnity compensation and permanent bodily injury ratings are payable based on 66 2/3% of an employee's average weekly wages subject to a statutory minimum and annually adjusted maximum compensation rate established per statute by the NCIC. The NCIC is also statutorily required to establish a medical fee schedule that sets maximum reimbursement rates for included medical treatment. Death benefits are payable for 500 weeks at 66 2/3% of an employee's average weekly wages. In certain circumstances, death benefits may be extended beyond 500 weeks.

The following schedule shows the changes in the reported liability for the past two fiscal years for the OSHR and DPI programs (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance<br>at Fiscal<br>Year-End |
|---------|------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 704,116                               | \$ 96,402                                             | \$ (134,874)      | \$ 665,644                       |
| 2023-24 | 665,644                                  | 223,633                                               | (240,939)         | 648,338                          |

### 6. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the Office of State Fire Marshal through a service contract with a third-party administrator, with oversight by the State Fire and Rescue Commission (the Commission). In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Workers' Compensation Fund is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from state income tax under General Statute 105-130.11. These eligible units are not part of the reporting entity. Benefits are payable for compensable injuries or deaths which occurred on or after July 1, 1996. The Fund is financed by transfers from General Fund and ten percent (10%) of the net proceeds of the gross premium tax pursuant to General Statute 105-228.5(d)(3), and per capita fixed dollar amounts for each member of a participating eligible unit's roster. The per capita fixed dollar amount is set annually by the Office of the State Fire Marshal and is paid by the eligible units to the Office of State Fire Marshal on or before July 1 of each year for credit to the Fund. If payment is not received by July 1, the eligible unit shall not receive workers' compensation coverage for that fiscal year. Pursuant to Section 30.5 of Session Law 2023-134, as amended by Section 11.49(d) of Session Law 2023-151, the State Fire Marshal shall not set an amount to be paid by every eligible unit and eligible entity that elects to participate in the Fund. For the 2023-2024 fiscal year and the 2024-2025 fiscal year, no eligible unit or eligible entity shall be required to submit to the State Fire Marshal any payment to participate in the Fund. As of June 30, 2024, the Fund consisted of 1,110 eligible units representing approximately 43,932 members.

The liability for unpaid claims is based on an actuarial determination and represents a reasonable estimate of the ultimate cost of open claims and claim settlement expenses that are unpaid as of the fiscal year end, including incurred but not reported losses. The liability for unpaid claims is continually reviewed, and as adjustments become necessary such adjustments are included in current operations. Claim

NOTES TO THE FINANCIAL STATEMENTS

liabilities do not include nonincremental claims adjustment expenses. The Fund considers anticipated investment income in determining if a premium deficiency exists. The Fund recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 2024, there was no reduction for subrogation.

Acquisition costs consist of commission payments to independent insurance agents for marketing, promotional and administrative assistance with policy maintenance to eligible units. As coverage is renewed annually, acquisition costs are not amortized.

The following schedule shows the changes in the reported liability for the past two fiscal years (dollars in thousands):

|         | Beginning of<br>Fiscal Year<br>Liability<br>(as restated) | Current-Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Balance<br>at Fiscal<br>Year-End |
|---------|-----------------------------------------------------------|-------------------------------------------------------|-------------------|----------------------------------|
| 2022-23 | \$ 18,794                                                 | \$ 8,083                                              | \$ (6,790)        | \$ 20,087                        |
| 2023-24 | 20,380                                                    | 8,525                                                 | (8,631)           | 20,274                           |

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**NOTES TO THE FINANCIAL STATEMENTS****NOTE 16: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2024 are presented below.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2024

(Dollars in Thousands)

|                                           | Teachers' and<br>State<br>Employees'<br>Retirement<br>System | Consolidated<br>Judicial<br>Retirement<br>System | Legislative<br>Retirement<br>System | Firefighters'<br>and Rescue<br>Squad<br>Workers'<br>Pension Fund | North Carolina<br>National Guard<br>Pension Fund | Local<br>Governmental<br>Employees'<br>Retirement<br>System |
|-------------------------------------------|--------------------------------------------------------------|--------------------------------------------------|-------------------------------------|------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| <b>Assets</b>                             |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Cash and cash equivalents                 | \$ 207,112                                                   | \$ 896                                           | \$ 542                              | \$ 465                                                           | \$ 895                                           | \$ 125,389                                                  |
| Investments:                              |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Collective investment funds               | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Synthetic guaranteed investment contracts | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| State Treasurer investment pool           | 85,875,589                                                   | 714,072                                          | 28,772                              | 526,539                                                          | 179,027                                          | 33,387,566                                                  |
| Non-State Treasurer pooled investments    | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Securities lending collateral             | 922,457                                                      | 7,613                                            | 354                                 | 5,602                                                            | 1,974                                            | 363,723                                                     |
| Receivables:                              |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Accounts receivable                       | 4,889                                                        | -                                                | 20                                  | -                                                                | 3                                                | 2,453                                                       |
| Intergovernmental receivable              | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Interest receivable                       | 1,695                                                        | 9                                                | 3                                   | 7                                                                | 6                                                | 669                                                         |
| Contributions receivable                  | 110,121                                                      | -                                                | 83                                  | -                                                                | -                                                | 104,676                                                     |
| Due from other funds                      | 91,362                                                       | 3,446                                            | -                                   | -                                                                | -                                                | -                                                           |
| Due from component units                  | 25,878                                                       | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Notes receivable                          | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Total Assets                              | 87,239,103                                                   | 726,036                                          | 29,774                              | 532,613                                                          | 181,905                                          | 33,984,476                                                  |
| <b>Liabilities</b>                        |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Accounts payable and accrued liabilities: |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Accounts payable                          | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Benefits payable                          | 1,282                                                        | 9                                                | -                                   | 1                                                                | -                                                | 560                                                         |
| Obligations under securities lending      | 922,457                                                      | 7,613                                            | 354                                 | 5,602                                                            | 1,974                                            | 363,723                                                     |
| Funds held for others                     | 6,086                                                        | 43                                               | 1                                   | -                                                                | -                                                | 27                                                          |
| Total Liabilities                         | 929,825                                                      | 7,665                                            | 355                                 | 5,603                                                            | 1,974                                            | 364,310                                                     |
| <b>Net Position</b>                       |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Restricted for:                           |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Pension benefits                          | 86,309,278                                                   | 718,371                                          | 29,419                              | 527,010                                                          | 179,931                                          | 33,620,166                                                  |
| Other postemployment benefits             | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Other employment benefits                 | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Total Net Position                        | \$ 86,309,278                                                | \$ 718,371                                       | \$ 29,419                           | \$ 527,010                                                       | \$ 179,931                                       | \$ 33,620,166                                               |

**NOTES TO THE FINANCIAL STATEMENTS**

| NC 401(k) Plan | NC 457 Plan  | Death Benefit<br>Plan of N.C. | Retiree Health<br>Benefit Fund | Disability<br>Income Plan of<br>N.C. | Sheriffs'<br>Pension Fund | Register of<br>Deeds'<br>Supplemental<br>Pension Fund | Totals         |
|----------------|--------------|-------------------------------|--------------------------------|--------------------------------------|---------------------------|-------------------------------------------------------|----------------|
| \$ -           | \$ -         | \$ 11,198                     | \$ 1,279,906                   | \$ 2,125                             | \$ 1,084                  | \$ 102                                                | \$ 1,629,714   |
| 43,876         | 7,926        | -                             | -                              | -                                    | -                         | -                                                     | 51,802         |
| 2,012,662      | 363,562      | -                             | -                              | -                                    | -                         | -                                                     | 2,376,224      |
| -              | -            | 426,904                       | 2,332,754                      | 230,291                              | -                         | 45,631                                                | 123,747,145    |
| 12,098,998     | 1,525,637    | -                             | -                              | -                                    | -                         | -                                                     | 13,624,635     |
| -              | -            | 1,029                         | 142,663                        | 189                                  | 100                       | 9                                                     | 1,445,713      |
| 2              | -            | -                             | 636                            | 19,259                               | -                         | -                                                     | 27,262         |
| -              | -            | -                             | -                              | -                                    | 240                       | -                                                     | 240            |
| -              | -            | 42                            | 4,592                          | 9                                    | 5                         | 1                                                     | 7,038          |
| 8,771          | 471          | 791                           | 30,390                         | 465                                  | -                         | 77                                                    | 255,845        |
| -              | -            | 503                           | 28,247                         | 426                                  | -                         | -                                                     | 123,984        |
| -              | -            | 142                           | 13,600                         | 210                                  | -                         | -                                                     | 39,830         |
| 255,458        | 20,636       | -                             | -                              | -                                    | -                         | -                                                     | 276,094        |
| 14,419,767     | 1,918,232    | 440,609                       | 3,832,788                      | 252,974                              | 1,429                     | 45,820                                                | 143,605,526    |
| 1,322          | 239          | 72                            | -                              | -                                    | -                         | -                                                     | 1,633          |
| -              | -            | 5,881                         | -                              | 92                                   | -                         | -                                                     | 7,825          |
| -              | -            | 1,029                         | 142,663                        | 189                                  | 100                       | 9                                                     | 1,445,713      |
| -              | -            | -                             | -                              | 84                                   | -                         | -                                                     | 6,241          |
| 1,322          | 239          | 6,982                         | 142,663                        | 365                                  | 100                       | 9                                                     | 1,461,412      |
| 14,418,445     | -            | -                             | -                              | -                                    | 1,329                     | 45,811                                                | 135,849,760    |
| -              | -            | -                             | 3,690,125                      | 252,609                              | -                         | -                                                     | 3,942,734      |
| -              | 1,917,993    | 433,627                       | -                              | -                                    | -                         | -                                                     | 2,351,620      |
| \$ 14,418,445  | \$ 1,917,993 | \$ 433,627                    | \$ 3,690,125                   | \$ 252,609                           | \$ 1,329                  | \$ 45,811                                             | \$ 142,144,114 |

**NOTES TO THE FINANCIAL STATEMENTS****COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For Fiscal Year Ended June 30, 2024

*(Dollars in Thousands)*

|                                                  | Teachers' and<br>State<br>Employees'<br>Retirement<br>System | Consolidated<br>Judicial<br>Retirement<br>System | Legislative<br>Retirement<br>System | Firefighters'<br>and Rescue<br>Squad<br>Workers'<br>Pension Fund | North Carolina<br>National Guard<br>Pension Fund | Local<br>Governmental<br>Employees'<br>Retirement<br>System |
|--------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------|-------------------------------------|------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
| <b>Additions</b>                                 |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Contributions:                                   |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Employer Contributions                           | \$ 3,212,327                                                 | \$ 35,574                                        | \$ 748                              | \$ -                                                             | \$ -                                             | \$ 1,215,459                                                |
| Members Contributions                            | 1,106,850                                                    | 6,715                                            | 253                                 | 2,571                                                            | -                                                | 574,906                                                     |
| Other contributions                              | 217                                                          | -                                                | -                                   | 20,052                                                           | -                                                | -                                                           |
| Total contributions                              | 4,319,394                                                    | 42,289                                           | 1,001                               | 22,623                                                           | -                                                | 1,790,365                                                   |
| Investment income:                               |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Investment earnings (loss)                       | 6,827,581                                                    | 56,981                                           | 2,341                               | 41,989                                                           | 14,413                                           | 2,653,414                                                   |
| Less investment expenses                         | (286,138)                                                    | (2,388)                                          | (98)                                | (1,758)                                                          | (603)                                            | (111,014)                                                   |
| Net investment income (loss)                     | 6,541,443                                                    | 54,593                                           | 2,243                               | 40,231                                                           | 13,810                                           | 2,542,400                                                   |
| Other additions:                                 |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Fees, licenses, and fines                        | -                                                            | -                                                | -                                   | -                                                                | -                                                | 2,418                                                       |
| Interest earnings on loans                       | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Miscellaneous                                    | -                                                            | 101                                              | -                                   | 18                                                               | 1                                                | 399                                                         |
| Total other additions                            | -                                                            | 101                                              | -                                   | 18                                                               | 1                                                | 2,817                                                       |
| Total additions                                  | 10,860,837                                                   | 96,983                                           | 3,244                               | 62,872                                                           | 13,811                                           | 4,335,582                                                   |
| <b>Deductions</b>                                |                                                              |                                                  |                                     |                                                                  |                                                  |                                                             |
| Claims and benefits                              | 5,658,003                                                    | 60,257                                           | 2,450                               | 31,124                                                           | 9,279                                            | 1,836,237                                                   |
| Medical insurance premiums                       | -                                                            | -                                                | -                                   | -                                                                | -                                                | -                                                           |
| Refund of contributions                          | 125,533                                                      | 674                                              | 107                                 | 174                                                              | -                                                | 77,286                                                      |
| Administrative expenses                          | 16,461                                                       | 43                                               | 16                                  | 1,003                                                            | 327                                              | 6,783                                                       |
| Other deductions                                 | 616                                                          | -                                                | -                                   | 1                                                                | 1                                                | 207                                                         |
| Total deductions                                 | 5,800,613                                                    | 60,974                                           | 2,573                               | 32,302                                                           | 9,607                                            | 1,920,513                                                   |
| Change in net position                           | 5,060,224                                                    | 36,009                                           | 671                                 | 30,570                                                           | 4,204                                            | 2,415,069                                                   |
| Net position — July 1,<br>as previously reported | 81,249,054                                                   | 682,362                                          | 28,748                              | 496,440                                                          | 175,727                                          | 31,205,097                                                  |
| Net position — June 30                           | \$ 86,309,278                                                | \$ 718,371                                       | \$ 29,419                           | \$ 527,010                                                       | \$ 179,931                                       | \$ 33,620,166                                               |

## NOTES TO THE FINANCIAL STATEMENTS

| NC 401(k) Plan | NC 457 Plan  | Death Benefit<br>Plan of N.C. | Retiree Health<br>Benefit Fund | Disability<br>Income Plan of<br>N.C. | Sheriffs'<br>Pension Fund | Register of<br>Deeds'<br>Supplemental<br>Pension Fund | Total          |
|----------------|--------------|-------------------------------|--------------------------------|--------------------------------------|---------------------------|-------------------------------------------------------|----------------|
| \$ 305,791     | \$ 6,025     | \$ 28,326                     | \$ 1,483,995                   | \$ 22,659                            | \$ 1,044                  | \$ 860                                                | \$ 6,312,808   |
| 487,090        | 91,755       | -                             | -                              | -                                    | -                         | -                                                     | 2,270,140      |
| -              | -            | 29,830                        | 10,348                         | -                                    | -                         | -                                                     | 60,447         |
| 792,881        | 97,780       | 58,156                        | 1,494,343                      | 22,659                               | 1,044                     | 860                                                   | 8,643,395      |
| 1,996,328      | 260,072      | 12,278                        | 225,523                        | 6,456                                | 46                        | 1,274                                                 | 12,098,696     |
| (18,307)       | (2,377)      | (137)                         | (9,584)                        | (70)                                 | (2)                       | (12)                                                  | (432,488)      |
| 1,978,021      | 257,695      | 12,141                        | 215,939                        | 6,386                                | 44                        | 1,262                                                 | 11,666,208     |
| -              | -            | -                             | -                              | -                                    | 715                       | -                                                     | 3,133          |
| 14,644         | 1,185        | -                             | -                              | -                                    | -                         | -                                                     | 15,829         |
| 2,815          | 385          | -                             | -                              | -                                    | -                         | -                                                     | 3,719          |
| 17,459         | 1,570        | -                             | -                              | -                                    | 715                       | -                                                     | 22,681         |
| 2,788,361      | 357,045      | 70,297                        | 1,710,282                      | 29,045                               | 1,803                     | 2,122                                                 | 20,332,284     |
| 815,401        | 128,154      | 59,623                        | -                              | 31,846                               | 1,657                     | 1,932                                                 | 8,635,963      |
| -              | -            | -                             | 1,222,657                      | -                                    | -                         | -                                                     | 1,222,657      |
| -              | -            | -                             | -                              | -                                    | -                         | -                                                     | 203,774        |
| 10,427         | 1,898        | 593                           | 161                            | 1,110                                | 136                       | 22                                                    | 38,980         |
| -              | -            | -                             | -                              | 52                                   | -                         | -                                                     | 877            |
| 825,828        | 130,052      | 60,216                        | 1,222,818                      | 33,008                               | 1,793                     | 1,954                                                 | 10,102,251     |
| 1,962,533      | 226,993      | 10,081                        | 487,464                        | (3,963)                              | 10                        | 168                                                   | 10,230,033     |
| 12,455,912     | 1,691,000    | 423,546                       | 3,202,661                      | 256,572                              | 1,319                     | 45,643                                                | 131,914,081    |
| \$ 14,418,445  | \$ 1,917,993 | \$ 433,627                    | \$ 3,690,125                   | \$ 252,609                           | \$ 1,329                  | \$ 45,811                                             | \$ 142,144,114 |

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 17: PLEDGED REVENUES**

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**Primary Government****Governmental Activities**

The State has pledged future federal transportation revenues to repay \$845.715 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2024. These bonds were issued in May 2015, June 2019 and September 2021. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds of governmental activities are expected to require less than 12% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds may not exceed 20% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is \$1.073 billion, payable through fiscal year 2036. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$118.085 million and \$1.375 billion, respectively.

**Business-type Activities****North Carolina Turnpike Authority**

The State has pledged, as security for revenue bonds issued by the North Carolina Turnpike Authority (NCTA), net revenues from the operation of the Triangle Expressway System and the Monroe Connector System. As of June 30, 2024, the Triangle Expressway had \$1.67 billion of Appropriation and Revenue bonds payable and a \$499.462 million TIFIA line of credit. The Monroe Expressway had \$389.852 million of Appropriation and Revenue bonds payable and a \$166.282 million TIFIA line of credit. For the Senior Lien and Toll Revenue bonds and TIFIA, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway and the Monroe Expressway.

During the fiscal year, the Monroe Expressway State Appropriation Revenue Bonds were refunded with appropriation revenue bonds. As a result, the refunded bonds were defeased and the liability was removed from the statement of net position as of June 30, 2024.

Proceeds from the bonds are being used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System, a 19-mile toll road facility built in Durham and Wake counties that opened in January 2013 and the Complete 540 project extending the Expressway an additional 28 miles. Additionally, proceeds from the bonds are being used to pay the costs of design, construction, and equipping of the Monroe Connector System, a 19.7-mile toll road facility in Mecklenburg and Union counties that opened in November 2018. The total principal and interest remaining to be paid on the bonds is \$4.009 billion, payable through fiscal year 2058 (final maturity date). For the current fiscal year, principal and interest paid, and available revenues (toll revenues, fees, federal interest subsidy and investment revenues) were \$132.422 million and \$126.124 million respectively.



**NOTES TO THE FINANCIAL STATEMENTS****Component Units****University of North Carolina System**

The University of North Carolina System has pledged future revenues, net of specific operating expenses, to repay revenue bonds, direct placements, special indebtedness, and notes from direct borrowings as shown in the table below (dollars in thousands):

|                              |                                                        | Future Revenues Pledged |                                 | Current Year                            |                                       |                           |                            |
|------------------------------|--------------------------------------------------------|-------------------------|---------------------------------|-----------------------------------------|---------------------------------------|---------------------------|----------------------------|
| Purpose                      | Revenue Source                                         | (1)<br>Amount           | % of Total<br>Revenue<br>Source | Pledged<br>Revenues, Net<br>of Expenses | Principal<br>and Interest<br>Payments | Final<br>Maturity<br>Date | Payable as<br>of 6/30/2024 |
| Revenue Bonds                |                                                        |                         |                                 |                                         |                                       |                           |                            |
| Millennial Campus            | University Charges to Athletics and Auxiliary Services | \$ 68,230               | 100%                            | \$ 2,201                                | \$ 1,895                              | 2049                      | \$ 38,775                  |
| Health Care Facilities       | Patient Service Revenues                               | 629,329                 | 100%                            | 109,026                                 | 24,807                                | 2050                      | 393,320                    |
| Total                        |                                                        | <u>\$ 697,559</u>       |                                 | <u>\$ 111,227</u>                       | <u>\$ 26,702</u>                      |                           | <u>\$ 432,095</u>          |
| Direct Placements            |                                                        |                         |                                 |                                         |                                       |                           |                            |
| Utilities                    | Utilities Revenues                                     | \$ 7,387                | 26%                             | \$ 4,092                                | \$ 809                                | 2040                      | \$ 6,490                   |
| Student Housing System       | Housing Revenues                                       | 19,118                  | 50.7%                           | 1,470                                   | 1,450                                 | 2035                      | 15,558                     |
| Total                        |                                                        | <u>\$ 26,505</u>        |                                 | <u>\$ 5,562</u>                         | <u>\$ 2,259</u>                       |                           | <u>\$ 22,048</u>           |
| Special Indebtedness         |                                                        |                         |                                 |                                         |                                       |                           |                            |
| Student Housing System       | Housing Revenues                                       | \$ 80,249               | 33% - 53%                       | \$ 9,156                                | \$ 6,233                              | 2041                      | \$ 62,427                  |
| Notes from Direct Borrowings |                                                        |                         |                                 |                                         |                                       |                           |                            |
| Utilities                    | Utilities Revenues                                     | \$ 1,326                | 10%                             | \$ 2,728                                | \$ 2,632                              | 2034                      | \$ 1,000                   |
| Student Housing System       | Housing Revenues                                       | 26,292                  | 10%                             | 5,374                                   | 821                                   | 2057                      | 18,594                     |
| Total                        |                                                        | <u>\$ 27,618</u>        |                                 | <u>\$ 8,102</u>                         | <u>\$ 3,453</u>                       |                           | <u>\$ 19,594</u>           |

(1) The Future Revenues Pledged amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 18: COMPONENT UNITS – FINANCIAL INFORMATION**

Financial statements as of and for the fiscal year ended June 30, 2024 are presented below (dollars in thousands).

**Statement of Net Position**

|                                                           | University of<br>North Carolina<br>System | Community<br>Colleges | State Health<br>Plan | Other<br>Component<br>Units | Total        |
|-----------------------------------------------------------|-------------------------------------------|-----------------------|----------------------|-----------------------------|--------------|
| <b>Assets</b>                                             |                                           |                       |                      |                             |              |
| Cash and cash equivalents                                 | \$ 3,829,769                              | \$ 514,795            | \$ 636,061           | \$ 346,196                  | \$ 5,326,821 |
| Investments                                               | 5,008,101                                 | 213,862               | -                    | 1,477,296                   | 6,699,259    |
| Securities lending collateral                             | 422,833                                   | 48,227                | 57,605               | 3,639                       | 532,304      |
| Receivables, net                                          | 1,672,809                                 | 97,451                | 227,897              | 79,989                      | 2,078,146    |
| Due from component units                                  | 1,402                                     | -                     | -                    | 13,507                      | 14,909       |
| Due from primary government                               | 264,204                                   | -                     | -                    | -                           | 264,204      |
| Inventories                                               | 171,867                                   | 12,926                | -                    | 687                         | 185,480      |
| Prepaid items                                             | 140,792                                   | 15,802                | -                    | 5,523                       | 162,117      |
| Hedging derivatives asset                                 | 782                                       | -                     | -                    | -                           | 782          |
| Notes receivable, net                                     | 96,196                                    | 1,376                 | -                    | 494,189                     | 591,761      |
| Lease receivable                                          | 132,021                                   | 2,603                 | -                    | 77,520                      | 212,144      |
| Investment in joint venture                               | 257,767                                   | -                     | -                    | -                           | 257,767      |
| Restricted/designated cash and cash equivalents           | 2,291,093                                 | 604,310               | -                    | 1,892,467                   | 4,787,870    |
| Restricted investments                                    | 7,903,576                                 | 527,824               | -                    | 7,142,315                   | 15,573,715   |
| Restricted due from primary government                    | -                                         | 3,018                 | -                    | -                           | 3,018        |
| Restricted due from component units                       | -                                         | 5,983                 | -                    | 2,062                       | 8,045        |
| Advances to outside entities                              | -                                         | -                     | -                    | -                           | -            |
| Beneficial interest in assets held by others              | 4,170                                     | 68                    | -                    | -                           | 4,238        |
| Capital assets-nondepreciable                             | 2,120,791                                 | 427,070               | -                    | 200,385                     | 2,748,246    |
| Capital assets-depreciable, net                           | 15,101,377                                | 3,999,996             | -                    | 831,628                     | 19,933,001   |
| Total Assets                                              | 39,419,550                                | 6,475,311             | 921,563              | 12,567,403                  | 59,383,827   |
| <b>Deferred Outflows of Resources</b>                     |                                           |                       |                      |                             |              |
| Accumulated decrease in fair value of hedging derivatives | 40,274                                    | -                     | -                    | 391                         | 40,665       |
| Deferred loss on refunding                                | 37,689                                    | -                     | -                    | -                           | 37,689       |
| Deferred outflows for asset retirement obligation         | 14,191                                    | -                     | -                    | -                           | 14,191       |
| Deferred outflows for pensions                            | 1,612,434                                 | 578,708               | 2,058                | 19,831                      | 2,213,031    |
| Deferred outflows for OPEB                                | 1,555,972                                 | 325,712               | 1,748                | 13,186                      | 1,896,618    |
| Other deferred outflows                                   | -                                         | 872                   | -                    | -                           | 872          |
| Total Deferred Outflows of Resources                      | 3,260,560                                 | 905,292               | 3,806                | 33,408                      | 4,203,066    |
| <b>Liabilities</b>                                        |                                           |                       |                      |                             |              |
| Accounts payable and accrued liabilities                  | 1,385,490                                 | 87,100                | 25,627               | 381,289                     | 1,879,506    |
| Medical claims payable                                    | -                                         | -                     | 368,878              | -                           | 368,878      |
| Interest payable                                          | 42,969                                    | 1                     | -                    | 48,144                      | 91,114       |
| Obligations under securities lending                      | 422,833                                   | 48,227                | 57,605               | 3,639                       | 532,304      |
| Short-term debt                                           | 19,000                                    | -                     | -                    | -                           | 19,000       |
| Due to component units                                    | -                                         | -                     | -                    | 22,954                      | 22,954       |
| Due to primary government                                 | 8,097                                     | -                     | -                    | 2,362                       | 10,459       |
| Unearned revenue                                          | 675,767                                   | 49,421                | 102,410              | 66,594                      | 894,192      |
| Advance from primary government                           | -                                         | -                     | -                    | 1,441                       | 1,441        |
| Deposits payable                                          | 29,541                                    | -                     | -                    | 2,876                       | 32,417       |
| Funds held for others                                     | 33,829                                    | 11,182                | -                    | 4,538,652                   | 4,583,663    |
| Hedging derivatives liability                             | 40,274                                    | -                     | -                    | 516                         | 40,790       |
| Long-term liabilities:                                    |                                           |                       |                      |                             |              |
| Due within one year                                       | 635,117                                   | 31,186                | 52                   | 68,161                      | 734,516      |
| Due in more than one year                                 | 15,859,835                                | 2,396,837             | 8,697                | 2,926,125                   | 21,191,494   |
| Total Liabilities                                         | 19,152,752                                | 2,623,954             | 563,269              | 8,062,753                   | 30,402,728   |

**NOTES TO THE FINANCIAL STATEMENTS****Statement of Net Position**

|                                                            | University of<br>North Carolina<br>System | Community<br>Colleges | State Health<br>Plan | Other<br>Component<br>Units | Total         |
|------------------------------------------------------------|-------------------------------------------|-----------------------|----------------------|-----------------------------|---------------|
| <b>Deferred Inflows of Resources</b>                       |                                           |                       |                      |                             |               |
| Deferred inflows for PPP arrangements                      | 326,261                                   | -                     | -                    | -                           | 326,261       |
| Deferred state aid                                         | 263,540                                   | -                     | -                    | 202,374                     | 465,914       |
| Deferred inflows for lease agreements                      | 115,792                                   | 2,400                 | -                    | 74,886                      | 193,078       |
| Deferred inflows for pensions                              | 46,745                                    | 16,656                | 110                  | 224                         | 63,735        |
| Deferred inflows for OPEB                                  | 2,018,698                                 | 417,301               | 1,724                | 11,366                      | 2,449,089     |
| Deferred inflows for irrevocable split-interest agreements | 25,648                                    | -                     | -                    | -                           | 25,648        |
| Accumulated increase in fair value of hedging derivatives  | 782                                       | -                     | -                    | -                           | 782           |
| Other deferred inflows                                     | 3,472                                     | -                     | -                    | -                           | 3,472         |
| Total Deferred Inflows of Resources                        | 2,800,938                                 | 436,357               | 1,834                | 288,850                     | 3,527,979     |
| <b>Net Position</b>                                        |                                           |                       |                      |                             |               |
| Net investment in capital assets                           | 10,559,987                                | 4,311,434             | -                    | 936,811                     | 15,808,232    |
| Restricted for:                                            |                                           |                       |                      |                             |               |
| Nonexpendable:                                             |                                           |                       |                      |                             |               |
| Higher education                                           | 3,679,038                                 | 277,890               | -                    | -                           | 3,956,928     |
| Expendable:                                                |                                           |                       |                      |                             |               |
| Higher education                                           | 6,206,005                                 | 798,774               | -                    | 152,418                     | 7,157,197     |
| Health and human services                                  | 526,702                                   | -                     | -                    | 13                          | 526,715       |
| Economic development                                       | -                                         | -                     | -                    | 1,262,428                   | 1,262,428     |
| Unrestricted                                               | (245,312)                                 | (1,067,806)           | 360,266              | 1,897,538                   | 944,686       |
| Total Net Position                                         | \$ 20,726,420                             | \$ 4,320,292          | \$ 360,266           | \$ 4,249,208                | \$ 29,656,186 |

**Statement of Activities**

|                                               | University of<br>North Carolina<br>System | Community<br>Colleges | State Health<br>Plan | Other<br>Component<br>Units | Total         |
|-----------------------------------------------|-------------------------------------------|-----------------------|----------------------|-----------------------------|---------------|
| Total expenses                                | \$ 17,980,461                             | \$ 2,831,993          | \$ 4,145,974         | \$ 1,680,574                | \$ 26,639,002 |
| Program revenues:                             |                                           |                       |                      |                             |               |
| Charges for services [1]                      | 12,391,997                                | 311,646               | 4,083,521            | 540,845                     | 17,328,009    |
| Operating grants and contributions:           |                                           |                       |                      |                             |               |
| Federal aid - COVID-19                        | 10,197                                    | 17,956                | -                    | -                           | 28,153        |
| State aid - program                           | -                                         | -                     | -                    | 513,951                     | 513,951       |
| Other operating grants and contributions      | 3,004,649                                 | 1,097,270             | 42,938               | 577,412                     | 4,722,269     |
| Capital grants and contributions:             |                                           |                       |                      |                             |               |
| State capital aid                             | 57,212                                    | 168,691               | -                    | -                           | 225,903       |
| Other capital grants and contributions        | 363,739                                   | 346,157               | -                    | 77,960                      | 787,856       |
| Net program (expense) revenue                 | (2,152,667)                               | (890,273)             | (19,515)             | 29,594                      | (3,032,861)   |
| Non-tax general revenues:                     |                                           |                       |                      |                             |               |
| Unrestricted investment earnings              | -                                         | -                     | -                    | 208,105                     | 208,105       |
| State aid - coronavirus                       | 50,168                                    | 5,228                 | -                    | -                           | 55,396        |
| State aid - general                           | 4,231,771                                 | 1,346,031             | -                    | 190,189                     | 5,767,991     |
| Noncapital contributions                      | 8,877                                     | 1,701                 | 6                    | 22,047                      | 32,631        |
| Miscellaneous                                 | 38,456                                    | (6)                   | -                    | 12,384                      | 50,834        |
| Total non-tax general revenues                | 4,329,272                                 | 1,352,954             | 6                    | 432,725                     | 6,114,957     |
| Contributions to endowments                   | 191,369                                   | 13,594                | -                    | -                           | 204,963       |
| Change in net position                        | 2,367,974                                 | 476,275               | (19,509)             | 462,319                     | 3,287,059     |
| Net position — July 1, as previously reported | 18,230,690                                | 3,793,172             | 379,775              | 3,783,339                   | 26,186,976    |
| Adjustments to July 1 balances                | 127,756                                   | 50,845                | -                    | 3,550                       | 182,151       |
| Net position — July 1, as restated            | 18,358,446                                | 3,844,017             | 379,775              | 3,786,889                   | 26,369,127    |
| Net position — June 30                        | \$ 20,726,420                             | \$ 4,320,292          | \$ 360,266           | \$ 4,249,208                | \$ 29,656,186 |

[1] The State Health Plan's charges for services include \$1.7 billion from the primary government.

**NOTES TO THE FINANCIAL STATEMENTS****Significant Transactions Between Component Units**

|                                               | University of<br>North Carolina<br>System | Community<br>Colleges | State Health<br>Plan | Other<br>Component<br>Units | Total |
|-----------------------------------------------|-------------------------------------------|-----------------------|----------------------|-----------------------------|-------|
| State Health Plan - premium revenue (expense) | \$ (426,162)                              | \$ (115,334)          | \$ 545,179           | \$ (3,683)                  | \$ -  |

**Intra-Entity Balances — Between Primary Government and Component Units**

|                                     | Due From/Restricted Due<br>From Component Units |                                |                  | Due From/Restricted Due From Primary<br>Government |                       |                   |
|-------------------------------------|-------------------------------------------------|--------------------------------|------------------|----------------------------------------------------|-----------------------|-------------------|
|                                     | General Fund                                    | Other<br>Governmental<br>Funds | Total            | University of<br>North<br>Carolina<br>System       | Community<br>Colleges | Total             |
| <b>Due To Component Units:</b>      |                                                 |                                |                  |                                                    |                       |                   |
| General Fund                        | \$ —                                            | \$ —                           | \$ —             | \$ 256,129                                         | \$ —                  | \$ 256,129        |
| Other Governmental Funds            | —                                               | —                              | —                | —                                                  | 3,018                 | 3,018             |
| Other Funds                         | —                                               | —                              | —                | 8,075                                              | —                     | 8,075             |
| <b>Due To Primary Government:</b>   |                                                 |                                |                  |                                                    |                       |                   |
| University of North Carolina System | 8,097                                           | —                              | 8,097            | —                                                  | —                     | —                 |
| Other Component Units               | —                                               | 2,362                          | 2,362            | —                                                  | —                     | —                 |
| <b>Total</b>                        | <b>\$ 8,097</b>                                 | <b>\$ 2,362</b>                | <b>\$ 10,459</b> | <b>\$ 264,204</b>                                  | <b>\$ 3,018</b>       | <b>\$ 267,222</b> |

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 19: RELATED ORGANIZATIONS**

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**MCNC**

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate private nonprofit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a board of directors comprised of two members appointed by the Governor; up to four members appointed by the president of the University of North Carolina System, a component unit of the State; up to six members elected by the majority vote of persons then constituting the MCNC Board; and one member elected by the majority vote of persons then constituting the MCNC Advisory Council. Any director may be removed from office by the MCNC Board with cause.

**North Carolina Agricultural Finance Authority**

The North Carolina Agricultural Finance Authority (Authority) is a legally separate authority created to administer the financing of loans to farmers and agribusiness at reasonable terms and interest rates. The Authority is governed by a 10-member board comprised of three members appointed by the Governor; six members appointed by the General Assembly; and serving ex officio, the Commissioner of Agriculture or the Commissioner's designee.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 20: RELATED PARTY TRANSACTIONS****Primary Government****Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan**

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer (Department) as Primary Administrator. The Board and Primary Administrator currently have an agreement with Empower Retirement to perform recordkeeping, administration, and investment management services for both Plans.

The Plans contract with Galliard, a subsidiary of Allspring Global Investments (Allspring), to act as a delegated fiduciary investment manager for the NC Stable Value Fund. Allspring commenced operations as a result of the acquisition of Wells Fargo Asset Management by GTCR LLC and Reverence Capital Partners, L.P. Galliard, which was included in that transaction, provides collective investment vehicles and trustee services for the NC Stable Value Fund. Galliard has discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has the authority to invest in securities subject to guidelines in Galliard's contract with the Board and the Department. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, banks or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms.

The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances. The Galliard contract was amended and restated in February 2018, which included a revision to the investment structure and guidelines and lower fees. Management fees were further reduced by agreement in January 2022. No changes to the management fees occurred during the current year.

The Bank of New York Mellon serves as the custodian for the Plans and provides global custody services related to the Pooled Account. The Bank of New York Mellon is the custodian of the separately managed accounts of the Stable Value Fund. Fees for custodial services are generally charged based on a percentage of net asset value and are paid from the assets of the respective funds. The Bank of New York Mellon also provides a short-term cash vehicle for the temporary investment of funds until they are invested on a longer-term basis.

**Component Units****University of North Carolina System and Community College Foundations**

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net position, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2024, this support totaled \$144.24 million for the UNC System and \$3.77 million for community colleges.

The receivables from related parties as of June 30, 2024, were \$3.21 million for the University of North Carolina System and \$521 thousand for community colleges. The payables to related parties as of June 30, 2024, were \$102 thousand for the University of North Carolina System. The community colleges did not have any payables to related parties as of June 30, 2024.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 21: CONDUIT DEBT OBLIGATIONS, COMMITMENTS, AND CONTINGENCIES****A. Conduit Debt Obligations**

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. In addition, no commitments beyond the payments from the facilities and maintenance of the tax-exempt status of the conduit debt obligation were extended by the North Carolina Medical Care Commission. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially and term to calendar year 2053, the outstanding principal of such bonds and notes as of June 30, 2024, was \$4.68 billion with interest rates varying from .75% to 6.13%.

The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industrial (in connection with manufacturing) or pollution control facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds issued by the Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. In addition, no commitments beyond the payments from the nonprofit entities and maintenance of the tax-exempt status of the conduit debt obligation were extended by the North Carolina Capital Facilities Finance Agency. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The outstanding principal of such bonds and notes as of June 30, 2024, was \$1.29 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

The North Carolina Department of Transportation (NCDOT) is authorized by General Statute 136-18(39) and General Statute 136-18(39a) to enter into private partnership agreements to finance by tolls and other financing methods the cost of constructing transportation infrastructures. Such an agreement was entered into on June 26, 2014, with I-77 Mobility Partners LLC (Mobility Partners) to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. The NCDOT issued \$100 million of senior private activity bonds (PABs) on behalf of Mobility Partners and provided additional direct funds of \$116.2 million. The PABs are not an obligation of the NCDOT or the State. The bonds are payable from payments received by the Mobility Partners, and NCDOT has committed to maintaining the tax-exempt status of the bonds. Additional funding was obtained by Mobility Partners in the form of a federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in the amount of \$189 million. In April 2024, I-77 Mobility Partners LLC sold \$371 million of Senior Secured Notes with the proceeds used (in part) to prepay its outstanding TIFIA Loan. The NCDOT was also providing limited credit enhancement support for the Project through the Developer Ratio Adjustment Mechanism (DRAM) as set forth in Section 13.3 of the Comprehensive Agreement; however, the refinancing caused the DRAM to be of no further force and effect per Section 13.3.6 of the Comprehensive Agreement. As of June 30, 2024, the outstanding principal of the PABs was \$100 million.

**B. Litigation**

*Hoke County Board of Education et al. v. State of North Carolina et al. — Right to a Sound Basic Education (formerly Leandro) —* In 1994, students and boards of education in five counties in the State filed a suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low-wealth counties but remanded the case for trial on the claim for relief based on the Court's conclusion that the constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000, the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a

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**NOTES TO THE FINANCIAL STATEMENTS**

Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. Thereafter, the State took steps to respond to the trial court's orders.

On June 15, 2011, the General Assembly enacted legislation which placed certain restrictions on the North Carolina pre-kindergarten program which had been established by the General Assembly in 2001. Following a hearing requested by the plaintiffs, the trial court entered an order prohibiting the enforcement of legislation having the effect of restricting participation in the program. On appeal, the North Carolina Court of Appeals affirmed the trial court's order prohibiting the State from denying any eligible "at risk" children admission to the program. The State appealed this decision, and in November 2013, the North Carolina Supreme Court held that amendments to the 2011 legislation had rendered the appeal moot. The case was remanded to the Superior Court.

On March 13, 2018, the Superior Court issued an Order appointing WestEd to serve as the Court's independent, non-party consultant to make recommendations for specific actions necessary to achieve sustained compliance with the constitutional mandates of *Leandro*. On October 4, 2019, WestEd submitted its final report and recommendations to the Court. The WestEd report estimated that over the eight-year period beginning in the fiscal year 2019-2020, it could take as much as \$6.86 billion in additional funding beyond 2018-2019 appropriations for the State to meet its *Leandro* obligations. On January 21, 2020, the Court entered a Consent Order Regarding the Need for Immediate Systemic Action for the Achievement of *Leandro* Compliance. In that Order, the Court found that many children across North Carolina are still not receiving the constitutionally required opportunity for a sound basic education and the State had to make systemic changes and investments to fulfill its obligations. Consistent with that decision, the Court ordered the State Defendants, in consultation with the plaintiff parties, to develop a comprehensive remedial plan to provide all children with the opportunity for a sound basic education. The Court did not order the State to appropriate any funds but ordered the State to remedy the deficiencies identified in its Order of January 21, 2020.

In June 2020, the parties submitted a Joint Report to the Court on Sound Basic Education (SBE) for All: Fiscal Year 2021 Action Plan For North Carolina. The Joint Report detailed the actions the State and NC SBE were committed to taking in the first year (Fiscal Year 2021) of an eight-year Plan. The parties agreed that the actions outlined in the Joint Report were the necessary and appropriate actions needed in Fiscal Year 2021 to begin to adequately address the constitutional violations in providing the opportunity for a sound basic education to all children in North Carolina. The State Defendants estimated that the costs of the action steps detailed in the Joint Report would require an additional State investment of \$426.99 million in Fiscal Year 2021. The Court thereafter ordered the parties to formalize the commitments in the Joint Report in a Consent Order which the Court entered on September 11, 2020.

On March 15, 2021, the State Defendants submitted the Comprehensive Remedial Plan required under the January and September Consent Orders. The State Defendants, including the NC State Board of Education, agreed that the actions outlined in that Plan were the necessary and appropriate actions needed over the next eight years to address the constitutional violations and provide the opportunity for a sound basic education to all children in North Carolina. Attached to the Plan was an Appendix which detailed the implementation timeline for each action step, as well as the estimated additional State investment necessary for each of the actions described in the Plan. The State Defendants estimated that the actions steps in the Plan would cost an additional \$5.5 billion in recurring funds at the end of the eight-year implementation period.

On June 7, 2021, the Court entered an Order directing the State Defendants to implement the Comprehensive Remedial Plan in full and in accordance with the timelines contained therein. The Court further ordered the State Defendants to seek and secure "such funding and resources as are needed and required to implement in a sustainable manner the programs and policies set forth in the Comprehensive Remedial Plan." The Court held open the possibility of entering judgment in the future "granting declaratory relief and such other relief as needed to correct the wrong" if the State fails to implement the actions described in the Plan. Finally, the Court ordered State Defendants to submit a report no later than August 6, 2021, regarding progress toward fulfilling the terms and conditions of the Order and stated that it would hold a hearing in September 2021 to address issues raised in that report.

On August 6, 2021, the State Board of Education and the State of North Carolina filed separate Reports on Progress on the Comprehensive Remedial Plan. On August 27, 2021, the Plaintiffs and the Plaintiff Intervenors filed Responses to those Reports. The Court scheduled a hearing on September 8, 2021, to "address issues raised in the reports and responses."

On October 16, 2021, the trial court held a hearing during which it indicated that it would enter an order directing certain executive branch officials to transfer funds sufficient to fund Years two and three of the Comprehensive Remedial Plan. On November 10, 2021, the trial court entered such an order.



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**NOTES TO THE FINANCIAL STATEMENTS**

On November 18, 2021, the State Budget Act was enacted. On that day, the State filed a notice of appeal of the trial court order transferring funds, followed shortly by an appeal of the Legislative Leaders who noticed intervention into the case by virtue of N.C. General Statute §1-72.2. The State filed a petition to bypass the Court of Appeals and have the claim directly heard by the North Carolina Supreme Court. That petition was granted by the Court, who first remanded the case for clarification on how the enactment of the State Budget Act impacted the trial court order of November 10, 2021.

At the same time the appeal was entered of the trial court order transferring funds, the Office of the State Controller filed a petition for temporary stay, writ of supersedes and writ of prohibition with the Court of Appeals enjoining the trial court from ordering the transfer of funds without an appropriation. The writ of prohibition was granted and subsequently appealed to the Supreme Court.

During that time, the Honorable Michael Robinson was selected to preside over the matter. Judge Robinson amended the trial court order of November 2021 by incorporating the financial changes associated with the State Budget Act. Judge Robinson also incorporated his understanding that because the Court of Appeals had recently entered a writ of prohibition in a collateral appeal barring the transfer of funds, the trial court was no longer permitted to include the transfer within the bounds of the amended order.

The case was heard by the North Carolina Supreme Court on August 31, 2022. On November 4, 2022, the Supreme Court filed an opinion. With that opinion, the Supreme Court stayed the writ of prohibition issued by the Court of Appeals, in part, concluding that the court erred when it concluded that it lacked the authority to order the transfer of funds. Mandate on the opinion issued directly to the trial court on November 29, 2022, commanding that the trial court conform the subject order to the Supreme Court opinion. Subsequently in January 2023, the North Carolina Supreme Court lifted the stay of the writ of prohibition and reinstated the prohibiting the trial court from ordering the transfer of funds. In March 2023, the North Carolina Supreme Court lifted the stay of the writ of prohibition and reinstated the writ, which prohibits the trial court from ordering the transfer of funds. The Controller argued that judicial branch mandated transfers in this matter would subject the Controller to criminal and civil liability before the basic elements of procedural due process were met, and that there were many outstanding issues unaddressed in the Court's earlier opinion. The North Carolina Supreme Court found that the Controller made a sufficient showing of substantial and irreparable harm should the judicial branch mandate transfers of funds in this matter. The writ of prohibition is currently in effect until the Court has made a final decision on the remaining issues in the case.

Since that time, the trial court convened a hearing to determine what funds remained due to satisfy the obligations of Years 2 and 3 of the Comprehensive Remedial Plan. Following the entry of an order on April 14, 2023, the Legislative Intervenors appealed the matter to the North Carolina Court of Appeals, and thereafter, were granted a bypass petition to the North Carolina Supreme Court. After extensive briefing, the case was heard by the North Carolina Supreme Court on February 22, 2024, and a decision is pending.

***Michael Hughes, on behalf of himself and others similarly situated v. Board of Trustees Teachers' and State Employees' Retirement System, et al.***- This suit involves a declaratory judgment action, a claim for "violation of N.C. General Statute § 135-5"; and Breach of Contract, all of which arise from an allegation that, as a retiree from North Carolina's Teachers' and State Employees' Retirement System ("TSERS"), Plaintiff is entitled to receive a comparable cost of living increase in his retirement allowance each year in which the North Carolina General Assembly increases the salaries of active State employees, and that such increases must be comparable. This matter is a putative class action, which Plaintiff purports to bring on behalf of retirees in TSERS, the Consolidated Judicial Retirement System ("CJRS"), and the Legislative Retirement System ("LRS") against the TSERS Board of Trustees, TSERS, CJRS, LRS, State Treasurer Dale R. Folwell (in his official capacity as ex officio Chair of the TSERS Board of Trustees), and the State of North Carolina ("Defendants").

Defendants moved to dismiss Plaintiff's Complaint pursuant to Rule 12(b)(6) of the North Carolina Rules of Civil Procedure for failure to state a claim, arguing there is no statutory basis for Plaintiff's claim that he is entitled to such an increase because: (1) the portion of the statute on which Plaintiff's argument relies, N.C. General Statute § 135-5(o), which states that retired TSERS members "may receive cost-of-living increases in retirement allowances if active members of the system receive across-the-board cost-of-living salary increases[.]" is permissive, not mandatory; (2) the condition that must be met before retirement allowances may be increased – that "active members of the system receive across-the-board cost-of-living salary increases" has not been met since Plaintiff retired; and (3) Plaintiff's Complaint concedes that the TSERS Board of Trustees does not have the authority to award retirement allowances pursuant to N.C. General Statute § 135-5(o). Defendants' Motion to Dismiss came on for hearing on August 24, 2022, in Wake County Superior Court. The court entered an order on August 26, 2022, that denied Defendants' motion.

The matter is currently pending before the superior court and discovery has begun. Defendants are in the process of drafting a motion for judgment on the pleadings and motion to dismiss Plaintiff's Complaint on all three causes of action because: (1) they are nonjusticiable under the political question doctrine; (2) they are barred by sovereign immunity as a matter of law; (3) there is no private right of action for "Violation of N.C. General Statute § 135-5"; and (4) Plaintiff does not have standing to bring this action against CJRS and LRS. At this stage, the N.C. Department of Justice (NC DOJ) believe that there is only a remote likelihood that Plaintiff's claims can continue against CJRS and LRS. The plaintiff's only allegation that he has a relationship to any of the Defendants in this case is that he is a retiree of TSERS, a pension plan administered by the North Carolina Retirement Systems Division within the Department of State Treasurer. TSERS is not the same pension plan as the CJRS or LRS pension plans named in this suit and Plaintiff has not alleged that he is a vested member of CJRS or LRS, or otherwise alleged a relationship with either entity. With regard to the claims by Plaintiff and the putative class of TSERS retiree he purports to bring this claim under, Defendants are optimistic about their motion to dismiss and for judgment on the pleadings, and

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**NOTES TO THE FINANCIAL STATEMENTS**

therefore, at this stage, the likelihood of an unfavorable outcome is only reasonably possible. Defendants will strongly consider an interlocutory appeal if the sovereign immunity arguments raised in the motion to dismiss are denied and the claims are not otherwise resolved by the motions. If Defendants are unsuccessful, they will need to revisit their evaluation of the likelihood of an unfavorable outcome and the fiscal exposure of the State may be substantial in the event of the favorable outcome of this litigation for Plaintiffs.

The Court of Appeals, in a split decision, ruled for the Defendants the State and the Retirement System Division concluding that sovereign immunity shields the State from the COLA-grounded lawsuits for breach of contract. Plaintiffs are seeking an en banc rehearing/review from the Court of Appeals, and the expectation is that Plaintiffs will seek a discretionary review from the Supreme Court, if unsuccessful with the en banc request.

***Queen Anne's Revenge (QAR)/ North Carolina Department of Natural and Cultural Resources (NCDNCR). Intersal v. Wilson (NCDNCR), 15 CVS 9995***, is a breach of contract action involving a 2013 Settlement Agreement between Intersal and NCDNCR concerning, inter alia, the negotiated media rights of the parties regarding the *Queen Anne's Revenge (QAR)*. Intersal primarily seeks damages for photos related to the *QAR* posted on various websites by DNCR allegedly in violation of the terms of the settlement agreement, lost profits on a proposed exhibition tour of the *QAR*, and lost licensing fees for video of the recovery and conservation efforts.

In November 1996, operating under a search permit issued by NCDNCR, Intersal discovered the *QAR* wreckage. Pursuant to the *QAR* permit, Intersal was entitled to claim treasure recovered from the ship. However, Intersal elected to forgo its claim to treasure in order to obtain exclusive media and replica rights related to the *QAR* shipwreck and its artifacts as well as the right to search for a second ship, the *El Salvador*. On September 1, 1998, Intersal and NCDNCR negotiated an Agreement (1998 Agreement) outlining the parties' rights and responsibilities.

On July 26, 2013, Intersal filed a Petition for a Contested Case in OAH alleging NCDNCR violated the 1998 Agreement. On October 15, 2013, Intersal, NCDNCR and Nautilus (Intersal's video designee) executed a Settlement Agreement (2013 Agreement). The 2013 Agreement superseded the 1998 Agreement and outlined the parties' renegotiated media rights and the terms for the search for the *El Salvador*. In July 2015, Intersal filed this breach of contract claim alleging NCDNCR breached the 2013 Agreement by, inter alia:

1. Displaying over 2,000 *QAR* images and over 200 minutes of video without the required watermark or timestamp.
2. Failing to implement mandates of the 2013 Agreement such as changes to the *QAR* project media policy.
3. Failing to inform Intersal of commercial opportunities under the collaborative commercial narrative language of the 2013 Agreement.
4. Interfering with Intersal's *QAR* media rights by allowing filming and photographing of *QAR* recovery operations by other parties.
5. Interfering/failing to participate in an exhibition tour. Diminishing Intersal's tour by participating in a limited exhibit tour of museums and "profiting" from the museum tour.
6. Failing to make artifacts available for duplication.
7. Failure to renew a permit for the search of the *El Salvador*.

DNCR initially prevailed on a motion to dismiss which was subsequently overruled, in part, by the N.C. Supreme Court (*Intersal v. Hamilton*, 373 N.C. 89, 834 S.E. 2d 404 (2019)). The Court held that (1) any claims for breach of the 1998 Agreement were properly dismissed; (2) Intersal's breach of contract claims concerning its *QAR* media rights under the 2013 Agreement were still available; and (3) the trial court erred in dismissing Intersal's breach of contract claim arising from NCDNCR's failure to renew Intersal's *El Salvador* permit.

The parties then engaged in discovery, including seven experts and 14 fact depositions. In August 2021, the parties filed cross-motions for summary judgement which were heard in January 2022. In February 2023, Business Court Judge Earp granted in part and denied in part each parties' motion. Judge Earp held:

1. Intersal's motion for partial summary judgment is GRANTED that, after the effective date of the 2013 Agreement, NCDNCR's posting on the internet of non-commercial media of the *QAR* project produced without including a time code stamp, watermark and/or a link to the proper website constituted a breach of Paragraph 16(b)(1) of the 2013 Agreement.
2. Intersal's motion for partial summary judgment is GRANTED that, after the effective date of the 2013 Agreement, NCDNCR's posting of non-commercial media of the *QAR* project on websites other than its own constitutes a breach of Paragraph 16(b) of the 2013 Agreement.
3. NCDNCR's motion for summary judgment with respect to Intersal's First Claim for Relief is GRANTED to the extent that Intersal asserts that NCDNCR breached Paragraph 16(b)(1) of the 2013 Agreement by failing to mark digital media that predates the effective date of the *QAR* project prior to producing it in response to a public records request.
4. NCDNCR's motion for summary judgment with respect to Intersal's claim for breach of contract with respect to the *El Salvador* is GRANTED, and Intersal's second Claim for Relief is dismissed with prejudice.

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Plaintiff's proffered experts have estimated damages in this matter at up to \$451 million for breaches related to Intersal's claimed media rights, and hundreds of millions more related to the *El Salvador*.

A trial in this matter took place in Wake County Superior Court in November 2024 on the remaining issues which, absent some peripheral, smaller claims, were for lost licensing fees/lost profits for photographs posted to the internet, lost profits from an exhibition tour and lost fees from improper posting/producing videos. NCDNCR had already been found to have breached the contract with Intersal. Therefore, the jury was instructed that Intersal was entitled to damages, even if they were only nominal damages. Intersal offered evidence from several expert witnesses and asked the jury to award more than \$56 million in damages. This included \$31 million dollars related to photographs and \$25 million for failing to collaborate in conducting a blockbuster tour of *QAR* artifacts. The jury found NCDNCR breached the contract and was awarded damages in the amount of \$527 thousand. Plaintiff and Defendants have thirty days to appeal the verdict.

**Lake v. State Health Plan** — The main issue is whether the State wrongfully charged a monthly premium to retired State employees for the State's 80/20 coinsurance health plan. The general theme of the complaint is that the State established vesting requirements under which if the employee fulfilled the requirements, the State contracted with each employee to provide 80/20 coinsurance insurance coverage at no monthly premium to the retiree for the duration of each retiree's retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 coinsurance health plan to which they allegedly had vested rights. Plaintiffs claim (1) breach of contract; (2) unconstitutional impairment of contract; (3) unconstitutional denial of equal protection; and (4) unconstitutional denial of due process. The plaintiffs also allege a variety of equitable claims (e.g., specific performance, common fund) that piggy-back on the legal claims.

The State moved to dismiss, and, after a hearing, the trial court denied the motion. On May 19, 2017, the trial court issued an order granting plaintiffs' motion for partial summary judgment and denying defendants' motion for summary judgment as to liability. The trial court held that plaintiffs, and all class members, are entitled to the version of the 80/20 coinsurance plan in existence in September 2011, or its equivalent, with no premium for their lifetime. The trial court's order would provide damages for retirees who remained on the 80/20 coinsurance plan at the amount of premiums they actually paid. Any method for determining damages for retirees who switched to the zero-premium 70/30 coinsurance plan is yet to be determined.

The State appealed. On March 5, 2019, a panel of the Court of Appeals unanimously reversed the order of the superior court and remanded for entry of summary judgment in favor of the State. The plaintiffs have petitioned to the North Carolina Supreme Court for discretionary review of the decision of the Court of Appeals. The petition for discretionary review was allowed and the case is now being briefed in the North Carolina Supreme Court.

The State Treasurer has stated that if the trial court's ruling stands – which would require reversal of the Court of Appeals – the costs to the State could exceed \$100 million, not including the cost to the State Health Plan of complying with the plaintiffs' demands going forward.

On October 4, 2022, the North Carolina Supreme Court affirmed in part, reversed in part and remanded the Court of Appeals' decision. The Supreme Court concluded that the eligible retired State employees possessed a vested right protected under the Contracts Clause. The Court also held that genuine issues of material fact needed to be resolved in order to answer whether the General Assembly substantially impaired the retired State employees' vested rights. If so, it must be determined whether any such impairment was reasonable and necessary. The Supreme Court remanded to the trial court on these issues.

The matter is currently pending before the superior court on remand. The parties are in the process of discussing additional discovery to be conducted in this case based on the directives from the Supreme Court and developing a case management order to accommodate the issues identified by the Supreme Court. Written and oral discovery is likely to follow. Additionally, in November 2022, plaintiffs reached out to State defendants to entertain a possibility of settlement.

On March 24, 2023, the State defendants requested approval to retain private counsel, which was approved on April 4, 2023. The entire case file was subsequently transferred to private counsel. On April 18, 2023, the parties had a status conference with the judge to discuss a case management order for the case on remand, which was the last case activity in which N.C. Department of Justice (NC DOJ) attorneys participated. On April 27, 2023, the Order removing NC DOJ attorneys as counsel was filed. While the actual exposure amount or the likelihood of an unfavorable outcome is difficult to determine at this time, there is a reasonable or probable possibility that a substantial amount against the State may be awarded.

**Legionnaires' Disease Litigation/2019 Mountain State Fair – North Carolina Department of Agriculture and Consumer Services.** This litigation arises out of a Legionnaires' disease outbreak allegedly connected to the 2019 North Carolina Mountain State Fair. The 2019 North Carolina Mountain State Fair was hosted and organized by the North Carolina Department of Agriculture and Consumer Services (NCDA&CS) from September 6 to 15, 2019, on the grounds of the Western North Carolina Agricultural Center in Fletcher, North Carolina. On or about September 23, 2019, local public health officials began tracking an outbreak of Legionnaire's Disease. Following an investigation, the North Carolina Department of Health and Human Services and the Center for Disease Control found that the outbreak was likely caused by exposure to *Legionella* bacteria in aerosolized water vapor coming from hot tubs displayed by two vendors at the 2019 Mountain State Fair. The outbreak was believed to have resulted in 136 cases of Legionnaires' disease, one case of Pontiac Fever, 96 hospitalizations, and four deaths.

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Plaintiffs are individuals that alleged to have contracted Legionnaires' disease at the 2019 Mountain State Fair and the estates of two individuals that are alleged to have died as a result of contracting Legionnaires' Disease. In total, there are 78 individual Plaintiffs asserting claims. The Plaintiff brought claims against the two hot tub vendors in a series of 19 lawsuits filed in Henderson, Buncombe, and Mecklenburg County Superior Court. The hot tub vendors then brought third-party claims against NCDA&CS and seven other vendors that had been at the 2019 Mountain State Fair. Plaintiffs then amended their complaints to assert direct claims against NCDA&CS and the other vendors. NCDA&CS has also filed cross-claims and counterclaims for contribution and indemnity against the two hot tub vendors.

All of these cases have been consolidated under a single Superior Court Judge pursuant to Rule 2.1 and the parties are currently in the process of exchanging written discovery. Plaintiffs have not yet submitted a universal settlement demand or total estimate of their alleged damages. The maximum claimed exposure would be \$78 million (\$1 million per Plaintiff). However, it is too early to determine the actual exposure amount or the likelihood of an unfavorable outcome as the parties are just beginning written discovery. It does appear that Plaintiffs have shifted their focus to NCDA&CS as the primary target given that the hot tub vendors appear to have insufficient assets. The discovery in this matter is ongoing. A more precise estimate of exposure may become available at or about the dispositive motions stage (summary judgment) of the proceedings. The exposure to the State remains, however, due to a large number of plaintiffs and several wrongful death claims.

**Map Act Litigation (Kirby v. North Carolina Department of Transportation and subsequent cases)** — The Transportation Corridor Official Map Act (Map Act) was enacted in 1987 to provide the N.C. Department of Transportation (NCDOT) with the authority to record corridor maps that imposed restrictions on a landowner's rights to improve, develop, and subdivide property within the corridor, which restrictions may remain indefinitely. The Map Act did not require NCDOT to purchase the property at the time of the filing of a future corridor map. Starting in 1989, NCDOT filed 27 separate maps that affected approximately 8,500 parcels of land. In June of 2016, the North Carolina Supreme Court ruled that the filing of a transportation corridor map pursuant to the Map Act resulted in a taking of the property owners' rights to improve, develop, and subdivide their property. Under state law, whether a property owner should be paid for the property, and how much, are determined on a case-by-case basis.

Since the last update, NCDOT has continued to acquire parcels and settle cases that have been filed in the Map Act corridors. The most current numbers as to remaining cases and dollar value are available from NCDOT.

Landowners' attorneys have also recently raised two new theories of recovery. If those theories prevail, NCDOT's potential liability will be expanded beyond the current number of known cases.

**Buffkin v. Hooks** — The American Civil Liberties Union of North Carolina and North Carolina Prisoner Legal Services, Inc., filed this class action on June 15, 2018, on behalf of three named individual offenders infected with hepatitis-C (HCV) against the North Carolina Department of Public Safety (DPS) and four individual state employees, including the Secretary of DPS. The suit sought class certification for "all current and future prisoners in DPS custody who have or will have HCV and have not been treated with direct-acting antiviral drugs." The plaintiffs also sought relief in the form of a declaratory judgment that DPS' policy for treating inmates infected with HCV violated the Eighth Amendment, and that failure to screen all persons in DPS for the virus violates the Eighth Amendment and the Americans with Disabilities Act. To that end, plaintiffs requested injunctive relief from the court ordering DPS to (1) formulate and implement an HCV treatment policy that meets the current standard of medical care, including identifying and monitoring persons with HCV; (2) treat the class members with appropriate direct-acting antiviral drugs; and (3) provide named plaintiffs and class members with an appropriate and accurate assessment of their level of fibrosis or cirrhosis, counseling on drug interactions, and ongoing medical care for complications and symptoms of HCV. The three individual plaintiffs also sought compensatory and punitive damages.

The plaintiffs' motion for class certification, which was granted on March 20, 2019. The plaintiffs also secured a partial injunction regarding application of the then existing policy governing the treatment of HCV. The case proceeded to discovery. Following an unsuccessful mediation, the parties resolved this litigation through a negotiated resolution which required various policy changes. Because the matter was certified as a class action, the Court had to approve the settlement and enter the same as a consent decree.

Thereafter, Plaintiffs' counsel, as the "prevailing party" (i.e. they secured a partial injunction and a consent decree), pursued attorneys' fees of approximately \$1 million. The parties negotiated a resolution of the fees claim for \$450 thousand. The resolution of the attorneys' fees claim concluded with all active litigation in this matter. Thereafter, the case remained open as the Department of Adult Correction (DAC) (as of January 2023, DAC operates as a separate cabinet-level agency that oversees the state's prison system) was obligated under the consent decree to meet certain benchmarks and make regular reports to Plaintiffs' counsel regarding treatment of HCV in state prisons.

As of October 3, 2024, the last of the required reports was sent to Plaintiffs' counsel. However, under the terms of the consent decree, Plaintiffs' counsel may request a supplemental report between April 1, 2025, and March 8, 2026. So the case will remain dormant until March 8, 2026.

**Pasquotank Prison Litigation.** In October 2017, four inmates at Pasquotank Correctional Institution murdered four employees and injured additional employees during an escape attempt. The estates of the four employees who were killed, and two injured employees have brought

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multiple lawsuits in the Industrial Commission, state court, and federal court against individual state defendants as well as against state officials, the Department of Public Safety, and Correction Enterprises (a division of the Department of Public Safety). The State is defending the individual State defendants under the Defense of State Employees Act. While the State has limited insurance coverage for claims against individual defendants in excess of \$1 million, the potential exposure to the State is nonetheless significant if the State does not prevail on available legal defenses.

The State has resolved the lawsuit filed by one of the estates (Howe), and the State has prevailed on other state and federal claims. Claims for three estates are currently stayed in the Industrial Commission but the State has strong defenses to those, and they are capped at \$1 million each.

***Lexington/AIG v. NC, POELIC, et al.*** This matter is related to *McCollum and Brown v. Red Springs*, et al., 5:15-cv-00451-BO (EDNC) which is a Section 1983 action filed against a local police department, a county sheriff's office, and two former State Bureau of Investigation (SBI) agents. The plaintiffs in that case (McCollum and Brown) alleged various constitutional violations by the law enforcement defendants related to their confessions, subsequent convictions, and incarceration. A jury returned a verdict of \$75 million dollars against the two SBI agents (all other defendants settled out before a jury reached a verdict). That verdict was appealed.

While the matter was on appeal, Lexington Insurance Company (AIG) filed a declaratory judgment action against POELIC and the State seeking a determination that the excess policies it provided to POELIC do not provide coverage (or provide limited coverage) for the jury's verdict against the SBI agents. N.C. Department of Justice (N.C. DOJ) approached AIG about a consent stay of the declaratory judgment action pending the full and final resolution on the appeal of the underlying litigation. AIG agreed, and N.C. DOJ secured a stay in the case.

In the Spring of 2023, the Fourth Circuit affirmed the jury's verdict, and the matter was remanded to the District Court for Plaintiffs to begin collection proceedings. At that time, N.C. DOJ worked with counsel for McCollum and Brown to set up a mediation with the State and all the insurance carriers to hopefully secure enough coverage to satisfy the judgment that was pending against the SBI agents. That effort was ultimately unsuccessful as the insurance carriers remained largely steadfast in their positions that there was limited insurance coverage available to cover the judgment against the SBI agents. Thus, the stay in this case was lifted. However, McCollum and Brown (who were added as defendants to this action by AIG) moved to dismiss this action. McCollum and Brown argued that under the prior pending action doctrine, the underlying litigation (which now includes the coverage issues) takes precedent and thus the state court should not entertain the coverage issues presented by Lexington's declaratory judgment action. The trial court agreed and dismissed the case. AIG has appealed that ruling.

For our part, N.C. DOJ, on behalf of the State/POELIC, along with private counsel for the SBI agents, engaged in negotiations with counsel for McCollum and Brown in an attempt to limit the responsibility of the SBI agents and to resolve the exposure of the State to pay the judgment. N.C. DOJ was able to successfully negotiate a resolution with Plaintiffs' counsel for \$7.5 million which resolved all potential claims against the State and to cabin off claims against the SBI agents which would fully resolve once Plaintiff's complete their claims against the excess insurance carriers.

***Zayre-Brown v. NC Dept. of Adult Correction, et al., (3:22-cv-00191-MOC)*** In April 2022, Plaintiff, an incarcerated state prisoner, filed a lawsuit against the Department of Adult Correction (DAC) and several Department officials following the denial of her request for gender affirming surgery. Plaintiff alleges that the denial of her requested surgery constitutes deliberate indifference in violation of the Eighth Amendment and Article I, Section 27 of the North Carolina Constitution. Plaintiff also claims the denial violates the Americans with Disabilities Act and the Rehabilitation Act.

Plaintiff filed a motion for preliminary injunction – which the Court denied. Defendants filed a motion to dismiss which was also denied. Thereafter, the case proceeded to discovery, including expert reports and depositions. Efforts to reach a mutually agreeable resolution were unsuccessful. Following the filing of cross motions for summary judgment, the Court denied Defendants' motion for summary judgment, and partially granted and partially denied Plaintiff's motion for summary judgment. The Court granted Plaintiff's motion for summary judgment on her Eighth Amendment claim and entered an injunction directing DAC to re-evaluate her request for surgery through a new committee of outside physicians which the Court had to approve.

DAC appealed to the Court's injunction and unsuccessfully sought a stay of the injunction, first with the District Court and then with the Fourth Circuit. Because DAC could not secure a stay, it complied with the injunction by suggesting two outside physicians to re-evaluate Plaintiff's request for surgery, whom the District Court approved. The new committee concluded that the requested surgery was not medically necessary, and DAC reported that back to the District Court on November 6, 2024. Meanwhile, the Fourth Circuit directed the parties to submit supplement briefs by November 19, 2024, addressing the impact of Plaintiff's imminent release on the appeal. On November 19, 2024, DAC submitted a supplemental brief to the Fourth Circuit advising the Court that Plaintiff had been released on November 2, 2024, at the completion of her sentence, and that as a result, her claims for injunctive relief are moot as is the appeal. Moreover, DAC noted that the well-established case law provides that where a judgment on appeal becomes moot that judgment should be vacated. On November 26, 2024, the Fourth Circuit entered an order and judgment dismissing the appeal as moot and vacating the judgment of the district court.

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Accordingly, Plaintiff's Eighth Amendment claim is now moot and only two claims remain (1) the state constitutional claim and (2) the disability claim. Because Plaintiff seeks damages for the state constitutional claim and for the disability claim, and because DAC demanded a jury trial, those claims must be tried to a jury. The District Court had set this matter for trial to begin on December 16, 2024, but it recently took the case off of the trial calendar and directed the parties to mediate the case (a second time) before February 3, 2025.

***Lannan et al. v. UNC Board of Governors; Dieckhaus et al. v. UNC Board of Governors.*** In these two purported class-action lawsuits, students enrolled at several constituent institutions have sued the University of North Carolina System (UNC System) seeking a refund of all or a portion of their tuition and fees for the spring 2020 and fall 2020 semesters when the schools moved to on-line instruction due to the COVID outbreak. While the UNC System has been successful in Dieckhaus in defending against the claims related to the spring 2020 semester, the matter is pending before the N.C. Supreme Court and could possibly be reviewed and overturned for the case to continue into litigation. In the Lannan case, which stems from the pivot to online classes in fall 2020 at certain campuses, the universities were unsuccessful in having the case dismissed at the trial court. A 3-judge panel of the North Carolina Court of Appeals upheld the trial court's denial of the university's motion to dismiss, and the case is now before the N.C. Supreme Court. Given how many individuals were impacted by the move to online classes and the decisions made to close campus facilities, if the plaintiffs are successful the damages could be in the millions of dollars. N.C. DOJ are awaiting decisions from the North Carolina Supreme Court that either end both suits or potentially send both back to the trial court to commence the discovery.

***North Carolina Bar and Tavern Association; et al., v. Cooper.*** During the early stages of the COVID-19 pandemic, a large group of bar owners sued Governor Roy Cooper (in his official capacity) asserting that one of the orders the Governor issued under the Emergency Management Act (EMA) responded to the pandemic violated several provisions of the North Carolina Constitution. They also sought preliminary injunctive relief. After a hearing, a superior court judge denied plaintiffs' motion for a preliminary injunction. The Governor moved to dismiss plaintiffs' complaint.

More than a year later, after all orders limiting plaintiffs' businesses had been lifted, plaintiffs filed an amended complaint on October 26, 2021. In their amended complaint, plaintiffs sought compensation/damages as a remedy for their state constitutional claims. The Governor again moved to dismiss plaintiffs' claims. Plaintiffs moved for partial summary judgment on their claims under the fruits of labor clause, EMA Act and the Public Records Act. The superior court denied plaintiffs' motion for partial summary judgment and granted the Governor's motion to dismiss. Plaintiffs appeal the dismissal of their claims to the Court of Appeals.

A panel of that Court held that the superior court had properly dismissed plaintiffs' claims under the Emergency Management Act and the Public Records Act. It also held, however, that the superior court had erred in dismissing plaintiffs' fruits-of-labor and equal-protection claims. The panel instead awarded summary judgment to plaintiffs on those claims. The Governor then petitioned the N.C. Supreme Court for discretionary review of the panel's decision with respect to the fruits-of-labor and equal-protection claims. Plaintiffs also conditionally petitioned the N.C. Supreme Court, if it allowed the Governor's petition, to review the dismissal of their statutory claims as well. The Court granted both the Governor's and plaintiffs' petitions and heard argument on October 23, 2024. The case is currently pending a decision from the N.C. Supreme Court.

***Tiffany Howell; et al. v. Cooper et al.*** In December 2020, plaintiffs, a small group of bar owners, sued the Governor (in his official capacity) and the State of North Carolina, alleging that Governor Cooper's time-limited restrictions on bars to protect public health during the COVID-19 pandemic violated three provisions of the state constitution: the fruits-of-labor clause, N.C. Constitution, Article I, § 1 (count 1); the law-of-the-land clause, id. art. I, § 19 (count 3); and the equal protection clause, id. (count 4). Plaintiffs also alleged that two provisions of the Emergency Management Act, under which the Governor issued the challenged executive orders, were unconstitutional: N.C. General Statute § 166A-19.31(b)(2) (count 2), and N.C. General Statute § 166A-19.30(c) (count 5).

Plaintiffs originally sought a declaration that the executive orders were unconstitutional, an injunction preventing defendants from enforcing the orders against them, and money damages. In January 2021, defendants moved to dismiss under Civil Rules 12(b)(1), (b)(2), and (b)(6). Defendants also moved to transfer plaintiffs' constitutional challenges to the Emergency Management Act to a three-judge panel. In March 2021, the trial court transferred plaintiffs' challenge to N.C. General Statute § 166A-19.30(c) (count 5) to a three-judge panel.

On May 11, 2021, plaintiffs then filed an amended complaint adding as defendants Tim Moore, in his official capacity as Speaker of the House of Representatives, and Phil Berger, in his official capacity as President Pro Tempore of the Senate. Plaintiffs' amended complaint did not make any substantive changes to their original claims. Just three days later, on May 14, 2021, the Governor lifted all restrictions on bars and similar businesses. Executive Order No. 215, 35 N.C. Reg. 2651 (May 14, 2021).

In July 2021, the State and the Governor moved to dismiss the amended complaint. The legislative defendants filed an answer. In February 2022, the trial court granted the State's and the Governor's motion to dismiss in part. The court dismissed plaintiffs' equal protection claim. The court also dismissed plaintiffs' claim for injunctive relief as moot because no executive order restricting the operations of bars had been in effect since May 2021. By contrast, the court allowed plaintiffs' fruits-of-labor and law-of-the-land claims for money damages to proceed to discovery. Finally, the court transferred plaintiffs' remaining constitutional challenge to the Emergency Management Act, N.C. General Statute § 166A-19.31(b)(2) (count 2), to a three-judge panel.

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The State and the Governor appealed to dismiss the denial of their motion to dismiss. In a 2-1 decision, the Court of Appeals affirmed the trial court's order allowing plaintiffs' fruits-of-labor and law-of-the-land claims for money damages to proceed to discovery. Judge Arrowood dissented. Defendants filed a notice of appeal based on Judge Arrowood's dissent. Defendants also petitioned for discretionary review as to additional issues not addressed in the dissent. The N.C. Supreme Court allowed the petition. The Court heard arguments on October 23, 2024, and the case is currently pending a decision.

***Ussery v. Hooks et al. (federal court).*** Plaintiff commenced this action by filing a Complaint on April 21, 2023, naming Governor Roy Cooper (in his official capacity), Wake County District Attorney Lorrin Freeman (in her individual and official capacity) and several others as defendants. The plaintiff subsequently filed an Amended Complaint on May 1, 2023. The Amended Complaint asserted claims pursuant to 42 U.S.C. § 1983 for an alleged violation of Plaintiff's constitutional rights under the First and Fourteenth Amendments; and a claim that Defendants conspired to deprive Plaintiff of her rights in violation of the North Carolina Constitution.

On September 9, 2023, Plaintiff filed a Motion for Leave to file a Second Amended Complaint (SAC), which was granted on November 7, 2023. Plaintiff subsequently filed her Second Amended Complaint on November 15, 2023. The Second Amended Complaint removed Governor Cooper as a named defendant, and names the City of Raleigh, Raleigh's Chief of Police, a Raleigh Police Captain, and Raleigh Police Officers John and Jane Does 1-4, Wake County District Attorney, Lorrin Freeman; the Secretary of the North Carolina Department of Public Safety; several officers of the North Carolina State Capitol Police, and the Chief of the North Carolina General Assembly Police Department as defendants. All defendants are sued in both their individual and official capacities.

Plaintiff's SAC asserts six causes of action: Count I: Conspiracy to deprive Plaintiff of her rights under the North Carolina Constitution against all defendants; Count II: A 42 U.S.C. § 1983 claim for violation of the First Amendment against all defendants; Count III: A Section 1983 claim for violation of due process under the Fourteenth Amendment to the United States Constitution against all defendants; Count IV: A Section 1983 claim for a *Brady* violation against Defendant Freeman; Count V: A Section 1983 claim for violation of equal protection under the Fourteenth Amendment against all defendants; and Count VI: Claims for violations of Article I, § 12, 14, and 19 of the North Carolina Constitution against all defendants. Collectively, Plaintiff seeks declaratory relief, compensatory and nominal damages, and costs and expenses of this action, including reasonable attorney's fees. On December 20, 2023, all the defendants moved to dismiss Plaintiff's SAC pursuant to Rules 12(b)(1) and 12(b)(6) of the Federal Rules of Civil Procedure.

The district court granted defendants' motions to dismiss and entered final judgment on the merits against Plaintiff on June 20, 2024. The district court dismissed Plaintiff's federal claims with prejudice and dismissed Plaintiff's state law claims without prejudice. Plaintiff filed the notice of appeal on July 19, 2024, and filed her opening brief on October 4, 2024. The briefing has not yet been completed in the Fourth Circuit.

***Utility Easement Issues: The consequences of the decisions in Department of Transportation v. Canady, 2020 N.C. App. LEXIS 943 and Department of Transportation v. Prior, Wake County 20-CVS-6521.*** A recent trend in eminent domain cases is that the property owners and their counsel are asserting additional damages resulting from the imposition of Permanent Utility Easements (PUEs), Aerial Utility Easements (AUEs) and Drainage/Utility Easements (DUEs) as part of the condemnation process. The Department of Transportation (DOT) has always recognized that the acquisition of these easements was a near total taking of the easement areas and has also been willing to acknowledge circumstances where the location and nature of the easement could result in damages to the remainder of the affected property. However, in recent years, the property owners have asserted that the damages evaluation of these easements must be considered as if DOT was exercising its rights to the "fullest extent of the law," relying on *State Highway Commission v. Black*, 239 N.C. 198, 79 S.E.2d 778 (1954). The practical effect of this argument is that the imposition of a PUE, AUE or DUE across a property's road frontage is now evaluated for damages purposes as if the Department of Transportation (DOT) has cut off all access to the property, resulting in damages greatly exceeding DOT's initial appraisals.

The first of these cases to be heard in Superior Court was *Prior*, in Wake County in December 2022. Judge Graham Shirley sided with the property owners in his ruling. The DOT's argument that the damages resulting from these easements was a matter for the jury to consider (which it always had been in the past) was overruled. Numerous other Superior Court judges have adopted Judge Shirley's decision, and DOT to date has not appealed or tried any of these cases to a jury. The damages in *Prior* went from the N.C. DOJ estimation of \$164 thousand to a settlement of \$1.25 million, and other cases have had similar increases in the amount of damages. The Condemnation Section has worked with DOT and Duke Energy to limit damages by amending the language of the easements, but there are still some property owners and their attorneys who would prefer seeking increased damages rather than the protections of the amended language.

***Ussery v. Cooper et al. (state court).*** Following the dismissal without prejudice of her state law claims in federal court, Plaintiff commenced this action by filing a Complaint in July 2024 in Wake County Superior Court, naming Governor Roy Cooper (in his official capacity), the City of Raleigh, Raleigh's Chief of Police, a Raleigh Police Captain, and Raleigh Police Officers John and Jane Does 1-4, Wake County District Attorney, Lorrin Freeman; the Secretary of the North Carolina Department of Public Safety; several officers of the North Carolina State Capitol Police, and the Chief of the North Carolina General Assembly Police Department as defendants.

The Complaint sets forth four causes of action: Conspiracy to deprive Plaintiff's North Carolina constitutional rights; violation of N.C. Constitution Article I, § 12 for the right to assembly and petition, violation of N.C. Constitution Article I, § 14 for freedom of speech;

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violation of N.C. Constitution Article I, § 19 for equal protection and due process. The plaintiff seeks both declaratory relief and monetary damages. On September 24, 2024, the State Defendants moved to dismiss Plaintiff's complaint pursuant to Rules 12(b)(1), 12(b)(2), and 12(b)(6) of the North Carolina Rules of Civil Procedure. The other defendants also moved to dismiss the claims against them. Those motions to dismiss remain pending a hearing.

**UNC Hospitals, DHB/Provider Audit.** UNC Hospitals filed annual Medicaid cost reports with the N.C. Department of Health and Human Services (NC DHHS) for fiscal years 2007 through 2011. NC DHHS Provider Audit disagreed with certain issues on the cost reports relating to “zero paid claims” and made audit adjustments in Notices of Program Reimbursements dated May 20, 2015 and August 30, 2016. UNC Hospitals on June 4, 2015 and September 9, 2016 sought agency reconsideration. Separately, for fiscal years 2016 through 2021, UNC Hospitals included certain cases and charges relating to “zero paid claims” in calculations used for Medicare Upper Payment Limit payments to UNC Health’s owned hospitals. NC DHHS Provider Audit disputed UNC Health’s inclusion of cases and charges relating to “zero paid claims.” On November 25, 2024, the parties reached an agreement to resolve the dispute and extinguish all potential liability in exchange for payment of \$5 million to UNC Health.

**Vidant Hospital, UNC Hospitals, DHB/Provider Audit.** Vidant filed annual cost reports for fiscal years 2010 through 2016. Provider Audit (Jim Flower’s team) disagreed with certain issues on the cost reports and made audit adjustments in Notices of Program Reimbursements dated January 12, 2017, April 13, 2018, March 18, 2019, and May 31, 2019. Vidant appealed all in 2017 through 2019 by requesting reconsideration. The parties were not able to resolve one issue, known as “zero paid claims.” Vidant has appealed to this issue for all seven fiscal years. Vidant and Division of Health Benefits (DHB) have both submitted position papers to the hearing officer. DHB’s defense is based on the State Medicaid Plan, the Centers for Medicaid Services (CMS) Provider Manual, informal guidance received from CMS, and concurrence from DHB’s outside auditing firm. Note also that University of North Carolina Hospitals (UNC Hospitals) has appealed the same “zero paid claims” issue for multiple cost years, and N.C. Department of Health and Human Services (NC DHHS) leadership has participated in several high-level discussions with UNC Hospitals. UNC Hospitals estimates the value of these claims is about \$13 million. The situation with UNC Hospitals is complicated as UNC Hospitals may have received some overpayments from DHB. On November 3, 2022, the Hearing Officer issued a decision upholding DHB's audit findings and rejecting Vidant's challenge. On December 29, 2022, Vidant appealed to the Office of Administrative Hearings disputing claims of \$22.9 million for fiscal years 2010-2016 and \$13.35 million for fiscal years 2017-2021. Discovery was completed including 12 depositions and expert witness disclosures. On August 8, 2023, the parties reached an agreement to resolve the total \$36.25 million in claims in dispute through a settlement payment of \$14 million to Vidant. The agreement resolves all of Vidant’s past and future claims relating to the treatment of zero paid claims. The UNC Hospitals appeal with claims in dispute of about \$13 million has not been resolved.

**Kinsley v. Ace Speedway Racing, Ltd., 20 CVS1001** During the early stages of the COVID-19 pandemic, to reduce the spread of the virus, the Governor issued executive orders that limited how many spectators could attend sporting events. A speedway in Alamance County refused to comply with those orders and instead announced that it would break the law and allow more spectators to attend its races. Thousands of spectators attended those races after local law-enforcement officials declined to intervene.

In response, the Secretary of the Department of Health and Human Services issued an order as authorized under North Carolina’s public health laws that required the speedway to close until it agreed to follow the Governor’s executive order. The speedway did not comply and remained open. The Secretary then sued the speedway, and a trial court granted injunctive relief that required to speedway to close. Only then did the speedway finally stop holding races in violation of the orders.

Several months later, the Governor issued a new executive order that increased the number of spectators that could attend sporting events, and the trial court’s injunction dissolved. The Secretary voluntarily dismissed the claims against the speedway. In the meantime, however, the speedway filed its own counterclaims against the Secretary. The Speedway sought damages, claiming that the Secretary had violated its constitutional rights. The Secretary moved to dismiss the counterclaims on the basis of sovereign immunity and failure to state a claim. The trial court denied the Secretary’s motion. The CoA affirmed that decision as did the NCSC in an opinion published on August 23, 2024. The case has been remanded to Alamance County Superior Court for further proceedings.

**N.C. School Boards v. Moore** This case began in 1998 when Plaintiffs filed a complaint against numerous state officials in their official capacities seeking a determination from the court that certain civil penalties paid into the General Fund of the treasury should have been required, pursuant to the North Carolina Constitution, to go to public schools. The North Carolina Supreme Court ruled that the penalties must be paid to the State Civil Penalty and Forfeiture Fund for the benefit of the public schools, rather than the General Fund. The Supreme Court remanded the case to the superior court for implementation. Upon remand, on August 8, 2008, Plaintiffs obtained a judgment against Defendants or their predecessors in interest for the sum of \$747.83 million. However, the superior court judge noted in his Memorandum of Decision and Judgment that, “because of the constitutional limitations and the separation of power between the judicial, legislative and executive branches of government, the Court does not have the authority to direct the manner and means by which the judgment is to be satisfied or the amount of time in which it is done.” \$729.7 million of the August 8, 2008, judgment remains unpaid by Defendants.

On August 1, 2018, Plaintiffs filed a complaint in Wake County Superior Court, 18 CVS 009586, seeking to renew the 2008 judgment. The Complaint alleges that on or about August 8, 2008, in an action in the Superior Court of Wake County, civil action number 98-CVS-4982, Plaintiffs obtained a judgment against Defendants or their predecessors in interest for the sum of \$747.83 million. The Complaint alleges



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**NOTES TO THE FINANCIAL STATEMENTS**

that \$729.7 million remains unpaid by Defendants. Defendants filed a motion to dismiss the Complaint on August 27, 2018, on the ground of collateral estoppel. Defendants did not contest the validity of the August 8, 2008, judgment, or the amount that remains unpaid on that judgment. Rather, Defendants contend that Plaintiffs cannot obtain execution to enforce the judgment and that because of constitutional limitations and separation of powers, the court does not have the power to order the Defendants to pay the judgment. *See Richmond Cty. Bd. of Educ. v. Cowell*, 803 S.E.2d 27, 32 (N.C. Ct. App. 2017).

The matter came up for a hearing and the court concluded the following in a written order issued on March 6, 2019:

- Plaintiffs obtained a valid judgment against Defendants or their predecessors in interest for the sum of \$747.83 million on August 8, 2008.
- \$729.7 million of the August 8, 2008, judgment remains unpaid by Defendants.
- The Complaint appropriately states an action for recovery on a judgment, and that the Complaint makes specific reference to that judgment by date, amount, and docket number.
- Because of the constitutional limitations and the separation of power between the judicial, legislative and executive branches of government, the Court does not have the authority to direct the manner and means by which the judgment is to be satisfied or the amount of time in which it is done.
- Judgment is hereby entered against the Defendants in the amount of \$729.7 million.

**Other Litigation.** The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

**C. Federal Grants**

The State receives significant financial assistance from the federal government in the form of grants and entitlements, which are generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of the costs questioned could become a liability of the State.

An audit conducted by the United States Department of Health and Human Services Office of Inspector General concluded that the State did not comply with Federal and State requirements when making Medicaid claims for school-based Medicaid administrative costs. Based on the audit, the Office of Inspector General recommended that the State refund \$53.8 million to the federal government for non-compliant claims. The State disagrees with the findings and recommendation. Once a final determination of liability is made, the amount will be paid to CMS. As of June 30, 2024, the State had not received a demand for recovery from CMS.

For the fiscal years 2011-2013, the State received more than \$34.8 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The overpayments were the result of the overstatement of the enrollment numbers in its request. CMS has issued a disallowance and a demand for recovery. The State disagrees with the findings and has appealed. Other states also appealed, and the matters were consolidated for a decision by the Departmental Appeals Board (DAB). The DAB issued its decision, finding that CMS had erred in its interpretation of the statute, but also remanded the case to CMS to determine if there were overpayments made. The State is awaiting further information and guidance from CMS.

As of June 30, 2024, the State is unable to estimate what liabilities may result from additional audits of Federal grants and entitlements.

The State refunds federal shares of drug rebate collections to CMS. As of June 30, 2024, the amount due to CMS was \$206.24 million.

**D. Highway Construction**

The State has placed on deposit in court \$357.06 million for a potential liability to property owners for contested rights-of-way acquisition costs in condemnation proceedings. The State may also be liable for an additional \$111.11 million in these proceedings. As of June 30, 2024, the State had no outstanding verified contractor's claims.

**E. Construction and Other Commitments**

On June 30, 2024, the State had commitments of \$6.15 billion for construction of highway infrastructure. Of this amount, \$3.2 billion relates to the Highway Fund, \$399.11 million relates to the N.C. Turnpike Authority, and \$2.55 billion relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$659.43 million, including \$313.19 million for the General Assembly, \$117.57 million for the Department of Adult Correction, \$72.58 million for the Department of Administration, \$48.01 million for the Department of Agriculture, and \$31.39 million for the Department of Public Safety.

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**NOTES TO THE FINANCIAL STATEMENTS**

On June 30, 2024, the University of North Carolina System (component unit) had outstanding construction commitments of \$798.78 million (including \$190.23 million for North Carolina State University, \$120.67 million for University of North Carolina Chapel Hill, \$105.2 million for University of North Carolina Health Care System, \$68.13 million for East Carolina University, and \$59.18 million for Elizabeth City State University).

On June 30, 2024, community colleges (component units) had outstanding construction commitments of \$152.75 million (including \$52.55 million for Wake Technical Community College, \$21.03 million for Fayetteville Technical Community College, \$17.61 million for Western Piedmont Community College, \$7.51 million for South Piedmont Community College, and \$7.34 million for Central Piedmont Community College).

The Department of Environmental Quality has other significant commitments of \$314.51 million for clean water and other cost reimbursement grants. On June 30, 2024, the Department of Natural and Cultural Resources had other outstanding commitments of \$158.24 million for clean water grants to non-governmental organizations and local and state government. The Department of Public Instruction has other significant commitments of \$1.05 billion for needs-based public school building capital fund cost reimbursement grants awarded to Local Education Agencies (LEAs) for school capital projects.

The 911 Board (Board), part of the Department of Information Technology Services, sets aside a portion of its fund annually to support local Public Safety Answering Points (PSAPs). The PSAPs apply to the Board for the funds with improvement project proposals that the Board evaluates and either approves or denies. On June 30, 2024, the 911 Fund (special revenue fund) had outstanding commitments for these cost-reimbursement grants and contracts to the PSAPs totaling \$39.87 million.

On June 30, 2024, the Administrative Office of the Courts had outstanding software in development contract commitments of \$173.38 million.

The State Treasurer has entered contracts with external fund managers of several investment portfolios within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool), where the State Treasurer agrees to commit capital to these investments. More detailed information about the External Investment Pool is available in a separate report (See Note 3A).

The University of North Carolina Investment Fund, LLC (UNC Investment Fund) at the University of North Carolina at Chapel Hill has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2024, the UNC Investment Fund had approximately \$1.68 billion unfunded committed capital.

**F. Tobacco Settlement**

In 1998, North Carolina, along with 45 other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will receive from this settlement remains uncertain, but projections are that the State will receive approximately \$4.74 billion from the inception of the agreement through the year 2025. Since the inception, the State has received approximately \$3.88 billion in MSA payments. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue in the government-wide statements for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

**G. Other Contingencies**

The Civil Rights Division of the U.S. Department of Justice investigated the state's mental health system and found the State to be in violation of Title II of the Americans with Disabilities Act of 1990 (ADA), 42 U.S.C. Sec 12131, and the following, as interpreted by the U.S. Supreme Court in *Olmstead v. L.C.*, 527 U.S. 581 (1999), and Section 504 of the Rehabilitation Act of 1973 (Rehab Act), 29 U.S.C. Sec 794(a). On August 23, 2012, the Civil Rights Division and the State entered into an agreement that addresses the corrective measures that will ensure that the State will willingly meet the requirements of the ADA, Section 504 of the Rehab Act, and the *Olmstead* decision. Through the agreement, it is intended that the goals of community integration and self-determination will be achieved. Both parties to the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer has authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential

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**NOTES TO THE FINANCIAL STATEMENTS**

liability to the State cannot be reasonably estimated. If the State fails to comply with this agreement, the United States can seek an appropriate judicial remedy. To date, the State has demonstrated good faith effort by providing sufficient funding essential to meeting the settlement requirements. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which was originally going to be phased in over eight years (2013-2020). The settlement agreement was first extended for an additional year to July 1, 2021, to give the State more time to meet the requirements. In March of 2021, the parties signed an agreement acknowledging the State's compliance in some areas of the agreement but extending other items for an additional two years. In March 2023, the parties entered into another two-year extension of the agreement, which included the development and approval of an Implementation Plan to outline how the State will come into substantial compliance by July 2025. In December of 2024, the parties expect to sign a Sixth Modification to the agreement acknowledging the State's compliance with several additional requirements of the agreement, but extending other items for an additional two years, through July 1, 2027. In Session Law 2012-142 Section 10.23A.(e), \$10.3 million was appropriated as recurring funds to support the Department of Health and Human Services in the implementation of its plan for transitioning individuals with severe mental illness to community living arrangements, including establishing a rental assistance program. In Session Law 2013-360, additional money was appropriated in the expansion budget for \$3.83 million for fiscal 2014 and \$9.39 million for fiscal 2015. Funding has continued each budget year at appropriate levels to meet the terms of the agreement with a current net appropriation for Transition to Community Living across all N.C. Department of Health and Human Services (NC DHHS) divisions at \$83.8 million in each year of the biennium of the 2023-25 biennium.

In Session Law 2015-241, the North Carolina Housing Finance Agency (NCHFA), in consultation with the N.C. Department of Health and Human Services (NC DHHS), was authorized to administer the Community Living Housing Fund (CLHF) in order to provide permanent community-based housing in integrated settings appropriate for individuals with severe mental illness and severe and persistent mental illness. The funds are first transferred from NC DHHS and then must be appropriated by the General Assembly in order for the NCHFA to expend the funds. NC DHHS transferred \$2.89 million to the Community Living Housing Fund in fiscal 2015. House Bill 1030 authorized the NCHFA to expend receipts of \$5.52 million transferred from DHHS to the CLHF in fiscal 2017. Session Law 2017-57 and Session Law 2018-5 provided funds of \$4.2 million and \$3.96 million, respectively, transferred from DHHS to the CLHF. In fiscal years 2019 through 2021, NC DHHS transferred \$10.47 million to the CLHF and Session Law 2020-97 appropriated those funds for the State to meet its commitment to the supported housing requirements of the agreement. At present, the work continues with the funds available through continuing budget provisions. NC DHHS did not transfer any funds to the CLHF for SFY 2021-22 or SFY 2022-23 as no funds remained in accordance with the law. NC DHHS transferred \$3.37 million in remaining funds to the CLHF at the end of the 2023-24 fiscal year.

The State is liable for an ongoing worker's compensation claim for a former employee who was severely injured and will require care for life. The estimated total cost of care is currently \$25.6 million.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 22: TAX ABATEMENTS**

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As of June 30, 2024, the State provides tax abatements through one program, the Job Development Investment Grant (JDIG). The purpose of the JDIG program is to stimulate economic activity and benefit citizens throughout the State through the creation of new jobs, resulting in an enlargement of the overall tax base, an expansion and diversification of the State's industrial base, and an increase in revenue to the State and its political subdivisions.

The tax being abated is the State income tax withheld by employers under North Carolina General Statute Chapter 105 Article 4A. The authority for the abatement falls under North Carolina General Statute Chapter 143B Article 10 Part 2G.

The eligibility criteria for the abatement include the following:

- The project proposed by the business will create, during the term of the engagement, a net increase in employment in the State by the business.
- The project will benefit the people of the State by increasing opportunities for employment and by strengthening the State's economy by, for example, providing worker training opportunities, constructing and enhancing critical infrastructure, increasing development in strategically important industries, or increasing the State and local tax base.
- The project is consistent with economic development goals for the State and for the area where the project will be located.
- A grant is necessary for the completion of the project in the State.
- The total benefits of the project to the State outweigh the costs and render the grant appropriate for the project.
- For a project located in a tier three development area, the affected local governments have participated in recruitment and offered incentives in a manner appropriate for the project.

The amount of the grant awarded in each case shall be a percentage of the State income tax withholdings of eligible positions for a period of years. The percentage shall be no more than 80% for a tier one development area and no more than 75% for any other area.

The North Carolina Department of Commerce annually ranks the State's 100 counties based on economic well-being and assigns each a tier designation. The tier system encourages economic activity in less prosperous areas of the State. County tiers are calculated using four factors: the average unemployment rate, the median household income, the percentage growth in population, and the adjusted property tax base per capita. The 40 most distressed counties are designated as tier one, the next 40 as tier two, and the 20 least distressed counties as tier three.

If the business receiving a grant fails to meet or comply with any condition or requirement set forth in an agreement, the amount of the grant or the term of the agreement shall be reduced, the agreement may be terminated, or both. If a business fails to maintain employment at the levels stipulated in the agreement or otherwise fails to comply with any condition of the agreement for any two consecutive years, the grant payment will be withheld for any consecutive year after the second consecutive year remaining in the base period in which the business fails to comply with any condition of the agreement. If the business is no longer within the base period, the agreement shall be terminated.

The business commits to creating a minimum of 10 eligible positions in a tier one area, 20 eligible positions in a tier two area, or 50 eligible positions in a tier three area. The business must provide health insurance for all applicable full-time employees on the project with respect to which the grant is made.

The amount of taxes abated for fiscal year end June 30, 2024 on an accrual basis as a result of the agreements with the State is \$42.57 million. The State has made no other commitments other than to abate taxes.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS**

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). Additional information related to adjustments to beginning fund equity by reporting entity is provided in narratives following the summary table.

|                                                   | July 1, 2023<br>Fund Equity<br>as Previously<br>Reported | IG 2021-1<br>Section 5.1<br>Implementation | Other Changes<br>in Accounting<br>Principles | Other<br>Adjustments | July 1, 2023<br>Fund Equity<br>as Restated |
|---------------------------------------------------|----------------------------------------------------------|--------------------------------------------|----------------------------------------------|----------------------|--------------------------------------------|
| <b>Primary Government</b>                         |                                                          |                                            |                                              |                      |                                            |
| Major Governmental Funds:                         |                                                          |                                            |                                              |                      |                                            |
| General Fund                                      | \$ 22,365,600                                            | \$ —                                       | \$ —                                         | \$ 34,141            | \$ 22,399,741                              |
| Highway Fund                                      | 1,196,955                                                | —                                          | —                                            | —                    | 1,196,955                                  |
| Highway Trust Fund                                | 1,075,170                                                | —                                          | —                                            | —                    | 1,075,170                                  |
| Other Governmental Funds:                         |                                                          |                                            |                                              |                      |                                            |
| Special Revenue Funds                             | 2,350,546                                                | —                                          | —                                            | —                    | 2,350,546                                  |
| Capital Projects Funds                            | 970,217                                                  | —                                          | —                                            | —                    | 970,217                                    |
| Permanent Funds                                   | 188,444                                                  | —                                          | —                                            | —                    | 188,444                                    |
| Total Governmental Funds                          | <u>28,146,932</u>                                        | <u>—</u>                                   | <u>—</u>                                     | <u>34,141</u>        | <u>28,181,073</u>                          |
| Internal Service Funds                            | 179,665                                                  | —                                          | —                                            | 8,109                | 187,774                                    |
| Government-wide adjustments:                      |                                                          |                                            |                                              |                      |                                            |
| Equity interest in component unit                 | 313,249                                                  | —                                          | —                                            | —                    | 313,249                                    |
| Capital assets                                    | 66,104,090                                               | 100,203                                    | —                                            | (35,178)             | 66,169,115                                 |
| Deferred losses on refundings                     | 25,974                                                   | —                                          | —                                            | —                    | 25,974                                     |
| Deferred gain on refundings                       | (5,428)                                                  | —                                          | —                                            | —                    | (5,428)                                    |
| Deferred outflows for pensions                    | 2,376,180                                                | —                                          | —                                            | —                    | 2,376,180                                  |
| Deferred inflows for pensions                     | (162,742)                                                | —                                          | —                                            | —                    | (162,742)                                  |
| Deferred outflows for OPEB                        | 1,192,295                                                | —                                          | —                                            | —                    | 1,192,295                                  |
| Deferred inflows for OPEB                         | (2,400,362)                                              | —                                          | —                                            | —                    | (2,400,362)                                |
| Unavailable revenue                               | 278,799                                                  | —                                          | —                                            | (3,828)              | 274,971                                    |
| Long-term liabilities                             | (16,290,014)                                             | —                                          | —                                            | 39,053               | (16,250,961)                               |
| Accrued interest payable                          | (28,590)                                                 | —                                          | —                                            | —                    | (28,590)                                   |
| Pension assets                                    | 15,327                                                   | —                                          | —                                            | —                    | 15,327                                     |
| Total Government-wide adjustments                 | <u>51,418,778</u>                                        | <u>100,203</u>                             | <u>—</u>                                     | <u>47</u>            | <u>51,519,028</u>                          |
| Total Governmental Activities                     | <u>\$ 79,745,375</u>                                     | <u>\$ 100,203</u>                          | <u>\$ —</u>                                  | <u>\$ 42,297</u>     | <u>\$ 79,887,875</u>                       |
| Business-type Activities - Enterprise Funds:      |                                                          |                                            |                                              |                      |                                            |
| Unemployment Compensation Fund                    | 4,434,540                                                | —                                          | —                                            | 124,164              | 4,558,704                                  |
| EPA Revolving Loan Fund                           | 2,191,099                                                | —                                          | —                                            | 29,847               | 2,220,946                                  |
| N.C. State Lottery Fund                           | (44,697)                                                 | —                                          | —                                            | —                    | (44,697)                                   |
| N.C. Turnpike Authority                           | 325,437                                                  | —                                          | —                                            | —                    | 325,437                                    |
| Other enterprise funds                            | 301,483                                                  | —                                          | —                                            | (296)                | 301,187                                    |
| Total Business-type Activities - Enterprise Funds | <u>\$ 7,207,862</u>                                      | <u>\$ —</u>                                | <u>\$ —</u>                                  | <u>\$ 153,715</u>    | <u>\$ 7,361,577</u>                        |
| Total Primary Government                          | <u>\$ 86,953,237</u>                                     | <u>\$ 100,203</u>                          | <u>\$ —</u>                                  | <u>\$ 196,012</u>    | <u>\$ 87,249,452</u>                       |

**NOTES TO THE FINANCIAL STATEMENTS**

|                                     | July 1, 2023<br>Fund Equity<br>as Previously<br>Reported | IG 2021-1<br>Section 5.1<br>Implementation | Other Changes<br>in Accounting<br>Principles | Other<br>Adjustments | July 1, 2023<br>Fund Equity<br>as Restated |
|-------------------------------------|----------------------------------------------------------|--------------------------------------------|----------------------------------------------|----------------------|--------------------------------------------|
| <b>Component Units</b>              |                                                          |                                            |                                              |                      |                                            |
| University of North Carolina System | 18,230,690                                               | 97,601                                     | 3,191                                        | 26,964               | 18,358,446                                 |
| Community Colleges                  | 3,793,172                                                | 51,389                                     | —                                            | (544)                | 3,844,017                                  |
| State Health Plan                   | 379,775                                                  | —                                          | —                                            | —                    | 379,775                                    |
| Other component units               | 3,783,339                                                | —                                          | —                                            | 3,550                | 3,786,889                                  |
| Total Component Units               | <u>\$ 26,186,976</u>                                     | <u>\$ 148,990</u>                          | <u>\$ 3,191</u>                              | <u>\$ 29,970</u>     | <u>\$ 26,369,127</u>                       |

**GASB Implementation Guide 2021-1, Section 5.1**

Adjustments reported in the “IG 2021-1 Section 5.1 Implementation” column are due to the State’s adoption of *GASB Implementation Guide 2021-1 Section 5.1*, as discussed in Note 2. Reporting entities with adjustments in this column restated groups of similar assets, whose individual costs were less than the established capitalization threshold, but in aggregate were significant. Capital assets, net of depreciation, were understated in the prior year by the adjustment amount. Expenses related to depreciation were understated and expenses related to capital outlay were overstated in prior periods based on the years impacted by restated grouped assets.

**Other Changes in Accounting Principles**

The University of North Carolina System was the only reporting entity that reported a change in accounting principle unrelated to the implementation of a GASB pronouncement. Effective June 30, 2024, the University of North Carolina – Greensboro (UNCG), implemented a preferred accounting principle for calculating bond premiums. UNCG’s change to the effective interest rate to maturity method will improve the accuracy of the financial reporting under *GASB Statement No. 62*. Previously, UNCG used the proportionate-to-stated interest method. Long-term liabilities, related to bonds payable, were restated and reduced by \$3.191 million due to this change, and expenses related to interest expense were overstated in the prior year by the same amount.

**Other Adjustments**

Amounts in the “Other Adjustments” column are primarily due to the correction of errors related to prior periods.

*Governmental Activities*General Fund

The General Fund reported \$34.141 million as “Other Adjustments.” These error corrections were reported at three different state agencies. The Department of Public Instruction reported a restatement in the amount of \$17.934 million for understated revenues in the prior fiscal year related to various federal education grants. The federal revenues were earned but not recorded, resulting in federal intergovernmental receivables being understated in the prior year by \$17.934 million and primary and secondary education operating grants and contributions being understated for the same amount on the statement of changes. The Department of Public Safety understated notes receivable in the prior year by \$10.565 million related to local government loans issued in 2020. Because the loans were not issued in the prior year, only the beginning net position on the statements of changes would be impacted in the prior year. The Office of the State Controller understated accounts receivable by \$5.642 million in the prior year related to the N.C. Flex program, which is a state-sponsored benefit program. As a result of the receivables being understated, general government expenses were overstated by the same amount on the statement of changes.

Internal Service Funds

Internal Service Funds reported a restatement of \$8.109 million related to overstated claims payable in the State Property Fire Insurance Fund for hurricane insurance claims to universities. General government expenses, representing claims expense, were overstated by the same amount in the prior year on the statement of changes.

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**NOTES TO THE FINANCIAL STATEMENTS**Government-wide

Capital assets reported (\$35.178) million as “Other Adjustments” related to various capital asset error corrections in prior periods in the State’s governmental funds. This adjustment is predominantly related to the Department of Transportation (DOT) overstating subscription assets in the prior year by \$46.496 million and the associated accumulated depreciation by \$10.266 million, with a net impact of (\$36.23) million. Capital outlay expense was understated by \$46.496 million and depreciation expense was overstated by \$10.266 million in the prior year’s statement of changes related to DOT overstating subscription assets. In addition to DOT’s capital asset overstatement, other State agencies reported various adjustments to capital assets in their governmental funds that had a net impact of understating capital assets in the amount of \$1.052 million.

Unavailable revenues were overstated in the prior year by \$3.828 million related to various types of governmental fund revenues that were not available to pay for current period expenditures in the prior period. Charges for services were overstated on the statement of changes in the prior year by the same amount.

Long-term liabilities were overstated by \$39.053 million mostly due to DOT overstating the subscription liability by \$39.919 million, which is consistent with DOT’s overstated subscription asset discussed in the paragraph above. Beginning net position was understated by \$39.053 in the prior year’s statement of changes. In addition to DOT’s overstatement, other State agencies reported various adjustments to long-term liabilities in their governmental funds that had a net impact of understating long-term liabilities in the amount of \$866 thousand.

*Business-type Activities*Unemployment Compensation Fund

The Unemployment Compensation Fund (UCF) reported a restatement in the amount of \$124.164 million related to unrecorded 2009 ARRA Modernization grant funds held at the United States Treasury. The UCF had not previously recorded these funds, believing in error that the unused funds would revert to the federal government. Cash was understated in the prior year by \$124.164 million and the beginning net position on the statement of changes in the prior year was understated by the same amount.

EPA Revolving Loan Fund

The EPA Revolving Loan Fund (EPA RLF) reported a restatement in the amount of \$29.847 million related to understated notes receivable in the prior year due to accrued loans not being recorded to notes receivable at the close of the fiscal year. EPA RLF expenses, made up of nonoperating grants, aid, and subsidies related to loans to local governments, were overstated on the statement of changes in the prior year for the same amount.

Other enterprise funds

Other enterprise funds reported restatements in the amount of (\$296) thousand, comprised of various restatements in the nonmajor enterprise funds. In the Workers’ Compensation Fund, claims payable were understated by \$293 thousand, a (\$293) thousand restatement, in the prior year, and insurance program expenses were understated by the same amount on the statement of changes. In the Departmental Funds, capital assets, net of depreciation, were understated by \$67 thousand in the prior year, a \$67 thousand restatement of net position, and other business-type expenses, comprised of an overstatement of capital outlay and an understatement of depreciation, were overstated by the same amount on the statement of changes. The USS North Carolina Battleship Commission reported a restatement in the amount of \$190 thousand related to a cumulative understatement for deferred outflows for pensions and OPEB related to periods earlier than the prior fiscal year. The beginning net position on the statement of changes for the prior year was understated by \$190. The State’s Occupational Licensing Boards reported an aggregate restatement of (\$260) thousand related to a combination of insignificant restatements reported in several of the occupational licensing boards.

*Component Units*University of North Carolina System

The University of North Carolina System (UNC System), which includes the various universities and entities identified in Note 1, along with the university foundations, reported an aggregate adjustment of \$26.964 million as “Other Adjustments” related to various error corrections and audit adjustments. The UNC System understated the following summary captions on the statement of net position in the prior year: capital assets-nondepreciable by \$14.7 million; capital assets-depreciable, net of accumulated depreciation, by \$14.42 million; and long-term liabilities-due in more than one year by \$1.314 million. The UNC System overstated the following net position captions in the prior year: other current and noncurrent assets by \$4.68 million; other current and noncurrent liabilities by \$3.825 million; and long-term liabilities-due within one year by \$13 thousand. Revenues were understated by \$4.477 million in the prior year, which included understatements for unrestricted investment earnings of \$2.746 million and various noncapital and capital gifts, grants and contributions of \$5.522 million. There were also overstated revenues in

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**NOTES TO THE FINANCIAL STATEMENTS**

the prior year for charges for services of \$1.149 million and \$2.642 million for miscellaneous general revenue. In addition, expenses were understated in the prior year by \$1.586 million, resulting in a net \$2.891 million increase in the statement of changes in the prior year. The beginning net position was also understated by \$24.073 million for corrections related to periods earlier than the prior year fiscal year.

Community Colleges

Community Colleges, which includes 58 community colleges as described in Note 1, along with the college foundations, reported an aggregate adjustment of (\$544) thousand as “Other Adjustments” related to various corrections and audit adjustments. Community Colleges understated the following summary captions on the statement of net position in the prior year: capital assets-nondepreciable by \$126 thousand; capital assets-depreciable, net of accumulated depreciation, by \$2.631 million; deferred outflows for pension and OPEB by \$1.13 million; other current and noncurrent liabilities by \$3.018 million; and long-term liabilities – due within one year by \$823 thousand. Community Colleges overstated the following summary captions on the statement of net position in the prior year: other current and noncurrent assets by \$1.162 million; long-term liabilities – due in more than one year by \$549 thousand; and deferred inflows for lease agreements by \$23 thousand. Revenues were understated by \$213 thousand in the prior year, which included understatements of unrestricted investment earnings by \$3.186 million and various noncapital and capital gifts, grants and contributions by \$364 thousand. There was also an overstatement in revenue of \$3.337 million for charges for services and miscellaneous revenue. The beginning net position on the prior year’s statement of changes was also overstated by \$757 thousand.

Other component units

Other component units, which make up other discretely presented component units as described in Note 1, reported an aggregate adjustment of \$3.55 million as “Other Adjustments” related to various error corrections and audit adjustment. The North Carolina Global TransPark Authority reported a restatement in the amount of (\$1.777) million related to various understated liabilities in the prior year, and expenses were understated by the same amount. The State Education Assistance Authority reported a restatement of (\$500) thousand related to understating payables and therefore expenses by the same amount in the prior year. The North Carolina Partnership for Children, Inc. reported a (\$3) thousand restatement related to overstating a subscription asset and understating expenses. The Golden LEAF Foundation reported a restatement in the amount of \$5.83 million related to understating investments in the prior year due to an adjustment in their investment portfolio related to fair market valuations. Unrestricted investment earnings were also understated for the same amount.



NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Equity Deficit

Primary Government

At June 30, 2024, the following internal service funds reported a net position deficit: Mail Service Center, \$1.5 million; Computing Services, \$41.2 million.

At June 30, 2024, the following nonmajor enterprise fund reported a net position deficit: Utilities Commission, \$15.65 million.

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 25: SUBSEQUENT EVENTS****Primary Government****A. Disaster Relief***Hurricane Helene*

In September 2024, Hurricane Helene brought high winds, widespread heavy rainfall in excess of 30 inches in some areas, record flooding, and significant loss of human life and property in western North Carolina. At its peak, Hurricane Helene was a Category 4 storm with winds reaching 140 mph. With record-breaking rainfall that created 1,000-year flood events in several counties, it devastated the people, infrastructure, businesses, and schools of entire communities. Countless homes, buildings, roads, bridges, and properties were destroyed or damaged, and entire communities lost power, water, sewer, communication, and other essential services due to devastation. In addition, tornadoes were generated across the State as Hurricane Helene passed, causing significant damage in areas outside of the storm's immediate path. Hurricane Helene resulted in 103 confirmed fatalities. On September 28, 2024, 25 counties in North Carolina were declared a major disaster by the President of the United States under the Stafford Act, approving individual and public assistance for affected counties.

On October 10, 2024, "The Disaster Recovery Act of 2024" (Session Law 2024-51) was approved, and the Helene Fund was established to provide necessary and appropriate relief and assistance from the effects of Hurricane Helene. The Office of State Budget and Management (OSBM) is administering the Helene Fund. On October 16, 2024, the Office of the State Controller (OSC) transferred \$273 million from the Savings Reserve to the Helene Fund. Amounts are appropriated within the Helene Fund for the duration of the recovery efforts for the following:

- 1) \$250 million to the Department of Public Safety (DPS), Division of Emergency Management, to provide the State match for federal disaster assistance programs for State agencies and units of local governments;
- 2) \$16 million to the Department of Public Instruction (DPI) to supplement or replace lost compensation of school nutrition employees due to school closures resulting from Hurricane Helene;
- 3) \$2 million for the OSBM to provide grants to the North Carolina League of Municipalities, the North Carolina Association of County Commissioners, and the North Carolina Association of Regional Councils of Governments to provide technical assistance with local recovery funds; and
- 4) \$5 million to the State Board of Elections to facilitate voting in the counties listed in the act.

On October 25, 2024, "The Disaster Recovery Act of 2024 – Part II" (Session Law 2024-53) was approved and provides additional necessary relief and assistance from the effects of Hurricane Helene. On November 13, 2024, OSC transferred \$604.15 million from the Savings Reserve to the Helene Fund. Amounts are appropriated within the Helene Fund for the duration of the recovery efforts for the following:

- 1) Education: \$16.75 million to the North Carolina Community College System, \$65 million to DPI, and \$20 million to the University of North Carolina;
- 2) Health and Human Services: \$71.4 million to the Department of Health and Human Services;
- 3) Agriculture, Natural, and Economic Resources: \$56 million to the Department of Commerce and \$139 million to the Department of Environmental Quality (DEQ);
- 4) Justice and Public Safety: \$130 million to DPS; and
- 5) General Government: \$5.5 million to OSBM and \$100.5 million to the Department of State Treasurer (DST).

On December 11, 2024, "The Disaster Recovery Act of 2024 – Part III" (Session Law 2024-57) was approved and provides additional necessary relief and assistance from the effects of Hurricane Helene. OSC will transfer \$227 million from the Savings Reserve to the Helene Fund and the funds will remain unspent until appropriated by an act of the General Assembly. Amounts will be appropriated and used as follows:

**NOTES TO THE FINANCIAL STATEMENTS**

- 1) Department of Agriculture and Consumer Services - \$25 million from the State Emergency Response and Disaster Relief Fund (SERDRF) to the Helene Fund to the Department of Agriculture and Consumer Services for purposes in the affected area authorized under the Streamflow Rehabilitation Assistance Program;
- 2) DEQ - \$100 million funds appropriated from the Helene Funds to DEQ to be used consistently with the loan program established in Section 4C.7.(a) of Part III and cognizant of the emergency relief related objectives underlying G.S. 159G-33(a)(4) and G.S. 159G-34(a)(4);
- 3) DST - \$100 million funds appropriated to be used to provide cash flow loans to local governments in the affected area as established in Section 4E.5.(a) of Part III; and
- 4) Department of Agriculture and Consumer Services - \$2 million nonrecurring funds to be used for purposes in the affected area authorized under the Streamflow Rehabilitation Assistance Program created by Article 6 Chapter 139 of the General Statutes.

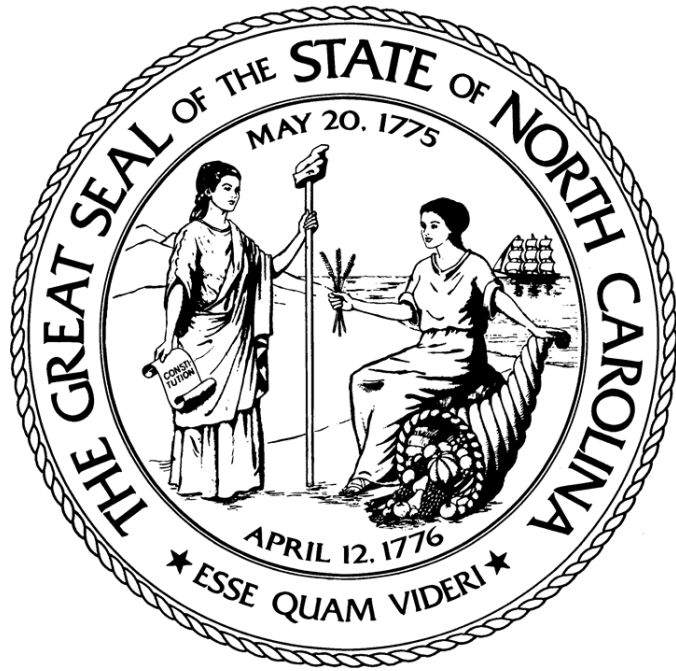
*Tropical Storm Debby*

In August 2024, Tropical Storm Debby brought wind gusts, heavy rainfall, and flooding to southeastern North Carolina. On October 25, 2024, “The Disaster Recovery Act of 2024 – Part II” was approved and provides necessary relief and assistance from the effects of Potential Tropical Cyclones (PTCS) and Tropical Storm Debby. On November 13, 2024, OSC transferred \$40 million from the Savings Reserve to the OSBM Disaster Relief Reserve. Amounts are appropriated within the OSBM Disaster Relief Reserve to DPS for justice and public safety.

*Rebuild NC Program*

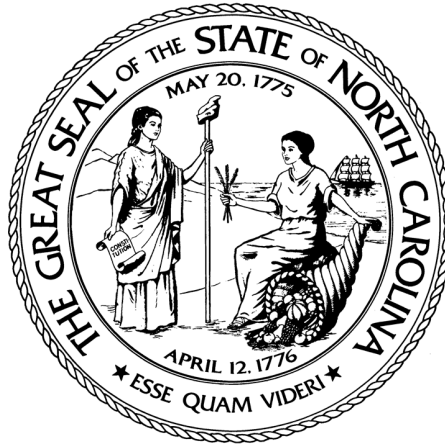
On December 11, 2024, “The Disaster Recovery Act of 2024 – Part III” (Session Law 2024-57) was approved. OSC will transfer \$50 million from the SERDRF to the OSBM Disaster Relief Reserve for allocation to the Office of Recovery and Resiliency to support homeowner recovery projects under the Rebuild NC program for the 2024-2025 fiscal year.

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# REQUIRED SUPPLEMENTARY INFORMATION

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## REQUIRED SUPPLEMENTARY INFORMATION

### PENSION PLANS

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*Required supplementary information for pension plans provides information on the sources of changes in net pension liabilities, information about the components of net pension liabilities, employer contributions, and investment returns.*

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The Required Supplementary Information for Pension Plans includes the following schedules:

Schedule of Changes in the Net Pension Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Changes in the Net Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Single-Employer, Defined Benefit Pension Plans

Schedule of Investment Returns: All Defined Benefit Pension Plans

Notes to Required Supplementary Information: Schedule of Employer Contributions

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

|                                                                                   | 2024                  | 2023                 | 2022                 | 2021                 | 2020                 |
|-----------------------------------------------------------------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Teachers' and State Employees'</b>                                             |                       |                      |                      |                      |                      |
| <b>Total pension liability</b>                                                    |                       |                      |                      |                      |                      |
| Service Cost                                                                      | \$ 2,032,765          | \$ 1,932,122         | \$ 1,918,712         | \$ 1,906,954         | \$ 1,851,058         |
| Interest                                                                          | 6,311,991             | 6,027,474            | 5,874,188            | 5,857,546            | 5,663,045            |
| Changes of benefit terms                                                          | -                     | 213,711              | 205,169              | -                    | -                    |
| Differences between expected and actual experience                                | 643,699               | 1,812,215            | (175,206)            | (141,796)            | 258,502              |
| Changes of assumptions                                                            | -                     | -                    | -                    | 2,341,992            | -                    |
| Benefit payments, including refunds of member contributions                       | (5,783,536)           | (5,636,727)          | (5,324,253)          | (5,055,075)          | (4,934,999)          |
| <b>Net change in total pension liability</b>                                      | <u>3,204,919</u>      | <u>4,348,795</u>     | <u>2,498,610</u>     | <u>4,909,621</u>     | <u>2,837,606</u>     |
| <b>Total pension liability - beginning</b>                                        | <u>97,921,027</u>     | <u>93,572,232</u>    | <u>91,073,622</u>    | <u>86,164,001</u>    | <u>83,326,395</u>    |
| <b>Total pension liability - ending (a)</b>                                       | <u>\$ 101,125,946</u> | <u>\$ 97,921,027</u> | <u>\$ 93,572,232</u> | <u>\$ 91,073,622</u> | <u>\$ 86,164,001</u> |
| <b>Plan fiduciary net position</b>                                                |                       |                      |                      |                      |                      |
| Contributions-employer                                                            | \$ 3,212,327          | \$ 3,034,897         | \$ 2,761,946         | \$ 2,373,252         | \$ 2,055,075         |
| Contributions-member                                                              | 1,106,850             | 1,059,460            | 1,030,635            | 981,051              | 964,544              |
| Net investment income                                                             | 6,541,442             | 4,075,935            | (6,118,110)          | 14,023,684           | 3,050,585            |
| Benefit payments, including refunds of member contributions                       | (5,783,536)           | (5,636,727)          | (5,324,253)          | (5,055,075)          | (4,934,999)          |
| Administrative expense                                                            | (16,461)              | (16,093)             | (13,945)             | (13,870)             | (12,910)             |
| Other                                                                             | (398)                 | 1,578                | 2,700                | (25)                 | 271                  |
| <b>Net change in plan fiduciary net position</b>                                  | <u>5,060,224</u>      | <u>2,519,050</u>     | <u>(7,661,027)</u>   | <u>12,309,017</u>    | <u>1,122,566</u>     |
| <b>Plan fiduciary net position - beginning</b>                                    | <u>81,249,054</u>     | <u>78,730,004</u>    | <u>86,391,031</u>    | <u>74,082,014</u>    | <u>72,959,448</u>    |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <u>\$ 86,309,278</u>  | <u>\$ 81,249,054</u> | <u>\$ 78,730,004</u> | <u>\$ 86,391,031</u> | <u>\$ 74,082,014</u> |
| <b>TSERS's net pension liability - ending (a) - (b)</b>                           | <u>\$ 14,816,668</u>  | <u>\$ 16,671,973</u> | <u>\$ 14,842,228</u> | <u>\$ 4,682,591</u>  | <u>\$ 12,081,987</u> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | 85.35%                | 82.97%               | 84.14%               | 94.86%               | 85.98%               |
| <b>Covered payroll</b>                                                            | \$ 18,210,471         | \$ 17,462,008        | \$ 16,861,697        | \$ 16,057,185        | \$ 15,844,834        |
| <b>Net pension liability as a percentage of covered payroll</b>                   | 81.36%                | 95.48%               | 88.02%               | 29.16%               | 76.25%               |
| <b>Local Governmental Employees'</b>                                              |                       |                      |                      |                      |                      |
| <b>Total pension liability</b>                                                    |                       |                      |                      |                      |                      |
| Service Cost                                                                      | \$ 999,460            | \$ 917,160           | \$ 904,200           | \$ 876,765           | \$ 841,148           |
| Interest                                                                          | 2,462,586             | 2,312,550            | 2,225,081            | 2,139,954            | 2,037,306            |
| Changes of benefit terms                                                          | -                     | -                    | 33,159               | -                    | -                    |
| Differences between expected and actual experience                                | 984,929               | 885,328              | (31,778)             | 296,054              | 177,954              |
| Changes of assumptions                                                            | -                     | -                    | -                    | 1,125,778            | -                    |
| Benefit payments, including refunds of member contributions                       | (1,913,522)           | (1,865,415)          | (1,732,564)          | (1,630,148)          | (1,551,217)          |
| <b>Net change in total pension liability</b>                                      | <u>2,533,453</u>      | <u>2,249,623</u>     | <u>1,398,098</u>     | <u>2,808,403</u>     | <u>1,505,191</u>     |
| <b>Total pension liability - beginning</b>                                        | <u>37,828,184</u>     | <u>35,578,561</u>    | <u>34,180,463</u>    | <u>31,372,060</u>    | <u>29,866,869</u>    |
| <b>Total pension liability - ending (a)</b>                                       | <u>\$ 40,361,637</u>  | <u>\$ 37,828,184</u> | <u>\$ 35,578,561</u> | <u>\$ 34,180,463</u> | <u>\$ 31,372,060</u> |
| <b>Plan fiduciary net position</b>                                                |                       |                      |                      |                      |                      |
| Contributions-employer                                                            | \$ 1,215,459          | \$ 1,050,570         | \$ 880,449           | \$ 745,308           | \$ 640,969           |
| Contributions-member                                                              | 574,906               | 524,830              | 477,001              | 453,112              | 436,754              |
| Net investment income                                                             | 2,542,400             | 1,561,729            | (2,331,589)          | 5,283,300            | 1,139,009            |
| Benefit payments, including refunds of member contributions                       | (1,913,522)           | (1,865,415)          | (1,732,564)          | (1,630,148)          | (1,551,217)          |
| Administrative expense                                                            | (6,784)               | (6,407)              | (5,415)              | (5,295)              | (4,889)              |
| Other                                                                             | 2,610                 | 2,657                | 2,384                | 1,956                | 2,061                |
| <b>Net change in plan fiduciary net position</b>                                  | <u>2,415,069</u>      | <u>1,267,964</u>     | <u>(2,709,734)</u>   | <u>4,848,233</u>     | <u>662,687</u>       |
| <b>Plan fiduciary net position - beginning</b>                                    | <u>31,205,097</u>     | <u>29,937,133</u>    | <u>32,646,867</u>    | <u>27,798,634</u>    | <u>27,135,947</u>    |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <u>\$ 33,620,166</u>  | <u>\$ 31,205,097</u> | <u>\$ 29,937,133</u> | <u>\$ 32,646,867</u> | <u>\$ 27,798,634</u> |
| <b>LGERS's net pension liability - ending (a) - (b)</b>                           | <u>\$ 6,741,471</u>   | <u>\$ 6,623,087</u>  | <u>\$ 5,641,428</u>  | <u>\$ 1,533,596</u>  | <u>\$ 3,573,426</u>  |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | 83.30%                | 82.49%               | 84.14%               | 95.51%               | 88.61%               |
| <b>Covered payroll</b>                                                            | \$ 9,236,011          | \$ 8,479,177         | \$ 7,570,499         | \$ 7,166,423         | \$ 6,914,444         |
| <b>Net pension liability as a percentage of covered payroll</b>                   | 72.99%                | 78.11%               | 74.52%               | 21.40%               | 51.68%               |



| 2019          | 2018          | 2017          | 2016          | 2015          |
|---------------|---------------|---------------|---------------|---------------|
| \$ 1,782,475  | \$ 1,630,323  | \$ 1,469,395  | \$ 1,580,544  | \$ 1,562,846  |
| 5,460,427     | 5,281,004     | 5,195,104     | 4,937,464     | 4,803,766     |
| -             | 44,339        | 449,563       | 35,605        | -             |
| 535,860       | 815,911       | 229,339       | (190,178)     | (278,170)     |
| -             | 1,637,700     | 381,934       | 1,743,836     | -             |
| (4,835,144)   | (4,666,391)   | (4,545,296)   | (4,339,637)   | (4,184,410)   |
| 2,943,618     | 4,742,886     | 3,180,039     | 3,767,634     | 1,904,032     |
| 80,382,777    | 75,639,891    | 72,459,852    | 68,692,218    | 66,788,186    |
| \$ 83,326,395 | \$ 80,382,777 | \$ 75,639,891 | \$ 72,459,852 | \$ 68,692,218 |
| \$ 1,915,146  | \$ 1,602,901  | \$ 1,441,194  | \$ 1,275,003  | \$ 1,262,988  |
| 951,566       | 910,797       | 894,538       | 864,151       | 854,306       |
| 4,514,117     | 4,885,354     | 6,656,652     | 472,174       | 1,468,624     |
| (4,835,144)   | (4,666,391)   | (4,545,296)   | (4,339,637)   | (4,184,410)   |
| (11,815)      | (11,604)      | (11,265)      | (10,217)      | (10,646)      |
| (1,120)       | 181           | 808           | 325           | 393           |
| 2,532,750     | 2,721,238     | 4,436,631     | (1,738,201)   | (608,745)     |
| 70,426,698    | 67,705,460    | 63,268,829    | 65,007,030    | 65,615,775    |
| \$ 72,959,448 | \$ 70,426,698 | \$ 67,705,460 | \$ 63,268,829 | \$ 65,007,030 |
| \$ 10,366,947 | \$ 9,956,079  | \$ 7,934,431  | \$ 9,191,023  | \$ 3,685,188  |
| 87.56%        | 87.61%        | 89.51%        | 87.32%        | 94.64%        |
| \$ 15,582,963 | \$ 14,869,212 | \$ 14,440,822 | \$ 13,934,459 | \$ 13,803,148 |
| 66.53%        | 66.96%        | 54.94%        | 65.96%        | 26.70%        |
| \$ 798,120    | \$ 713,227    | \$ 656,231    | \$ 684,288    | \$ 670,936    |
| 1,934,144     | 1,838,989     | 1,803,590     | 1,707,699     | 1,628,373     |
| -             | -             | -             | 12,581        | 65,914        |
| 252,859       | 378,665       | 73,083        | 50,205        | (72,177)      |
| -             | 595,781       | 138,096       | 183,019       | -             |
| (1,472,856)   | (1,402,793)   | (1,322,277)   | (1,251,918)   | (1,172,578)   |
| 1,512,267     | 2,123,869     | 1,348,723     | 1,385,874     | 1,120,468     |
| 28,354,602    | 26,230,733    | 24,882,010    | 23,496,136    | 22,375,668    |
| \$ 29,866,869 | \$ 28,354,602 | \$ 26,230,733 | \$ 24,882,010 | \$ 23,496,136 |
| \$ 534,107    | \$ 492,317    | \$ 461,329    | \$ 414,168    | \$ 408,694    |
| 420,437       | 401,632       | 391,459       | 375,572       | 363,863       |
| 1,675,331     | 1,789,337     | 2,413,758     | 175,189       | 520,578       |
| (1,472,856)   | (1,402,793)   | (1,322,277)   | (1,251,918)   | (1,172,578)   |
| (4,634)       | (4,324)       | (4,264)       | (3,926)       | (4,086)       |
| 1,302         | 3,081         | 3,330         | 3,248         | 3,285         |
| 1,153,687     | 1,279,250     | 1,943,335     | (287,667)     | 119,756       |
| 25,982,260    | 24,703,010    | 22,759,675    | 23,047,342    | 22,927,586    |
| \$ 27,135,947 | \$ 25,982,260 | \$ 24,703,010 | \$ 22,759,675 | \$ 23,047,342 |
| \$ 2,730,922  | \$ 2,372,342  | \$ 1,527,723  | \$ 2,122,335  | \$ 448,794    |
| 90.86%        | 91.63%        | 94.18%        | 91.47%        | 98.09%        |
| \$ 6,665,378  | \$ 6,368,275  | \$ 6,192,808  | \$ 5,860,574  | \$ 5,650,694  |
| 40.97%        | 37.25%        | 24.67%        | 36.21%        | 7.94%         |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

|                                                                                   | 2024               | 2023               | 2022               | 2021               | 2020               |
|-----------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Firefighters' and Rescue Squad Workers'</b>                                    |                    |                    |                    |                    |                    |
| <b>Total pension liability</b>                                                    |                    |                    |                    |                    |                    |
| Service Cost                                                                      | \$ 7,230           | \$ 7,357           | \$ 7,262           | \$ 7,675           | \$ 7,733           |
| Interest                                                                          | 32,342             | 32,031             | 32,013             | 33,116             | 32,500             |
| Changes of benefit terms                                                          | -                  | -                  | -                  | -                  | -                  |
| Differences between expected and actual experience                                | (1,153)            | (3,381)            | (8,484)            | (4,881)            | (1,376)            |
| Changes of assumptions                                                            | -                  | -                  | -                  | 6,525              | -                  |
| Benefit payments, including refunds of member contributions                       | (31,298)           | (30,876)           | (30,369)           | (30,147)           | (29,953)           |
| <b>Net change in total pension liability</b>                                      | <b>7,121</b>       | <b>5,131</b>       | <b>422</b>         | <b>12,288</b>      | <b>8,904</b>       |
| <b>Total pension liability - beginning</b>                                        | <b>505,749</b>     | <b>500,618</b>     | <b>500,196</b>     | <b>487,908</b>     | <b>479,004</b>     |
| <b>Total pension liability - ending (a)</b>                                       | <b>\$ 512,870</b>  | <b>\$ 505,749</b>  | <b>\$ 500,618</b>  | <b>\$ 500,196</b>  | <b>\$ 487,908</b>  |
| <b>Plan fiduciary net position</b>                                                |                    |                    |                    |                    |                    |
| Contributions-member                                                              | \$ 2,571           | \$ 2,471           | \$ 2,318           | \$ 2,569           | \$ 2,581           |
| Contributions-nonemployer                                                         | 20,052             | 19,702             | 19,352             | 19,002             | 18,652             |
| Net investment income                                                             | 40,231             | 25,008             | (37,515)           | 85,952             | 18,593             |
| Benefit payments, including refunds of member contributions                       | (31,298)           | (30,876)           | (30,369)           | (30,147)           | (29,953)           |
| Administrative expense                                                            | (1,004)            | (844)              | (975)              | (987)              | (885)              |
| Other                                                                             | 18                 | 23                 | 18                 | 15                 | 14                 |
| <b>Net change in plan fiduciary net position</b>                                  | <b>30,570</b>      | <b>15,484</b>      | <b>(47,171)</b>    | <b>76,404</b>      | <b>9,002</b>       |
| <b>Plan fiduciary net position - beginning</b>                                    | <b>496,440</b>     | <b>480,956</b>     | <b>528,127</b>     | <b>451,723</b>     | <b>442,721</b>     |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <b>\$ 527,010</b>  | <b>\$ 496,440</b>  | <b>\$ 480,956</b>  | <b>\$ 528,127</b>  | <b>\$ 451,723</b>  |
| <b>FRSWPF's net pension liability (asset) - ending (a) - (b)</b>                  | <b>\$ (14,140)</b> | <b>\$ 9,309</b>    | <b>\$ 19,662</b>   | <b>\$ (27,931)</b> | <b>\$ 36,185</b>   |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>102.76%</b>     | <b>98.16%</b>      | <b>96.07%</b>      | <b>105.58%</b>     | <b>92.58%</b>      |
| <b>Covered payroll</b>                                                            | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         |
| <b>Net pension liability (asset) as a percentage of covered payroll</b>           | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         |
| <b>Registers of Deeds'</b>                                                        |                    |                    |                    |                    |                    |
| <b>Total pension liability</b>                                                    |                    |                    |                    |                    |                    |
| Service Cost                                                                      | \$ 1,198           | \$ 1,151           | \$ 1,107           | \$ 1,120           | \$ 1,125           |
| Interest                                                                          | 1,016              | 1,025              | 1,025              | 1,134              | 1,122              |
| Differences between expected and actual experience                                | 380                | (618)              | (360)              | 308                | (124)              |
| Changes of assumptions                                                            | -                  | -                  | -                  | 2,101              | -                  |
| Benefit payments, including refunds of member contributions                       | (1,932)            | (1,850)            | (1,844)            | (1,802)            | (1,788)            |
| <b>Net change in total pension liability</b>                                      | <b>662</b>         | <b>(292)</b>       | <b>(72)</b>        | <b>2,861</b>       | <b>335</b>         |
| <b>Total pension liability - beginning</b>                                        | <b>33,626</b>      | <b>33,918</b>      | <b>33,990</b>      | <b>31,129</b>      | <b>30,794</b>      |
| <b>Total pension liability - ending (a)</b>                                       | <b>\$ 34,288</b>   | <b>\$ 33,626</b>   | <b>\$ 33,918</b>   | <b>\$ 33,990</b>   | <b>\$ 31,129</b>   |
| <b>Plan fiduciary net position</b>                                                |                    |                    |                    |                    |                    |
| Contributions-employer                                                            | \$ 860             | \$ 892             | \$ 1,146           | \$ 1,200           | \$ 958             |
| Net investment income                                                             | 1,261              | (537)              | (5,334)            | (228)              | 4,353              |
| Benefit payments, including refunds of member contributions                       | (1,932)            | (1,850)            | (1,844)            | (1,802)            | (1,788)            |
| Administrative expense                                                            | (21)               | (20)               | (13)               | (14)               | (12)               |
| <b>Net change in plan fiduciary net position</b>                                  | <b>168</b>         | <b>(1,515)</b>     | <b>(6,045)</b>     | <b>(844)</b>       | <b>3,511</b>       |
| <b>Plan fiduciary net position - beginning</b>                                    | <b>45,643</b>      | <b>47,158</b>      | <b>53,203</b>      | <b>54,047</b>      | <b>50,536</b>      |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <b>\$ 45,811</b>   | <b>\$ 45,643</b>   | <b>\$ 47,158</b>   | <b>\$ 53,203</b>   | <b>\$ 54,047</b>   |
| <b>RODSPF's net pension asset - ending (a) - (b)</b>                              | <b>\$ (11,523)</b> | <b>\$ (12,017)</b> | <b>\$ (13,240)</b> | <b>\$ (19,213)</b> | <b>\$ (22,918)</b> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>133.61%</b>     | <b>135.74%</b>     | <b>139.04%</b>     | <b>156.53%</b>     | <b>173.62%</b>     |
| <b>Covered payroll</b>                                                            | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         |
| <b>Net pension asset as a percentage of covered payroll</b>                       | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>         |

| 2019               | 2018               | 2017               | 2016               | 2015               |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$ 7,640           | \$ 7,542           | \$ 4,841           | \$ 5,610           | \$ 5,884           |
| 32,140             | 31,686             | 31,475             | 30,035             | 29,671             |
| -                  | -                  | -                  | 118                | -                  |
| (4,922)            | (121)              | 2,048              | (2,177)            | (2,799)            |
| -                  | 10,593             | 2,549              | 15,577             | -                  |
| (29,502)           | (31,727)           | (29,070)           | (27,998)           | (26,912)           |
| 5,356              | 17,973             | 11,843             | 21,165             | 5,844              |
| 473,648            | 455,675            | 443,832            | 422,667            | 416,823            |
| <u>\$ 479,004</u>  | <u>\$ 473,648</u>  | <u>\$ 455,675</u>  | <u>\$ 443,832</u>  | <u>\$ 422,667</u>  |
| \$ 2,770           | \$ 2,790           | \$ 2,594           | \$ 2,778           | \$ 2,822           |
| 18,302             | 17,952             | 17,602             | 13,900             | 13,900             |
| 27,363             | 29,505             | 39,928             | 2,867              | 8,711              |
| (29,502)           | (31,727)           | (29,070)           | (27,998)           | (26,912)           |
| (1,002)            | (885)              | (919)              | (860)              | (1,622)            |
| (18)               | 10                 | 15                 | 18                 | 4                  |
| 17,913             | 17,645             | 30,150             | (9,295)            | (3,097)            |
| 424,808            | 407,163            | 377,013            | 386,308            | 389,405            |
| <u>\$ 442,721</u>  | <u>\$ 424,808</u>  | <u>\$ 407,163</u>  | <u>\$ 377,013</u>  | <u>\$ 386,308</u>  |
| <u>\$ 36,283</u>   | <u>\$ 48,840</u>   | <u>\$ 48,512</u>   | <u>\$ 66,819</u>   | <u>\$ 36,359</u>   |
| 92.43%             | 89.69%             | 89.35%             | 84.94%             | 91.40%             |
| N/A                | N/A                | N/A                | N/A                | N/A                |
| N/A                | N/A                | N/A                | N/A                | N/A                |
| \$ 1,117           | \$ 1,086           | \$ 860             | \$ 579             | \$ 578             |
| 1,133              | 1,157              | 1,164              | 1,354              | 1,372              |
| (770)              | (1,125)            | 440                | (45)               | (558)              |
| -                  | -                  | -                  | 7,082              | -                  |
| (1,754)            | (1,793)            | (1,793)            | (1,718)            | (1,715)            |
| (274)              | (675)              | 671                | 7,252              | (323)              |
| 31,068             | 31,743             | 31,072             | 23,820             | 24,143             |
| <u>\$ 30,794</u>   | <u>\$ 31,068</u>   | <u>\$ 31,743</u>   | <u>\$ 31,072</u>   | <u>\$ 23,820</u>   |
| \$ 950             | \$ 856             | \$ 869             | \$ 817             | \$ 802             |
| 3,721              | (230)              | (13)               | 3,722              | 1,114              |
| (1,754)            | (1,793)            | (1,793)            | (1,718)            | (1,715)            |
| (12)               | (14)               | (19)               | (47)               | (16)               |
| 2,905              | (1,181)            | (956)              | 2,774              | 185                |
| 47,631             | 48,812             | 49,768             | 46,994             | 46,809             |
| <u>\$ 50,536</u>   | <u>\$ 47,631</u>   | <u>\$ 48,812</u>   | <u>\$ 49,768</u>   | <u>\$ 46,994</u>   |
| <u>\$ (19,742)</u> | <u>\$ (16,563)</u> | <u>\$ (17,069)</u> | <u>\$ (18,696)</u> | <u>\$ (23,174)</u> |
| 164.11%            | 153.31%            | 153.77%            | 160.17%            | 197.29%            |
| N/A                | N/A                | N/A                | N/A                | N/A                |
| N/A                | N/A                | N/A                | N/A                | N/A                |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

|                                                                                   | 2024              | 2023              | 2022              | 2021              | 2020              |
|-----------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Consolidated Judicial</b>                                                      |                   |                   |                   |                   |                   |
| <b>Total pension liability</b>                                                    |                   |                   |                   |                   |                   |
| Service Cost                                                                      | \$ 16,220         | \$ 15,796         | \$ 14,320         | \$ 19,545         | \$ 18,869         |
| Interest                                                                          | 56,527            | 53,741            | 51,397            | 49,700            | 48,149            |
| Changes of benefit terms                                                          | -                 | 2,197             | 2,127             | -                 | -                 |
| Differences between expected and actual experience                                | 31,620            | 29,934            | 22,417            | 2,451             | 4,583             |
| Changes of assumptions                                                            | -                 | -                 | -                 | 46,622            | -                 |
| Benefit payments, including refunds of member contributions                       | (60,931)          | (57,587)          | (53,819)          | (50,001)          | (48,920)          |
| <b>Net change in total pension liability</b>                                      | <b>43,436</b>     | <b>44,081</b>     | <b>36,442</b>     | <b>68,317</b>     | <b>22,681</b>     |
| <b>Total pension liability - beginning</b>                                        | <b>883,416</b>    | <b>839,335</b>    | <b>802,893</b>    | <b>734,576</b>    | <b>711,895</b>    |
| <b>Total pension liability - ending (a)</b>                                       | <b>\$ 926,852</b> | <b>\$ 883,416</b> | <b>\$ 839,335</b> | <b>\$ 802,893</b> | <b>\$ 734,576</b> |
| <b>Plan fiduciary net position</b>                                                |                   |                   |                   |                   |                   |
| Contributions-employer                                                            | \$ 35,574         | \$ 34,952         | \$ 33,428         | \$ 29,259         | \$ 26,637         |
| Contributions-member                                                              | 6,715             | 6,103             | 5,470             | 5,585             | 5,224             |
| Net investment income                                                             | 54,594            | 34,201            | (51,610)          | 118,772           | 25,923            |
| Benefit payments, including refunds of member contributions                       | (60,931)          | (57,587)          | (53,819)          | (50,001)          | (48,920)          |
| Administrative expense                                                            | (43)              | (71)              | (29)              | (34)              | (27)              |
| Other                                                                             | 100               | -                 | 4                 | -                 | -                 |
| <b>Net change in plan fiduciary net position</b>                                  | <b>36,009</b>     | <b>17,598</b>     | <b>(66,556)</b>   | <b>103,581</b>    | <b>8,837</b>      |
| <b>Plan fiduciary net position - beginning</b>                                    | <b>682,362</b>    | <b>664,764</b>    | <b>731,320</b>    | <b>627,739</b>    | <b>618,902</b>    |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <b>\$ 718,371</b> | <b>\$ 682,362</b> | <b>\$ 664,764</b> | <b>\$ 731,320</b> | <b>\$ 627,739</b> |
| <b>CJRS's net pension liability - ending (a) - (b)</b>                            | <b>\$ 208,481</b> | <b>\$ 201,054</b> | <b>\$ 174,571</b> | <b>\$ 71,573</b>  | <b>\$ 106,837</b> |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>77.51%</b>     | <b>77.24%</b>     | <b>79.20%</b>     | <b>91.09%</b>     | <b>85.46%</b>     |
| <b>Covered payroll</b>                                                            | <b>\$ 100,833</b> | <b>\$ 87,489</b>  | <b>\$ 83,528</b>  | <b>\$ 80,294</b>  | <b>\$ 79,277</b>  |
| <b>Net pension liability as a percentage of covered payroll</b>                   | <b>206.76%</b>    | <b>229.80%</b>    | <b>209.00%</b>    | <b>89.14%</b>     | <b>134.76%</b>    |
| <b>Legislative</b>                                                                |                   |                   |                   |                   |                   |
| <b>Total pension liability</b>                                                    |                   |                   |                   |                   |                   |
| Service Cost                                                                      | \$ 798            | \$ 797            | \$ 796            | \$ 1,034          | \$ 1,058          |
| Interest                                                                          | 1,948             | 1,933             | 1,925             | 2,053             | 2,051             |
| Changes of benefit terms                                                          | -                 | 94                | 94                | -                 | -                 |
| Differences between expected and actual experience                                | (57)              | (92)              | (281)             | (815)             | (617)             |
| Changes of assumptions                                                            | -                 | -                 | -                 | (353)             | -                 |
| Benefit payments, including refunds of member contributions                       | (2,557)           | (2,449)           | (2,358)           | (2,516)           | (2,388)           |
| <b>Net change in total pension liability</b>                                      | <b>132</b>        | <b>283</b>        | <b>176</b>        | <b>(597)</b>      | <b>104</b>        |
| <b>Total pension liability - beginning</b>                                        | <b>30,433</b>     | <b>30,150</b>     | <b>29,974</b>     | <b>30,571</b>     | <b>30,467</b>     |
| <b>Total pension liability - ending (a)</b>                                       | <b>\$ 30,565</b>  | <b>\$ 30,433</b>  | <b>\$ 30,150</b>  | <b>\$ 29,974</b>  | <b>\$ 30,571</b>  |
| <b>Plan fiduciary net position</b>                                                |                   |                   |                   |                   |                   |
| Contributions-employer                                                            | \$ 748            | \$ 901            | \$ 1,029          | \$ 987            | \$ 956            |
| Contributions-member                                                              | 253               | 259               | 253               | 253               | 253               |
| Net investment income                                                             | 2,243             | 1,441             | (2,183)           | 5,162             | 1,151             |
| Benefit payments, including refunds of member contributions                       | (2,557)           | (2,449)           | (2,358)           | (2,516)           | (2,388)           |
| Administrative expense                                                            | (16)              | (23)              | (15)              | (13)              | (13)              |
| Other                                                                             | -                 | (1)               | (1)               | -                 | 6                 |
| <b>Net change in plan fiduciary net position</b>                                  | <b>671</b>        | <b>128</b>        | <b>(3,275)</b>    | <b>3,873</b>      | <b>(35)</b>       |
| <b>Plan fiduciary net position - beginning</b>                                    | <b>28,748</b>     | <b>28,620</b>     | <b>31,895</b>     | <b>28,022</b>     | <b>28,057</b>     |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <b>\$ 29,419</b>  | <b>\$ 28,748</b>  | <b>\$ 28,620</b>  | <b>\$ 31,895</b>  | <b>\$ 28,022</b>  |
| <b>LRS's net pension liability (asset) - ending (a) - (b)</b>                     | <b>\$ 1,146</b>   | <b>\$ 1,685</b>   | <b>\$ 1,530</b>   | <b>\$ (1,921)</b> | <b>\$ 2,549</b>   |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>96.25%</b>     | <b>94.46%</b>     | <b>94.93%</b>     | <b>106.41%</b>    | <b>91.66%</b>     |
| <b>Covered payroll</b>                                                            | <b>\$ 3,622</b>   | <b>\$ 3,617</b>   | <b>\$ 3,619</b>   | <b>\$ 3,615</b>   | <b>\$ 3,613</b>   |
| <b>Net pension liability (asset) as a percentage of covered payroll</b>           | <b>31.64%</b>     | <b>46.59%</b>     | <b>42.28%</b>     | <b>(53.14%)</b>   | <b>70.55%</b>     |

|    | 2019     | 2018       | 2017       | 2016       | 2015       |
|----|----------|------------|------------|------------|------------|
| \$ | 18,710   | \$ 17,192  | \$ 15,630  | \$ 16,904  | \$ 16,812  |
|    | 46,838   | 45,397     | 44,837     | 42,009     | 40,846     |
|    | -        | 430        | 4,349      | 332        | -          |
|    | 845      | 7,660      | 2,193      | (4,295)    | (2,289)    |
|    | -        | 12,836     | 3,032      | 26,588     | -          |
|    | (46,451) | (43,392)   | (42,053)   | (40,462)   | (38,364)   |
|    | 19,942   | 40,123     | 27,988     | 41,076     | 17,005     |
|    | 691,953  | 651,830    | 623,842    | 582,766    | 565,761    |
| \$ | 711,895  | \$ 691,953 | \$ 651,830 | \$ 623,842 | \$ 582,766 |
| \$ | 25,636   | \$ 23,988  | \$ 19,592  | \$ 18,908  | \$ 18,949  |
|    | 5,151    | 5,706      | 7,399      | 7,561      | 6,238      |
|    | 38,211   | 41,123     | 55,762     | 3,972      | 12,176     |
|    | (46,451) | (43,392)   | (42,053)   | (40,462)   | (38,364)   |
|    | (30)     | (24)       | (37)       | (73)       | (30)       |
|    | (119)    | -          | -          | -          | 1          |
|    | 22,398   | 27,401     | 40,663     | (10,094)   | (1,030)    |
|    | 596,504  | 569,103    | 528,440    | 538,534    | 539,564    |
| \$ | 618,902  | \$ 596,504 | \$ 569,103 | \$ 528,440 | \$ 538,534 |
| \$ | 92,993   | \$ 95,449  | \$ 82,727  | \$ 95,402  | \$ 44,232  |
|    | 86.94%   | 86.21%     | 87.31%     | 84.71%     | 92.41%     |
| \$ | 75,712   | \$ 77,255  | \$ 66,504  | \$ 69,489  | \$ 69,638  |
|    | 122.82%  | 123.55%    | 124.39%    | 137.29%    | 63.52%     |
| \$ | 1,088    | \$ 1,006   | \$ 872     | \$ 822     | \$ 844     |
|    | 2,052    | 2,028      | 2,056      | 1,708      | 1,742      |
|    | -        | 24         | 215        | 22         | -          |
|    | (596)    | 207        | (122)      | (520)      | (579)      |
|    | -        | 511        | 121        | 5,151      | -          |
|    | (2,732)  | (2,531)    | (2,437)    | (2,430)    | (2,473)    |
|    | (188)    | 1,245      | 705        | 4,753      | (466)      |
|    | 30,655   | 29,410     | 28,705     | 23,952     | 24,418     |
| \$ | 30,467   | \$ 30,655  | \$ 29,410  | \$ 28,705  | \$ 23,952  |
| \$ | 809      | \$ 689     | \$ 675     | \$ 65      | \$ -       |
|    | 257      | 253        | 253        | 253        | 253        |
|    | 1,726    | 1,975      | 2,744      | 181        | 642        |
|    | (2,732)  | (2,531)    | (2,437)    | (2,430)    | (2,473)    |
|    | (14)     | (14)       | (18)       | (53)       | (17)       |
|    | (50)     | -          | -          | -          | -          |
|    | (4)      | 372        | 1,217      | (1,984)    | (1,595)    |
|    | 28,061   | 27,689     | 26,472     | 28,456     | 30,051     |
| \$ | 28,057   | \$ 28,061  | \$ 27,689  | \$ 26,472  | \$ 28,456  |
| \$ | 2,410    | \$ 2,594   | \$ 1,721   | \$ 2,233   | \$ (4,504) |
|    | 92.09%   | 91.54%     | 94.15%     | 92.22%     | 118.80%    |
| \$ | 3,611    | \$ 3,618   | \$ 3,705   | \$ 3,616   | \$ 3,611   |
|    | 66.74%   | 71.70%     | 46.45%     | 61.75%     | (124.73%)  |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

|                                                                                   | 2024               | 2023               | 2022               | 2021              | 2020              |
|-----------------------------------------------------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| <b>North Carolina</b>                                                             |                    |                    |                    |                   |                   |
| <b>National Guard</b>                                                             |                    |                    |                    |                   |                   |
| <b>Total pension liability</b>                                                    |                    |                    |                    |                   |                   |
| Service Cost                                                                      | \$ 229             | \$ 230             | \$ 196             | \$ 276            | \$ 315            |
| Interest                                                                          | 9,059              | 9,478              | 11,070             | 11,097            | 11,746            |
| Changes of benefit terms                                                          | -                  | -                  | -                  | -                 | -                 |
| Differences between expected and actual experience                                | 8,616              | (6,970)            | (26,734)           | 4,599             | (12,364)          |
| Changes of assumptions                                                            | -                  | -                  | -                  | 4,601             | -                 |
| Benefit payments, including refunds of member contributions                       | (9,279)            | (9,080)            | (9,049)            | (8,915)           | (9,018)           |
| <b>Net change in total pension liability</b>                                      | <u>8,625</u>       | <u>(6,342)</u>     | <u>(24,517)</u>    | <u>11,658</u>     | <u>(9,321)</u>    |
| <b>Total pension liability - beginning</b>                                        | <u>143,712</u>     | <u>150,054</u>     | <u>174,571</u>     | <u>162,913</u>    | <u>172,234</u>    |
| <b>Total pension liability - ending (a)</b>                                       | <u>\$ 152,337</u>  | <u>\$ 143,712</u>  | <u>\$ 150,054</u>  | <u>\$ 174,571</u> | <u>\$ 162,913</u> |
| <b>Plan fiduciary net position</b>                                                |                    |                    |                    |                   |                   |
| Contributions-nonemployer                                                         | \$ -               | \$ 11,032          | \$ 11,032          | \$ 11,032         | \$ 11,032         |
| Net investment income                                                             | 13,810             | 8,539              | (12,272)           | 27,365            | 5,871             |
| Benefit payments, including refunds of member contributions                       | (9,279)            | (9,080)            | (9,049)            | (8,915)           | (9,018)           |
| Administrative expense                                                            | (328)              | (144)              | (91)               | (94)              | (83)              |
| Other                                                                             | 1                  | (1)                | (4)                | 1                 | 1                 |
| <b>Net change in plan fiduciary net position</b>                                  | <u>4,204</u>       | <u>10,346</u>      | <u>(10,384)</u>    | <u>29,389</u>     | <u>7,803</u>      |
| <b>Plan fiduciary net position - beginning</b>                                    | <u>175,727</u>     | <u>165,381</u>     | <u>175,765</u>     | <u>146,376</u>    | <u>138,573</u>    |
| <b>Plan fiduciary net position - ending (b)</b>                                   | <u>\$ 179,931</u>  | <u>\$ 175,727</u>  | <u>\$ 165,381</u>  | <u>\$ 175,765</u> | <u>\$ 146,376</u> |
| <b>NGPF's net pension liability (asset) - ending (a) - (b)</b>                    | <u>\$ (27,594)</u> | <u>\$ (32,015)</u> | <u>\$ (15,327)</u> | <u>\$ (1,194)</u> | <u>\$ 16,537</u>  |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b> | 118.11%            | 122.28%            | 110.21%            | 100.68%           | 89.85%            |
| <b>Covered payroll</b>                                                            | N/A                | N/A                | N/A                | N/A               | N/A               |
| <b>Net pension liability (asset) as a percentage of covered payroll</b>           | N/A                | N/A                | N/A                | N/A               | N/A               |

| 2019              | 2018              | 2017              | 2016              | 2015              |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 327            | \$ 304            | \$ 305            | \$ 593            | \$ 550            |
| 12,368            | 12,288            | 11,975            | 10,700            | 9,916             |
| -                 | -                 | -                 | -                 | 8,734             |
| (12,701)          | (1,748)           | 1,204             | 30                | (198)             |
| -                 | 3,926             | 955               | 15,149            | -                 |
| (8,736)           | (8,766)           | (8,677)           | (8,512)           | (7,958)           |
| (8,742)           | 6,004             | 5,762             | 17,960            | 11,044            |
| 180,976           | 174,972           | 169,210           | 151,250           | 140,206           |
| <u>\$ 172,234</u> | <u>\$ 180,976</u> | <u>\$ 174,972</u> | <u>\$ 169,210</u> | <u>\$ 151,250</u> |
| \$ 9,072          | \$ 8,923          | \$ 8,517          | \$ 7,066          | \$ 6,039          |
| 8,463             | 8,766             | 11,626            | 842               | 2,493             |
| (8,736)           | (8,766)           | (8,677)           | (8,512)           | (7,958)           |
| (13)              | (249)             | (168)             | (97)              | (75)              |
| (16)              | 2                 | -                 | 1                 | -                 |
| 8,770             | 8,676             | 11,298            | (700)             | 499               |
| 129,803           | 121,127           | 109,829           | 110,529           | 110,030           |
| <u>\$ 138,573</u> | <u>\$ 129,803</u> | <u>\$ 121,127</u> | <u>\$ 109,829</u> | <u>\$ 110,529</u> |
| <u>\$ 33,661</u>  | <u>\$ 51,173</u>  | <u>\$ 53,845</u>  | <u>\$ 59,381</u>  | <u>\$ 40,721</u>  |
| 80.46%            | 71.72%            | 69.23%            | 64.91%            | 73.08%            |
| N/A               | N/A               | N/A               | N/A               | N/A               |
| N/A               | N/A               | N/A               | N/A               | N/A               |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**  
**Last Ten Fiscal Years**

(Dollars in Thousands)

| <b>Teachers' and State Employees'</b>                                    | <b>2024</b>         | <b>2023</b>        | <b>2022</b>       | <b>2021</b>       | <b>2020</b>        |
|--------------------------------------------------------------------------|---------------------|--------------------|-------------------|-------------------|--------------------|
| Actuarially determined contribution                                      | \$ 3,212,327        | \$ 3,034,897       | \$ 2,761,946      | \$ 2,373,252      | \$ 2,055,075       |
| Contributions in relation to the actuarially determined contribution (1) | 3,212,327           | 3,034,897          | 2,761,946         | 2,373,252         | 2,055,075          |
| Contribution excess                                                      | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>        |
| Covered payroll                                                          | \$ 18,210,471       | \$ 17,462,008      | \$ 16,861,697     | \$ 16,057,185     | \$ 15,844,834      |
| Contributions as a percentage of covered payroll                         | 17.64%              | 17.38%             | 16.38%            | 14.78%            | 12.97%             |
| <b>Local Governmental Employees'</b>                                     |                     |                    |                   |                   |                    |
| Actuarially determined contribution                                      | \$ 1,002,980        | \$ 1,024,690       | \$ 886,620        | \$ 763,653        | \$ 625,511         |
| Contributions in relation to the actuarially determined contribution (1) | 1,215,459           | 1,050,570          | 880,449           | 745,308           | 640,969            |
| Contribution deficiency (excess)                                         | <u>\$ (212,479)</u> | <u>\$ (25,880)</u> | <u>\$ 6,171</u>   | <u>\$ 18,345</u>  | <u>\$ (15,458)</u> |
| Covered payroll                                                          | \$ 9,236,011        | \$ 8,479,177       | \$ 7,570,499      | \$ 7,166,423      | \$ 6,914,444       |
| Contributions as a percentage of covered payroll                         | 13.16%              | 12.39%             | 11.63%            | 10.40%            | 9.27%              |
| <b>Firefighters' and Rescue Squad Workers' (2)</b>                       |                     |                    |                   |                   |                    |
| Actuarially determined contribution                                      | \$ 3,253            | \$ 13,087          | \$ 15,183         | \$ 14,846         | \$ 14,324          |
| Contributions in relation to the actuarially determined contribution (1) | 20,052              | 19,702             | 19,352            | 19,002            | 18,652             |
| Contribution deficiency (excess)                                         | <u>\$ (16,799)</u>  | <u>\$ (6,615)</u>  | <u>\$ (4,169)</u> | <u>\$ (4,156)</u> | <u>\$ (4,328)</u>  |
| Covered payroll                                                          | N/A                 | N/A                | N/A               | N/A               | N/A                |
| Contributions as a percentage of covered payroll                         | N/A                 | N/A                | N/A               | N/A               | N/A                |
| <b>Registers of Deeds'</b>                                               |                     |                    |                   |                   |                    |
| Actuarially determined contribution                                      | \$ -                | \$ -               | \$ -              | \$ -              | \$ -               |
| Contributions in relation to the actuarially determined contribution (1) | 860                 | 892                | 1,146             | 1,200             | 958                |
| Contribution excess                                                      | <u>\$ (860)</u>     | <u>\$ (892)</u>    | <u>\$ (1,146)</u> | <u>\$ (1,200)</u> | <u>\$ (958)</u>    |
| Covered payroll                                                          | N/A                 | N/A                | N/A               | N/A               | N/A                |
| Contributions as a percentage of covered payroll                         | N/A                 | N/A                | N/A               | N/A               | N/A                |

(1) Contributions in relation to the actuarially determined contribution are the same as the contractually required contribution (CRC). The CRC was the same as the actuarially determined contribution except in years where there is a deficiency (excess).

(2) Nonemployer contributing entity

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



| <b>2019</b>        | <b>2018</b>        | <b>2017</b>       | <b>2016</b>        | <b>2015</b>       |
|--------------------|--------------------|-------------------|--------------------|-------------------|
| \$ 1,915,146       | \$ 1,565,728       | \$ 1,438,306      | \$ 1,210,904       | \$ 1,262,988      |
| 1,915,146          | 1,602,901          | 1,441,194         | 1,275,003          | 1,262,988         |
| <u>\$ -</u>        | <u>\$ (37,173)</u> | <u>\$ (2,888)</u> | <u>\$ (64,099)</u> | <u>\$ -</u>       |
| \$ 15,582,963      | \$ 14,869,212      | \$ 14,440,822     | \$ 13,934,459      | \$ 13,803,148     |
| 12.29%             | 10.78%             | 9.98%             | 9.15%              | 9.15%             |
| \$ 512,287         | \$ 483,559         | \$ 453,193        | \$ 393,920         | \$ 402,429        |
| 534,107            | 492,317            | 461,329           | 414,168            | 408,694           |
| <u>\$ (21,820)</u> | <u>\$ (8,758)</u>  | <u>\$ (8,136)</u> | <u>\$ (20,248)</u> | <u>\$ (6,265)</u> |
| \$ 6,665,378       | \$ 6,368,275       | \$ 6,192,808      | \$ 5,860,574       | \$ 5,650,694      |
| 8.01%              | 7.73%              | 7.45%             | 7.07%              | 7.23%             |
| \$ 14,544          | \$ 14,287          | \$ 17,705         | \$ 13,241          | \$ 13,900         |
| 18,302             | 17,952             | 17,602            | 13,900             | 13,900            |
| <u>\$ (3,758)</u>  | <u>\$ (3,665)</u>  | <u>\$ 103</u>     | <u>\$ (659)</u>    | <u>\$ -</u>       |
| N/A                | N/A                | N/A               | N/A                | N/A               |
| N/A                | N/A                | N/A               | N/A                | N/A               |
| \$ -               | \$ -               | \$ -              | \$ -               | \$ -              |
| 950                | 856                | 869               | 817                | 802               |
| <u>\$ (950)</u>    | <u>\$ (856)</u>    | <u>\$ (869)</u>   | <u>\$ (817)</u>    | <u>\$ (802)</u>   |
| N/A                | N/A                | N/A               | N/A                | N/A               |
| N/A                | N/A                | N/A               | N/A                | N/A               |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS**  
**SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

| <b>Consolidated Judicial</b>                                         | <b>2024</b> | <b>2023</b>     | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|----------------------------------------------------------------------|-------------|-----------------|-------------|-------------|-------------|
| Actuarially determined contribution                                  | \$ 35,574   | \$ 34,689       | \$ 33,428   | \$ 29,259   | \$ 26,637   |
| Contributions in relation to the actuarially determined contribution | 35,574      | 34,952          | 33,428      | 29,259      | 26,637      |
| Contribution excess                                                  | <u>\$ -</u> | <u>\$ (263)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll                                                      | \$ 100,833  | \$ 87,489       | \$ 83,528   | \$ 80,294   | \$ 79,277   |
| Contributions as a percentage of covered payroll                     | 35.28%      | 39.95%          | 40.02%      | 36.44%      | 33.60%      |
| <b>Legislative</b>                                                   |             |                 |             |             |             |
| Actuarially determined contribution                                  | \$ 748      | \$ 890          | \$ 1,029    | \$ 987      | \$ 956      |
| Contributions in relation to the actuarially determined contribution | 748         | 901             | 1,029       | 987         | 956         |
| Contribution excess                                                  | <u>\$ -</u> | <u>\$ (11)</u>  | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll                                                      | \$ 3,622    | \$ 3,617        | \$ 3,619    | \$ 3,615    | \$ 3,613    |
| Contributions as a percentage of covered payroll                     | 20.65%      | 24.91%          | 28.43%      | 27.30%      | 26.46%      |
| <b>North Carolina National Guard *</b>                               |             |                 |             |             |             |
| Actuarially determined contribution                                  | \$ -        | \$ 11,032       | \$ 11,032   | \$ 11,032   | \$ 11,032   |
| Contributions in relation to the actuarially determined contribution | -           | 11,032          | 11,032      | 11,032      | 11,032      |
| Contribution excess                                                  | <u>\$ -</u> | <u>\$ -</u>     | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll                                                      | N/A         | N/A             | N/A         | N/A         | N/A         |
| Contributions as a percentage of covered payroll                     | N/A         | N/A             | N/A         | N/A         | N/A         |

\* Nonemployer contributing entity

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

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| <b>2019</b>     | <b>2018</b> | <b>2017</b> | <b>2016</b>     | <b>2015</b> |
|-----------------|-------------|-------------|-----------------|-------------|
| \$ 24,947       | \$ 23,988   | \$ 19,592   | \$ 18,324       | \$ 18,949   |
| 25,636          | 23,988      | 19,592      | 18,908          | 18,949      |
| <u>\$ (689)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (584)</u> | <u>\$ -</u> |
| \$ 75,712       | \$ 77,255   | \$ 66,504   | \$ 69,489       | \$ 69,638   |
| 33.86%          | 31.05%      | 29.46%      | 27.21%          | 27.21%      |

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|             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|
| \$ 809      | \$ 689      | \$ 675      | \$ 65       | \$ -        |
| 809         | 689         | 675         | 65          | -           |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 3,611    | \$ 3,618    | \$ 3,705    | \$ 3,616    | \$ 3,611    |
| 22.40%      | 19.04%      | 18.22%      | 1.80%       | 0.00%       |

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|             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|
| \$ 9,072    | \$ 8,923    | \$ 8,517    | \$ 7,066    | \$ 6,039    |
| 9,072       | 8,923       | 8,517       | 7,066       | 6,039       |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| N/A         | N/A         | N/A         | N/A         | N/A         |
| N/A         | N/A         | N/A         | N/A         | N/A         |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF INVESTMENT RETURNS**  
**ALL DEFINED BENEFIT PENSION PLANS**  
 Last Ten Fiscal Years

| <b>Annual money-weighted rate of return,<br/>net of investment expense</b> | <b>2024</b> | <b>2023</b> | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|----------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b><i>Cost-Sharing, Multiple Employer</i></b>                              |             |             |             |             |             |
| Teachers' and<br>State Employees'                                          | 8.18%       | 5.27%       | (7.18%)     | 19.13%      | 4.35%       |
| Local Governmental<br>Employees'                                           | 8.20%       | 5.27%       | (7.20%)     | 19.10%      | 4.34%       |
| Firefighters' and Rescue<br>Squad Workers'                                 | 8.17%       | 5.25%       | (7.15%)     | 19.10%      | 4.33%       |
| Registers of Deeds'                                                        | 2.79%       | (1.16%)     | (10.13%)    | (0.43%)     | 8.72%       |
| <b><i>Single-Employer</i></b>                                              |             |             |             |             |             |
| Consolidated<br>Judicial                                                   | 8.17%       | 5.25%       | (7.17%)     | 19.13%      | 4.36%       |
| Legislative                                                                | 8.07%       | 5.19%       | (7.00%)     | 18.81%      | 4.30%       |
| North Carolina<br>National Guard                                           | 8.07%       | 5.12%       | (6.90%)     | 18.40%      | 4.28%       |

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| <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------|-------------|-------------|-------------|-------------|
| 6.57%       | 7.61%       | 10.75%      | 0.74%       | 2.27%       |
| 6.58%       | 7.59%       | 10.74%      | 0.77%       | 2.27%       |
| 6.55%       | 7.59%       | 10.76%      | 0.75%       | 2.26%       |
| 7.91%       | (0.47%)     | (0.03%)     | 8.04%       | 2.26%       |
| 6.57%       | 7.60%       | 10.75%      | 0.75%       | 2.27%       |
| 6.43%       | 7.64%       | 10.72%      | 0.66%       | 2.25%       |
| 6.52%       | 7.44%       | 10.63%      | 0.77%       | 2.25%       |

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## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2024

#### *Changes of benefit terms.*

|                                         | <u>Cost of Living Increase</u> |             |             |             |             |             |             |             |             |             |
|-----------------------------------------|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                         | <u>2023</u>                    | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| <u>Cost-Sharing, Multiple-Employer</u>  |                                |             |             |             |             |             |             |             |             |             |
| Teachers' and State Employees'          | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | 1.00%       | N/A         | N/A         | N/A         |
| Local Governmental Employees'           | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | 0.11%       | 0.63%       | N/A         |
| Firefighters' and Rescue Squad Workers' | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         |
| Registers of Deeds'                     | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         |
| <u>Single-Employer</u>                  |                                |             |             |             |             |             |             |             |             |             |
| Consolidated                            |                                |             |             |             |             |             |             |             |             |             |
| Judicial                                | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | 1.00%       | N/A         | N/A         | N/A         |
| Legislative                             | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | 1.00%       | N/A         | N/A         | N/A         |
| North Carolina National Guard           | N/A                            | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         |

N/A - not applicable

Beginning in FY 2015, with the implementation of GASB 68, the above table reflects COLA's in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan NPL.

For the North Carolina National Guard Pension fund, in 2015, the basic benefits were increased from \$95 to \$99 and total potential benefits were increased from \$190 to \$198. In 2016, basic benefits were increased from \$99 to \$105 and total benefits were increased from \$198 to \$210.

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

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

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

Benefit recipients of the TSERS, CJRS, and LRS received a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. LGERS benefit recipients received a one-time benefit supplement payment equal to 2% of the member's annual benefit amount for the fiscal year ended June 30, 2023, paid in October 2022. The one-time supplements do not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Benefit recipients of the TSERS, CJRS, and LRS received a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in October 2023, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2024. The one-time supplements do not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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For the Fiscal Year Ended June 30, 2024

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For the Firefighters' and Rescue Squad Workers' Pension Plan, as a result of Session Law 2024-29 enacted July 2, 2024 and Session Law 2024-42 enacted July 8, 2024, the retirement benefit will increase from \$170 to \$175 per month and the contribution rate for members will increase from \$10 to \$15 per month. Both changes are effective January 1, 2025.

Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS.

*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 Employer 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 12 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.

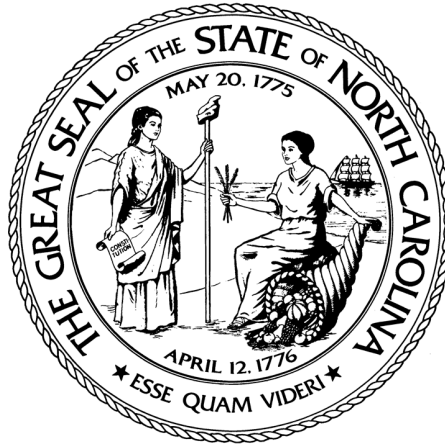
*Changes of assumptions.* In January 2021, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Supplemental Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund.

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 Local Governmental 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 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 Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund was lowered from 7.00% to 6.50%, and for the Register of Deeds' Supplemental Pension Fund from 3.75% to 3.00%, 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.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

### **PENSIONS — EMPLOYERS (PRIMARY GOVERNMENT AND COMPONENT UNITS)**

*Required supplementary information for employers provides information on the allocations of net pension liabilities and employer contributions.*

The Required Supplementary Information for Employers includes the following schedules:

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net Pension Liability

Schedule of the Primary Government's (Nonemployer) Proportionate Share of the Net Pension Liability (Asset)

Schedule of the Primary Government's and Component Units' Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

*Note: For information about the net pension liability of Consolidated Judicial and Legislative (single employer plans) and the primary government's contributions to Consolidated Judicial, Legislative, Firefighters' and Rescue Squad Workers', and North Carolina National Guard, refer to the preceding section on required supplementary information for pension plans. Firefighters' and Rescue Squad Workers' and the North Carolina National Guard are special funding situations in which the State is not the employer but is the only contributing entity. The net pension liabilities of pension plans were measured as of June 30, 2024. The net pension liabilities of employers were measured as of June 30, 2023.*

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'**  
**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Ten Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

| <b>Teachers' and<br/>State Employees'</b>                                           | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|-------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                                           |              |              |              |              |              |
| Proportion of the net pension liability                                             | 21.97%       | 22.29%       | 23.50%       | 22.26%       | 21.83%       |
| Proportionate share of the net pension liability                                    | \$ 3,662,113 | \$ 3,308,833 | \$ 1,100,342 | \$ 2,689,921 | \$ 2,263,139 |
| Covered payroll                                                                     | \$ 3,979,217 | \$ 3,936,636 | \$ 3,987,199 | \$ 3,778,103 | \$ 3,542,384 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 92.03%       | 84.05%       | 27.60%       | 71.20%       | 63.89%       |
| <b>Component Units</b>                                                              |              |              |              |              |              |
| <b>University of North Carolina System</b>                                          |              |              |              |              |              |
| Proportion of the net pension liability                                             | 15.48%       | 14.91%       | 15.26%       | 15.12%       | 15.05%       |
| Proportionate share of the net pension liability                                    | \$ 2,580,319 | \$ 2,212,675 | \$ 714,488   | \$ 1,826,248 | \$ 1,559,975 |
| Covered payroll                                                                     | \$ 2,718,654 | \$ 2,506,435 | \$ 2,435,636 | \$ 2,431,573 | \$ 2,374,044 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 94.91%       | 88.28%       | 29.33%       | 75.11%       | 65.71%       |
| <b>Community Colleges</b>                                                           |              |              |              |              |              |
| Proportion of the net pension liability                                             | 5.62%        | 5.53%        | 5.58%        | 5.56%        | 5.68%        |
| Proportionate share of the net pension liability                                    | \$ 937,035   | \$ 820,596   | \$ 261,349   | \$ 671,817   | \$ 588,482   |
| Covered payroll                                                                     | \$ 1,004,223 | \$ 963,040   | \$ 909,736   | \$ 927,386   | \$ 873,702   |
| Proportionate share of the net pension liability as a percentage of covered payroll | 93.31%       | 85.21%       | 28.73%       | 72.44%       | 67.36%       |
| <b>Other Component Units</b>                                                        |              |              |              |              |              |
| Proportion of the net pension liability                                             | 0.20%        | 0.19%        | 0.18%        | 0.18%        | 0.17%        |
| Proportionate share of the net pension liability                                    | \$ 32,922    | \$ 28,700    | \$ 8,524     | \$ 21,667    | \$ 18,087    |
| Covered payroll                                                                     | \$ 38,608    | \$ 33,736    | \$ 31,218    | \$ 30,285    | \$ 28,153    |
| Proportionate share of the net pension liability as a percentage of covered payroll | 85.27%       | 85.07%       | 27.30%       | 71.54%       | 64.25%       |
| Plan fiduciary net position as a percentage of the total pension liability          | 82.97%       | 84.14%       | 94.86%       | 85.98%       | 87.56%       |

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

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| <u>2019</u>  | <u>2018</u>  | <u>2017</u>  | <u>2016</u>  | <u>2015</u>  |
|--------------|--------------|--------------|--------------|--------------|
| 21.75%       | 21.74%       | 21.93%       | 22.47%       | 22.78%       |
| \$ 2,165,010 | \$ 1,725,012 | \$ 2,015,413 | \$ 828,018   | \$ 267,119   |
| \$ 3,499,295 | \$ 3,264,890 | \$ 3,311,814 | \$ 3,498,284 | \$ 3,255,443 |
| 61.87%       | 52.84%       | 60.86%       | 23.67%       | 8.21%        |
| 14.90%       | 14.72%       | 14.43%       | 14.45%       | 14.79%       |
| \$ 1,482,962 | \$ 1,167,833 | \$ 1,325,896 | \$ 532,624   | \$ 173,441   |
| \$ 2,280,501 | \$ 2,202,204 | \$ 2,117,672 | \$ 2,053,148 | \$ 2,089,885 |
| 65.03%       | 53.03%       | 62.61%       | 25.94%       | 8.30%        |
| 5.80%        | 5.96%        | 5.92%        | 5.89%        | 5.87%        |
| \$ 577,687   | \$ 472,532   | \$ 543,846   | \$ 216,890   | \$ 68,803    |
| \$ 876,939   | \$ 895,962   | \$ 871,399   | \$ 861,639   | \$ 853,383   |
| 65.88%       | 52.74%       | 62.41%       | 25.17%       | 8.06%        |
| 0.17%        | 0.16%        | 0.16%        | 0.17%        | 0.17%        |
| \$ 16,760    | \$ 12,763    | \$ 14,653    | \$ 6,224     | \$ 2,049     |
| \$ 27,263    | \$ 27,154    | \$ 25,454    | \$ 25,574    | \$ 25,673    |
| 61.48%       | 47.00%       | 57.57%       | 24.34%       | 7.98%        |
| 87.61%       | 89.51%       | 87.32%       | 94.64%       | 98.24%       |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S (NONEMPLOYER)**  
**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**

Last Ten Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

| <b>Firefighters' and Rescue Squad Workers'</b>                             | <b>2024</b> | <b>2023</b> | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|----------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Primary Government</b>                                                  |             |             |             |             |             |
| Proportion of the net pension liability (asset)                            | 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     |
| Proportionate share of the net pension liability (asset)                   | \$ 9,309    | \$ 19,662   | \$ (27,931) | \$ 36,185   | \$ 36,283   |
| Plan fiduciary net position as a percentage of the total pension liability | 98.16%      | 96.07%      | 105.58%     | 92.58%      | 92.43%      |

**Single-Employer, Defined Benefit Pension Plans**

**North Carolina  
National Guard**

|                                                                            |             |             |            |           |           |
|----------------------------------------------------------------------------|-------------|-------------|------------|-----------|-----------|
| <b>Primary Government</b>                                                  |             |             |            |           |           |
| Proportion of the net pension liability (asset)                            | 100.00%     | 100.00%     | 100.00%    | 100.00%   | 100.00%   |
| Proportionate share of the net pension liability (asset)                   | \$ (32,015) | \$ (15,327) | \$ (1,194) | \$ 16,537 | \$ 33,661 |
| Plan fiduciary net position as a percentage of the total pension liability | 122.28%     | 110.21%     | 100.68%    | 89.85%    | 80.46%    |

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

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| <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------|-------------|-------------|-------------|-------------|
| 100.00%     | 100.00%     | 100.00%     | 100.00%     | 100.00%     |
| \$ 48,840   | \$ 48,512   | \$ 66,819   | \$ 36,359   | \$ 27,418   |
| 89.69%      | 89.35%      | 84.94%      | 91.40%      | 93.42%      |

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|           |           |           |           |           |
|-----------|-----------|-----------|-----------|-----------|
| 100.00%   | 100.00%   | 100.00%   | 100.00%   | 100.00%   |
| \$ 51,173 | \$ 53,845 | \$ 59,381 | \$ 40,721 | \$ 30,176 |
| 71.72%    | 69.23%    | 64.91%    | 73.08%    | 78.48%    |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS**

Last Ten Fiscal Years

(Dollars in Thousands)

| <b>Teachers' and State Employees'</b>                                | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|----------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 742,441   | \$ 691,588   | \$ 644,821   | \$ 589,308   | \$ 490,020   |
| Contributions in relation to the contractually required contribution | 742,441      | 691,588      | 644,821      | 589,308      | 490,020      |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 4,208,849 | \$ 3,979,217 | \$ 3,936,636 | \$ 3,987,199 | \$ 3,778,103 |
| Contributions as a percentage of covered payroll                     | 17.64%       | 17.38%       | 16.38%       | 14.78%       | 12.97%       |
| <b>Component Units</b>                                               |              |              |              |              |              |
| <b>University of North Carolina System</b>                           |              |              |              |              |              |
| Contractually required contribution                                  | \$ 503,969   | \$ 472,508   | \$ 410,554   | \$ 359,987   | \$ 315,375   |
| Contributions in relation to the contractually required contribution | 503,969      | 472,508      | 410,554      | 359,987      | 315,375      |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 2,856,967 | \$ 2,718,654 | \$ 2,506,435 | \$ 2,435,636 | \$ 2,431,573 |
| Contributions as a percentage of covered payroll                     | 17.64%       | 17.38%       | 16.38%       | 14.78%       | 12.97%       |
| <b>Community Colleges</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 188,162   | \$ 174,534   | \$ 157,746   | \$ 134,459   | \$ 120,282   |
| Contributions in relation to the contractually required contribution | 188,162      | 174,534      | 157,746      | 134,459      | 120,282      |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 1,066,678 | \$ 1,004,223 | \$ 963,040   | \$ 909,736   | \$ 927,386   |
| Contributions as a percentage of covered payroll                     | 17.64%       | 17.38%       | 16.38%       | 14.78%       | 12.97%       |
| <b>Other Component Units</b>                                         |              |              |              |              |              |
| Contractually required contribution                                  | \$ 7,047     | \$ 6,710     | \$ 5,526     | \$ 4,614     | \$ 3,928     |
| Contributions in relation to the contractually required contribution | 7,047        | 6,710        | 5,526        | 4,614        | 3,928        |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 39,949    | \$ 38,608    | \$ 33,736    | \$ 31,218    | \$ 30,285    |
| Contributions as a percentage of covered payroll                     | 17.64%       | 17.38%       | 16.38%       | 14.78%       | 12.97%       |

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| <u>2019</u>    | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    | <u>2015</u>    |
|----------------|----------------|----------------|----------------|----------------|
| \$ 435,359     | \$ 377,224     | \$ 325,836     | \$ 303,031     | \$ 320,093     |
| <u>435,359</u> | <u>377,224</u> | <u>325,836</u> | <u>303,031</u> | <u>320,093</u> |
| <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| \$ 3,542,384   | \$ 3,499,295   | \$ 3,264,890   | \$ 3,311,814   | \$ 3,498,284   |
| 12.29%         | 10.78%         | 9.98%          | 9.15%          | 9.15%          |

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|                |                |                |                |                |
|----------------|----------------|----------------|----------------|----------------|
| \$ 291,770     | \$ 245,838     | \$ 219,780     | \$ 193,767     | \$ 187,863     |
| <u>291,770</u> | <u>245,838</u> | <u>219,780</u> | <u>193,767</u> | <u>187,863</u> |
| <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| \$ 2,374,044   | \$ 2,280,501   | \$ 2,202,204   | \$ 2,117,672   | \$ 2,053,148   |
| 12.29%         | 10.78%         | 9.98%          | 9.15%          | 9.15%          |

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|                |               |               |               |               |
|----------------|---------------|---------------|---------------|---------------|
| \$ 107,378     | \$ 94,534     | \$ 89,417     | \$ 79,733     | \$ 78,840     |
| <u>107,378</u> | <u>94,534</u> | <u>89,417</u> | <u>79,733</u> | <u>78,840</u> |
| <u>\$ -</u>    | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>   |
| \$ 873,702     | \$ 876,939    | \$ 895,962    | \$ 871,399    | \$ 861,639    |
| 12.29%         | 10.78%        | 9.98%         | 9.15%         | 9.15%         |

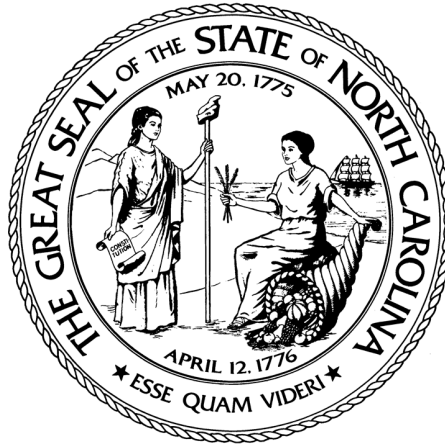
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|              |              |              |              |              |
|--------------|--------------|--------------|--------------|--------------|
| \$ 3,460     | \$ 2,939     | \$ 2,710     | \$ 2,329     | \$ 2,340     |
| <u>3,460</u> | <u>2,939</u> | <u>2,710</u> | <u>2,329</u> | <u>2,340</u> |
| <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| \$ 28,153    | \$ 27,263    | \$ 27,154    | \$ 25,454    | \$ 25,574    |
| 12.29%       | 10.78%       | 9.98%        | 9.15%        | 9.15%        |

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## **REQUIRED SUPPLEMENTARY INFORMATION**

### **PENSIONS — GASB STATEMENT 73**

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*Required supplementary information for pensions that are not administered through a trust provides information on the sources of changes in the total pension liability and information about the components of the pension liability.*

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The Required Supplementary Information for pensions not administered through a trust includes the following schedules:

Schedule of Changes in the Total Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plan

Notes to Required Supplementary Information: Schedule of the Total Pension Liability

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY AND RELATED RATIOS**  
**SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN**

Last Eight Fiscal Years

(Dollars in Thousands)

|                                                                            | <u>2024</u>       | <u>2023</u>       | <u>2022</u>       | <u>2021</u>       | <u>2020</u>       |
|----------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Special Separation Allowance</b>                                        |                   |                   |                   |                   |                   |
| <b>Total pension liability</b>                                             |                   |                   |                   |                   |                   |
| Service Cost                                                               | \$ 12,157         | \$ 14,136         | \$ 11,074         | \$ 9,303          | \$ 7,842          |
| Interest                                                                   | 10,571            | 6,924             | 5,764             | 6,217             | 6,519             |
| Changes of benefit terms                                                   | -                 | -                 | -                 | -                 | -                 |
| Differences between expected and actual experience                         | 29,688            | 9,854             | 14,160            | 29,972            | 11,825            |
| Changes of assumptions                                                     | (2,597)           | (31,526)          | 47,935            | 10,736            | 3,091             |
| Benefit payments, including refunds of member contributions                | (23,139)          | (19,608)          | (18,662)          | (17,820)          | (16,922)          |
| <b>Net change in total pension liability</b>                               | <u>26,680</u>     | <u>(20,220)</u>   | <u>60,271</u>     | <u>38,408</u>     | <u>12,355</u>     |
| <b>Total pension liability - beginning</b>                                 | <u>310,196</u>    | <u>330,416</u>    | <u>270,145</u>    | <u>231,737</u>    | <u>219,382</u>    |
| <b>Total pension liability - ending</b>                                    | <u>\$ 336,876</u> | <u>\$ 310,196</u> | <u>\$ 330,416</u> | <u>\$ 270,145</u> | <u>\$ 231,737</u> |
| <b>Covered-employee payroll</b>                                            | \$ 326,494        | \$ 294,886        | \$ 305,971        | \$ 286,465        | \$ 265,387        |
| <b>Total pension liability as a percentage of covered-employee payroll</b> | 103.18%           | 105.19%           | 107.99%           | 94.30%            | 87.32%            |

---

| <u>2019</u>       | <u>2018</u>       | <u>2017</u>       |
|-------------------|-------------------|-------------------|
| \$ 7,090          | \$ 5,779          | \$ 6,112          |
| 6,721             | 5,328             | 7,314             |
| -                 | 18,621            | -                 |
| 894               | 8,582             | 3,927             |
| 5,051             | (5,675)           | (1,216)           |
| <u>(16,031)</u>   | <u>(15,631)</u>   | <u>(14,895)</u>   |
| 3,725             | 17,004            | 1,242             |
| <u>215,657</u>    | <u>198,653</u>    | <u>197,411</u>    |
| <u>\$ 219,382</u> | <u>\$ 215,657</u> | <u>\$ 198,653</u> |
| \$ 258,472        | \$ 243,663        | \$ 161,416        |
| 84.88%            | 88.51%            | 123.07%           |

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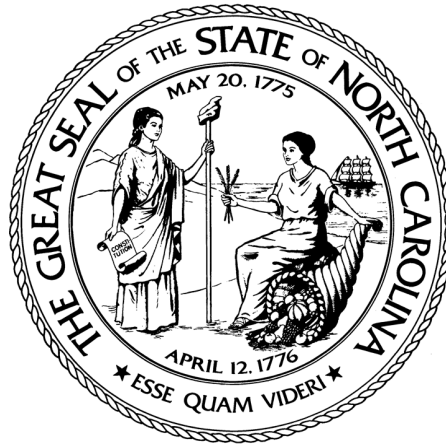
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF TOTAL PENSION LIABILITY**

For the Fiscal Year Ended June 30, 2024

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The Special Separation Allowance (SSA) is a single-employer, defined benefit pension plan in which there are no accumulated assets in a trust fund to pay the benefits to the retired law enforcement officers (LEOs). These benefits are funded on a pay-as-you-go basis from budget appropriated annually of each affected state agency.

*Changes in assumptions since the prior measurement date.* The discount rate increased from 3.54% at June 30, 2023 to 3.65% at June 30, 2024 due to a change in the Municipal Bond Index Rate.



## **REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFIT PLANS**

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*Required supplementary information for other postemployment benefit plans provides information on the sources of changes in net OPEB liabilities, information about the components of net OPEB liabilities, employer contributions, and investment returns.*

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The Required Supplementary Information for Other Postemployment Benefit plans includes the following schedules:

Schedule of Changes in the Net OPEB Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Schedule of Employer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Schedule of Investment Returns: All Defined Benefit OPEB Plans

Notes to Required Supplementary Information: Schedule of Employer Contributions

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**

Last Eight Fiscal Years

(Dollars in Thousands)

|                                                                                | 2024                 | 2023                 | 2022                 | 2021                 | 2020                 |
|--------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Retiree Health Benefit</b>                                                  |                      |                      |                      |                      |                      |
| <b>Total OPEB liability</b>                                                    |                      |                      |                      |                      |                      |
| Service Cost                                                                   | \$ 1,318,987         | \$ 1,279,519         | \$ 2,131,391         | \$ 1,974,212         | \$ 1,824,174         |
| Interest                                                                       | 1,115,558            | 965,755              | 758,427              | 690,162              | 1,203,196            |
| Changes of benefit terms                                                       | (1,370,032)          | -                    | (96,837)             | -                    | 224,085              |
| Differences between expected and actual experience                             | 91,403               | 152,230              | 106,923              | 194,899              | 30,157               |
| Changes of assumptions                                                         | 7,919,368            | 2,016,085            | (8,798,881)          | 1,939,421            | (5,489,969)          |
| Benefit payments, including refunds of member contributions                    | (1,222,657)          | (1,120,623)          | (1,044,121)          | (1,100,633)          | (1,084,668)          |
| <b>Net change in total OPEB liability</b>                                      | <b>7,852,627</b>     | <b>3,292,966</b>     | <b>(6,943,098)</b>   | <b>3,698,061</b>     | <b>(3,293,025)</b>   |
| <b>Total OPEB liability - beginning</b>                                        | <b>29,850,087</b>    | <b>26,557,121</b>    | <b>33,500,219</b>    | <b>29,802,158</b>    | <b>33,095,183</b>    |
| <b>Total OPEB liability - ending (a)</b>                                       | <b>\$ 37,702,714</b> | <b>\$ 29,850,087</b> | <b>\$ 26,557,121</b> | <b>\$ 33,500,219</b> | <b>\$ 29,802,158</b> |
| <b>Plan fiduciary net position</b>                                             |                      |                      |                      |                      |                      |
| Contributions-employer                                                         | \$ 1,483,995         | \$ 1,366,928         | \$ 1,197,278         | \$ 1,214,750         | \$ 1,162,967         |
| Contributions-other                                                            | 10,348               | 35,006               | 180,506              | 187,000              | 475,200              |
| Net investment income                                                          | 215,939              | 111,228              | (107,846)            | 222,377              | 52,286               |
| Benefit payments, including refunds of member contributions                    | (1,222,657)          | (1,120,623)          | (1,044,121)          | (1,100,633)          | (1,084,668)          |
| Administrative expense                                                         | (161)                | (147)                | (174)                | (175)                | (162)                |
| <b>Net change in plan fiduciary net position</b>                               | <b>487,464</b>       | <b>392,392</b>       | <b>225,643</b>       | <b>523,319</b>       | <b>605,623</b>       |
| <b>Plan fiduciary net position - beginning</b>                                 | <b>3,202,661</b>     | <b>2,810,269</b>     | <b>2,584,626</b>     | <b>2,061,307</b>     | <b>1,455,684</b>     |
| <b>Plan fiduciary net position - ending (b)</b>                                | <b>\$ 3,690,125</b>  | <b>\$ 3,202,661</b>  | <b>\$ 2,810,269</b>  | <b>\$ 2,584,626</b>  | <b>\$ 2,061,307</b>  |
| <b>RHBF net OPEB liability - ending (a) - (b)</b>                              | <b>\$ 34,012,589</b> | <b>\$ 26,647,426</b> | <b>\$ 23,746,852</b> | <b>\$ 30,915,593</b> | <b>\$ 27,740,851</b> |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b> | <b>9.79%</b>         | <b>10.73%</b>        | <b>10.58%</b>        | <b>7.72%</b>         | <b>6.92%</b>         |
| <b>Covered payroll</b>                                                         | <b>\$ 20,784,240</b> | <b>\$ 19,839,303</b> | <b>\$ 19,034,634</b> | <b>\$ 18,184,883</b> | <b>\$ 17,974,758</b> |
| <b>Net OPEB liability as a percentage of covered payroll</b>                   | <b>163.65%</b>       | <b>134.32%</b>       | <b>124.76%</b>       | <b>170.01%</b>       | <b>154.33%</b>       |
| <b>Disability Income</b>                                                       |                      |                      |                      |                      |                      |
| <b>Total OPEB liability</b>                                                    |                      |                      |                      |                      |                      |
| Service Cost                                                                   | \$ 23,066            | \$ 23,657            | \$ 22,246            | \$ 23,010            | \$ 22,708            |
| Interest                                                                       | 8,713                | 9,641                | 9,528                | 10,969               | 11,424               |
| Changes of benefit terms                                                       | -                    | -                    | -                    | -                    | -                    |
| Differences between expected and actual experience                             | (45,761)             | (22,097)             | 1,735                | 15,758               | 5,137                |
| Changes of assumptions                                                         | (17,657)             | 1,473                | (552)                | (2,935)              | 2                    |
| Benefit payments, including refunds of member contributions                    | (31,846)             | (37,470)             | (40,381)             | (47,453)             | (55,210)             |
| <b>Net change in total OPEB liability</b>                                      | <b>(63,485)</b>      | <b>(24,796)</b>      | <b>(7,424)</b>       | <b>(651)</b>         | <b>(15,939)</b>      |
| <b>Total OPEB liability - beginning</b>                                        | <b>283,168</b>       | <b>307,964</b>       | <b>315,388</b>       | <b>316,039</b>       | <b>331,978</b>       |
| <b>Total OPEB liability - ending (a)</b>                                       | <b>\$ 219,683</b>    | <b>\$ 283,168</b>    | <b>\$ 307,964</b>    | <b>\$ 315,388</b>    | <b>\$ 316,039</b>    |
| <b>Plan fiduciary net position</b>                                             |                      |                      |                      |                      |                      |
| Contributions-employer                                                         | \$ 22,659            | \$ 19,677            | \$ 17,019            | \$ 16,226            | \$ 17,848            |
| Net investment income                                                          | 6,387                | (2,853)              | (29,145)             | (1,292)              | 28,322               |
| Benefit payments, including refunds of member contributions                    | (31,846)             | (37,470)             | (40,381)             | (47,453)             | (55,210)             |
| Administrative expense                                                         | (1,110)              | (968)                | (999)                | (879)                | (835)                |
| Other                                                                          | (53)                 | (30)                 | -                    | (113)                | (20)                 |
| <b>Net change in plan fiduciary net position</b>                               | <b>(3,963)</b>       | <b>(21,644)</b>      | <b>(53,506)</b>      | <b>(33,511)</b>      | <b>(9,895)</b>       |
| <b>Plan fiduciary net position - beginning</b>                                 | <b>256,572</b>       | <b>278,216</b>       | <b>331,722</b>       | <b>365,233</b>       | <b>375,128</b>       |
| <b>Plan fiduciary net position - ending (b)</b>                                | <b>\$ 252,609</b>    | <b>\$ 256,572</b>    | <b>\$ 278,216</b>    | <b>\$ 331,722</b>    | <b>\$ 365,233</b>    |
| <b>DIPNC net OPEB liability (asset) - ending (a) - (b)</b>                     | <b>\$ (32,926)</b>   | <b>\$ 26,596</b>     | <b>\$ 29,748</b>     | <b>\$ (16,334)</b>   | <b>\$ (49,194)</b>   |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b> | <b>114.99%</b>       | <b>90.61%</b>        | <b>90.34%</b>        | <b>105.18%</b>       | <b>115.57%</b>       |
| <b>Covered payroll</b>                                                         | <b>\$ 20,598,877</b> | <b>\$ 19,677,265</b> | <b>\$ 18,909,461</b> | <b>\$ 18,028,883</b> | <b>\$ 17,848,000</b> |
| <b>Net OPEB liability (asset) as a percentage of covered payroll</b>           | <b>(0.16%)</b>       | <b>0.14%</b>         | <b>0.16%</b>         | <b>(0.09%)</b>       | <b>(0.28%)</b>       |

| 2019                 | 2018                 | 2017                 |
|----------------------|----------------------|----------------------|
| \$ 1,539,092         | \$ 1,753,384         | \$ 2,650,984         |
| 1,192,810            | 1,261,878            | 1,332,874            |
| (72,358)             | -                    | -                    |
| (156,655)            | (80,951)             | (2,821,033)          |
| 1,824,892            | (6,141,972)          | (10,835,144)         |
| (1,030,956)          | (977,176)            | (922,021)            |
| 3,296,825            | (4,184,837)          | (10,594,340)         |
| 29,798,358           | 33,983,195           | 44,577,535           |
| <u>\$ 33,095,183</u> | <u>\$ 29,798,358</u> | <u>\$ 33,983,195</u> |
| \$ 1,104,902         | \$ 1,018,693         | \$ 950,813           |
| -                    | -                    | -                    |
| 71,780               | 72,384               | 94,132               |
| (1,030,956)          | (977,176)            | (922,021)            |
| (215)                | (298)                | (490)                |
| 145,511              | 113,603              | 122,434              |
| 1,310,173            | 1,196,570            | 1,074,136            |
| <u>\$ 1,455,684</u>  | <u>\$ 1,310,173</u>  | <u>\$ 1,196,570</u>  |
| <u>\$ 31,639,499</u> | <u>\$ 28,488,185</u> | <u>\$ 32,786,625</u> |
| 4.40%                | 4.40%                | 3.52%                |
| \$ 17,622,035        | \$ 16,837,901        | \$ 16,365,112        |
| 179.55%              | 169.19%              | 200.34%              |
| \$ 22,567            | \$ 25,919            | \$ 25,441            |
| 13,800               | 14,654               | 14,111               |
| -                    | (44,158)             | (403)                |
| 4,106                | 48,787               | 22,345               |
| (4,980)              | 6,692                | -                    |
| (61,946)             | (69,949)             | (71,728)             |
| (26,453)             | (18,055)             | (10,234)             |
| 358,431              | 376,486              | 386,720              |
| <u>\$ 331,978</u>    | <u>\$ 358,431</u>    | <u>\$ 376,486</u>    |
| \$ 24,468            | \$ 23,385            | \$ 61,654            |
| 24,725               | (1,481)              | (122)                |
| (61,946)             | (69,949)             | (71,728)             |
| (926)                | (777)                | (1,050)              |
| -                    | 23                   | 32                   |
| (13,679)             | (48,799)             | (11,214)             |
| 388,807              | 437,606              | 448,820              |
| <u>\$ 375,128</u>    | <u>\$ 388,807</u>    | <u>\$ 437,606</u>    |
| <u>\$ (43,150)</u>   | <u>\$ (30,376)</u>   | <u>\$ (61,120)</u>   |
| 113.00%              | 108.47%              | 116.23%              |
| \$ 17,477,148        | \$ 16,703,858        | \$ 16,224,737        |
| (0.25%)              | (0.18%)              | (0.38%)              |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**  
Last Ten Fiscal Years

(Dollars in Thousands)

| <b>Retiree Health Benefit</b>                                            | <b>2024</b>         | <b>2023</b>       | <b>2022</b>       | <b>2021</b>         | <b>2020</b>         |
|--------------------------------------------------------------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| Actuarially determined contribution                                      | \$ 2,652,649        | \$ 2,240,057      | \$ 2,084,130      | \$ 3,049,625        | \$ 2,823,873        |
| Contributions in relation to the actuarially determined contribution (1) | 1,483,995           | 1,366,928         | 1,197,278         | 1,214,750           | 1,162,967           |
| Contribution deficiency                                                  | <u>\$ 1,168,654</u> | <u>\$ 873,129</u> | <u>\$ 886,852</u> | <u>\$ 1,834,875</u> | <u>\$ 1,660,906</u> |
| Covered payroll                                                          | \$ 20,784,240       | \$ 19,839,303     | \$ 19,034,634     | \$ 18,184,883       | \$ 17,974,758       |
| Contributions as a percentage of covered payroll                         | 7.14%               | 6.89%             | 6.29%             | 6.68%               | 6.47%               |
| <b>Disability Income</b>                                                 |                     |                   |                   |                     |                     |
| Actuarially determined contribution                                      | \$ 22,659           | \$ 19,677         | \$ 17,019         | \$ 16,226           | \$ 17,848           |
| Contributions in relation to the actuarially determined contribution (1) | 22,659              | 19,677            | 17,019            | 16,226              | 17,848              |
| Contribution excess                                                      | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>         | <u>\$ -</u>         |
| Covered payroll                                                          | \$ 20,598,877       | \$ 19,677,265     | \$ 18,909,461     | \$ 18,028,883       | \$ 17,848,000       |
| Contributions as a percentage of covered payroll                         | 0.11%               | 0.10%             | 0.09%             | 0.09%               | 0.10%               |

(1) Contributions in relation to the actuarially determined contribution are the same as the contractually required contribution (CRC). The CRC was the same as the actuarially determined contribution except in years where there is a deficiency (excess).

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



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| <u>2019</u>         | <u>2018</u>         | <u>2017</u>         | <u>2016</u>         | <u>2015</u>         |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 2,971,069        | \$ 2,613,258        | \$ 2,728,064        | \$ 2,516,706        | \$ 2,211,436        |
| 1,104,902           | 1,018,693           | 950,813             | 880,847             | 854,383             |
| <u>\$ 1,866,167</u> | <u>\$ 1,594,565</u> | <u>\$ 1,777,251</u> | <u>\$ 1,635,859</u> | <u>\$ 1,357,053</u> |
| \$ 17,622,035       | \$ 16,837,901       | \$ 16,365,112       | \$ 15,729,411       | \$ 15,562,532       |
| 6.27%               | 6.05%               | 5.81%               | 5.60%               | 5.49%               |

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|                   |               |                    |               |               |
|-------------------|---------------|--------------------|---------------|---------------|
| \$ 22,720         | \$ 23,385     | \$ 24,337          | \$ 63,963     | \$ 63,267     |
| 24,468            | 23,385        | 61,654             | 63,963        | 63,267        |
| <u>\$ (1,748)</u> | <u>\$ -</u>   | <u>\$ (37,317)</u> | <u>\$ -</u>   | <u>\$ -</u>   |
| \$ 17,477,148     | \$ 16,703,858 | \$ 16,224,737      | \$ 15,600,732 | \$ 15,430,976 |
| 0.14%             | 0.14%         | 0.38%              | 0.41%         | 0.41%         |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF INVESTMENT RETURNS**  
**ALL DEFINED BENEFIT OPEB PLANS**  
Last Eight Fiscal Years

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| <b>Annual money-weighted rate of return,<br/>net of investment expense</b> | <b>2024</b> | <b>2023</b> | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|----------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Retiree Health Benefit</b>                                              | 6.74%       | 3.89%       | (4.13)%     | 10.96%      | 3.80%       |
| <b>Disability Income</b>                                                   | 2.76%       | (1.21)%     | (9.99)%     | (0.41)%     | 8.68%       |

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| <u>2019</u> | <u>2018</u> | <u>2017</u> |
|-------------|-------------|-------------|
| 5.73%       | 6.58%       | 9.31%       |
| 7.74%       | (0.42)%     | (0.06%)     |

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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For the Fiscal Year Ended June 30, 2024

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

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

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

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

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

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

Effective April 1, 2024, Coverage of GLP-1 prescriptions for obesity management (GLP-1-AOM) was terminated.

Beginning with the Disability Income Plan of North Carolina (DIPNC) actuarial valuation as of December 31, 2017, the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of employee's short-term disability benefit period. The reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019 and no further reimbursements may be issued.

*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 Employer 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 Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of assumptions.* Consistent with prior years, for the actuarial valuation measured as of June 30, 2024 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.93%, from 3.65% as of June 30, 2023. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. The expected impact from the Inflation Reduction Act on assumed Medicare Advantage rates by including proposed PMPM vendor rates through 2027 and then using assumed trend beginning in 2028. Employer portion of contributions were calculated to have less volatility than recent experience and have a smoother transition to the ultimate trend.

For the actuarial valuation measured as of June 30, 2024 for DIPNC, the discount rate remained at 3%, unchanged from the rate as of June 30, 2023.

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

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For the Fiscal Year Ended June 30, 2024

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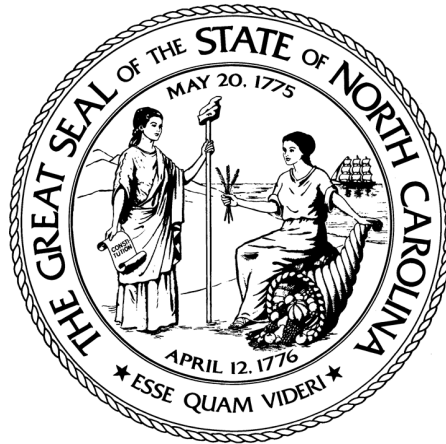
improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability.

The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

For the DIPNC actuarial valuation as of December 31, 2023, benefit payments expected to be issued after 36 months of disability to claimants who had at least five years of membership service as of July 31, 2007 were updated to include an offset (reduction to the DIPNC benefit) based on estimated Social Security benefits.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

### **OTHER POSTEMPLOYMENT BENEFIT PLANS – EMPLOYERS**

#### **(PRIMARY GOVERNMENT AND COMPONENT UNITS)**

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*Required supplementary information for employers provides information on the allocations of net OPEB liabilities and employer contributions.*

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The Required Supplementary Information for Employers includes the following schedules:

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net OPEB Liability

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net OPEB Liability (Asset)

Schedule of the Primary Government's and Component Units' Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'**  
**PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

Last Seven Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**

| <b>Retiree Health Benefit</b>                                                    | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|----------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                                        |              |              |              |              |              |
| Proportion of the net OPEB liability                                             | 19.89%       | 19.96%       | 20.69%       | 19.57%       | 19.38%       |
| Proportionate share of the net OPEB liability                                    | \$ 5,300,543 | \$ 4,740,298 | \$ 6,397,613 | \$ 5,429,964 | \$ 6,130,058 |
| Covered payroll                                                                  | \$ 4,069,376 | \$ 4,022,687 | \$ 4,069,356 | \$ 3,858,114 | \$ 3,624,657 |
| Proportionate share of the net OPEB liability as a percentage of covered payroll | 130.25%      | 117.84%      | 157.21%      | 140.74%      | 169.12%      |
| <b>Component Units</b>                                                           |              |              |              |              |              |
| <b>University of North Carolina System</b>                                       |              |              |              |              |              |
| Proportion of the net OPEB liability                                             | 25.36%       | 25.31%       | 25.57%       | 25.33%       | 25.12%       |
| Proportionate share of the net OPEB liability                                    | \$ 6,757,009 | \$ 6,010,509 | \$ 7,905,263 | \$ 7,025,953 | \$ 7,946,586 |
| Covered payroll                                                                  | \$ 5,049,507 | \$ 4,687,949 | \$ 4,531,662 | \$ 4,477,867 | \$ 4,401,308 |
| Proportionate share of the net OPEB liability as a percentage of covered payroll | 133.82%      | 128.21%      | 174.45%      | 156.90%      | 180.55%      |
| <b>Community Colleges</b>                                                        |              |              |              |              |              |
| Proportion of the net OPEB liability                                             | 4.86%        | 4.76%        | 4.77%        | 4.70%        | 4.86%        |
| Proportionate share of the net OPEB liability                                    | \$ 1,295,344 | \$ 1,130,722 | \$ 1,475,791 | \$ 1,304,098 | \$ 1,536,342 |
| Covered payroll                                                                  | \$ 994,543   | \$ 942,719   | \$ 910,883   | \$ 918,872   | \$ 980,064   |
| Proportionate share of the net OPEB liability as a percentage of covered payroll | 130.25%      | 119.94%      | 162.02%      | 141.92%      | 156.76%      |
| <b>Other Component Units</b>                                                     |              |              |              |              |              |
| Proportion of the net OPEB liability                                             | 0.17%        | 0.17%        | 0.16%        | 0.16%        | 0.15%        |
| Proportionate share of the net OPEB liability                                    | \$ 44,999    | \$ 40,107    | \$ 49,541    | \$ 43,564    | \$ 46,204    |
| Covered payroll                                                                  | \$ 38,911    | \$ 34,436    | \$ 32,275    | \$ 31,376    | \$ 29,330    |
| Proportionate share of the net OPEB liability as a percentage of covered payroll | 115.65%      | 116.47%      | 153.50%      | 138.84%      | 157.53%      |
| Plan fiduciary net position as a percentage of the total OPEB liability          | 10.73%       | 10.58%       | 7.72%        | 6.92%        | 4.40%        |

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



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| <u>2019</u>  | <u>2018</u>  |
|--------------|--------------|
| 19.06%       | 19.24%       |
| \$ 5,428,301 | \$ 6,308,532 |
| \$ 3,575,074 | \$ 3,272,409 |
| 151.84%      | 192.78%      |
| 24.31%       | 23.06%       |
| \$ 6,924,221 | \$ 7,560,701 |
| \$ 4,068,314 | \$ 4,632,586 |
| 170.20%      | 163.21%      |
| 5.02%        | 4.93%        |
| \$ 1,429,417 | \$ 1,617,372 |
| \$ 889,736   | \$ 853,363   |
| 160.66%      | 189.53%      |
| 0.14%        | 0.14%        |
| \$ 40,997    | \$ 44,486    |
| \$ 28,298    | \$ 26,235    |
| 144.88%      | 169.57%      |
| 4.40%        | 3.52%        |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'**  
**PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)**

Last Seven Fiscal Years\*

(Dollars in Thousands)

**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**

| <b>Disability Income</b>                                                                    | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|---------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                                                   |              |              |              |              |              |
| Proportion of the net OPEB liability (asset)                                                | 19.12%       | 19.45%       | 20.54%       | 19.23%       | 18.85%       |
| Proportionate share of the net OPEB liability (asset)                                       | \$ 5,085     | \$ 5,785     | \$ (3,354)   | \$ (9,458)   | \$ (8,135)   |
| Covered payroll                                                                             | \$ 3,979,000 | \$ 3,937,778 | \$ 3,986,667 | \$ 3,779,000 | \$ 3,547,857 |
| Proportionate share of the net OPEB liability (asset)<br>as a percentage of covered payroll | 0.13%        | 0.15%        | (0.08%)      | (0.25%)      | (0.23%)      |
| <b>Component Units</b>                                                                      |              |              |              |              |              |
| <b>University of North Carolina System</b>                                                  |              |              |              |              |              |
| Proportion of the net OPEB liability (asset)                                                | 26.25%       | 25.52%       | 25.30%       | 25.85%       | 25.35%       |
| Proportionate share of the net OPEB liability (asset)                                       | \$ 6,981     | \$ 7,592     | \$ (4,133)   | \$ (12,715)  | \$ (10,937)  |
| Covered payroll                                                                             | \$ 5,049,000 | \$ 4,678,889 | \$ 4,532,222 | \$ 7,853,000 | \$ 4,402,143 |
| Proportionate share of the net OPEB liability (asset)<br>as a percentage of covered payroll | 0.14%        | 0.16%        | (0.09%)      | (0.16%)      | (0.25%)      |
| <b>Community Colleges</b>                                                                   |              |              |              |              |              |
| Proportion of the net OPEB liability (asset)                                                | 4.86%        | 4.79%        | 4.88%        | 4.79%        | 4.92%        |
| Proportionate share of the net OPEB liability (asset)                                       | \$ 1,292     | \$ 1,426     | \$ (797)     | \$ (2,356)   | \$ (2,124)   |
| Covered payroll                                                                             | \$ 1,010,000 | \$ 933,333   | \$ 941,111   | \$ 1,560,000 | \$ 981,429   |
| Proportionate share of the net OPEB liability (asset)<br>as a percentage of covered payroll | 0.13%        | 0.15%        | (0.08%)      | (0.15%)      | (0.22%)      |
| <b>Other Component Units</b>                                                                |              |              |              |              |              |
| Proportion of the net OPEB liability (asset)                                                | 0.17%        | 0.17%        | 0.16%        | 0.16%        | 0.15%        |
| Proportionate share of the net OPEB liability (asset)                                       | \$ 46        | \$ 50        | \$ (26)      | \$ (80)      | \$ (65)      |
| Covered payroll                                                                             | \$ 39,000    | \$ 34,444    | \$ 32,222    | \$ 32,000    | \$ 27,143    |
| Proportionate share of the net OPEB liability (asset)<br>as a percentage of covered payroll | 0.12%        | 0.15%        | (0.08%)      | (0.25%)      | (0.24%)      |
| Plan fiduciary net position as a percentage of<br>the total OPEB liability                  | 90.61%       | 90.34%       | 105.18%      | 115.57%      | 113.00%      |

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

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| <u>2019</u>  | <u>2018</u>  |
|--------------|--------------|
| 18.78%       | 19.02%       |
| \$ (5,707)   | \$ (11,624)  |
| \$ 3,498,571 | \$ 3,272,409 |
| (0.16%)      | (0.36%)      |
| <hr/>        |              |
| 25.03%       | 24.73%       |
| \$ (7,603)   | \$ (15,118)  |
| \$ 4,107,143 | \$ 4,632,586 |
| (0.19%)      | (0.33%)      |
| <hr/>        |              |
| 5.04%        | 5.20%        |
| \$ (1,520)   | \$ (3,177)   |
| \$ 890,000   | \$ 853,848   |
| (0.17%)      | (0.37%)      |
| <hr/>        |              |
| 0.14%        | 0.14%        |
| \$ (43)      | \$ (83)      |
| \$ 27,857    | \$ 26,235    |
| (0.15%)      | (0.32%)      |
| <hr/>        |              |
| 108.47%      | 116.23%      |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**

Last Seven Fiscal Years

(Dollars in Thousands)

| <b>Retiree Health</b>                                                | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|----------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 405,234   | \$ 280,380   | \$ 253,027   | \$ 271,833   | \$ 249,620   |
| Contributions in relation to the contractually required contribution | 405,234      | 280,380      | 253,027      | 271,833      | 249,620      |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 5,675,546 | \$ 4,069,376 | \$ 4,022,687 | \$ 4,069,356 | \$ 3,858,114 |
| Contributions as a percentage of covered payroll                     | 7.14%        | 6.89%        | 6.29%        | 6.68%        | 6.47%        |
| <b>Component Units</b>                                               |              |              |              |              |              |
| <b>University of North Carolina System</b>                           |              |              |              |              |              |
| Contractually required contribution                                  | \$ 386,884   | \$ 347,911   | \$ 294,872   | \$ 302,715   | \$ 289,718   |
| Contributions in relation to the contractually required contribution | 386,884      | 347,911      | 294,872      | 302,715      | 289,718      |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 5,481,543 | \$ 5,049,507 | \$ 4,687,949 | \$ 4,531,662 | \$ 4,477,867 |
| Contributions as a percentage of covered payroll                     | 7.14%        | 6.89%        | 6.29%        | 6.68%        | 6.47%        |
| <b>Community Colleges</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 75,439    | \$ 68,524    | \$ 59,297    | \$ 60,847    | \$ 59,451    |
| Contributions in relation to the contractually required contribution | 75,439       | 68,524       | 59,297       | 60,847       | 59,451       |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 1,056,569 | \$ 994,543   | \$ 942,719   | \$ 910,883   | \$ 918,872   |
| Contributions as a percentage of covered payroll                     | 7.14%        | 6.89%        | 6.29%        | 6.68%        | 6.47%        |
| <b>Other Component Units</b>                                         |              |              |              |              |              |
| Contractually required contribution                                  | \$ 2,953     | \$ 2,681     | \$ 2,166     | \$ 2,156     | \$ 2,030     |
| Contributions in relation to the contractually required contribution | 2,953        | 2,681        | 2,166        | 2,156        | 2,030        |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 41,359    | \$ 38,911    | \$ 34,436    | \$ 32,275    | \$ 31,376    |
| Contributions as a percentage of covered payroll                     | 7.14%        | 6.89%        | 6.29%        | 6.68%        | 6.47%        |

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| <u>2019</u>  | <u>2018</u>  |
|--------------|--------------|
| \$ 227,266   | \$ 216,292   |
| 227,266      | 216,292      |
| <u>\$ -</u>  | <u>\$ -</u>  |
| \$ 3,624,657 | \$ 3,575,074 |
| 6.27%        | 6.05%        |

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|              |              |
|--------------|--------------|
| \$ 275,962   | \$ 246,133   |
| 275,962      | 246,133      |
| <u>\$ -</u>  | <u>\$ -</u>  |
| \$ 4,401,308 | \$ 4,068,314 |
| 6.27%        | 6.05%        |

|             |             |
|-------------|-------------|
| \$ 61,450   | \$ 53,829   |
| 61,450      | 53,829      |
| <u>\$ -</u> | <u>\$ -</u> |
| \$ 980,064  | \$ 889,736  |
| 6.27%       | 6.05%       |

|             |             |
|-------------|-------------|
| \$ 1,839    | \$ 1,712    |
| 1,839       | 1,712       |
| <u>\$ -</u> | <u>\$ -</u> |
| \$ 29,330   | \$ 28,298   |
| 6.27%       | 6.05%       |

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS**  
**COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**  
**Last Seven Fiscal Years**

(Dollars in Thousands)

| <b>Disability Income</b>                                             | <b>2024</b>  | <b>2023</b>  | <b>2022</b>  | <b>2021</b>  | <b>2020</b>  |
|----------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Primary Government</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 4,621     | \$ 3,979     | \$ 3,544     | \$ 3,588     | \$ 3,779     |
| Contributions in relation to the contractually required contribution | 4,621        | 3,979        | 3,544        | 3,588        | 3,779        |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 4,200,909 | \$ 3,979,000 | \$ 3,937,778 | \$ 3,986,667 | \$ 3,779,000 |
| Contributions as a percentage of covered payroll                     | 0.11%        | 0.10%        | 0.09%        | 0.09%        | 0.10%        |
| <b>Component Units</b>                                               |              |              |              |              |              |
| <b>University of North Carolina System</b>                           |              |              |              |              |              |
| Contractually required contribution                                  | \$ 5,956     | \$ 5,049     | \$ 4,211     | \$ 4,079     | \$ 7,853     |
| Contributions in relation to the contractually required contribution | 5,956        | 5,049        | 4,211        | 4,079        | 7,853        |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll                                                      | \$ 5,414,545 | \$ 5,049,000 | \$ 4,678,889 | \$ 4,532,222 | \$ 7,853,000 |
| Contributions as a percentage of covered payroll                     | 0.11%        | 0.10%        | 0.09%        | 0.09%        | 0.10%        |
| <b>Community Colleges</b>                                            |              |              |              |              |              |
| Contractually required contribution                                  | \$ 1,179     | \$ 1,010     | \$ 840       | \$ 847       | \$ 1,560     |
| Contributions in relation to the contractually required contribution | 1,179        | 1,010        | 840          | 847          | 1,560        |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 1,071,818 | \$ 1,010,000 | \$ 933,333   | \$ 941,111   | \$ 1,560,000 |
| Contributions as a percentage of covered payroll                     | 0.11%        | 0.10%        | 0.09%        | 0.09%        | 0.10%        |
| <b>Other Component Units</b>                                         |              |              |              |              |              |
| Contractually required contribution                                  | \$ 45        | \$ 39        | \$ 31        | \$ 29        | \$ 32        |
| Contributions in relation to the contractually required contribution | 45           | 39           | 31           | 29           | 32           |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered Payroll                                                      | \$ 40,909    | \$ 39,000    | \$ 34,444    | \$ 32,222    | \$ 32,000    |
| Contributions as a percentage of covered payroll                     | 0.11%        | 0.10%        | 0.09%        | 0.09%        | 0.10%        |

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| <u>2019</u>  | <u>2018</u>  |
|--------------|--------------|
| \$ 4,967     | \$ 4,898     |
| 4,967        | 4,898        |
| <u>\$ -</u>  | <u>\$ -</u>  |
| \$ 3,547,857 | \$ 3,498,571 |
| 0.14%        | 0.14%        |

|              |              |
|--------------|--------------|
| \$ 6,163     | \$ 5,750     |
| 6,163        | 5,750        |
| <u>\$ -</u>  | <u>\$ -</u>  |
| \$ 4,402,143 | \$ 4,107,143 |
| 0.14%        | 0.14%        |

|             |             |
|-------------|-------------|
| \$ 1,374    | \$ 1,246    |
| 1,374       | 1,246       |
| <u>\$ -</u> | <u>\$ -</u> |
| \$ 981,429  | \$ 890,000  |
| 0.14%       | 0.14%       |

|             |             |
|-------------|-------------|
| \$ 38       | \$ 39       |
| 38          | 39          |
| <u>\$ -</u> | <u>\$ -</u> |
| \$ 27,143   | \$ 27,857   |
| 0.14%       | 0.14%       |

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## REQUIRED SUPPLEMENTARY INFORMATION

### BUDGET

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*Required supplementary information for budget provides information on budget versus actual revenues, expenditures and changes in fund balance and related note disclosures for budgetary reporting.*

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The following schedules are included in the Required Supplementary Information for Budget:

Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget and Actual (Budgetary Basis—Non-GAAP):  
General Fund

Notes to Required Supplementary Information: Budgetary Reporting

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)**  
**GENERAL FUND**

For the Fiscal Year Ended June 30, 2024

*(Dollars in Thousands)*

|                                                      | <b>Budgeted Amounts</b> |                      |                      |                                       |
|------------------------------------------------------|-------------------------|----------------------|----------------------|---------------------------------------|
|                                                      | <b>Original</b>         | <b>Final</b>         | <b>Actual</b>        | <b>Variance with<br/>Final Budget</b> |
| <b>Revenues</b>                                      |                         |                      |                      |                                       |
| Taxes:                                               |                         |                      |                      |                                       |
| Individual income                                    | \$ 16,583,700           | \$ 16,583,700        | \$ 16,619,056        | \$ 35,356                             |
| Corporate income                                     | 1,686,000               | 1,686,000            | 1,553,297            | (132,703)                             |
| Sales and use                                        | 10,749,400              | 10,749,400           | 11,685,222           | 935,822                               |
| Franchise                                            | 742,300                 | 742,300              | 742,335              | 35                                    |
| Insurance                                            | 1,235,323               | 1,235,323            | 1,257,393            | 22,070                                |
| Beverage                                             | 562,100                 | 562,100              | 595,673              | 33,573                                |
| Tobacco products                                     | 281,900                 | 281,900              | 261,640              | (20,260)                              |
| Other                                                | 162,000                 | 162,000              | 247,091              | 85,091                                |
| Non-Tax:                                             |                         |                      |                      |                                       |
| Fees, licenses and fines                             | 222,400                 | 222,400              | 250,000              | 27,600                                |
| Investment income                                    | 826,000                 | 826,000              | 858,249              | 32,249                                |
| Disproportionate share receipts                      | 164,500                 | 164,500              | 164,540              | 40                                    |
| Other                                                | 379,838                 | 379,838              | 359,227              | (20,611)                              |
| Tobacco settlement                                   | 130,200                 | 130,200              | 139,683              | 9,483                                 |
| Departmental:                                        |                         |                      |                      |                                       |
| Federal funds                                        | 25,018,245              | 27,168,370           | 24,085,911           | (3,082,459)                           |
| Federal COVID-19 funds                               | -                       | 3,163,243            | 2,836,675            | (326,568)                             |
| Local funds                                          | 903,188                 | 1,142,125            | 1,077,561            | (64,564)                              |
| Inter-agency grants and allocations                  | 218,194                 | 303,105              | 343,645              | 40,540                                |
| Intra-governmental transactions                      | 11,570,454              | 18,445,303           | 16,524,597           | (1,920,706)                           |
| Sales and services                                   | 157,926                 | 261,801              | 163,744              | (98,057)                              |
| Rental and lease of property                         | 18,382                  | 23,594               | 19,837               | (3,757)                               |
| Fees, licenses and fines                             | 3,969,652               | 1,628,594            | 1,493,963            | (134,631)                             |
| Contributions, gifts and grants                      | 125,470                 | 2,226,331            | 1,921,400            | (304,931)                             |
| Miscellaneous                                        | 1,300,399               | 250,656              | 585,348              | 334,692                               |
| Total Revenues                                       | <u>77,007,571</u>       | <u>88,338,783</u>    | <u>83,786,087</u>    | <u>(4,552,696)</u>                    |
| <b>Expenditures</b>                                  |                         |                      |                      |                                       |
| Current:                                             |                         |                      |                      |                                       |
| General government                                   | 5,534,733               | 18,805,767           | 11,415,571           | 7,390,196                             |
| Primary and secondary education                      | 14,215,775              | 17,779,194           | 16,634,700           | 1,144,494                             |
| Higher education                                     | 7,105,129               | 7,898,641            | 7,497,448            | 401,193                               |
| Health and human services                            | 37,900,606              | 41,351,074           | 38,529,052           | 2,822,022                             |
| Environment and natural resources                    | 2,750,809               | 2,849,258            | 1,094,289            | 1,754,969                             |
| Economic development                                 | 1,027,430               | 3,479,480            | 3,251,160            | 228,320                               |
| Public safety, corrections, and regulation           | 5,116,985               | 6,571,429            | 5,485,344            | 1,086,085                             |
| Agriculture                                          | 440,371                 | 478,715              | 356,859              | 121,856                               |
| Debt Service                                         | 648,807                 | 667,593              | 607,716              | 59,877                                |
| Total Expenditures                                   | <u>74,740,645</u>       | <u>99,881,151</u>    | <u>84,872,139</u>    | <u>15,009,012</u>                     |
| Excess (deficiency) of revenues over expenditures    | <u>2,266,926</u>        | <u>(11,542,368)</u>  | <u>(1,086,052)</u>   | <u>10,456,316</u>                     |
| Total Fund Balance at July 1, as previously reported | 24,719,840              | 24,719,840           | 24,719,840           | -                                     |
| Adjustments to July 1 balances*                      | 3,942,249               | 3,942,249            | 3,942,249            | -                                     |
| Total Fund Balance at July 1, as restated            | <u>28,662,089</u>       | <u>28,662,089</u>    | <u>28,662,089</u>    | <u>-</u>                              |
| Total Fund Balance at June 30                        | <u>\$ 30,929,015</u>    | <u>\$ 17,119,721</u> | <u>\$ 27,576,037</u> | <u>\$ 10,456,316</u>                  |
| Fund balance reserved:                               |                         |                      |                      |                                       |
| Statutory                                            |                         |                      | \$ 9,585,610         |                                       |
| Non-reverting purposes                               |                         |                      | 15,886,691           |                                       |
| Fund balance unreserved                              |                         |                      | 2,103,736            |                                       |
| Total Fund Balance at June 30                        |                         |                      | <u>\$ 27,576,037</u> |                                       |

\* Adjustments to July 1 balances represent corrections of prior year inclusions of noncash related activity and omissions of cash related activity on the cash basis.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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**BUDGETARY REPORTING**

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**A. General Fund Budgetary Process**

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

On July 20, 2006, the General Assembly passed Session Law 2006-203, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007, and affected budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the 16 universities within the University of North Carolina System and the North Carolina School of Science and Mathematics to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All 16 universities and the North Carolina School of Science and Mathematics have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances, the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the department requesting the carryforward amount through OSBM and making required entries to the North Carolina Financial System (NCFS) in the current year expensing the funds from the agency budget codes. The Office of State Controller (OSC) then transfers the funds to the Carryforward Reserve Fund. The funds are held by OSC pending approval from OSBM to return the funds to the agencies. Upon OSBM approval, the funds are transferred back to the agency budget codes. The agency then makes an entry to NCFS recording the revenue in the subsequent fiscal year.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3514 Bush Street, Raleigh, NC 27609 and through the Office of State Budget and Management, 116 W. Jones Street, Raleigh, NC 27603.

**B. Special Fund Budgetary Process**

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

**C. Reconciliation of Budget/GAAP Reporting Differences**

The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

**Basis differences.** Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

**Timing differences.** A significant variance between budgetary practices and GAAP is any time-restricted appropriations. Section 11.26 of Session Law 2014-100 restricts the use of funds appropriated to the UNC-Need Based Financial Aid Forward Funding Reserve in the current fiscal year to the subsequent fiscal year. Section 11A.3.(f) of Session Law 2016-94 restricts the use of funds appropriated to the Opportunity Scholarship Grant Fund Reserve in the current fiscal year to the subsequent fiscal year. This time-restriction prevented the

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

revenue/expense from being recognized on GAAP basis, which resulted in the recognition of a deferred inflow of resources (deferred state aid) by the recipient and a deferred outflow of resources (forward funded state aid) by the provider. So while the cash is paid to the recipient in the current fiscal year, it will not be recognized as an expense (by the provider) or revenue (by the recipient) until the subsequent fiscal year.

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2024 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

|                                                                | <i>General<br/>Fund</i> |
|----------------------------------------------------------------|-------------------------|
| Fund balance (budgetary basis)                                 |                         |
| June 30, 2024.....                                             | \$ 27,576,037           |
| <b><u>Reconciling Adjustments</u></b>                          |                         |
| <b>Basis Differences</b>                                       |                         |
| <b>Accrued revenues</b>                                        |                         |
| Taxes receivable.....                                          | 3,058,640               |
| Less tax refunds payable.....                                  | (1,544,482)             |
| Accounts receivable and other receivables.....                 | (3,222,844)             |
| Federal funds, net.....                                        | 3,514,310               |
| Unearned revenue.....                                          | (3,659,642)             |
| Total accrued revenues.....                                    | <u>(1,854,018)</u>      |
| <b>Accrued expenditures</b>                                    |                         |
| Medical claims payable.....                                    | (4,026,513)             |
| Accounts payable, accrued liabilities, and other payables..... | (1,354,266)             |
| Total accrued expenditures.....                                | <u>(5,380,779)</u>      |
| <b>Other Adjustments</b>                                       |                         |
| Notes receivable.....                                          | 21,121                  |
| Inventories.....                                               | 100,561                 |
| Advances to outside entities.....                              | 9,182                   |
| Lease receivable.....                                          | 6,246                   |
| <b>Timing Differences</b>                                      |                         |
| Forward funded state aid.....                                  | <u>412,842</u>          |
| Fund balance (GAAP basis)                                      |                         |
| June 30, 2024.....                                             | <u>\$ 20,891,192</u>    |

**D. Budgetary Reserves**

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

**Savings Reserve (General Statute 143C-4-2).** The Savings Reserve is established as a reserve in the General Fund and is a component of the unappropriated General Fund balance. In accordance with Session Law 2017-5, in each fiscal year, funds reserved to the Savings Reserve shall be available for expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations. Funds reserved to the Savings Reserve shall be available for expenditure only upon an act of appropriation by the General Assembly. Each Current Operations Appropriations Act enacted by the General Assembly shall include a transfer to the Savings Reserve of fifteen percent (15%) of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund. The Office of State Budget and Management and the Fiscal Research Division of the General Assembly shall jointly develop and annually produce an evaluation of the adequacy of the Savings Reserve based on the volatility of North Carolina's General Fund tax structure, which shall take into consideration relevant statistical and economic literature. After completing the evaluation, these entities may revise the methodology as needed to estimate the target for the Savings Reserve balance, which shall be calculated so as to be sufficient to cover two years of need for nine out of 10 scenarios involving a decline in General Fund revenue from one fiscal year to the next fiscal year. The recommended balance shall be expressed as a percentage of the prior year General Fund operating budget appropriations, excluding departmental receipts. At the beginning of fiscal year 2023-24, the balance of the Savings Reserve was \$4.75

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

billion. There were no authorized transfers from the Unreserved Fund Balance for the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$4.75 billion.

**Disaster Relief Reserve (Session Law 2005-1).** During fiscal year 2004-05, \$248.17 million was transferred to the Disaster Relief Reserve. This \$248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. At the beginning of fiscal year 2023-24, the balance was \$873.492 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$75 million from the Unreserved Fund Balance to the Disaster Relief Reserve for the fiscal year. During the fiscal year, \$279.137 million was transferred out of the reserve. In addition, \$51.519 million was transferred from the Office of State Budget and Management to the Disaster Relief Reserve to return unused Covid-19 Pandemic funds. At the end of the fiscal year 2023-24, the balance of this reserve was \$720.874 million.

**Medicaid Contingency Reserve (Session Law 2014-100).** The Medicaid Contingency Reserve was established in accordance with Session Law 2014-100, Section 12H.38.(a) as a reserve in the General Fund. The Medicaid Contingency Reserve shall be used only for budget shortfalls in the Medicaid Program. At the beginning of fiscal year 2023-24, the balance was \$326.513 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$400 million from the Unreserved Fund Balance to the Medicaid Contingency Reserve. At the end of fiscal year 2023-24, the balance of this reserve was \$726.513 million.

**Medicaid Transformation Reserve Fund (Session Law 2015-241).** The Medicaid Transformation Reserve Fund was established in the Office of State Budget and Management as a non-reverting reserve in the General Fund. It was established in accordance with Session Law 2015-241, Section 12H.29. The purpose of the Medicaid Transformation Fund is to provide funds for converting from a fee-for-services payment system to a capitated payment system. At the beginning of fiscal year 2023-24, the balance was \$155.642 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$5 million from the Unreserved Fund Balance to the Medicaid Transformation Reserve. Session Law 2023-134, Section 2.2(q) authorized the transfer of \$100 million from the reserve to the Department of Health and Human Services during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$60.642 million.

**Carryforward Reserve (Session Law 2014-100).** In accordance with Session Law 2014-100, Section 6.7, the General Assembly required the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, to review current budgeting practices in the General Fund. After review, the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, established stronger internal controls over the carryforward process. In fiscal year 2023-24 this process included all State agencies with the exception of higher education. Carryforward funds were transferred from the agencies' General Fund appropriations and placed in the Carryforward Reserve. At the end of fiscal year 2023-24, the balance of this reserve was \$669.659 million.

**Unfunded Liability Solvency Reserve (Session Law 2018-30).** The Unfunded Liability Solvency Reserve was established in accordance with Session Law 2018-30 as a reserve in the General Fund. The funds in the Reserve shall be used only for transfers to the Health Benefit Fund or the Retirement System for the purpose of reducing the unfunded liabilities of those two funds. At the beginning of fiscal year 2023-24, the balance was zero. In accordance with Session Law 2021-180, Senate Bill 105, the Office of State Controller was authorized to transfer \$10 million from the Unreserved Fund Balance to the Unfunded Liability Solvency Reserve. In accordance with General Statute 143C-4-10(c)(3)c, funds in the amount of \$565 thousand were transferred to the reserve from the Department of State Treasurer. Funds in the amount of \$10.565 million were transferred out of the reserve to the Health Benefit Fund and Retirement System during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Hurricane Florence Disaster Recovery Reserve (Session Law 2018-136).** The Hurricane Florence Disaster Recovery Reserve was established in accordance with Session Law 2018-136 as a reserve in the General Fund. The purpose is to maintain funds reserved for disaster recovery in relation to Hurricane Florence. At the beginning of fiscal year 2023-24, the balance was \$59.86 million. Funds in the amount of \$32.179 million were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$27.681 million.

**State Fiscal Recovery Reserve (Session Law 2021-25).** The State Fiscal Recovery Reserve or American Recovery Plan Act Reserve was established in accordance with Session Law 2021-25 as a reserve in the General Fund. The purpose is to maintain federal funds received from the American Rescue Plan Act of 2021, P.L. 117-2, which provides additional relief to address the continued impact of COVID-19. At the beginning of fiscal year 2023-24, the balance was \$103.077 million. Interest earned in the amount of \$130.188 million was received during the fiscal year. Funds in the amount of \$194,404 million were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$38.861 million.

**Information Technology Reserve (Session Law 2021-180).** The Information Technology Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for information technology project expenditures. At the beginning of fiscal year 2023-24, the balance was \$108.943 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$450 million from the Unreserved Fund Balance to the Information Technology

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Reserve for the fiscal year. Funds in the amount of \$148.636 million were transferred out of the reserve during the fiscal year to various agencies per Session Law 2023-134. At the end of fiscal year 2023-24, the balance of this reserve was \$410.307 million.

**State Capital and Infrastructure Fund (SCIF) Reserve (General Statute 143C-4-3.1).** The State Capital and Infrastructure Fund (SCIF) Reserve was established in accordance with General Statute 143C-4-3.1 as a reserve in the General Fund. The purpose is to reserve an unappropriated balance to transfer funds to the State Capital and Infrastructure Fund upon appropriation by the General Assembly. The Fund was established to address the ongoing capital and infrastructure needs of the State. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$2.463 billion from the Unreserved Fund Balance to the SCIF Reserve for the fiscal year. Funds in the amount of \$2.463 billion were transferred out of the reserve to the Office of State Budget and Management State Capital and Infrastructure Fund during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Wilmington Harbor Enhancements Reserve (Session Law 2021-180).** The Wilmington Harbor Enhancements Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for expenditures associated with the Wilmington Harbor Enhancement project. At the beginning of fiscal year 2023-24, the balance of the Wilmington Harbor Enhancements Reserve was \$283.8 million. No funds were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$283.8 million.

**Economic Development Project Reserve (Session Law 2021-180).** The Economic Development Project Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to make funds available for expenditures associated with economic development projects meeting or exceeding high-yield project metrics. At the beginning of fiscal year 2023-24, the balance of the Economic Development Project Reserve was \$601.9 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$630 million from the Unreserved Fund Balance to the Economic Development Project Reserve for the fiscal year. Funds in the amount of \$495.1 million were transferred out of the reserve to the Department of Commerce during the fiscal year. Funds in the amount of \$968 thousand were transferred out of the reserve to the Department of Environmental Quality. At the end of fiscal year 2023-24, the balance of this reserve was \$735.832 million.

**Opioid Abatement Reserve (Session Law 2021-180).** The Opioid Abatement Reserve was established in accordance with Session Law 2021-180 as a reserve in the General Fund. The purpose is to maintain funds received by the State as a beneficiary of the final consent judgment resolving the case, *State of North Carolina, ex. Rel. Joshua H. Stein, Plaintiff v. McKinsey and Company, Inc.*, and any other funds received by the State as a result of the settlement. At the beginning of fiscal year 2023-24, the balance of the Opioid Abatement Reserve was \$765 thousand. In accordance with Session Law 2022-74, funds in the amount of \$43.458 million were transferred to or deposited into the reserve as a result of the settlement during the fiscal year. Funds in the amount of \$3.692 million were transferred out of the reserve to the Opioid Abatement Fund at the Department of Health and Human Services during the fiscal year. Funds in the amount of \$5.5 million were transferred out of the reserve to the Opioid Abatement Fund at the University of North Carolina at Chapel Hill during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$35.030 million.

**World University Games Reserve (Session Law 2022-74).** The World University Games Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available to support the State of North Carolina as a host of the 2027 World University Games. At the beginning of fiscal year 2023-24, the balance of the World University Games Reserve was \$25 million. Funds in the amount of \$25 million were transferred out of the reserve to the Department of Commerce during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Housing Reserve (Session Law 2022-74).** The Housing Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available upon appropriation for the Workforce Housing Loan Program and the Dare County Affordable Housing Project. At the beginning of fiscal year 2023-24, the balance of the Housing Reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$45 million from the Unreserved Fund Balance to the Housing Reserve for the fiscal year. Funds in the amount of \$45 million were transferred out of the reserve to the Housing Finance Agency during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Local Project Reserve (Session Law 2022-74).** The Local Project Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available for local project expenditures. At the beginning of fiscal year 2023-24, the balance of the Local Project Reserve was zero. No funds were transferred in or out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Federal Infrastructure Match Reserve (Session Law 2022-74).** The Federal Infrastructure Match Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available State agencies and departments to use for State match requirements when procuring federal aid made available under the federal Infrastructure Investment and Jobs Act. At the beginning of fiscal year 2023-24, the balance of the Federal Infrastructure Match Reserve was \$95.329 million. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$50 million from the Unreserved Fund Balance to the Federal Infrastructure Match Reserve for the fiscal year. Funds in the amount of \$23.320 million were transferred out of the reserve to the Department of Environmental Quality during the fiscal year. Funds in the amount of \$250 thousand were transferred out of

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

the reserve to the Department of Commerce during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$121.759 million.

**Retiree Supplement Reserve (Session Law 2022-74).** The Retiree Supplement Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available to provide a one percent (1%) retiree supplement. At the beginning of fiscal year 2023-24, the balance of the Retiree Supplement reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$145.6 million from the Unreserved Fund Balance to the Retiree Supplement Reserve for the fiscal year. Funds in the amount of \$145.6 million were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Public School Needs-Based Capital Reserve (Session Law 2022-74).** The Public School Needs-Based Capital Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available to the Department of Public Instruction. At the beginning of fiscal year 2023-24, the balance of the Public School Needs-Based Capital Reserve was zero. No funds were transferred from the Unreserved Fund Balance to the Public School Needs-Based Capital Reserve for the fiscal year. No funds were transferred out of the reserve to the Department of Public Instruction during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**Clean Water and Drinking Water Reserve (Session Law 2022-74).** The Clean Water and Drinking Water Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make funds available to the Department of Environmental Quality to use for clean water and drinking water projects. At the beginning of fiscal year 2023-24, the balance of the Clean Water and Drinking Water Reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$1 billion from the Unreserved Fund Balance to the Clean Water Drinking Water Reserve for the fiscal year. Funds in the amount of \$1 billion were transferred out of the reserve to the Department of Environmental Quality during the fiscal year. At the end of fiscal year 2022-23, the balance of this reserve was zero.

**Stabilization and Inflation Reserve (Session Law 2022-74).** The Stabilization and Inflation Reserve was established in accordance with Session Law 2022-74 as a reserve in the General Fund. The purpose of the reserve is to make, only upon an act of appropriation by the General Assembly, funds available to be used for costs associated with inflation and other measures necessary to stabilize the State economy. At the beginning of fiscal year 2023-24, the balance of the Stabilization and Inflation Reserve was \$1 billion. No funds were transferred from the Unreserved Fund Balance to the Stabilization and Inflation Reserve for the fiscal year. No funds were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was one billion dollars.

**Regional Economic Development Reserve (Session Law 2023-134).** The Regional Economic Development Reserve was established in accordance with Session Law 2023-134 as a reserve in the General Fund. The purpose of the reserve is to make funds available to State agencies and departments for economic development initiatives. At the beginning of fiscal year 2023-24, the balance of the Stabilization and Inflation Reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$1.25 billion from the Unreserved Fund Balance to the Regional Economic Development Reserve for the fiscal year. Funds in the amount of \$1.245 billion were transferred out of the reserve during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was \$4.65 million dollars.

**Transportation Reserve (Session Law 2023-134).** The Transportation Reserve was established in accordance with Session Law 2023-134 as a reserve in the General Fund. The purpose of the reserve is to make funds available to Department of Transportation. At the beginning of fiscal year 2023-24, the balance of the Transportation Reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$450 million from the Unreserved Fund Balance to the Transportation Reserve for the fiscal year. Funds in the amount of \$450 million were transferred out of the reserve to the Department of Transportation during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.

**NCInnovation Reserve (Session Law 2023-134).** The NCInnovation Reserve was established in accordance with Session Law 2023-134 as a reserve in the General Fund. The purpose of the reserve is to make funds available to the NCInnovation Incorporated nonprofit organization through the Department of Commerce. At the beginning of fiscal year 2023-24, the balance of the NCInnovation Reserve was zero. In accordance with Session Law 2023-134, the Office of State Controller was authorized to transfer \$250 million from the Unreserved Fund Balance to the NCInnovation Reserve for the fiscal year. Funds in the amount of \$250 million were transferred out of the reserve to the Department of Commerce during the fiscal year. At the end of fiscal year 2023-24, the balance of this reserve was zero.





State Seal of North Carolina – The central field is dominated by two figures: Liberty and Plenty. Liberty is standing and holds in her right hand a scroll inscribed “Constitution.” In her left hand is a staff supporting a liberty cap. Plenty is seated and holds three heads of grain in her right hand and a cornucopia in her left. Mountains and a three-masted sailing ship on the ocean are in the background. Above and below the figures are the dates May 20, 1775, and April 12, 1776. These respectively commemorate the Mecklenburg Declaration of Independence, a local effort towards revolution adopted after news of the battle of Lexington was received, and the Halifax Resolves, a measure authorizing the State’s delegates to Philadelphia to vote for independence. Beneath the field is the State motto, “esse quam videri,” which means “to be, rather than to seem,” from Cicero.

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**APPENDIX C**  
**FORMS OF OPINIONS OF BOND COUNSEL**

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## **APPENDIX C**

### **FORMS OF OPINIONS BOND COUNSEL OPINION**

*Set forth below is the proposed form of opinion of McGuireWoods LLP, Bond Counsel, regarding the Series 2025C Bonds. It is preliminary and subject to change prior to delivery of the Series 2025C Bonds.*

November \_\_, 2025

Honorable Bradford B. Briner  
State Treasurer of the State of North Carolina  
Raleigh, North Carolina

\$ \_\_\_\_\_  
**State of North Carolina**  
**General Obligation Refunding Bonds, Series 2025C**

Ladies and Gentlemen:

We have served as bond counsel to the State of North Carolina (the “State”) in connection with the issuance and sale by the State of its \$ \_\_\_\_\_ General Obligation Refunding Bonds, Series 2025C (the “Bonds”) dated the date of their delivery.

The Bonds are being issued for the purpose of providing funds, together with any other available funds, to (i) refund all or a portion of the State's outstanding General Obligation Bonds, Series 2015A (the “Series 2015A Bonds”), (ii) pay the purchase price for certain of the State's outstanding general obligation bonds to be tendered to the State pursuant to an Invitation to Tender Bonds (the “Tendered Bonds” and, together with the Series 2015A Bonds, the “Refunded Bonds”), and (iii) pay the financing costs associated with the issuance of the Bonds and the refunding of the Refunded Bonds.

In connection with this opinion, we have examined (i) the Constitution of the State of North Carolina (the “Constitution”), (ii) the applicable laws of (A) the State, including without limitation the State Refunding Bond Act, Article 3A of Chapter 142 of the General Statutes of North Carolina, as amended (the “Act”), and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the “Code”), (iii) certain provisions of the original bond-authorizing legislation under which the Refunded Bonds were authorized, (iv) resolutions of the Council of State adopted on June 3, 2025 and September 30, 2025, authorizing the issuance of refunding bonds, and (v) copies of proceedings and other documents relating to the issuance and sale of the Bonds by the State as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon (i) representations of the State, including, without limitation, representations as to the use of proceeds of the Bonds, (ii) certifications of public officials furnished to us, and (iii) certifications and representations contained in certificates of the State and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Davenport & Company, LLC, municipal advisor to the State, relating to the yield on the Bonds.

We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this transaction have been duly authorized, executed, and delivered by all parties to them other than the State, and we have further assumed the due organization, existence, and powers of all parties other than the State.

Based on the foregoing, in our opinion, under current law:

1. The Bonds have been authorized and issued in accordance with the Constitution and laws of the State, including the Act.
2. The Bonds constitute valid and binding general obligations of the State, and the faith and credit and the taxing power of the State are pledged for the payment of the principal of and interest on the Bonds.
3. Interest on the Bonds (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum income tax on individuals. However, such interest is included in the “adjusted financial statement income” (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the State as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants, as hereinafter defined, by the State, so that interest on the Bonds will remain excludable from gross income for federal income tax purposes under Section 103 of the Code. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation under Section 103 of the Code. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The tax certificate and related documents for the Bonds (the “Tax Certificate”) delivered at closing by the State contain covenants (the “Covenants”) with which it has agreed to comply. Failure to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date the Bonds are issued.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. We express no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes under Section 103 of the Code of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the Bonds is not subject to taxation as income by the State. We express no opinion regarding other tax consequences arising with respect to the Bonds under (i) the laws of the State or (ii) the laws of any state or local jurisdiction other than the State.

The rights of the holders of the Bonds and the enforceability of such rights may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

Our services as bond counsel to the State have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to opine on the validity of the Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of any offering material or information that may have been relied upon by any owner of the Bonds in making a decision to purchase the Bonds. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,



*Set forth below is the proposed form of opinion of McGuireWoods LLP, Bond Counsel, regarding the Series 2026A Bonds. It is preliminary and subject to change prior to delivery of the Series 2026A Bonds.*

March \_\_, 2026

Honorable Bradford B. Briner  
State Treasurer of the State of North Carolina  
Raleigh, North Carolina

\$ \_\_\_\_\_  
**State of North Carolina**  
**General Obligation Refunding Bonds, Series 2026A**

Ladies and Gentlemen:

We have served as bond counsel to the State of North Carolina (the “State”) in connection with the issuance and sale by the State of its \$ \_\_\_\_\_ General Obligation Refunding Bonds, Series 2026A (the “Bonds”) dated the date of their delivery.

The Bonds are being issued for the purpose of providing funds, together with any other available funds, to (i) refund all or a portion of the State's outstanding General Obligation Refunding Bonds, Series 2016A (the “Series 2016A Bonds”), (ii) refund all or a portion of the State's outstanding General Obligation Public Improvement (Connect NC) Bonds, Series 2016B (the “Series 2016B Bonds” and, together with the Series 2016A Bonds, the “Refunded Bonds”), and (iii) pay the financing costs associated with the issuance of the Bonds and the refunding of the Refunded Bonds.

In connection with this opinion, we have examined (i) the Constitution of the State of North Carolina (the “Constitution”), (ii) the applicable laws of (A) the State, including without limitation the State Refunding Bond Act, Article 3A of Chapter 142 of the General Statutes of North Carolina, as amended (the “Act”), and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the “Code”), (iii) certain provisions of the original bond-authorizing legislation under which the Refunded Bonds were authorized, (iv) resolutions of the Council of State adopted on June 3, 2025 and September 30, 2025, authorizing the issuance of refunding bonds, and (v) copies of proceedings and other documents relating to the issuance and sale of the Bonds by the State as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon (i) representations of the State, including, without limitation, representations as to the use of proceeds of the Bonds, (ii) certifications of public officials furnished to us, and (iii) certifications and representations contained in certificates of the State and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Davenport & Company, LLC, municipal advisor to the State, relating to the yield on the Bonds.

We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic, and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we



have assumed that all documents, certificates and instruments relating to this transaction have been duly authorized, executed, and delivered by all parties to them other than the State, and we have further assumed the due organization, existence, and powers of all parties other than the State.

Based on the foregoing, in our opinion, under current law:

1. The Bonds have been authorized and issued in accordance with the Constitution and laws of the State, including the Act.
2. The Bonds constitute valid and binding general obligations of the State, and the faith and credit and the taxing power of the State are pledged for the payment of the principal of and interest on the Bonds.
3. Interest on the Bonds (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum income tax on individuals. However, such interest is included in the “adjusted financial statement income” (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the State as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants, as hereinafter defined, by the State, so that interest on the Bonds will remain excludable from gross income for federal income tax purposes under Section 103 of the Code. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation under Section 103 of the Code. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed or refinanced by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The tax certificate and related documents for the Bonds (the “Tax Certificate”) delivered at closing by the State contain covenants (the “Covenants”) with which it has agreed to comply. Failure to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date the Bonds are issued.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. We express no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes under Section 103 of the Code of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the Bonds is not subject to taxation as income by the State. We express no opinion regarding other tax consequences arising with respect to the Bonds under (i) the laws of the State or (ii) the laws of any state or local jurisdiction other than the State.

The rights of the holders of the Bonds and the enforceability of such rights may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

Our services as bond counsel to the State have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to opine on the validity of the Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of any offering material or information that may have been relied upon by any owner of the Bonds in making a decision to purchase the Bonds. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

## **APPENDIX D**

### **BOOK-ENTRY ONLY SYSTEM**

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## APPENDIX D

### BOOK-ENTRY ONLY SYSTEM

Beneficial ownership interests in the Bonds will be available only in a book-entry system. The actual purchasers of the Bonds (the "*Beneficial Owners*") will not receive physical bonds representing their interests in the Bonds purchased. So long as The Depository Trust Company ("*DTC*"), a New York corporation, or its nominee is the registered owner of the Bonds, references in this Official Statement to the Owners of the Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, AND OR OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

The Depository Trust Company

a subsidiary of The Depository Trust & Clearing Corporation

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the Bonds, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of the Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the State's responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE STATE CANNOT AND DOES NOT GIVE ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, physical bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

THE STATE HAS NO RESPONSIBILITY OR OBLIGATION TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS ON ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

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## **APPENDIX E**

### **DESCRIPTION OF PURCHASED REFUNDED BONDS**

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## APPENDIX E

### DESCRIPTION OF PURCHASED REFUNDED BONDS

| <u>Series</u> | <u>Dated<br/>Date</u> | <u>Principal<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>CUSIP</u> | <u>Purchase<br/>Date</u> | <u>Purchase<br/>Price</u> |
|---------------|-----------------------|-----------------------------|--------------------------|--------------------------|--------------|--------------------------|---------------------------|
|---------------|-----------------------|-----------------------------|--------------------------|--------------------------|--------------|--------------------------|---------------------------|

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**APPENDIX F**

**FORM OF DELAYED DELIVERY CONTRACT**

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## DELAYED DELIVERY CONTRACT

BofA Securities, Inc.,  
as Representative of the Underwriters named herein

[DATE]

Re: [ISSUER] [BOND DESCRIPTION] (the “Bonds”)

Ladies and Gentlemen:

The undersigned (the “Purchaser”) hereby agrees to purchase when, as, and if issued and delivered by the [ISSUER] (the “Issuer”) to BofA Securities, Inc. (the “Representative”), as representative of itself and \_\_\_\_\_ (together with the Representative, the “Underwriters”), certain of the above-referenced Bonds (together with any additional Bonds purchased prior to the Settlement Date, the “Purchased Bonds”) offered by the Issuer under the Preliminary Official Statement dated \_\_\_\_\_ (the “Preliminary Official Statement”) which will be accessible on the MSRB’s Electronic Municipal Market Access system (“EMMA”) at [www.emma.msrb.org](http://www.emma.msrb.org). Within seven business days after the pricing of the Bonds, the Preliminary Official Statement will be deemed final and replaced by a final official statement, which will be dated on or about \_\_\_\_\_ (the “Official Statement” and, together with the Preliminary Official Statement, the “Offering Document”). The Purchased Bonds will be issued at a purchase price or prices (plus accrued interest, if any, from the date of the initial delivery of the Bonds), at the interest rates, principal amounts, and maturity dates referenced in one or more written confirmations of a purchase order or orders (each, a “Confirm”) from an Underwriter to the Purchaser, and on the further terms and conditions set forth in this Delayed Delivery Contract. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Offering Document or in the Forward Delivery Bond Purchase Agreement (defined below).

The Purchaser hereby confirms that it has reviewed the Offering Document (including without limitation the information under the heading “[FORWARD DELIVERY OF THE BONDS]” therein) and has considered the risks associated with purchasing the Bonds. The Purchaser further acknowledges and agrees that the Bonds are being sold on a “forward” basis, and the Purchaser hereby purchases and agrees to accept delivery of such Purchased Bonds from the Representative on or about \_\_\_\_\_ (the “Settlement Date”) as they may be issued pursuant to the Forward Delivery Bond Purchase Agreement among the Issuer and the Underwriter (the “Forward Delivery Bond Purchase Agreement”) expected to be dated \_\_\_\_\_. Under the Forward Delivery Bond Purchase Agreement, the Issuer must deliver a copy of the Official Statement within seven business days of the date of the Forward Delivery Bond Purchase Agreement.

During the Forward Delivery Period, certain information in the Official Statement could change in a material respect. The Purchaser acknowledges and agrees that the Issuer has agreed in the Purchase Contract to deliver one updated Official Statement (the “Updated Official Statement”), which shall be delivered prior to Settlement Date in the timeframe set forth in the Offering Document and that, other than the Updated Official Statement, the Issuer and the Underwriters have not agreed, nor are they obligated, to provide updates to the information contained in the Offering Document during the Forward Delivery Period. For purposes of this Delayed Delivery Contract, the Purchaser should assume that there will not be any disclosure until the Updated Official Statement is published on EMMA near the Settlement Date.

Upon the Settlement Date, the Purchaser acknowledges and agrees that its obligation to take up and pay for the Purchased Bonds hereunder shall be unconditional unless the Underwriters terminate the Purchase Contract pursuant to the terms and conditions referenced in the Offering Document, which termination shall be in their sole and absolute discretion, or the Purchaser terminates its obligation to purchase the Purchased Bonds between the Initial Close and the Settlement as described herein. The Purchaser shall have the same rights, at the same times, as the Underwriters to terminate its obligation to purchase the Purchased Bonds, as detailed in the Offering Document. To

effect a termination by the Purchaser, the Purchaser acknowledges and agrees that it must give written notice of termination of its obligation to purchase the Bonds to the Representative before the Settlement Date. The Purchaser understands and agrees that no termination of the obligation the Purchaser may occur on or after the Settlement Date. The Purchaser is not a third party beneficiary under the Forward Delivery Bond Purchase Agreement and has no rights to enforce, or cause the Underwriters to enforce, any of the terms thereof.

The Purchaser acknowledges generally that the market value of the Purchased Bonds as of the Settlement Date may be affected by a variety of factors during the Forward Delivery Period, including, without limitation, changes in general market conditions or the financial condition of the issuer or modifications to laws that may diminish the value of, as opposed to eliminating the exclusion from gross income for federal income tax purposes, interest payable on "state or local bonds," that will not prevent an issuer from satisfying all material conditions precedent for the delivery of the Bonds. Furthermore, no assurances can be given that the ratings assigned to the Bonds on the Settlement Date will not be different from those initially assigned to the Bonds.

The Purchaser further acknowledges and agrees that it will remain obligated to purchase the Purchased Bonds, in accordance with the terms hereof, unless (i) the Purchased Bonds are sold to another institution and (ii) such institution provides a written acknowledgement of confirmation of a purchase order and a forward delayed delivery contract in the same respective forms as executed by the Purchaser.

The Underwriters are not obligated to establish a secondary market in the Bonds and no assurances can be given that a secondary market will exist for the Purchased Bonds during the period prior to the Settlement Date. Prospective purchasers of the Bonds should assume that the Purchased Bonds will not be a liquid investment throughout the period prior to the Settlement Date.

The Purchaser confirms that it is duly authorized to purchase the Purchased Bonds and is not prohibited from purchasing the Purchased Bonds agreed to be purchased by it under the laws of the jurisdiction to which it is subject.

Payment for the Purchased Bonds on the Settlement Date shall be made to the Representative or upon its order upon the delivery to the Purchaser of the Purchased Bonds through the book-entry system of The Depository Trust Company. The Purchaser agrees that in no event shall the Underwriters be responsible or liable for any claim or loss, whether direct or consequential, which the Purchaser may suffer in the event the issuer does not for any reason issue and deliver the Bonds.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party hereto without the prior written consent of the other.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall constitute one and the same instrument and will, upon full execution, become a binding contract between the Representative and the Purchaser; provided, however, that the acceptance by the Representative of this Delayed Delivery Contract from the Purchaser is in its sole discretion.

This Delayed Delivery Contract does not constitute a Confirm.



This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

\_\_\_\_\_  
Purchaser

\_\_\_\_\_  
Address

\_\_\_\_\_  
Telephone

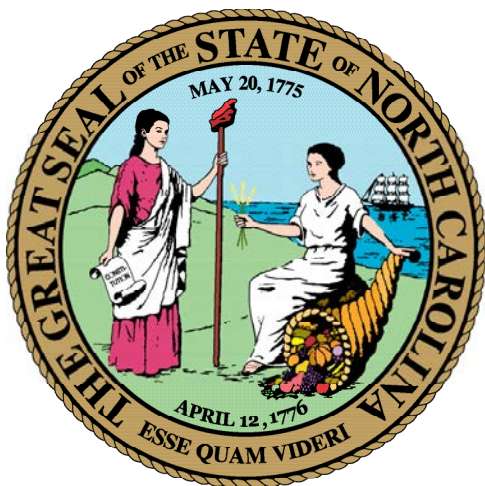
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Accepted: BofA Securities, Inc. as Representative of the Underwriters

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**APPENDIX B**  
**ILLUSTRATIVE PURCHASE PRICE CALCULATIONS**  
**(BVAL Index as of October 17, 2025)**

The Fixed Spreads for the Target Bonds are listed in Table 1 on page (iii) of this Invitation. The yield on the Reference BVAL Index will be determined at approximately 10:00 a.m., New York City time on November 5, 2025.

The following table provides an illustration of the Purchase Prices based on yields for the applicable Reference BVAL Index as of October 17, 2025 at approximately 10:00 a.m., New York City time and the Fixed Spreads. **This example is being provided for convenience only and is not to be relied upon by a Bondholder as an indication of the Purchase Yield or Purchase Price that may be paid by the State.**

Based on these BVAL Index yields, the Purchase Prices in the following table would be derived.

This APPENDIX B contains illustrative Purchase Prices as of October 17, 2025. The actual Purchase Prices will be determined through the methodology set forth in "INTRODUCTION - Determination of Purchase Prices." For each CUSIP the calculation of the Purchase Price may be performed to either the maturity date or the optional redemption date at par, in accordance with standard market convention. See APPENDIX C to this Invitation for an overview of the calculation of the Purchase Price (including additional detail regarding the use of optional redemption dates at par in such calculations).

**TABLE 1**  
**TARGET BONDS**

| Target Bonds Series | CUSIP <sup>†</sup> | Maturity Date | Optional Redemption Date at Par | Interest Rate | Reference Date for BVAL Curve | Illustrative BVAL Yield | Fixed Spreads (bps) <sup>(1)</sup> | Illustrative Purchase Yield | Illustrative Purchase Price per \$1,000 Principal Amount |
|---------------------|--------------------|---------------|---------------------------------|---------------|-------------------------------|-------------------------|------------------------------------|-----------------------------|----------------------------------------------------------|
| 2016A               | 658256Z62          | 6/1/2027      | 6/1/2026                        | 5.000%        | Jun-2027                      | 2.363%                  | -27.0                              | 2.093%                      | 1,015.33                                                 |
| 2016A               | 658256Z70          | 6/1/2028      | 6/1/2026                        | 5.000%        | Jun-2028                      | 2.285%                  | -19.0                              | 2.095%                      | 1,015.31                                                 |
| 2016A               | 658256Z88          | 6/1/2029      | 6/1/2026                        | 5.000%        | Jun-2029                      | 2.250%                  | -16.0                              | 2.090%                      | 1,015.34                                                 |
| 2016A               | 658256Z96          | 6/1/2030      | 6/1/2026                        | 3.000%        | Jun-2030                      | 2.250%                  | 5.0                                | 2.300%                      | 1,003.68                                                 |
| 2016B               | 6582562N1          | 6/1/2027      | 6/1/2026                        | 5.000%        | Jun-2027                      | 2.363%                  | -27.0                              | 2.093%                      | 1,015.33                                                 |
| 2016B               | 6582562P6          | 6/1/2028      | 6/1/2026                        | 5.000%        | Jun-2028                      | 2.285%                  | -19.0                              | 2.095%                      | 1,015.31                                                 |
| 2016B               | 6582562Q4          | 6/1/2029      | 6/1/2026                        | 4.000%        | Jun-2029                      | 2.250%                  | -16.0                              | 2.090%                      | 1,010.07                                                 |
| 2016B               | 6582562R2          | 6/1/2030      | 6/1/2026                        | 2.000%        | Jun-2030                      | 2.250%                  | 46.0                               | 2.710%                      | 969.89                                                   |
| 2016B               | 6582562S0          | 6/1/2031      | 6/1/2026                        | 3.000%        | Jun-2031                      | 2.320%                  | 5.0                                | 2.370%                      | 1,003.31                                                 |
| 2016B               | 6582562T8          | 6/1/2032      | 6/1/2026                        | 3.000%        | Jun-2032                      | 2.411%                  | 1.0                                | 2.421%                      | 1,003.04                                                 |
| 2016B               | 6582562U5          | 6/1/2033      | 6/1/2026                        | 3.000%        | Jun-2033                      | 2.492%                  | 22.0                               | 2.712%                      | 1,001.50                                                 |
| 2016B               | 6582562V3          | 6/1/2034      | 6/1/2026                        | 3.000%        | Jun-2034                      | 2.591%                  | 18.0                               | 2.771%                      | 1,001.19                                                 |
| 2016B               | 6582562W1          | 6/1/2035      | 6/1/2026                        | 3.000%        | Jun-2035                      | 2.725%                  | 5.0                                | 2.775%                      | 1,001.17                                                 |
| 2016B               | 6582562X9          | 6/1/2036      | 6/1/2026                        | 2.500%        | Jun-2036                      | 2.865%                  | 41.0                               | 3.275%                      | 931.42                                                   |
| 2018A               | 6582563P5          | 6/1/2029      | 6/1/2028                        | 5.000%        | Jun-2029                      | 2.250%                  | -20.0                              | 2.050%                      | 1,072.45                                                 |
| 2018A               | 6582563Q3          | 6/1/2030      | 6/1/2028                        | 5.000%        | Jun-2030                      | 2.250%                  | -20.0                              | 2.050%                      | 1,072.45                                                 |
| 2018A               | 6582563R1          | 6/1/2031      | 6/1/2028                        | 5.000%        | Jun-2031                      | 2.320%                  | -27.0                              | 2.050%                      | 1,072.45                                                 |
| 2018A               | 6582563S9          | 6/1/2032      | 6/1/2028                        | 3.000%        | Jun-2032                      | 2.411%                  | 26.0                               | 2.671%                      | 1,008.00                                                 |
| 2018A               | 6582563T7          | 6/1/2033      | 6/1/2028                        | 3.125%        | Jun-2033                      | 2.492%                  | 27.0                               | 2.762%                      | 1,008.81                                                 |
| 2018A               | 6582563U4          | 6/1/2034      | 6/1/2028                        | 3.000%        | Jun-2034                      | 2.591%                  | 23.0                               | 2.821%                      | 1,004.34                                                 |
| 2018A               | 6582563V2          | 6/1/2035      | 6/1/2028                        | 3.000%        | Jun-2035                      | 2.725%                  | 24.0                               | 2.965%                      | 1,000.84                                                 |
| 2018A               | 6582563W0          | 6/1/2036      | 6/1/2028                        | 3.250%        | Jun-2036                      | 2.865%                  | 28.0                               | 3.145%                      | 1,002.52                                                 |
| 2018A               | 6582563X8          | 6/1/2037      | 6/1/2028                        | 3.250%        | Jun-2037                      | 2.990%                  | 27.0                               | 3.260%                      | 999.03                                                   |
| 2018A               | 6582563Y6          | 6/1/2038      | 6/1/2028                        | 3.250%        | Jun-2038                      | 3.103%                  | 16.0                               | 3.263%                      | 998.66                                                   |
| 2019B               | 6582564F6          | 6/1/2026      |                                 | 5.000%        | Jun-2026                      | 2.394%                  | -15.0                              | 2.244%                      | 1,014.52                                                 |
| 2019B               | 6582564K5          | 6/1/2030      | 6/1/2029                        | 5.000%        | Jun-2030                      | 2.250%                  | -20.0                              | 2.050%                      | 1,100.04                                                 |
| 2019B               | 6582564L3          | 6/1/2031      | 6/1/2029                        | 4.000%        | Jun-2031                      | 2.320%                  | -27.0                              | 2.050%                      | 1,066.13                                                 |
| 2019B               | 6582564M1          | 6/1/2032      | 6/1/2029                        | 2.000%        | Jun-2032                      | 2.411%                  | 47.0                               | 2.881%                      | 947.86                                                   |
| 2019B               | 6582564N9          | 6/1/2033      | 6/1/2029                        | 2.000%        | Jun-2033                      | 2.492%                  | 46.0                               | 2.952%                      | 936.11                                                   |
| 2019B               | 6582564P4          | 6/1/2034      | 6/1/2029                        | 3.000%        | Jun-2034                      | 2.591%                  | 23.0                               | 2.821%                      | 1,005.97                                                 |
| 2019B               | 6582564Q2          | 6/1/2035      | 6/1/2029                        | 3.000%        | Jun-2035                      | 2.725%                  | 14.0                               | 2.865%                      | 1,004.49                                                 |

|       |           |          |          |        |          |        |       |        |          |
|-------|-----------|----------|----------|--------|----------|--------|-------|--------|----------|
| 2019B | 6582564R0 | 6/1/2036 | 6/1/2029 | 2.125% | Jun-2036 | 2.865% | 42.0  | 3.285% | 897.40   |
| 2019B | 6582564S8 | 6/1/2037 | 6/1/2029 | 3.000% | Jun-2037 | 2.990% | 5.0   | 3.040% | 996.12   |
| 2019B | 6582564T6 | 6/1/2038 | 6/1/2029 | 3.000% | Jun-2038 | 3.103% | 31.0  | 3.413% | 958.16   |
| 2019B | 6582564U3 | 6/1/2039 | 6/1/2029 | 3.000% | Jun-2039 | 3.218% | 33.0  | 3.548% | 941.49   |
| 2020A | 6582565F5 | 6/1/2031 | 6/1/2030 | 5.000% | Jun-2031 | 2.320% | -22.0 | 2.100% | 1,124.77 |
| 2020A | 6582565G3 | 6/1/2032 | 6/1/2030 | 1.500% | Jun-2032 | 2.411% | 84.0  | 3.251% | 897.67   |
| 2020A | 6582565H1 | 6/1/2033 | 6/1/2030 | 1.625% | Jun-2033 | 2.492% | 81.0  | 3.302% | 888.95   |
| 2020A | 6582565J7 | 6/1/2034 | 6/1/2030 | 1.625% | Jun-2034 | 2.591% | 80.0  | 3.391% | 870.08   |
| 2020A | 6582565K4 | 6/1/2035 | 6/1/2030 | 1.750% | Jun-2035 | 2.725% | 78.0  | 3.505% | 858.80   |
| 2020A | 6582565L2 | 6/1/2036 | 6/1/2030 | 1.875% | Jun-2036 | 2.865% | 74.0  | 3.605% | 849.48   |
| 2020A | 6582565M0 | 6/1/2037 | 6/1/2030 | 2.000% | Jun-2037 | 2.990% | 59.0  | 3.580% | 851.77   |
| 2020A | 6582565N8 | 6/1/2038 | 6/1/2030 | 2.000% | Jun-2038 | 3.103% | 61.0  | 3.713% | 829.56   |
| 2020A | 6582565P3 | 6/1/2039 | 6/1/2030 | 1.875% | Jun-2039 | 3.218% | 72.0  | 3.938% | 785.16   |

- (1) Fixed spreads are shown in basis points and do not include Accrued Interest on the Target Bonds tendered for purchase. Accrued Interest on the Target Bonds tendered and accepted for purchase will be paid by the State to but not including the Settlement Date in addition to the applicable Purchase Price.
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# ILLUSTRATIVE PURCHASE PRICE INTEREST RATE SENSITIVITY CALCULATIONS<sup>(1)</sup>

As a measure of sensitivity of the Purchase Prices to changes in the BVAL Index yield, the following table shows the impact on the BVAL Yield of a 0.10% (10 basis point) change in the BVAL Yield. These Illustrative Purchase Prices are based on yields for the applicable BVAL Index as of October 17, 2025 at approximately 10:00 a.m., New York City time and the Fixed Spreads. This example is being provided for convenience only and is not to be relied upon by a Bondholder as an indication of the Purchase Yield or Purchase Price that may be paid by the State.

| Target Bonds Series | CUSIP <sup>†</sup> | Maturity Date | Optional Redemption Date at Par | Interest Rate | Assuming a 0.10% Increase in BVAL Yields | Illustrative Purchase Price per \$1,000 Principal Amount | Assuming a 0.10% Decrease in BVAL Yields |
|---------------------|--------------------|---------------|---------------------------------|---------------|------------------------------------------|----------------------------------------------------------|------------------------------------------|
| 2016A               | 658256Z62          | 6/1/2027      | 6/1/2026                        | 5.000%        | 1,014.79                                 | 1,015.33                                                 | 1,015.86                                 |
| 2016A               | 658256Z70          | 6/1/2028      | 6/1/2026                        | 5.000%        | 1,014.78                                 | 1,015.31                                                 | 1,015.85                                 |
| 2016A               | 658256Z88          | 6/1/2029      | 6/1/2026                        | 5.000%        | 1,014.81                                 | 1,015.34                                                 | 1,015.88                                 |
| 2016A               | 658256Z96          | 6/1/2030      | 6/1/2026                        | 3.000%        | 1,003.15                                 | 1,003.68                                                 | 1,004.21                                 |
| 2016B               | 6582562N1          | 6/1/2027      | 6/1/2026                        | 5.000%        | 1,014.79                                 | 1,015.33                                                 | 1,015.86                                 |
| 2016B               | 6582562P6          | 6/1/2028      | 6/1/2026                        | 5.000%        | 1,014.78                                 | 1,015.31                                                 | 1,015.85                                 |
| 2016B               | 6582562Q4          | 6/1/2029      | 6/1/2026                        | 4.000%        | 1,009.53                                 | 1,010.07                                                 | 1,010.60                                 |
| 2016B               | 6582562R2          | 6/1/2030      | 6/1/2026                        | 2.000%        | 965.74                                   | 969.89                                                   | 974.07                                   |
| 2016B               | 6582562S0          | 6/1/2031      | 6/1/2026                        | 3.000%        | 1,002.78                                 | 1,003.31                                                 | 1,003.84                                 |
| 2016B               | 6582562T8          | 6/1/2032      | 6/1/2026                        | 3.000%        | 1,002.51                                 | 1,003.04                                                 | 1,003.57                                 |
| 2016B               | 6582562U5          | 6/1/2033      | 6/1/2026                        | 3.000%        | 1,000.98                                 | 1,001.50                                                 | 1,002.03                                 |
| 2016B               | 6582562V3          | 6/1/2034      | 6/1/2026                        | 3.000%        | 1,000.67                                 | 1,001.19                                                 | 1,001.72                                 |
| 2016B               | 6582562W1          | 6/1/2035      | 6/1/2026                        | 3.000%        | 1,000.65                                 | 1,001.17                                                 | 1,001.70                                 |
| 2016B               | 6582562X9          | 6/1/2036      | 6/1/2026                        | 2.500%        | 922.96                                   | 931.42                                                   | 939.96                                   |
| 2018A               | 6582563P5          | 6/1/2029      | 6/1/2028                        | 5.000%        | 1,069.89                                 | 1,072.45                                                 | 1,075.02                                 |
| 2018A               | 6582563Q3          | 6/1/2030      | 6/1/2028                        | 5.000%        | 1,069.89                                 | 1,072.45                                                 | 1,075.02                                 |
| 2018A               | 6582563R1          | 6/1/2031      | 6/1/2028                        | 5.000%        | 1,069.89                                 | 1,072.45                                                 | 1,075.02                                 |
| 2018A               | 6582563S9          | 6/1/2032      | 6/1/2028                        | 3.000%        | 1,005.55                                 | 1,008.00                                                 | 1,010.45                                 |
| 2018A               | 6582563T7          | 6/1/2033      | 6/1/2028                        | 3.125%        | 1,006.37                                 | 1,008.81                                                 | 1,011.26                                 |
| 2018A               | 6582563U4          | 6/1/2034      | 6/1/2028                        | 3.000%        | 1,001.90                                 | 1,004.34                                                 | 1,006.77                                 |
| 2018A               | 6582563V2          | 6/1/2035      | 6/1/2028                        | 3.000%        | 994.65                                   | 1,000.84                                                 | 1,003.26                                 |
| 2018A               | 6582563W0          | 6/1/2036      | 6/1/2028                        | 3.250%        | 1,000.11                                 | 1,002.52                                                 | 1,004.95                                 |
| 2018A               | 6582563X8          | 6/1/2037      | 6/1/2028                        | 3.250%        | 989.54                                   | 999.03                                                   | 1,002.16                                 |
| 2018A               | 6582563Y6          | 6/1/2038      | 6/1/2028                        | 3.250%        | 988.51                                   | 998.66                                                   | 1,002.09                                 |
| 2019B               | 6582564F6          | 6/1/2026      |                                 | 5.000%        | 1,013.98                                 | 1,014.52                                                 | 1,015.05                                 |
| 2019B               | 6582564K5          | 6/1/2030      | 6/1/2029                        | 5.000%        | 1,096.46                                 | 1,100.04                                                 | 1,103.64                                 |

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|       |           |          |          |        |          |          |          |
|-------|-----------|----------|----------|--------|----------|----------|----------|
| 2019B | 6582564L3 | 6/1/2031 | 6/1/2029 | 4.000% | 1,062.61 | 1,066.13 | 1,069.66 |
| 2019B | 6582564M1 | 6/1/2032 | 6/1/2029 | 2.000% | 942.14   | 947.86   | 953.63   |
| 2019B | 6582564N9 | 6/1/2033 | 6/1/2029 | 2.000% | 929.67   | 936.11   | 942.60   |
| 2019B | 6582564P4 | 6/1/2034 | 6/1/2029 | 3.000% | 1,002.62 | 1,005.97 | 1,009.33 |
| 2019B | 6582564Q2 | 6/1/2035 | 6/1/2029 | 3.000% | 1,001.15 | 1,004.49 | 1,007.85 |
| 2019B | 6582564R0 | 6/1/2036 | 6/1/2029 | 2.125% | 889.13   | 897.40   | 905.77   |
| 2019B | 6582564S8 | 6/1/2037 | 6/1/2029 | 3.000% | 986.53   | 996.12   | 1,001.99 |
| 2019B | 6582564T6 | 6/1/2038 | 6/1/2029 | 3.000% | 948.34   | 958.16   | 968.10   |
| 2019B | 6582564U3 | 6/1/2039 | 6/1/2029 | 3.000% | 931.26   | 941.49   | 951.86   |
| 2020A | 6582565F5 | 6/1/2031 | 6/1/2030 | 5.000% | 1,120.17 | 1,124.77 | 1,129.39 |
| 2020A | 6582565G3 | 6/1/2032 | 6/1/2030 | 1.500% | 892.19   | 897.67   | 903.19   |
| 2020A | 6582565H1 | 6/1/2033 | 6/1/2030 | 1.625% | 882.77   | 888.95   | 895.17   |
| 2020A | 6582565J7 | 6/1/2034 | 6/1/2030 | 1.625% | 863.31   | 870.08   | 876.92   |
| 2020A | 6582565K4 | 6/1/2035 | 6/1/2030 | 1.750% | 851.45   | 858.80   | 866.22   |
| 2020A | 6582565L2 | 6/1/2036 | 6/1/2030 | 1.875% | 841.59   | 849.48   | 857.45   |
| 2020A | 6582565M0 | 6/1/2037 | 6/1/2030 | 2.000% | 843.25   | 851.77   | 860.38   |
| 2020A | 6582565N8 | 6/1/2038 | 6/1/2030 | 2.000% | 820.68   | 829.56   | 838.56   |
| 2020A | 6582565P3 | 6/1/2039 | 6/1/2030 | 1.875% | 776.16   | 785.16   | 794.28   |

- (1) This APPENDIX B contains illustrative Purchase Prices as of October 17, 2025. The actual Purchase Prices will be determined through the methodology set forth in "INTRODUCTION - Determination of Purchase Prices." For each CUSIP the calculation of the Purchase Price may be performed to either the maturity date or the optional redemption date at par, in accordance with standard market convention. See APPENDIX C to this Invitation for an overview of the calculation of the Purchase Price (including additional detail regarding the use of optional redemption dates at par in such calculations).

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**APPENDIX C**  
**PURCHASE PRICE FORMULA**

|                            |   |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| YLD                        | = | The Purchase Yield for the applicable series of Target Bonds, expressed as a decimal number. The Purchase Yield equals the sum of the applicable Reference Yield and the applicable Fixed Spread.                                                                                                                                                                                                                                      |
| CPN                        | = | The contractual rate of interest payable on a Target Bond, calculated in accordance with the terms of such Target Bond, expressed as a decimal number.                                                                                                                                                                                                                                                                                 |
| n                          | = | For all series of Target Bonds, the number of remaining interest payment dates for the Target Bonds from (but excluding) the Settlement Date, to (and including) their maturity date or the par call date, as applicable.                                                                                                                                                                                                              |
| CF <sub>i</sub>            | = | The aggregate amount per \$1,000 principal amount scheduled to be paid on the Target Bonds on the "i-th" out of the n remaining interest payment dates for the Target Bonds, assuming for this purpose that the Target Bonds are redeemed on the par call date or paid down on the maturity date, as applicable.* Scheduled payments include interest and, on the applicable par call date or maturity date, as applicable, principal. |
| t <sub>i</sub>             | = | The number of days from and including the Settlement Date to but excluding the "i-th" payment date out of the n remaining interest payment dates for the Target Bonds. The number of days is computed using the 30/360 day count method in accordance with market convention.                                                                                                                                                          |
| S                          | = | The number of days from and including the last interest payment date for the Target Bonds to but excluding the Settlement Date. The number of days is computed using the 30/360 day count method in accordance with market convention.                                                                                                                                                                                                 |
| / or —                     | = | Divide. The term immediately to the left of the division symbol is divided by the term immediately to the right of the division symbol before any addition or subtraction operations are performed.                                                                                                                                                                                                                                    |
| $\sum_{i=1}^n$             | = | Summate. The term in the brackets to the right of the summation symbol is separately calculated "n" times (substituting for "i" in that term each whole number between 1 and n, inclusive) and the separate calculations are then added together.                                                                                                                                                                                      |
| exp                        | = | Exponentiate. The term to the left of "exp" is raised to the power indicated by the term to the right of "exp."                                                                                                                                                                                                                                                                                                                        |
| Accrued Interest           | = | $\$1,000 \times (CPN/2) \times (S/180)$                                                                                                                                                                                                                                                                                                                                                                                                |
| Purchase Price             | = | The price per each \$1,000 principal amount of Target Bonds (excluding Accrued Interest). A tendering Holder will receive a total amount per \$1,000 principal amount (rounded to the nearest cent) equal to the Purchase Price plus Accrued Interest.                                                                                                                                                                                 |
| Formula for Purchase Price | = | $\sum_{i=1}^n \left[ \frac{CF_i}{\left(1 + \frac{YLD}{2}\right) \exp\left(\frac{t_i}{180}\right)} \right] - \text{Accrued Interest}$                                                                                                                                                                                                                                                                                                   |

*\* If the Purchase Yield as determined in accordance with this Invitation is less than the contractual annual rate of interest on a particular Target Bonds, then the calculation will assume the payments of such Target Bonds are through the par call date of such Target Bonds; if the Purchase Yield as determined in accordance with this Invitation is higher than or equal to the contractual annual rate of interest on a particular Target Bonds, then the calculation will assume that the payments of such Target Bonds are through the maturity date of such Target Bonds. The principal of Term Bonds assumed to be paid down on their maturity date are priced as if the entire principal amount of such Term Bonds is paid on the applicable maturity date and sinking fund installments for such Term Bonds are disregarded*