



OFFICE OF THE
STATE CONTROLLER

STATE OF NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING JUNE 30, 2020

On the cover: For centuries, the treacherous waters off the Outer Banks of North Carolina claimed many ships. In the Northern section of those waters, ships travelling close to shore to avoid the Gulf Stream could easily get shipwrecked against the shoreline.

In response, the Currituck Beach Lighthouse was built and on December 1, 1875, the lighthouse first glowed as a beacon to passing ships.

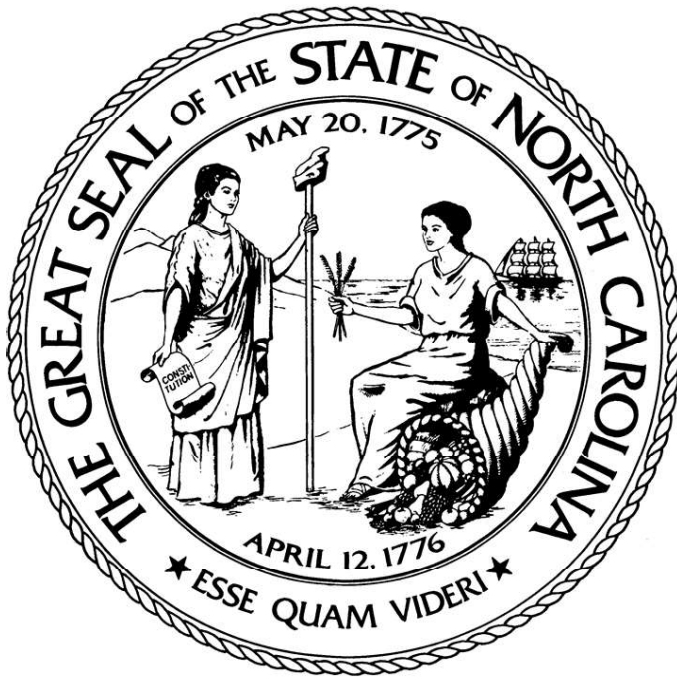
The Currituck Beach Lighthouse still functions today as a guide for passing mariners. At 162 feet tall, the light can be seen for 18 nautical miles as the light rotates in 20-second increments.

This lighthouse has a distinctive red exterior. This design sets the Currituck Lighthouse apart from others along North Carolina's Outer Banks. After completion, the lighthouse was left unpainted, allowing visitors to marvel at the number of bricks involved in its construction.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2020



ROY COOPER
GOVERNOR

LINDA COMBS
STATE CONTROLLER

Prepared by Statewide Accounting staff
Office of the State Controller

<https://www.osc.nc.gov>

This report was prepared by the
Statewide Accounting staff of the North Carolina Office of the State Controller.

Anne Godwin, CPA
Deputy State Controller
Statewide Accounting
anne.godwin@osc.nc.gov

Elizabeth Colcord, CPA
Accounting and Financial Reporting
Manager
elizabeth.colcord@osc.nc.gov

Taylor Brumbeloe
Central Compliance
Manager
taylor.brumbeloe@osc.nc.gov

Statewide Accounting staff

Sandra Barnes, CPA
Kim Battle, MBA
Barry Brown, CPA
Joannie Burtoft, MBA

Joy Darden, MSA
Shivani Jani, CPA
Laura Klem, CPA
Ellen H. Rockefeller, CPA

Joan T. Saucier, CPA
Troy Scoggins, CPA
Virginia Sisson

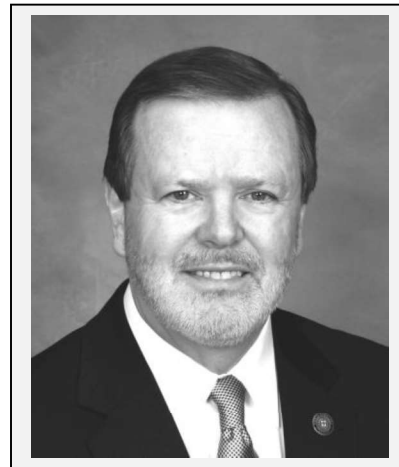
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



ROY COOPER
Governor of North Carolina



REPRESENTATIVE TIM MOORE
Speaker of the House
North Carolina General Assembly



SENATOR PHILIP BERGER
President Pro Tempore
North Carolina General Assembly



LINDA COMBS
State Controller

TABLE OF CONTENTS*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020*

INTRODUCTORY SECTION		Page
Letter of Transmittal.....		8
Certificate of Achievement for Excellence in Financial Reporting.....		19
Organization of North Carolina State Government, including principal state officials.....		20
FINANCIAL SECTION		
Report of Independent Auditor.....		24
Management's Discussion and Analysis.....		28
<i>Basic Financial Statements</i>		
<u>Government-wide Financial Statements</u>		
Statement of Net Position — Exhibit A-1.....		50
Statement of Activities — Exhibit A-2.....		52
<u>Fund Financial Statements</u>		
Balance Sheet—Governmental Funds — Exhibit B-1.....		56
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position — Exhibit B-1a.....		57
Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds — Exhibit B-2.....		58
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities — Exhibit B-2a.....		59
Statement of Net Position—Proprietary Funds — Exhibit B-3.....		60
Statement of Revenues, Expenses and Changes in Fund Net Position—Proprietary Funds — Exhibit B-4.....		64
Statement of Cash Flows—Proprietary Funds — Exhibit B-5.....		66
Statement of Fiduciary Net Position—Fiduciary Funds — Exhibit B-6.....		70
Statement of Changes in Fiduciary Net Position—Fiduciary Funds — Exhibit B-7.....		71
Notes to the Financial Statements.....		72
<i>Required Supplementary Information</i>		
Schedule of Changes in the Net Pension Liability and Related Ratios—Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans.....		198
Schedule of Changes in the Net Pension Liability and Related Ratios—Single-Employer, Defined Benefit Pension Plans.....		202
Schedule of Employer and Nonemployer Contributions—Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans.....		206
Schedule of Employer and Nonemployer Contributions—Single-Employer, Defined Benefit Pension Plans.....		208
Schedule of Investment Returns—All Defined Benefit Pension Plans.....		210
Notes to Required Supplementary Information—Schedule of Employer Contributions.....		212
Schedule of the Primary Government's and Component Units' Proportionate Share of the Net Pension Liability.....		216
Schedule of the Primary Government's (Nonemployer) Proportionate Share of the Net Pension Liability.....		218
Schedule of the Primary Government's and Component Units' Contributions—Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans.....		220
Schedule of Changes in the Total Pension Liability and Related Ratios—Single Employer, Defined Benefit Pension Plans.....		224
Notes to Required Supplementary Information—Schedule of Total Pension Liability.....		225
Schedule of Changes in the Net OPEB Liability and Related Ratios—Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans.....		229
Schedule of Employer Contributions—Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans.....		230
Schedule of Investment Returns—All Defined Benefit OPEB Plans.....		232
Notes to Required Supplementary Information—Schedule of Employer Contributions.....		233
Schedule of the Primary Government's and Component Units' Proportionate Share of the Net OPEB Liability.....		237
Schedule of the Primary Government's and Component Units' Proportionate Share of the Net OPEB Asset.....		238
Schedule of the Primary Government's and Component Units' Contributions—Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans.....		239
Schedule of Revenues, Expenditures and Changes in Fund Balance —Budget and Actual—(Budgetary Basis—Non-GAAP) General Fund.....		242
Notes to Required Supplementary Information—Budgetary Reporting.....		243

*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020*

Combining Fund Statements and Schedules

<u>Nonmajor Governmental Funds</u>	Page
Combining Balance Sheet—Nonmajor Governmental Funds — Exhibit C-1.....	250
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds — Exhibit C-2.....	251
Combining Balance Sheet—Nonmajor Special Revenue Funds — Exhibit C-3.....	254
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Special Revenue Funds — Exhibit C-4.....	256
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances —Budget and Actual (Budgetary Basis—Non-GAAP) Nonmajor Special Revenue Funds — Exhibit C-5.....	258
Combining Balance Sheet—Nonmajor Capital Projects Funds — Exhibit C-6.....	262
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Capital Projects Funds — Exhibit C-7.....	263
Combining Balance Sheet—Nonmajor Permanent Funds — Exhibit C-8.....	266
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Permanent Funds — Exhibit C-9.....	267
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances —Budget and Actual (Budgetary Basis—Non-GAAP) Nonmajor Permanent Funds — Exhibit C-10.....	268

Proprietary Funds

Nonmajor Enterprise Funds

Combining Statement of Net Position—Nonmajor Enterprise Funds — Exhibit D-1.....	274
Combining Statement of Revenues, Expenses and Changes in Fund Net Position—Nonmajor Enterprise Funds — Exhibit D-2.....	278
Combining Statement of Cash Flows—Nonmajor Enterprise Funds — Exhibit D-3.....	280

Internal Service Funds

Combining Statement of Net Position—Internal Service Funds — Exhibit E-1.....	286
Combining Statement of Revenues, Expenses and Changes in Fund Net Position—Internal Service Funds — Exhibit E-2.....	288
Combining Statement of Cash Flows—Internal Service Funds — Exhibit E-3.....	290

Fiduciary Funds

Combining Statement of Fiduciary Net Position—Investment Trust Funds — Exhibit F-1.....	296
Combining Statement of Changes in Fiduciary Net Position—Investment Trust Funds — Exhibit F-2.....	297
Combining Statement of Fiduciary Net Position—Private Purpose Trust Funds — Exhibit F-3.....	300
Combining Statement of Changes in Fiduciary Net Position—Private Purpose Trust Funds — Exhibit F-4.....	301
Combining Statement of Changes in Assets and Liabilities—Agency Funds — Exhibit F-5.....	304

Component Units - Discretely Presented

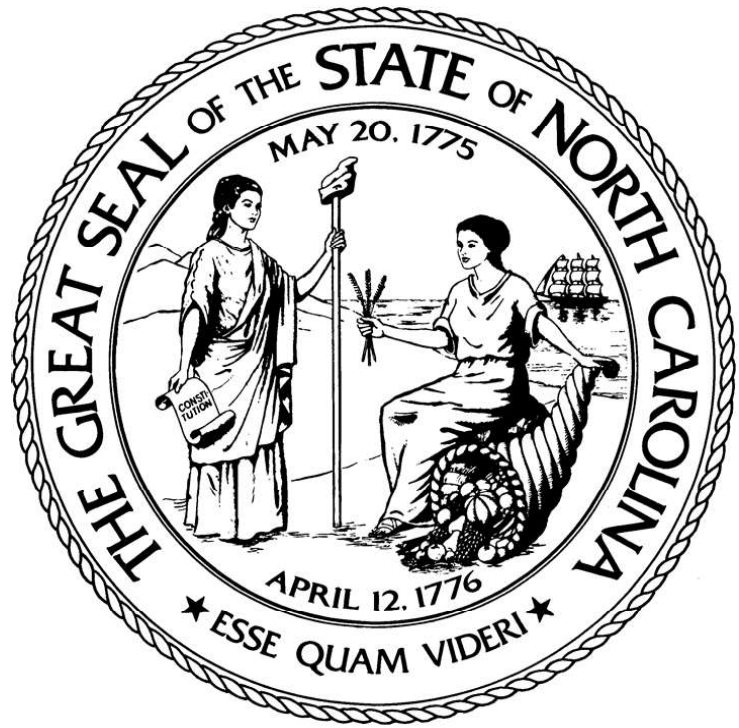
Combining Statement of Net Position—Nonmajor Component Units — Exhibit G-1.....	310
Combining Statement of Activities—Nonmajor Component Units — Exhibit G-2.....	312
Statement of Cash Flows—Major Component Unit — Exhibit G-3.....	314

STATISTICAL SECTION

Index to Statistical Section.....	317
Net Position by Component — Table 1.....	318
Changes in Net Position — Table 2.....	320
Fund Balances of Governmental Funds — Table 3.....	324
Changes in Fund Balances of Governmental Funds — Table 4.....	326
Schedule of Revenues by Source — General Fund — Table 5.....	328
Personal Income by Industry — Table 6.....	330
Individual Income Tax Filers and Liability & Individual Income Tax Rates — Table 7.....	332
Taxable Sales by Business Group — Table 8.....	334
Sales Tax Revenue Payers by Business Group — Table 9.....	336
Ratios of Outstanding Debt by Type — Table 10.....	342

*Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020*

	Page
Ratios of General Bonded and Similar Debt Outstanding — Table 11.....	344
Schedule of General Obligation Bonds Payable — Table 12.....	346
Schedule of Special Indebtedness Debt — Table 13.....	348
Pledged Revenue Coverage — Table 14.....	350
Schedule of Demographic Data — Table 15.....	354
Principal Employers — Table 16.....	356
Teachers and State Employees by Function — Table 17.....	358
Operating Indicators by Function — Table 18.....	360
Capital Asset Statistics by Function — Table 19.....	364
Required Supplementary Information—Ten-Year Claims Development Information—Public School Insurance Fund — Table 20.....	368



INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 4, 2020

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

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2020 Comprehensive Annual Financial Report (CAFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

North Carolina's State government management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. Turnpike Authority, and the N.C. State Lottery Fund. The MD&A can be found immediately following the independent auditor's report.

Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee, and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 10.6 million, making it the 9th most populated state in the nation. Ninety-four percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on the western border. There are 80,159 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85, and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina is ranked in the top three states by *Site Selection*, *CNBC*, and *Forbes* magazines for doing business. *Forbes* ranked North Carolina number one for the third year in a row for the best state for business.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State..." All administrative departments, agencies, and offices of the State and their respective functions, powers, and duties shall be allocated by law among and within not more than 25 principal administrative departments.

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions, and authorities governed and legally controlled by the State's executive, legislative, and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, and the State Health Plan. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1, Summary of Significant Accounting Policies, of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment compliance exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriations Bill. The budget approved by the General Assembly is the legal expenditure authority; however, the Office of State Budget and Management may approve executive changes to the legal budget as allowed by law. These changes result in the final budget presented in the required supplementary information.

Economic Condition

Overview

For most of fiscal year 2019-20, the national economy grew steadily. In March, the economy nosedived with the outbreak of COVID-19 in the U.S. and the implementation of containment measures. After peaking in February, U.S. economic activity fell an estimated 9% during the second quarter of 2020, ending the expansion that began in June 2009. The economy rebounded in May and June but was still operating well below where it had been in February.

The State economy followed a similar progression, with public health measures undertaken in response to COVID-19 significantly impacting economic activity and employment beginning in March. Industry employment in North Carolina was on pace to add over 80,000 jobs for the fiscal year but ended fiscal year 2019-20 with 348,100 fewer jobs. Job losses for the fiscal year represented a 7.6% decline. A few key industries were hurt the most by the health and economic crises: Leisure & Hospitality Services had the largest job decrease at 136,200 jobs lost (-26.5%), followed by Education & Health Services down 39,800 (-6.3%), and Manufacturing down 38,100 jobs (-8.0%). The only industry sector that lost no jobs during the fiscal year was the Financial Activities sector, which was up only 300 jobs (0.1%).

The State's unemployment rate increased from 4.0% at the start of the fiscal year to 7.6% in June 2020. Wage and salary income grew by 2.1%, compared to growth last fiscal year of 5.6%.

The State began a phased reopening of businesses in May. By June 2020, the severe, short-term recession had ended, and the economy was beginning to recover. While the economy is now in a recovery phase, it has a long way to go to recoup the losses experienced in the last quarter of the fiscal year.

<i>National Economic Outlook</i>	United States Economic Indicators			
	FY 2018-19 Actual	FY 2019-20 Projected	FY 2020-21 Projected	FY 2021-22 Projected
GDP Growth*	2.3%	-9.1%	6.6%	5.2%
Personal Income Growth	4.9%	5.3%	-0.9%	1.4%
Corporate Pre-Tax Profit Growth	3.3%	-3.3%	-2.3%	10.2%
Retail Sales Growth	4.5%	0.3%	4.2%	4.7%
Unemployment Rate	3.6%	11.1%	8.7%	6.7%
Consumer Price Index	2.1%	1.6%	1.6%	2.3%
30-yr Fixed Mortgage Interest Rate	4.4%	3.5%	3.0%	3.5%

*Adjusted for inflation

The U.S. economy maintained a steady, although not robust, pace of growth during the first half of the fiscal year, never increasing above 2.5% growth. But as a result of the last quarter's economic shutdown, growth in the national Gross Domestic Product (GDP, a broad measure of economic activity) was negative at -9.1% for the fiscal year, falling at an annualized rate of -31.7% during the last quarter. The next two fiscal years' growth in economic activity is expected to reflect the rebound from the shutdown, growing by 6.6% and 5.2%, respectively. The economy is not expected to fully recover from the pandemic's losses until early 2022.

The national unemployment rate was below 4% when the fiscal year began but spiked to over 15% in April 2020. The bounce back from the economic losses lowered the unemployment rate to 11.1%. By the end of the fiscal year the nation's total personal income rose by 5.3%. Part of this income growth was due to transfer payments, such as those in the multi-trillion-dollar stimulus package enacted by the federal government (i.e., P.L. 116-136, the Coronavirus Aid, Relief, and Economic Security Act). A projection for very weak growth and the reduction of federal support suggests that personal income will drop -0.9% in fiscal year 2020-21, with anemic growth of 1.4% the following fiscal year.

Business profitability growth fell 3.3% during the fiscal year. Most of the weakness in profits occurred in 2020. The projected growth for the next two fiscal years reflects a slowly recovering national economy with a full rebound in corporate profits by 2022. For the next two years, profits are forecast to fall another -2.3% in 2021 with a strong rebound of 10.2% the following year.

Retail sales are a good indicator of an economy's overall health. This key measure, which was fairly strong in the previous fiscal year at 4.5% growth, dropped to 0.3% growth in fiscal year 2019-20. That pace of growth is indicative of how rapidly the economy slowed in the first half of 2020. Retail sales are expected to return to an average growth rate next fiscal year of 4.2%.

To summarize, the national economy was continuing to expand in fiscal year 2019-20, but the global pandemic created havoc, bringing much of the economy to a halt in the last quarter. Employment losses put the unemployment rate at 11.1% in June 2020. The national economy is expected to improve, but only at a pace mirroring the speed with which the pandemic recedes.

North Carolina Economic Indicators		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
<i>North Carolina Economic Outlook</i>		Actual	Projected	Projected	Projected
State Gross Product Growth*		2.4%	-0.9%	-1.2%	4.9%
Personal Income Growth		5.3%	6.9%	-1.2%	0.3%
Wages & Salaries Growth		5.6%	2.1%	-2.9%	3.5%
Retail Sales Growth		3.9%	2.3%	1.2%	4.8%
Unemployment Rate		3.8%	7.6%	8.5%	8.3%
Nonfarm Employment Growth		2.0%	-10.4%	6.0%	3.1%
Population Growth		1.0%	1.0%	0.8%	0.9%

For North Carolina, as with the nation, the economy had grown steadily, and the pace of growth was tracking closely with economic expectations at the start of the fiscal year. The onset of the pandemic took the same toll on the State as it did nationally. In late March and April, North Carolina experienced a significant decline in economic activity. The economy rebounded from the initial response to the virus in May and June, but the economy was operating well below where it had been in February.

North Carolina had moved into a stronger expansionary phase by 2018, and the State was expected to continue solid progress in employment growth. The unemployment rate was 4.0% at the start of the fiscal year but rose to 7.6% at the end. The State's unemployment rate peaked in April at 12.9% from the initial shutdown of the economy. For fiscal year 2019-20, total personal income rose by 6.9%. Some of this income growth reflects the strength of the economy during the first half of the fiscal year, but the growth also reflects how federal relief to families and businesses helped support incomes during the onset of the pandemic.

Retail sales slowed somewhat in the last quarter of the fiscal year but overall grew by 2.3% over the prior fiscal year. Retail sales remained positive due primarily to the federal relief programs, which bolstered income and sales through July.

Projections of the State's key economic indicators reflect how the economy is expected to unfold during the next two fiscal years. Gross State Product, a broad measure of the State's economic activity, is expected to decline further next fiscal year followed by a modest rebound in fiscal year 2021-22. Likewise, total personal income is expected to decline by 1.2% next fiscal year with only 0.3% growth expected the following fiscal year. Retail sales are expected to weaken to 1.2% growth next fiscal year. An improving economy in 2021 is expected to support an increase in household consumption similar to pre-pandemic levels.

The State is estimated to have added 122,400 people to its population during the fiscal year and by July 2022, the State's population is projected to grow to almost 10.9 million, an increase of nearly 366,000 people since July 2019. Continued population growth will assist with economic growth by adding demand for housing, durable and non-durable goods, and services. In turn, growth in personal income and retail sales will help improve the economy.

To summarize, the State's economy experienced improvement during the first part of the fiscal year. During the last quarter of the fiscal year, the pandemic caused economic activity to plummet. Economic conditions in the State are projected to slowly improve as the impact of the virus lessens. The State should expect growth to be below the national average throughout the next fiscal year. It is unlikely that the State's economy will return to pre-pandemic levels until 2022.

*— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
& Emma Turner, Economist
Fiscal Research Division, North Carolina General Assembly
October 13, 2020*

Long-Term Financial Planning and Major Initiatives

North Carolina Pension Funds

The North Carolina Retirement System administers four major retirement systems and several smaller systems and pension funds. The largest of the major retirement systems is the Teachers' and State Employees' Retirement System (TSERS).

Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2020, the State established an employer contribution rate of 14.78% of compensation for TSERS. This contribution rate is set by the General Assembly and is equal to the Actuarially Determined Contribution determined by the Retirement System's actuary. This is also the rate recommended by the TSERS Board of Trustees under the Board's Employer Contribution Rate Stabilization Policy (ECRSP).

The ECRSP was established in 2016 as a mechanism for the Board of Trustees to use for making recommendations to the General Assembly for employer contribution rates for TSERS for fiscal years ending 2018-2022. The purpose of this policy is to aid in mitigating the risk that average investment returns earned on TSERS assets are below the actuarial assumed investment return over the short and medium term.

With the ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is no less than 0.35 percent of payroll greater than the appropriated contribution from the prior fiscal year, within the following bounds: 1) contributions may not be less than the actuarially determined contribution rate using the assumptions adopted, including a discount rate equal to the assumed rate of investment return used in the current year's valuation; and 2) contributions may not be greater than the actuarially determined contribution rate determined using the assumptions adopted, but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

Retiree Health Benefits

Legislation passed during the 2017 Legislative Session will close the Retiree Health Benefit Trust. Members hired on or after January 1, 2021 will not be eligible to receive retiree medical benefits. Under this legislation, retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn from service, to be eligible for retiree medical benefits.

Unfunded Liability Solvency Reserve

Session Law 2018-30 created the Unfunded Liability Solvency Reserve within the State's General Fund. The purpose is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce the unfunded liabilities associated with TSERS and the Retiree Health Benefit Fund (RHBF). The Solvency Reserve will receive funds specifically designated by the General Assembly. To the extent the Savings Reserve has reached its statutory maximum, the Solvency Reserve also will receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability.

Enterprise Resource Planning (ERP)

The North Carolina General Assembly allocated funds during the 2017-2019 biennium to continue to develop a fully consolidated statewide Enterprise Resource Planning (ERP) solution. The State has determined that the initial phase of this ERP should address replacement of the North Carolina Accounting System (NCAS) and the Cash Management Control System (CMCS) and has contracted with Deloitte Consulting for the implementation of Oracle Financials Cloud as the Financial Backbone Replacement solution. The project team is currently in the implementation phase for Release One which is the replacement of Cash Management Control System (CMCS) and is scheduled to go-live in April 2021.

Relevant Financial Policies

Savings Reserve

Session Law 2017-5 amended General Statute 143C-4-2 creating the Savings Reserve in the General Fund. The Reserve is a component of the unappropriated General Fund balance. Funds in 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, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and the House of Representatives present and voting for the following purposes: 1) to cover a decline in General Fund tax revenue from one fiscal year to another, 2) to cover the difference between that fiscal year's General Fund operating budget appropriations, excluding receipts and projected revenue, 3) to pay costs imposed by a court or administrative order, or 4) to provide relief and assistance from the effects of an emergency. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies.

Each year the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly shall jointly determine the adequacy of the Savings Reserve, based on the volatility of the State's tax structure and determine a target for the Savings Reserve, 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. In 2020, the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly recommended a target of 10.9% of the prior fiscal year's General Fund operating budget appropriations. At June 30, 2020, the Savings Reserve was \$1.17 billion, which represents 4.88% of the prior year's General Fund appropriation budget.

At the beginning of fiscal year 2019-20, the balance of the Savings Reserve Account was \$1.25 billion. The 2019 General Assembly authorized the transfer of \$36.56 million from the Unreserved Fund Balance to the Savings Reserve, the transfer of \$33.17 million from the Savings Reserve to the State Emergency/Response Disaster Reserve, \$70.81 million to the Department of Public Safety, and \$17.6 million to the Department of Environmental Quality leaving a balance in the Savings Reserve of \$1.17 billion.

Repairs and Renovations Reserve Account

General Statute 143C-4-3 established the Repairs and Renovations Reserve Account (R&R Account) as a reserve in the General Fund. The State Controller "shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year."

The funds in the R&R Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the R&R Account shall be available for expenditure only upon an act of appropriation by the General Assembly. At the end of fiscal year 2019-20, the balance of the R&R Account was \$11.59 million. The 2017 General Assembly repealed the Repairs and Renovations Reserve Account effective July 1, 2019 and replaced it with the State Capital and Infrastructure Fund. The remaining balance of \$11.59 million was transferred in August 2020 to Western Carolina University for a repair and renovation project leaving a balance of \$0.00 in the reserve for the 2021 fiscal year.

State Capital and Infrastructure Fund

The 2017 General Assembly established the State Capital and Infrastructure Fund, effective July 1, 2019. This replaces the Repairs and Renovations Reserve Account. The General Assembly recognized the need to establish and maintain a sufficient funding source to address the ongoing capital and infrastructure needs of the State. The Fund shall consist of 1) one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of the fiscal year; 2) four percent of the net State tax revenues that are deposited in the General Fund during the fiscal year; 3) all monies appropriated by the General Assembly for the purposes of capital improvements; 4) all interest and investment earnings received on monies in the Fund; and 5) any other funds as directed by the General Assembly.

2020 COVID-19 Recovery Act

The 2020 COVID-19 Recovery Act (Act) (Session Law 2020-4) authorized the Office of the State Controller to establish the Coronavirus Relief Reserve in the General Fund to maintain funds received from the federal government through the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak in North Carolina. Additionally, the Act established the Coronavirus Relief Fund to provide necessary and appropriate relief and assistance from the effects of COVID-19. The special fund is administered by the Office of State Budget and Management. Subsequent legislation (Session Law 2020-32, Session Law 2020-53, and Session Law 2020-80) authorized additional spending of the Coronavirus Relief funds received from the CARES Act. The State of North Carolina received \$3.59 billion directly from the federal government from the CARES Act in fiscal year 2020. By June 30, 2020 \$173.45 million had been spent on COVID-19 relief. The remaining \$3.41 billion was reported as unearned revenue.

Debt Affordability Guidelines

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is also required to recommend other debt management policies consistent with sound management of the State's debt. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The 2020 study indicated over the ten-year planning horizon the State's revenue picture is positive overall, reflecting a continued economic recovery. The study found that the State's General Fund has debt capacity of \$1.1 billion in each of the next ten years after incorporating the Committee's policy that directs resources to unfunded pension and OPEB liabilities. The ratio of debt service to revenues was projected to peak at 2.95% in fiscal year 2020. This rate is below the 4.0% target. The debt service arising from the Connect NC Bonds and Build NC Bonds is incorporated into the model.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt the State could prudently authorize and issue over the next ten years:

1. Net Tax-Supported Debt service after a continuing appropriation of \$100 million to the Solvency Fund as a percentage of General Tax Revenues should be targeted at no more than 4.0% and not to exceed 4.75%;
2. Net Tax-Supported Debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of twelve other states rated "triple-A."

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019. This was the 26th consecutive year (1994 to 2019) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our gratitude to all the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 707-0500.

Respectfully submitted,



Linda Combs
State Controller

THIS PAGE INTENTIONALLY LEFT BLANK.

CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

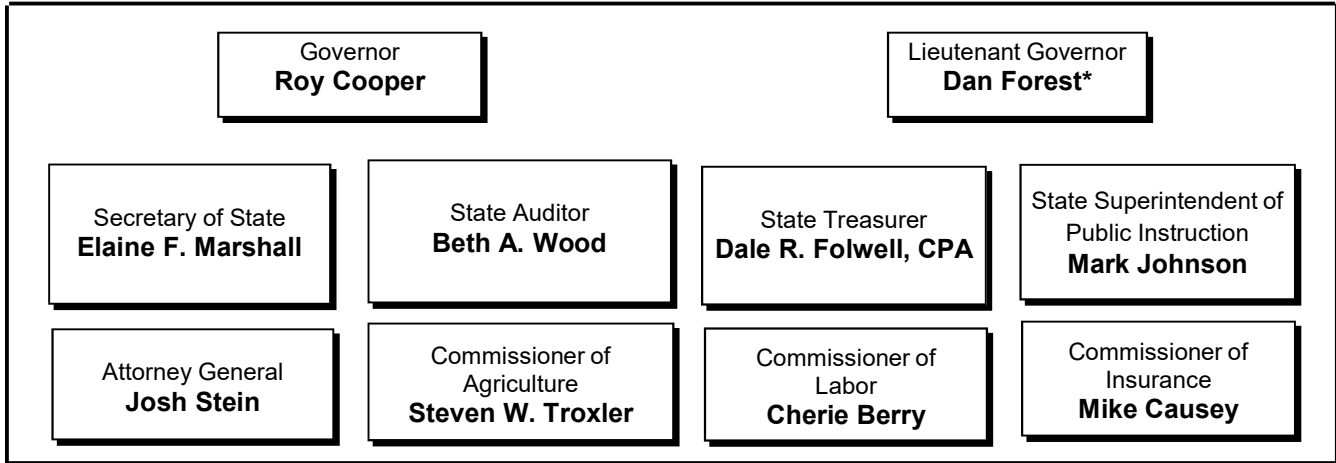
Christopher P. Morrill

Executive Director/CEO

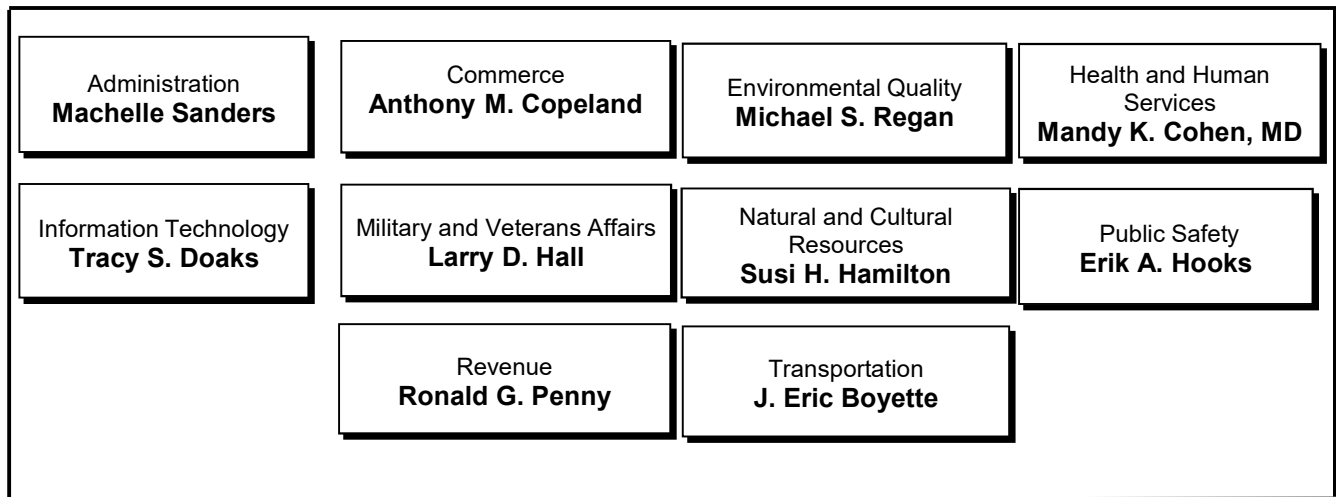
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



*Appointed by Governor,
Confirmed by Legislature*

State Controller
Dr. Linda Combs

*Appointed by State Board of
Community Colleges*

Community College System
**Peter Hans
President**

*Appointed by University
Board of Governors*

University of North Carolina
System
**William L. Roper
Interim President**

LEGISLATIVE BRANCH

JUDICIAL BRANCH

Senate	House of Representatives
President Pro Tempore Philip Berger	Speaker Tim Moore
Deputy Pres. Pro Tempore Ralph Hise	Speaker Pro Tempore Sarah Stevens
Majority Leader Harry Brown	Majority Leader John R. Bell, IV
Minority Leader Dan Blue	Minority Leader Darren G. Jackson

*Note:
Article II of the NC Constitution provides that the Lieutenant Governor shall serve as President of the Senate.

North Carolina Supreme Court

Chief Justice
Cheri Beasley

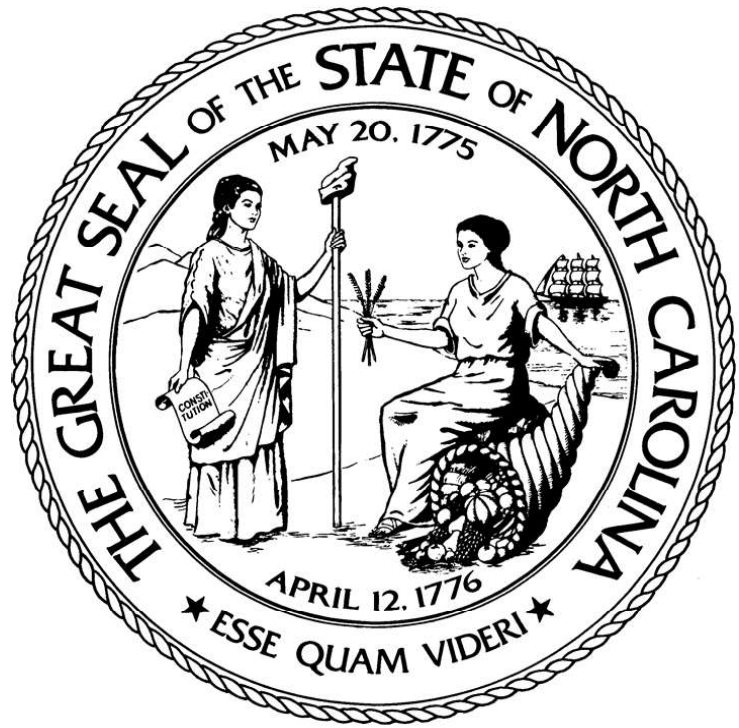
Associate Justices
Paul Newby
Robin Hudson
Samuel Ervin IV
Michael Morgan
Anita Earls
Mark Davis

Administrative
Office of the Courts
McKinley Wooten Jr.
Director

Component Units

University of North Carolina System	Community Colleges	State Health Plan
Other Component Units		

THIS PAGE INTENTIONALLY LEFT BLANK.



FINANCIAL SECTION



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.auditor.nc.gov>

INDEPENDENT AUDITOR'S REPORT

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina

Report on the Financial Statements

We have audited the accompanying 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, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 2 percent and 36 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Turnpike Authority, which is a major enterprise fund and represents 30 percent and 1 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 5 percent and 2 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 9 percent and 1 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The financial statements of the University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, which represent 4 percent and 6 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.
- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 9 percent and 16 percent, respectively, of the assets and revenues of the aggregate remaining fund information.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent and 2 percent, respectively, of the assets and revenues of the aggregate remaining fund information.
- The financial statements of the North Carolina Department of State Treasurer Investment Programs, which represent 87 percent and 30 percent, respectively, of the assets and revenues of the aggregate remaining fund information; 13 percent of the assets of the business-type activities; and 15 percent of the assets of the governmental activities.

The financial statements and transactions listed above were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to these amounts, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, although not 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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, introductory section, and statistical section 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 by us and other auditors 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, based on our audit, the procedures performed as described previously, and the reports of other auditors, the combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 4, 2020, 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 solely 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 the 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.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2020



*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, 2020. 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 \$2.47 billion or 4.53% as a result of this year's operations. Net position of governmental activities increased by \$3.24 billion (or 6.72%) while net position of business-type activities decreased by \$767.06 million (or 12.14%). At year-end, net position of governmental activities and business-type activities totaled \$51.43 billion and \$5.55 billion, respectively.
- Component units reported net position of \$16.21 billion, an increase of \$818.09 million or 5.31% 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 increased from \$5.96 billion at June 30, 2019 (as restated) to \$6.43 billion at June 30, 2020, an increase of 7.95%.
- The fund balance of the Highway Fund increased from negative \$595.63 million at June 30, 2019 to a negative \$330.19 million at June 30, 2020, an increase of 44.57% from the previous year. This increase was mainly due to a decrease in liabilities. Construction and maintenance expenditures and supplies and material expenditures decreased due to the cash shortage, resulting in an overall decrease in accounts payable.
- The Highway Trust Fund reported a fund balance of \$1.22 billion, a decrease of 29.42% from the previous year. The fund balance decrease was mainly due to a decrease in assets resulting from the use of proceeds from the Build NC Bonds for transportation projects.
- The Unemployment Compensation Fund reported net position of \$3.02 billion at June 30, 2020 compared to \$3.88 billion at June 30, 2019, a decrease of \$859.72 million or 22.14%. The decrease in net position is due almost entirely to the Coronavirus pandemic and significant increase in the unemployment rate and unemployment benefits paid for the last quarter of the 2019-20 fiscal year.
- The N.C. State Lottery Fund reported net ticket sales of \$3.02 billion, an increase of 5.48% from the previous year. As required by law, the Lottery transferred \$729.4 million to the General Fund to support educational programs.
- The N.C. Turnpike Authority (NCTA) reported net position of \$352.4 million, a decrease of 12.08% from the previous year. While toll revenues increased \$8.6 million or 14.91%, the NCTA had an operating loss of \$18.67 million. The NCTA also had a \$20.03 million increase in nonoperating expenses due to interest expense increases related to debt issued during the fiscal year.
- The EPA Revolving Loan Fund reported net position of \$1.94 billion, an increase of 6.28% from the previous year. Operating income was \$10.53 million, and net nonoperating revenues of \$74.19 million consisted primarily of federal capitalization grants and investment earnings.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was \$59.75 billion, an increase of 5.49% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for State highway projects (\$2.74 billion), an expressway project (\$225.75 million), a new system for managing and administering social service benefits (\$679.38 million), and a new laboratory complex (\$66.6 million).

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.48 billion, an increase of 6.03% from the previous fiscal year-end. The State issued \$600 million in general obligation bonds for its governmental activities. Additionally, the NCTA, a business-type activity, issued \$486.95 million in revenue bonds.
- In connection with the general 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 thirteen states with a triple-A rating from all three rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 of 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 53) 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 74. 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 178 and 179).

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 249 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 our 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, investment trust funds, and agency 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 72 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 \$56.98 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, 2020 and 2019 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2019-20
	2019		2019		2019		
	2020	(as restated)	2020	(as restated)	2020	(as restated)	
Current and other non-							
current assets.....	\$ 19,522,925	\$ 15,565,889	\$ 6,686,115	\$ 6,536,920	\$ 26,209,040	\$ 22,102,809	18.58%
Capital assets, net.....	57,504,322	54,696,395	2,244,625	1,940,446	59,748,947	56,636,841	5.49%
Total assets.....	<u>77,027,247</u>	<u>70,262,284</u>	<u>8,930,740</u>	<u>8,477,366</u>	<u>85,957,987</u>	<u>78,739,650</u>	9.17%
Total deferred outflows							
of resources.....	2,361,920	2,269,300	63,347	63,418	2,425,267	2,332,718	3.97%
Long-term liabilities.....	16,679,814	15,974,879	2,433,214	1,860,948	19,113,028	17,835,827	7.16%
Other liabilities.....	8,961,689	5,465,019	965,840	309,302	9,927,529	5,774,321	71.93%
Total liabilities.....	<u>25,641,503</u>	<u>21,439,898</u>	<u>3,399,054</u>	<u>2,170,250</u>	<u>29,040,557</u>	<u>23,610,148</u>	23.00%
Total deferred inflows							
of resources.....	<u>2,314,243</u>	<u>2,896,623</u>	<u>43,682</u>	<u>52,125</u>	<u>2,357,925</u>	<u>2,948,748</u>	(20.04%)
Net position:							
Net investment in							
capital assets.....	55,526,354	52,846,067	513,378	562,921	56,039,732	53,408,988	4.93%
Restricted.....	1,458,418	1,248,281	178,212	114,803	1,636,630	1,363,084	20.07%
Unrestricted.....	<u>(5,551,351)</u>	<u>(5,899,285)</u>	<u>4,859,761</u>	<u>5,640,685</u>	<u>(691,590)</u>	<u>(258,600)</u>	(167.44%)
Total net position.....	<u>\$ 51,433,421</u>	<u>\$ 48,195,063</u>	<u>\$ 5,551,351</u>	<u>\$ 6,318,409</u>	<u>\$ 56,984,772</u>	<u>\$ 54,513,472</u>	4.53%

The largest component of the State's net position (98.34% for fiscal year 2020) 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. Restricted net position is the next largest component (\$1.64 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 a negative \$5.55 billion unrestricted net position balance. 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 \$5.89 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2020, approximately \$3.26 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, 2020, the State's governmental activities have significant unfunded liabilities for compensated absences of \$607.05 million, pension liabilities of \$2.63 billion, net OPEB liabilities of \$6.04 billion, workers' compensation of \$717.42 million, and claims and judgments payable of \$731.7 million (see Note 8 to the financial statements). These unfunded liabilities also contribute to the negative unrestricted net position balance for governmental activities.

The State had significant increases to other liabilities during the fiscal year. This increase is attributable to the funds the State received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act that were not expended by fiscal year end. As of June 30, 2020, the U.S. Treasury allocated \$3.59 billion from the federal Coronavirus Relief Fund (federal CRF) to the newly created State of North Carolina's Coronavirus Relief Fund (State's CRF), of which \$173.45 million were expended; the unspent

remainder of \$3.41 billion was recorded as unearned revenue. However, this increase does not impact the State's net position as the liability was offset by the assets reported for the CARES Act.

The State's overall net position increased \$2.47 billion or 4.53% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$3.24 billion or 6.72% and business-type activities decreased \$767.06 million or 12.14%. The following financial information was derived from the government-wide Statement of Activities:

Changes in Net Position for the Fiscal Years Ended June 30, 2020 and 2019
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2019-20
	2019		2019		2019		
	2020	(as restated)	2020	(as restated)	2020	(as restated)	
Revenues:							
Program revenues							
Charges for services.....	\$ 2,612,957	\$ 2,631,425	\$3,558,088	\$ 3,625,877	\$ 6,171,045	\$ 6,257,302	(1.38%)
Operating grants and contributions.....	19,211,056	16,980,579	4,736,461	203,779	23,947,517	17,184,358	39.36%
Capital grants and contributions.....	1,328,260	1,317,197	3,681	27,578	1,331,941	1,344,775	(0.95%)
General revenues							
Taxes:							
Individual income tax.....	13,121,892	13,242,924	—	—	13,121,892	13,242,924	(0.91%)
Corporate income tax.....	726,186	779,886	—	—	726,186	779,886	(6.89%)
Sales and use tax.....	8,556,460	8,436,190	—	—	8,556,460	8,436,190	1.43%
Gasoline tax.....	2,054,235	2,118,180	—	—	2,054,235	2,118,180	(3.02%)
Franchise tax.....	640,865	754,936	—	—	640,865	754,936	(15.11%)
Highway use tax.....	847,919	838,571	—	—	847,919	838,571	1.11%
Insurance tax.....	661,881	577,430	—	—	661,881	577,430	14.63%
Beverage tax.....	462,401	435,471	—	—	462,401	435,471	6.18%
Tobacco products tax.....	288,933	294,030	—	—	288,933	294,030	(1.73%)
Other taxes.....	290,178	276,828	—	—	290,178	276,828	4.82%
Tobacco settlement.....	148,929	155,818	—	—	148,929	155,818	(4.42%)
Federal COVID-19.....	173,448	—	—	—	173,448	—	100.00%
Unrestricted investment earnings.....	133,251	153,490	—	—	133,251	153,490	(13.19%)
Miscellaneous.....	76,395	84,549	—	2,879	76,395	87,428	(12.62%)
Total revenues.....	<u>51,335,246</u>	<u>49,077,504</u>	<u>8,298,230</u>	<u>3,860,113</u>	<u>59,633,476</u>	<u>52,937,617</u>	<u>12.65%</u>
Expenses:							
General government.....	1,441,776	1,392,293	—	—	1,441,776	1,392,293	3.55%
Primary and secondary education.....	11,974,701	11,697,451	—	—	11,974,701	11,697,451	2.37%
Higher education.....	4,815,552	4,788,720	—	—	4,815,552	4,788,720	0.56%
Health and human services.....	21,594,958	19,567,645	—	—	21,594,958	19,567,645	10.36%
Economic development.....	525,242	505,806	—	—	525,242	505,806	3.84%
Environment and natural resources.....	708,815	666,594	—	—	708,815	666,594	6.33%
Public safety, corrections and regulation.....	4,230,658	3,792,606	—	—	4,230,658	3,792,606	11.55%
Transportation.....	2,979,441	3,907,427	—	—	2,979,441	3,907,427	(23.75%)
Agriculture.....	313,068	392,214	—	—	313,068	392,214	(20.18%)
Interest on long-term debt.....	171,372	163,799	—	—	171,372	163,799	4.62%
Unemployment compensation.....	—	—	5,707,104	169,967	5,707,104	169,967	3,257.77%
N.C. State Lottery.....	—	—	2,290,926	2,154,116	2,290,926	2,154,116	6.35%
EPA Revolving Loan.....	—	—	13,785	23,657	13,785	23,657	(41.73%)
N.C. Turnpike Authority.....	—	—	186,369	132,456	186,369	132,456	40.70%
Regulatory programs.....	—	—	131,503	121,652	131,503	121,652	8.10%
Insurance programs.....	—	—	51,423	22,362	51,423	22,362	129.96%
North Carolina State Fair.....	—	—	15,981	18,197	15,981	18,197	(12.18%)
Other business-type activities.....	—	—	15,421	17,015	15,421	17,015	(9.37%)
Total expenses.....	<u>48,755,583</u>	<u>46,874,555</u>	<u>8,412,512</u>	<u>2,659,422</u>	<u>57,168,095</u>	<u>49,533,977</u>	<u>15.41%</u>
Increase in net position							
before contributions and transfers.....	2,579,663	2,202,949	(114,282)	1,200,691	2,465,381	3,403,640	(27.57%)
Contributions to permanent funds.....	5,919	4,916	—	—	5,919	4,916	20.40%
Transfers.....	652,776	613,895	(652,776)	(613,895)	—	—	0.00%
Increase (decrease) in net position.....	<u>3,238,358</u>	<u>2,821,760</u>	<u>(767,058)</u>	<u>586,796</u>	<u>2,471,300</u>	<u>3,408,556</u>	<u>(27.50%)</u>
Net position - beginning - restated.....	48,195,063	45,373,303	6,318,409	5,731,613	54,513,472	51,104,916	6.67%
Net position - ending.....	<u>\$ 51,433,421</u>	<u>\$ 48,195,063</u>	<u>\$ 5,551,351</u>	<u>\$ 6,318,409</u>	<u>\$ 56,984,772</u>	<u>\$ 54,513,472</u>	<u>4.53%</u>

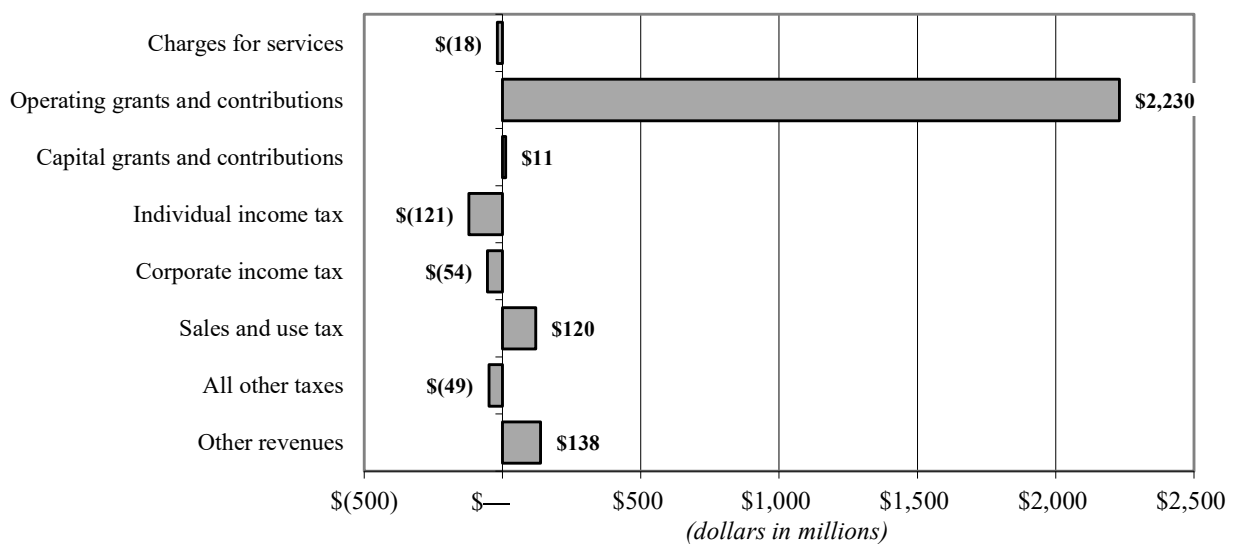
Governmental Activities. For fiscal year 2020, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State’s business-type activities, an increase in net position of \$3.24 billion (6.72%) resulted for governmental activities. Total revenues increased by 4.6% (\$2.26 billion) while total expenses increased by 4.01% (\$1.88 billion). The growth in revenues is mainly attributable to the increase in operating grants and contributions and other revenues. Operating grants and contributions increased by \$2.23 billion or 13.14% due to higher spending in federally supported programs, such as Medicaid and disaster relief for Hurricane Florence as well as increases in federal COVID-19 funds (see below). The 35.08% increase in other revenues is also attributable to increases in federal COVID-19 funds (see below).

In March 2020, the U.S. Congress enacted a series of laws, including the Families First Coronavirus Response Act (FFCRA) and the CARES Act; these laws were a direct response to the economic and societal crises resulting from the COVID-19 pandemic. One purpose of the FFCRA was to provide a 6.2 percentage point increase to the Federal Matching Assistance Percentages (FMAP) for Medicaid, extending broad fiscal relief to states since Medicaid is a countercyclical program. The CARES Act provided widespread assistance to individuals, corporations and state and local governments. Funding to the State from the CARES Act was allocated directly through the federal CRF, new initiative programs and new grants. In response to the CARES Act and requirements set forth for the State’s CRF, the N.C. General Assembly passed spending bills that allocated the federal CRF monies to areas impacted by the pandemic. They also established the North Carolina Pandemic Recovery Office (NCPRO) to oversee and coordinate the funds made available under COVID-19 Recovery Legislation. During the 2020 fiscal year, the State’s governmental activities recognized \$1.16 billion of COVID-19 funds (federal COVID-19 funds); \$983.33 million is included in operating grants and contributions (i.e. program revenues) and \$173.45 million is reported as federal COVID-19, which is included in the other revenues source shown in the table below (i.e. general revenues). Additional details on the COVID-19 funds received in fiscal year 2020 are below:

- During the 2020 fiscal year, the State’s governmental activities recognized \$540.55 million related to the enhanced FMAP under the FFCRA for Medicaid. An additional \$5.24 million was received under FFCRA related to other programs. This new funding under the FFCRA for fiscal year 2020 was reported as part of the increase in operating grants and contributions and represents 24.47% of the change in this revenue source.
- The State’s agencies received \$437.54 million of CARES Act federal revenues, representing the remaining portion of the \$983.33 million increase in operating grants and contributions for COVID-19. These CARES Act federal funds supported various State functions and represent 19.62% of the \$2.23 billion increase in operating grants and contributions.
- By the end of the fiscal year, the N.C. General Assembly had appropriated roughly two-thirds of the \$3.59 billion federal CRF received. Of this amount, \$173.45 million was expended by the end of the fiscal year and, therefore, recognized as federal COVID-19 general revenues in the State’s governmental activities (also discussed on page 31). These CARES Act federal funds also supported various State functions.

The following chart reflects the dollar change in governmental activities revenues by source between fiscal years 2019 and 2020:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2019 and 2020**



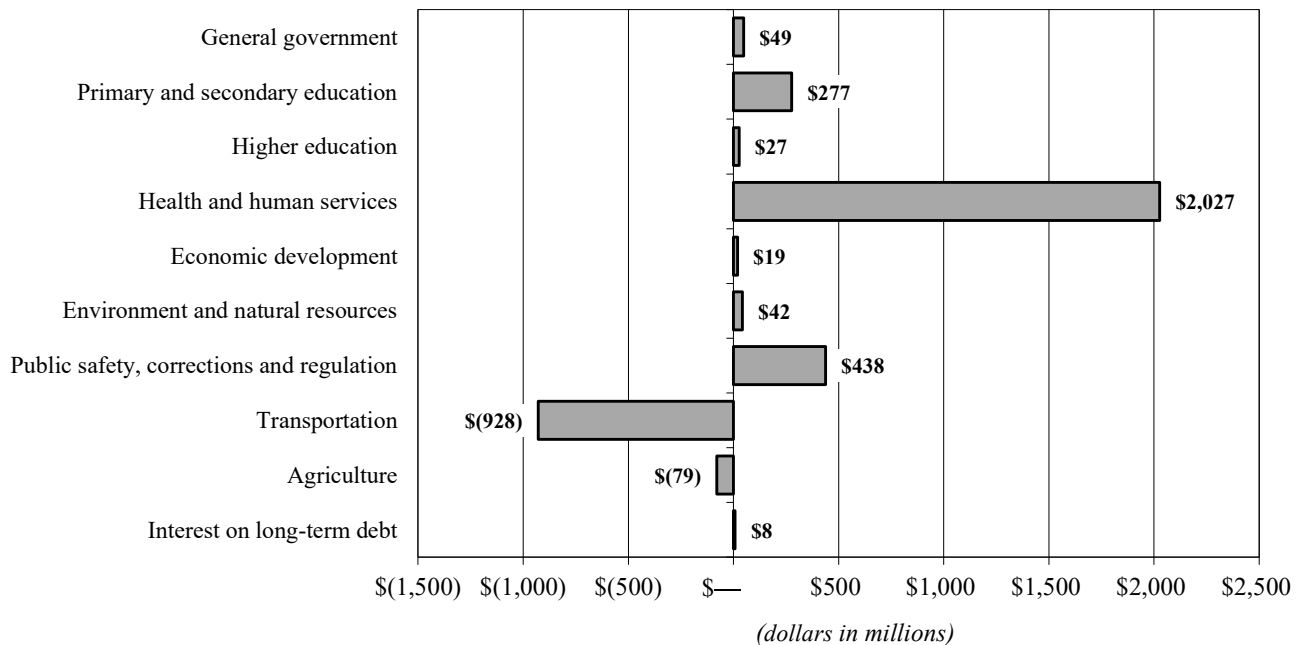
For fiscal year 2020, spending increased in the majority of the State’s functional areas, with the major exception being transportation. Transportation expenses decreased by \$927.99 million or 23.75% primarily to the reduction of construction and maintenance activities as a result of the cash shortage and revenue decreases in gasoline tax due to the COVID-19 pandemic.

Total health and human services (HHS) spending increased by 10.36% or \$2.03 billion in 2020. For comparison, HHS spending increased by 2.57% and 1.09% in fiscal years 2019 and 2018, respectively. The increase in health and human services is primarily due to increased spending for Medicaid (the State’s largest public assistance program) in response to the COVID-19 public health emergency. Medicaid is a federal entitlement program, which means individuals found eligible for Medicaid have legal rights to receive services and cannot be denied coverage by the State. In North Carolina, Medicaid is administered by the State and counties and financed with federal and state funds. Medicaid serves as the State’s safety net program for eligible individuals who lose jobs and health insurance coverage. As such, it is sensitive to economic volatility, and during the fiscal year, the State experienced increased enrollment in the Medicaid program due to the economic downturn. Because the State receives federal matching funds for this program, there was also a corresponding increase in operating grants and contributions (i.e. program revenues).

Other significant increases in functional expenses for fiscal year 2020 were to public safety, corrections, and regulation and primary and secondary education. Total expenses increased 11.55% (\$438.05 million) for public safety, corrections, and regulation and 2.37% (\$277.25 million) for primary and secondary education. The growth in these functional areas is primarily due to increased spending for COVID-19 related costs; public safety, corrections and regulation incurred costs related to COVID-19 testing supplies and primary and secondary education had increased state aid provided to local education agencies (LEAs) for increased spending related to COVID-19. Additionally, public safety, corrections and regulation had increased expenses for disaster relief for public and individual assistance programs, contracted personal services and grant aid.

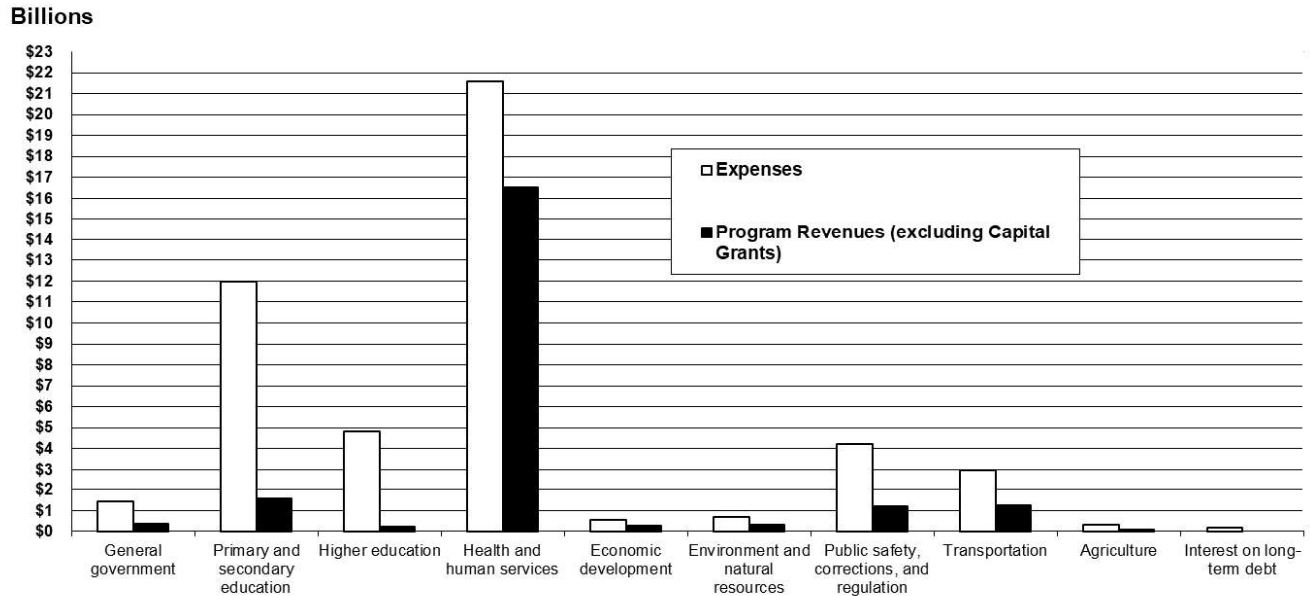
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2019 and 2020:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2019 and 2020**



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, 2020**



Business-type Activities. Business-type activities reflect an overall decrease in net position of \$767.06 million or 12.14%, primarily due to the decrease in net position in the Unemployment Compensation Fund. The decrease in net position of \$859.72 million or 22.14% in the Unemployment Compensation Fund is due almost entirely to the impacts of the Coronavirus pandemic, with increased unemployment during the fourth quarter of the fiscal year and increased unemployment benefit claims paid. The net position decrease of \$48.4 million or 12.08% for the N.C. Turnpike Authority is due to the NCTA incurring an operating loss of \$18.67 million and having a \$20.23 million increase in interest expense as a result of issuing new debt during the fiscal year. The net position increase of \$114.81 million or 6.28% 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, 2020, the State's governmental funds reported combined fund balances of \$10.08 billion, an increase of 5.26% from the prior fiscal year-end (as restated). Of this amount, \$1.66 billion is classified as unassigned fund balance in the General Fund (available for spending at the State's discretion) and negative \$892.97 million in the Highway Fund. 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 is the chief operating fund of the State. At June 30, 2020, the fund balance of the General Fund increased 7.95% (\$473.48 million) to \$6.43 billion. While the General Fund saw increases in both revenues and expenditures, they mostly offset each other during the 2020 fiscal year. General Fund revenues increased by \$2.35 billion (5.53%) while expenditures increased by \$2.45 billion (5.75%). The increases in both revenues and expenditures are primarily due to increased federal and federal COVID-19 funds received and then spent by the various State functions. For the current fiscal year, the General Fund recognized \$1.16 billion in federal COVID-19 funds; these funds were derived from two key funding streams for states, the CARES Act and the FFCRA. The CARES Act allocated funds to state and local governments providing relief and assistance from the effects of the COVID-19 pandemic. The FFCRA provided a temporary FMAP increase to states assisting in additional Medicaid costs.

One of the major budget drivers for the General Fund, historically, has been the Medicaid program. Medicaid enrollment increased by 4.35% to 2.17 million individuals (20.45% of North Carolina's population). For comparison, Medicaid enrollment increased 0.46% and 3.6%, respectively, in fiscal years 2019 and 2018. The enrollment growth was mostly attributable to the sharp downturn in the economy and the increase in unemployment, from 4.2% in June 2019 to 7.5% in June 2020, due to the COVID-19 pandemic beginning in February 2020. State appropriation expenditures for Medicaid increased by \$46.24 million or 1.23%. Medicaid ended the fiscal year with unspent State appropriations of \$81 million, which were reverted to the General Fund. This is the seventh consecutive year the Medicaid Program has finished with cash on hand. Prior to fiscal year 2014, the Medicaid program experienced shortfalls of nearly \$2 billion over a four-year period.

Total tax revenues in the General Fund remained nearly unchanged for the fiscal year, decreasing by 0.15% to \$24.62 billion. Individual income tax revenues decreased \$121.03 million (0.91%). Estimated payments in the fourth quarter of the 2020 fiscal year were down \$231.8 million, nearly 50% from the prior year. Estimated payments received in July 2020 and accrued in the current fiscal year were up \$172.1 million more than the prior year but does not completely offset the reduction in the last quarter. The changes in amounts reported for the fourth quarter and accrued for July payments are due to a combination of the COVID-19 pandemic-related shutdown and the extension the N.C. Department of Revenue issued on March 20, 2020. This extension allowed taxpayers to file State income and franchise tax returns through July 15, 2020 to mirror relief provided by the Internal Revenue Service on Federal income tax returns. Franchise tax decreased by \$104.26 million (13.89%). Like individual income tax, franchise tax had a significant decrease in fourth quarter payments and saw higher payments in July. However, unlike individual income tax, franchise tax received in July is not accrued; it is calculated on a net worth type basis and is paid for the privilege of operating in the coming year. The decreases in individual income and franchise taxes were mostly offset by increases in sales and use and insurance taxes; sales and use tax increased \$118.26 million (1.4%) and insurance tax increased \$83.4 million (14.44%). The increase in sales and use tax is attributed to an improved economy through February 2020 as well as the enactment of North Carolina General Statute 105-164.4J. This General Statute became effective February 1, 2020 and requires marketplace facilitators to collect and remit sales tax. For the fourth quarter of fiscal year 2020, the increase in sales tax collected and remitted by marketplace facilitators helped to offset the loss of sales tax revenue from business closures due to COVID-19. Insurance tax increased due to a combination of taxpayers taking fewer tax credits than in previous years as well as increased collections from audits of past years' tax credits.

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 CAFR as required supplementary information. The current CAFR 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.

Variance – 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 and the budgeting of federal funds for the fiscal year. The original budget for fiscal year 2020 was prepared and finalized in December 2018 as part of the two-year base budget adopted by the General Assembly. This was approximately six months prior to the adoption of the adjusted biennial budget on June 30, 2019. The amounts budgeted 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.

Additional factors leading to variances between the original and final budget in fiscal year 2019-20 include the following:

- 1) Awarding of new unanticipated federal grants due to additional FMAP funds to manage the COVID-19 pandemic and increases and decreases in amounts for long-term standing federally supported programs.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2018-19 totaled \$670.4 million, which increased the budget for fiscal year 2019-20 through administrative action.
- 3) Allocation of hurricane disaster funds that were appropriated and authorized in prior years but not expended until fiscal year 2020. State functions agriculture, environment and natural resources, and public safety, corrections and regulation were the biggest recipients.
- 4) Allocation of statewide reserves to agencies and universities, including salary pay plan reserve, and disaster relief funding from the State Emergency Response and Disaster Relief fund and the Hurricane Florence Disaster Relief Reserve.
- 5) Receipts and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations and grants.

Variance - Final Budget and Actual Results

Actual total own-source General Fund revenue collected (tax, non-tax, and tobacco settlement) was 2.25% below budgeted revenue amounts in fiscal year 2020. Tax revenues were 4.5% lower than anticipated, primarily due to postponed payment and filing deadlines for individual income, corporate income, and franchise taxes. Sales and use tax collections were also significantly lower than projected due to the COVID-19 pandemic. The \$458.33 million (200.32%) increase in the non-tax fees, licenses, and fines is due primarily to the exclusion of fund-balance carryforwards in budgeted non-tax revenues.

Collections for individual income taxes, which accounted for 50.84% of total General Fund revenue collections, were \$615.4 million (4.72%) lower than the certified amount due primarily to postponing filing and payment deadlines as discussed on the previous page. Quarterly payments, final and extension payments for tax year 2019 returns, and refunds all came in lower than expected due to the shift in filing and payment deadlines. Sales and use tax collections, which comprised 32.02% of total General Fund revenues in fiscal year 2020, were \$382.71 million (4.67%) below the certified amount. The collapse in business activity associated with the initial outbreak of COVID-19 in March 2020 and subsequent stay-at-home orders caused net state sales and use tax collections to fall more than 10% below the monthly targets from March through June. The implementation of a new requirement for online marketplace facilitators to collect and remit sales tax on North Carolina purchases beginning in February 2020 prevented revenues from falling even further.

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, rail, and ferry system. The primary revenue sources of the Highway Fund are federal funds, 71% of gasoline taxes, vehicle registration fees, and driver's license fees.

The fund balance of the Highway Fund increased from negative \$595.63 million at June 30, 2019 to negative \$330.18 million at June 30, 2020, an increase of 44.57%. The increase in fund balance was mainly due to a decrease in liabilities. Cash constraints within the Highway Fund due to disaster spending and pandemic revenue decreases resulted in a decrease in spending across most activities in the fund including contract maintenance and construction. Construction and maintenance expenditures and supplies and material expenditures decreased due to the cash shortage, resulting in an overall decrease in accounts payable. The decrease in liabilities was also due to the Highway Fund's repayment of the current loan payable and a portion of the advance from the Highway Trust Fund, which decreased by \$75.05 million and \$168 million, respectively at June 30, 2020. The decrease in liabilities was offset somewhat by a decrease in assets. Restricted investments decreased due to the use of Grant Anticipation Revenue Vehicle (GARVEE) bonds funds for expenditures during the year.

Total revenues decreased by 1.5% to \$3.89 billion due to a decrease in gasoline tax revenues as a result of reduced travel related to the COVID-19 pandemic and a decrease in hurricane disaster relief reimbursements from the Federal Emergency Management Agency (FEMA) in fiscal year 2020 when compared to 2019. Total expenditures decreased by 20.37% to \$3.9 billion primarily due to the reduction of construction and maintenance activities as a result of the cash shortage and revenue decreases due to the COVID-19 pandemic.

The State issued \$600 million in GARVEE bonds in June 2019. 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. At June 30, 2020, \$471.5 million of the GARVEE proceeds were unspent.

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 2020-91 revised the motor fuels tax distribution formula. Effective July 1, 2020, it revised the distribution of motor fuel tax revenue for the Highway Fund from 71% to 81%. Effective July 1, 2021, it changes the distribution to 80% and beginning July 1, 2022 to 75%. Session Law 2020-91 also established a motor fuel tax floor. Effective January 1, 2021, and ending December 31, 2021, the motor fuel excise tax rate shall be the greater of 36.1 cents per gallon or the rate calculated pursuant to G.S. 105-449.80(a).

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 9.66 million in 2011 to 10.6 million in 2020, an increase of 9.71%. According to the N.C. Division of Highways, over a 10-year period (2009 to 2018), paved lane miles grew by 2.7% while bridge deck area grew by approximately 24%. During this same 10-year period, vehicle miles traveled increased by 17.44%. This increase places a heavier burden on the existing infrastructure and accentuates 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, and other highways such as the interstate highway system, which is approaching its 64th anniversary, 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 general obligation bonds issued for highway purposes. The principal revenue sources of the Highway Trust Fund are highway use taxes, 29% percent of gasoline 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 29.42% to \$1.22 billion at June 30, 2020. The fund balance decrease is mainly due to a decrease in assets. This is attributable, in part, to the decrease in restricted investments due to the use of proceeds from Build NC bonds for certain regional and divisional transportation projects contained in the Statewide Transportation Improvement Plan (STIP). The bonds were issued in June 2019 and at June 30, 2020, \$177.46 million of the special indebtedness proceeds were unspent compared to \$356.6 million at June 30, 2019. The decrease also was attributable to the reduction in the Highway Trust Fund's cash balance caused by payment of expenditures in excess of revenues, due to decreased revenues as a result of the COVID-19 pandemic. The decrease in assets also was due to repayment from the Highway Fund of the current loan receivable and a portion of the advance to the Highway Fund. The decrease in fund balance also was attributable to the increase in accounts payable because of the cash shortage and timing of invoice payments.

Total revenues were \$1.56 billion, a decrease of 2.84% or \$45.57 million. The decrease is due mostly to the reduced motor fuel revenues because of the decreased travel caused by the COVID-19 pandemic. The Highway Trust Fund reported \$1.96 billion in total transportation expenditures, an increase 9.59% or \$171.8 million from the previous year. The increase in expenditures was largely due to the increase in capital outlay resulting from increased construction and maintenance expenditures that were paid for by Build NC program bond funding. The increase in expenditures also was attributable to the first year of principal and interest payments made on the Build NC program bonds.

In June 2019, the State issued \$300 million special indebtedness (limited obligation bonds). The bonds were the first issued under the Build NC program, authorized by Session Law 2018-16, which allows for up to \$3 billion in bonds over a ten-year period. The proceeds from the bonds can be used for certain regional and divisional transportation projects contained in the (STIP).

As discussed under the Highway Fund section, Session Law 2020-91 revised the motor fuels tax distribution formula. Effective July 1, 2020, it revised the distribution for motor fuel tax revenue for the Highway Trust Fund from 29% to 19%. Beginning July 1, 2021, it changes the distribution to 20% and then to 25% beginning July 1, 2022. Session Law 2020-91 also established a motor fuel tax floor.

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 \$3.02 billion at June 30, 2020 compared to \$3.88 billion at June 30, 2019. The \$859.72 million decrease in net position is almost entirely a result of the impact from the Coronavirus pandemic. Unemployment rates were low during the entire 2018-2019 fiscal year, ending with a rate of 4.2% at June 2019. The first three quarters of the 2019-2020 fiscal year continued to experience decreasing unemployment rates until the fourth quarter. April 2020's unemployment rate hit 12.9% as businesses shut down. With most of North Carolina's businesses remaining closed during May, the unemployment rate continued to be high at 12.8%. As businesses partially reopened in June, unemployment came down to 7.5% by the end of the fiscal year.

Contributing to the decrease in net position, the Trust Fund's operating margin (operating revenues less operating expenses) decreased by \$5.8 billion, a 1,728% decrease from the prior year, predominantly as a result of a \$5.54 billion increase in unemployment benefits paid. Most of these benefit payments were from the federal programs passed in the CARES Act with the Federal Pandemic Unemployment Compensation (FPUC) program, the additional \$600 weekly benefit, being the largest. In addition to the increase in benefit payments, there was also a \$259.36 million decrease (51.32%) in revenues, due to legislation that gave employers a tax credit for the first quarter of calendar year 2020.

Nonoperating revenues increased by \$4.51 billion for the 2019-20 fiscal year due to receiving \$4.49 billion in federal unemployment benefit funding related to the CARES Act. During severe economic downturns, nonoperating revenues have historically provided significant support for additional unemployment benefit assistance. For the 2020 fiscal year, the nonoperating revenues sustained the Trust Fund by supporting 80.6% of the total benefits paid for the year.

Following the close of the 2020 fiscal year, two additional unemployment programs related to the COVID-19 pandemic were created that have a significant impact on the Trust Fund operations and funding. The Lost Wages Assistance (LWA) program provides an additional \$300 per week to supplement unemployment benefits for those who receive at least \$100 a week of unemployment benefits and are out of work due to COVID-19. The LWA program has been awarded \$718.91 million in federal funding through Federal Emergency Management Agency (FEMA) with a state match requirement supported by \$50 million from the State's CRF.

North Carolina also established the Increased Benefit Assistance (IBA) program as an additional unemployment benefit initiative. The IBA program has received \$87 million in allocations from the State's CRF to provide an increase of \$50 each week in the calculated weekly benefit for eligible claimants.

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 \$729.4 million to the General Fund in 2020 to support educational programs for the State. The amount transferred in 2019 was \$709.2 million.

For fiscal year 2019-20, net ticket sales increased 5.48% or \$156.59 million from the previous fiscal year to \$3.02 billion. With this increase in ticket sales, the NCEL saw a corresponding increase in prize payouts of 6.09% or \$112.3 million, and an overall increase

in operating income of 2.84% or \$20.21 million. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 537th time; and released 54 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$2.1 billion.

N.C. Turnpike Authority

Major accomplishments for the N.C. Turnpike Authority (NCTA) include the following:

- The Triangle Expressway is North Carolina's first modern toll road extending from the interchange of I-40 and N.C. 147 on the north end, to the N.C. 55 Bypass in the south, to partially complete the "Outer Loop" around the greater Raleigh area. The NCTA has added two interchanges to the existing Triangle Expressway: The Old Holly Springs-Apex Road interchange, now named the Veridea Parkway interchange, and the Morrisville Parkway interchange. The Veridea Parkway opened to traffic in April 2017, and the Morrisville Parkway opened to traffic in February 2020. These interchanges provide increased connectivity and access to the Triangle Expressway and are considered part of the Triangle Expressway System for accounting purposes. In addition to the two interchanges, construction commenced for Phase I of the Complete 540 Project in 2019. Phase I will extend the Triangle Expressway to I-40 in southern Wake County and is expected to open to traffic in 2023. Phase II of Complete 540 will extend the project from I-40 to I-540.
- The I-77 Express Lanes project is structured as a private partnership agreement between the North Carolina Department of Transportation and I-77 Mobility Partners, LLC and is the first toll project established as a public-private partnership in the State of North Carolina. The I-77 Express Lanes project is approximately 26 miles long between the I-77 and I-277 junction in Charlotte and N.C. 150 in Mooresville. The Turnpike Authority is responsible for account management, billing, and customer service for the express lanes. The northern 13 miles of the express lanes opened in June 2019, and the remaining lanes opened in late 2019.

While operating revenues increased by \$17.46 million to \$82.61 million, the NCTA had an operating loss of \$18.67 million. The operating loss increased by 566.17% or \$15.86 million due to a \$33.32 million or 49.03% increase in operating expenses for the 2020 fiscal year. Operating revenues consist of toll revenues, fees, and sales revenue from the sale of transponders. Toll revenues increased by \$8.64 million to \$66.58 million, a 14.91% increase. Fees, licenses and fines increased by \$5.38 million to \$11.63 million, an 86.15% increase. The increase in operating expenses is predominantly due to a \$14.46 million increase in supplies and materials, a \$5.65 million increase in depreciation, and an \$8.65 million increase in other expenses. The increase in supplies and materials represents contract payments related to the Monroe Expressway that are no longer capitalized as construction in progress after it was capitalized in the prior fiscal year. Likewise, the increase in depreciation is also related to the depreciation on the Monroe Expressway. The increase in other expenses is a result of the Turnpike Authority receiving full standard overhead allocations from the North Carolina Department of Transportation (NCDOT) during the fiscal year. In prior years, the NCTA was only responsible for partial overhead allocations. In addition to the NCTA's operating loss, there was also a \$20.03 million increase in nonoperating expenses or 38.39%, predominantly due to a \$20.23 million increase in interest and fees related to the 2019 Complete 540 bonds issued.

Starting in July 2020, NCTA will be responsible for two-thirds of administrative expenses. The other one-third of the costs will continue 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. NCTA received \$185.4 million in transfers from NCDOT's Highway Fund and Highway Trust Fund during fiscal year 2020, an increase of \$107.06 million or 136.66%. NCDOT's project participation increased during the year as construction and right of way acquisitions continued to move forward on the Complete 540 project and expenditures increased on the Mid-Currituck Bridge. Offsetting the transfers in from DOT's Highway Fund and Highway Trust Fund, NCTA repaid DOT \$146.26 million as a transfer out during fiscal year 2020 for project participation incurred with proceeds from the sale of bonds for the Complete 540 project. NCTA also received \$3.32 million in federal capital grants during the year, a \$24.04 million decrease from the prior year. As the NCTA has shifted to debt financing, capital grants awarded based on Federal Highway Administration (FHWA) participation has declined.

Both NCTA's operating loss and increase in nonoperating expenses contributed to a \$48.4 million or 12.08% decrease in net position to \$352.4 million at the 2020 fiscal year end. In addition to factors identified above, the Complete 540 project had significant impacts on NCTA's balance sheet. Restricted investments increased by \$203.01 million 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 \$167.89 million due to the continued right of way acquisitions for the project, and construction in progress for the project increased by \$164.7 million. Notes from direct borrowings increased by \$46.5 million due to the NCTA making the final draw on their TIFIA (Transportation Infrastructure Finance and Innovation Act) loan for the Monroe Expressway project. Bonds payable increased by \$510.89 million with the issuance of the 2019 Triangle Expressway System Senior Lien Turnpike Revenue Bonds and Triangle

Expressway System Appropriation Revenue Bonds for the Complete 540 project. Corresponding to the debt issued during the year, interest payable increased by \$20.39 million.

The use of the Triangle Expressway and the Monroe Expressway and the resulting toll revenues are influenced by numerous factors. The COVID-19 pandemic has had an adverse impact on travel. The pandemic, and the social distancing measures implemented in response to it, have resulted in decreased traffic volume generally on all State roads, including on the Triangle Expressway and the Monroe Expressway. Diminished use of the expressways may also be occurring because of the relative lack of congestion on alternative non-toll roads. The level of toll revenues has been negatively affected by such decreased traffic levels, but the degree and duration of the impact is difficult to predict at this time.

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 6.28% to \$1.94 billion in fiscal year 2020. 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 disbursements and revenue, and prioritizing the spending of funds from the U.S. EPA (federal) capitalization grant for these projects (as opposed to funds from other sources). The amount of new loans issued during the current year was \$147.21 million, an increase of \$75.36 million or 104.88%, and the amount of principal received on existing loans during the year was \$106.57 million, a \$9.3 million or 9.56% increase. As a result, Notes Receivable increased by \$40.64 million.

Operating income (operating revenues less operating expenses) was \$10.53 million, a 1.12% increase from the prior year. Net nonoperating revenues were \$74.19 million, an increase of \$4.1 million or 5.85%. Nonoperating revenues consist of noncapital grants (federal capitalization grants) and investment earnings, and nonoperating expenses consist primarily of payments for grants, aid, and subsidies. Noncapital grants decreased 14.61% to \$51.28 million, and investment earnings were \$27.7 million, an increase of \$4.48 million or 19.32%. Payments for grants, aid and subsidies decreased by \$8.43 million or 65.03%. Noncapital grants decreased primarily due to changes in federal appropriations. Grants, aid, and subsidies decreased primarily as a result of changes in federal requirements for additional subsidization. In addition, the EPA Revolving Loan Fund received \$30.09 million in transfers for appropriated state match funds for Clean Water and Drinking Water projects, a \$17.48 million increase or 138.54% from the prior year. The increase in the appropriated state match anticipates additional noncapital grant awards during the 2020-21 fiscal year for additional supplemental disaster relief appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2020, the State's investment in capital assets was \$59.75 billion, an increase of 5.49% from the previous fiscal year-end (see table below).

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2019		2019		2019	
	2020	(as restated)	2020	(as restated)	2020	(as restated)
Land and permanent easements.....	\$ 20,051,608	\$ 19,287,419	\$ 474,653	\$ 306,888	\$ 20,526,261	\$ 19,594,307
Buildings.....	2,859,190	2,729,390	56,441	59,024	2,915,631	2,788,414
Machinery and equipment.....	825,715	813,870	8,938	9,326	834,653	823,196
Infrastructure:						
State highway system.....	29,266,797	27,479,968	—	—	29,266,797	27,479,968
NC toll road system.....	—	—	1,388,319	1,418,003	1,388,319	1,418,003
General infrastructure.....	231,343	229,302	6,596	6,933	237,939	236,235
Computer software.....	274,513	289,609	831	955	275,344	290,564
Art, literature, and other artifacts.....	144,501	140,595	1,286	1,277	145,787	141,872
Construction in progress.....	3,138,055	3,093,913	307,561	138,040	3,445,616	3,231,953
Computer software in development.....	712,600	632,329	—	—	712,600	632,329
Total.....	<u>\$ 57,504,322</u>	<u>\$ 54,696,395</u>	<u>\$ 2,244,625</u>	<u>\$ 1,940,446</u>	<u>\$ 59,748,947</u>	<u>\$ 56,636,841</u>

Total percent change between
fiscal years 2019 and 2020

5.13 %

15.68 %

5.49 %

The largest component of capital assets is the state highway system. North Carolina has an 80,159 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 \$2.74 billion for state highway projects. Additionally, the NCTA (business-type activity) reported year-end construction in progress of \$225.75 million for the Complete 540 project. This project involves completing the 540 loop around the greater Raleigh area by extending the Triangle Expressway 28 miles. NCTA also has \$35.6 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 Department of Agriculture and Consumer Services is constructing a new state-of-the art laboratory complex to replace four labs whose average age is more than 40 years. The Agricultural Sciences Center will contain offices and labs that perform tests for the following divisions in the department: Food and Drug Protection, Stands, Structural Pest Control and Pesticides and Veterinary. The new laboratory complex is financed from the Connect NC bonds approved by voters in March 2016. At year-end, construction in progress for the Agricultural Sciences Center totaled \$66.6 million.
- The Department of Health and Human Services (DHHS) is replacing 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 \$679.38 million.

As further detailed in Note 21E to the financial statements, the State has commitments of \$5.755 billion for the construction of highway infrastructure (\$5.302 billion for governmental activities and \$453 million for business-type activities), which are expected to be financed by gasoline tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of \$157.24 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 \$7.48 billion, an increase of 6.03% 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)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
General obligation bonds.....	\$ 2,605,380	\$ 2,424,075	\$ —	\$ —	\$ 2,605,380	\$ 2,424,075
Special Indebtedness:						
Limited obligation bonds.....	1,774,945	1,946,915	—	—	1,774,945	1,946,915
GARVEE bonds.....	959,525	1,046,580	—	—	959,525	1,046,580
Revenue bonds.....	—	—	1,917,358	1,456,614	1,917,358	1,456,614
Notes from direct borrowings.....	43,937	47,676	177,925	132,087	221,862	179,763
Total	<u>\$ 5,383,787</u>	<u>\$ 5,465,246</u>	<u>\$ 2,095,283</u>	<u>\$ 1,588,701</u>	<u>\$ 7,479,070</u>	<u>\$ 7,053,947</u>
Total percent change between fiscal years 2019 and 2020	(1.49)%		31.89 %		6.03 %	

During the 2020 fiscal year, the State issued \$600 million in general obligation bonds for its governmental activities. The general obligation bonds were issued pursuant to the Connect NC Bond Act of 2015 (see below) and will provide financing for various capital improvements throughout the State as authorized in the Act. Also, the NCTA, a business-type activity, issued \$486.95 million in revenue bonds. The revenue bond proceeds will be used to finance the construction of the Triangle Expressway.

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'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 \$5.38 billion in 2020, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects. 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 \$2.1 billion in 2020.

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, 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). The Build NC Bond Act of 2018 became effective January 1, 2019.

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 will provide 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).

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:

State of North Carolina General Obligation Bond Credit Ratings		
<u>Rating Agency</u>	<u>Rating</u>	<u>Outlook</u>
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. During the 2019-20 fiscal year, the State issued general obligation bonds. In connection with these bonds, 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 credit 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 13 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 debts 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 2019 Regular Session, the General Assembly enacted a series of bills that established a base budget plus various supplemental appropriations for the 2019-2021 fiscal biennium. For fiscal year 2021, the General Assembly enacted a General Fund budget that provides \$24.49 billion in net appropriations, a 0.32% increase over the enacted budget in fiscal year 2020. The budget provides nonrecurring funding for Medicaid and NC Health Choice programs. Additionally, the modified budget also includes funding for additional resources to support the implementation of the Raise the Age legislation, \$39 million, to manage the increased population of offenders anticipated due to the change.

During the 2020 Session, the quickly emerging COVID-19 pandemic imperiled the original forecast of the State's revenue position. To ensure the fiscal year 2021 State budget balanced and that pressing funding priorities were addressed, the General Assembly reconvened in April and June 2020 and enacted a series of bills appropriating the federal CRF received from the CARES Act as well as State funds. During these sessions, 32 session laws have directly impacted State appropriations and/or revenues. Most of these session laws appropriated the federal CRF received from the CARES Act. By the end of fiscal year 2020, the General Assembly had appropriated roughly \$2.46 billion of the \$3.59 billion federal CRF received. The remainder of the State's CRF was appropriated during July and September 2020.

State Health Plan

In calendar year 2021, active employees and pre-65 retirees can choose between two self-insured plans: the 80/20 PPO Plan (80/20 Plan) or the 70/30 PPO Plan (70/30 Plan). Both the 70/30 Plan and the 80/20 Plan have been adjusted to reduce the member copayment of Primary Care, Specialist, and some Therapeutic services (Speech, Occupational, Physical, and Chiropractic) for providers that are a part of the Clear Pricing Project (CPP). All copayments to non-CPP providers will not change. Preferred insulin will be offered at a \$0 copay to members, and ABA Therapy services will no longer have an annual limit.

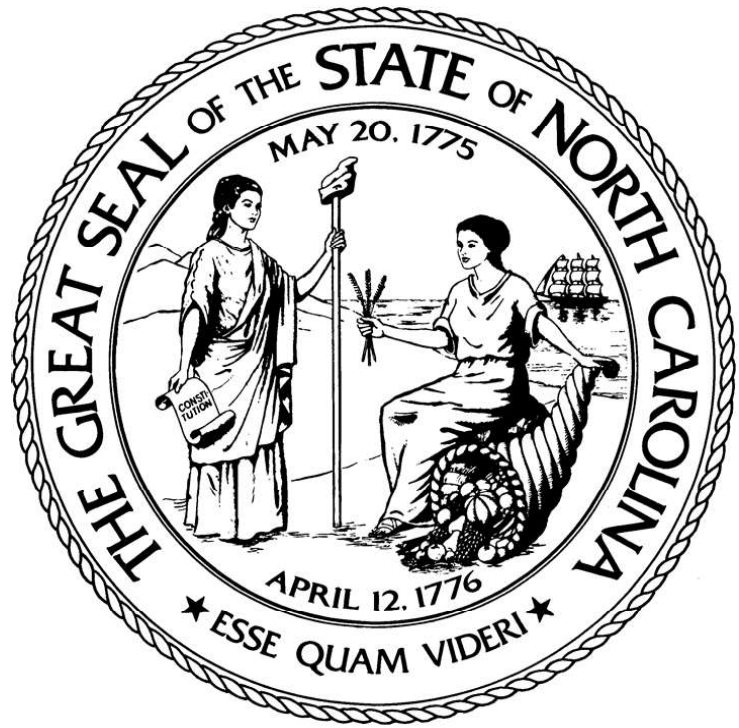
Additionally, the Board of Trustees of the State Health Plan for Teachers and State Employees approved employee and retiree premium rates to remain at their current levels effective January 1, 2021. This decision was made given the expectation that savings from the lower Medicare Advantage products with integrated prescription drug plans (MA-PDP) will offset the anticipated medical and pharmacy cost increases and the employer contribution decreases.

Additionally, Session Laws 2020-45 and 2020-41 appropriated the maximum allowable premium charged to employers and the RHBF for the fiscal year ending 2021. This new legislation reduced the expected increase in allowable premiums as appropriated from Session Law 2019-209 from 5.4 percent to 0.3 percent for fiscal year 2021. Administratively, since the Plan sets rates on a calendar year basis instead of a fiscal year, this will cause premiums to decrease rather than the increases appropriated. The 2021 premium will decrease by 2.0 percent; however, this decrease is expected to be made up in 2022 if a fiscal year appropriation increase returns to a 4.0 percent level, causing a 10.1 percent employer premium increase.

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>.

THIS PAGE INTENTIONALLY LEFT BLANK.



*BASIC
FINANCIAL
STATEMENTS*

THIS PAGE INTENTIONALLY LEFT BLANK.



*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET POSITION

June 30, 2020

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3).....	\$ 10,988,693	\$ 3,725,619	\$ 14,714,312	\$ 4,810,014
Investments (Note 3).....	340,659	504,034	844,693	3,875,055
Securities lending collateral (Note 3).....	288,244	19,906	308,150	127,905
Receivables, net (Note 4).....	5,187,729	690,280	5,878,009	1,460,528
Due from component units (Note 18).....	121,215	—	121,215	8,061
Due from primary government (Note 18).....	—	—	—	23,813
Internal balances.....	47,854	(47,854)	—	—
Inventories.....	191,815	1,761	193,576	201,964
Prepaid items.....	22	23,006	23,028	118,110
Advances to component units.....	2,647	—	2,647	—
Advances to outside entities.....	120,330	—	120,330	18,501
Notes receivable, net (Note 4).....	80,640	1,248,611	1,329,251	1,749,084
Investment in joint venture.....	—	—	—	164,916
Equity interest in component unit.....	372,174	—	372,174	—
Securities held in trust.....	48,980	—	48,980	—
Restricted/designated cash and cash equivalents (Note 3).....	416,321	33,880	450,201	3,327,655
Restricted investments (Note 3).....	1,307,585	486,754	1,794,339	10,568,670
Restricted due from primary government (Note 18).....	—	—	—	25,594
Restricted due from component units (Note 18).....	—	—	—	5,911
Beneficial interest in assets held by others.....	—	—	—	1,593
Net OPEB asset (Note 14).....	8,017	118	8,135	13,126
Capital assets-nondepreciable (Note 5).....	24,046,764	783,500	24,830,264	2,797,991
Capital assets-depreciable, net (Note 5).....	33,457,558	1,461,125	34,918,683	16,513,354
Total Assets	77,027,247	8,930,740	85,957,987	45,811,845
Deferred Outflows of Resources				
Accumulated decrease in fair value of hedging derivatives.....	—	—	—	173,971
Deferred loss on refunding.....	64,762	26,211	90,973	49,780
Forward funded state aid.....	199,295	—	199,295	—
Deferred outflows for asset retirement obligation.....	—	—	—	13,233
Deferred outflows for pensions (Note 12).....	1,140,666	16,306	1,156,972	948,813
Deferred outflows for OPEB (Note 14).....	957,197	20,830	978,027	1,566,455
Other deferred outflows.....	—	—	—	2,037
Total Deferred Outflows of Resources	2,361,920	63,347	2,425,267	2,754,289
Liabilities				
Accounts payable and accrued liabilities.....	2,129,055	464,811	2,593,866	1,443,346
Medical claims payable.....	1,111,170	—	1,111,170	233,262
Unemployment benefits payable.....	—	332,076	332,076	—
Tax refunds payable.....	1,335,553	—	1,335,553	—
Obligations under securities lending.....	288,244	19,906	308,150	127,905
Interest payable.....	37,077	91,605	128,682	66,359
Short-term debt (Note 6).....	—	4,112	4,112	85,046
Due to component units (Note 18).....	49,407	—	49,407	13,972
Due to primary government (Note 18).....	—	—	—	121,215
Unearned revenue.....	3,912,188	44,902	3,957,090	940,029
Advance from primary government.....	—	—	—	2,647
Obligations under reverse repurchase agreements.....	—	—	—	14,312
Deposits payable.....	2,724	8,428	11,152	25,682
Funds held for others.....	96,271	—	96,271	4,114,472
Hedging derivatives liability (Note 7).....	—	—	—	174,128
Long-term liabilities (Note 8):				
Due within one year.....	793,381	38,635	832,016	538,486
Due in more than one year.....	15,886,433	2,394,579	18,281,012	20,173,861
Total Liabilities	25,641,503	3,399,054	29,040,557	28,074,722

STATEMENT OF NET POSITION

June 30, 2020

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Deferred Inflows of Resources				
SCA revenue applicable to future years.....	—	—	—	21,909
Deferred state aid.....	—	—	—	199,295
Deferred inflows for pensions (Note 12).....	37,136	1,216	38,352	22,945
Deferred inflows for OPEB (Note 14).....	2,277,107	42,466	2,319,573	4,012,490
Deferred inflows irrevocable split-interest agreements.....	—	—	—	21,565
Other deferred inflows.....	—	—	—	2,491
Total Deferred Inflows of Resources.....	<u>2,314,243</u>	<u>43,682</u>	<u>2,357,925</u>	<u>4,280,695</u>
Net Position				
Net investment in capital assets.....	55,526,354	513,378	56,039,732	13,619,613
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	120,209	—	120,209	—
Higher education.....	—	—	—	3,155,524
Health and human services.....	—	—	—	402
Expendable:				
Primary and secondary education.....	14,404	—	14,404	—
Higher education.....	6,976	—	6,976	4,382,070
Higher education student aid.....	919,305	—	919,305	—
Health and human services.....	71,839	—	71,839	416,945
Economic development.....	30,411	23	30,434	951,719
Environment and natural resources.....	63,653	7	63,660	—
Public safety, corrections, and regulation.....	95,408	5	95,413	—
Transportation.....	5,315	14,461	19,776	—
Highway construction/preservation.....	17,352	—	17,352	—
Agriculture.....	176	8	184	—
Debt service.....	75,078	160,748	235,826	—
Capital projects/repairs and renovations.....	5,140	588	5,728	—
Other purposes.....	33,152	2,372	35,524	—
Unrestricted.....	<u>(5,551,351)</u>	<u>4,859,761</u>	<u>(691,590)</u>	<u>(6,315,556)</u>
Total Net Position.....	<u>\$ 51,433,421</u>	<u>\$ 5,551,351</u>	<u>\$ 56,984,772</u>	<u>\$ 16,210,717</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, 2020

(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities					
General government.....	\$ 1,441,776	\$ 297,451	\$ 57,382	\$ 8,053	\$ (1,078,890)
Primary and secondary education.....	11,974,701	5,921	1,548,741	—	(10,420,039)
Higher education.....	4,815,552	169,303	47,571	—	(4,598,678)
Health and human services.....	21,594,958	352,364	16,162,307	—	(5,080,287)
Economic development.....	525,242	2,732	285,789	—	(236,721)
Environment and natural resources.....	708,815	206,670	115,071	28,336	(358,738)
Public safety, corrections, and regulation.....	4,230,658	577,517	643,083	4,811	(3,005,247)
Transportation.....	2,979,441	967,438	303,505	1,286,805	(421,693)
Agriculture.....	313,068	33,561	47,607	255	(231,645)
Interest on long-term debt.....	171,372	—	—	—	(171,372)
Total Governmental Activities.....	<u>48,755,583</u>	<u>2,612,957</u>	<u>19,211,056</u>	<u>1,328,260</u>	<u>(25,603,310)</u>
Business-type Activities					
Unemployment Compensation.....	5,707,104	246,021	4,599,794	—	(861,289)
N.C. State Lottery.....	2,290,926	3,021,992	1,434	—	732,500
EPA Revolving Loan.....	13,785	19,522	78,982	—	84,719
N.C. Turnpike Authority.....	186,369	82,613	12,901	3,317	(87,538)
Regulatory programs.....	131,503	139,884	3,451	—	11,832
Insurance programs.....	51,423	19,530	37,812	—	5,919
North Carolina State Fair.....	15,981	16,504	655	36	1,214
Other business-type activities.....	15,421	12,022	1,432	328	(1,639)
Total Business-type Activities.....	<u>8,412,512</u>	<u>3,558,088</u>	<u>4,736,461</u>	<u>3,681</u>	<u>(114,282)</u>
Total Primary Government.....	<u>\$ 57,168,095</u>	<u>\$ 6,171,045</u>	<u>\$ 23,947,517</u>	<u>\$ 1,331,941</u>	<u>\$ (25,717,592)</u>
Component Units					
University of North Carolina System.....	\$ 13,475,055	\$ 8,962,688	\$ 1,592,224	\$ 382,740	\$ (2,537,403)
Community Colleges.....	2,357,650	293,779	850,955	378,378	(834,538)
State Health Plan.....	4,005,905	3,745,835	54,919	—	(205,151)
Other component units.....	1,029,012	438,902	477,905	11,806	(100,399)
Total Component Units.....	<u>\$ 20,867,622</u>	<u>\$ 13,441,204</u>	<u>\$ 2,976,003</u>	<u>\$ 772,924</u>	<u>\$ (3,677,491)</u>

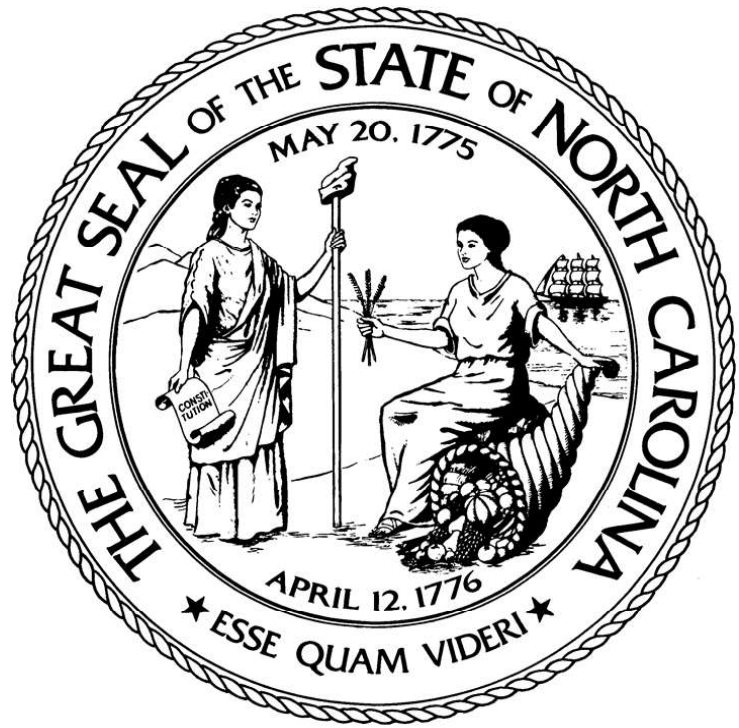
The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF ACTIVITIESFor the Fiscal Year Ended June 30, 2020
(Dollars in Thousands)

Exhibit A-2

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in Net Position				
Net (expense) revenue.....	\$ (25,603,310)	\$ (114,282)	\$ (25,717,592)	\$ (3,677,491)
General Revenues:				
Taxes:				
Individual income tax.....	13,121,892	—	13,121,892	—
Corporate income tax.....	726,186	—	726,186	—
Sales and use tax.....	8,556,460	—	8,556,460	—
Gasoline tax.....	2,054,235	—	2,054,235	—
Franchise tax.....	640,865	—	640,865	—
Highway use tax.....	847,919	—	847,919	—
Insurance tax.....	661,881	—	661,881	—
Beverage tax.....	462,401	—	462,401	—
Tobacco products tax.....	288,933	—	288,933	—
Other taxes.....	290,178	—	290,178	—
Tobacco settlement.....	148,929	—	148,929	—
Federal COVID-19.....	173,448	—	173,448	—
Unrestricted investment earnings.....	133,251	—	133,251	20,678
State aid.....	—	—	—	4,337,293
Miscellaneous.....	76,395	—	76,395	11,857
Contributions to permanent funds.....	5,919	—	5,919	—
Contributions to endowments.....	—	—	—	125,750
Transfers.....	652,776	(652,776)	—	—
Total general revenues, contributions, and transfers.....	28,841,668	(652,776)	28,188,892	4,495,578
Change in net position.....	3,238,358	(767,058)	2,471,300	818,087
Net position — July 1, as restated (Note 23).....	48,195,063	6,318,409	54,513,472	15,392,630
Net position — June 30.....	\$ 51,433,421	\$ 5,551,351	\$ 56,984,772	\$ 16,210,717

THIS PAGE INTENTIONALLY LEFT BLANK.



*FUND FINANCIAL
STATEMENTS*

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2020

Exhibit B-1

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3).....	\$ 9,044,987	\$ 317,555	\$ 148,423	\$ 1,373,651	\$ 10,884,616
Investments (Note 3).....	7,872	—	—	300,322	308,194
Securities lending collateral (Note 3).....	254,740	5,848	3,385	23,769	287,742
Receivables, net: (Note 4)					
Taxes receivable.....	3,245,715	207,219	51,936	6,997	3,511,867
Accounts receivable.....	292,154	24,110	—	25,184	341,448
Intergovernmental receivable.....	1,194,608	92,104	2,198	2,513	1,291,423
Interest receivable.....	5,066	280	152	1,079	6,577
Contributions receivable.....	94	—	—	—	94
Other receivables.....	—	3,747	—	—	3,747
Due from other funds (Note 10).....	33,943	35,077	202,225	28,540	299,785
Due from component units (Note 18).....	121,215	—	—	—	121,215
Inventories.....	83,421	83,189	—	25,048	191,658
Advances to other funds (Note 10).....	—	—	820,154	—	820,154
Advances to component units.....	—	2,647	—	—	2,647
Advances to outside entities.....	120,330	—	—	—	120,330
Notes receivable, net (Note 4).....	15,418	109	20	65,093	80,640
Securities held in trust.....	15	828	—	48,137	48,980
Restricted/designated cash and cash equivalents (Note 3).....	40,853	—	—	375,468	416,321
Restricted investments (Note 3).....	1,990	476,369	177,465	651,761	1,307,585
Total Assets.....	<u>14,462,421</u>	<u>1,249,082</u>	<u>1,405,958</u>	<u>2,927,562</u>	<u>20,045,023</u>
Deferred Outflows of Resources					
Forward funded state aid.....	162,008	—	—	37,287	199,295
Total Assets and Deferred Outflows.....	<u>\$ 14,624,429</u>	<u>\$ 1,249,082</u>	<u>\$ 1,405,958</u>	<u>\$ 2,964,849</u>	<u>\$ 20,244,318</u>
Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 356,705	\$ 348,112	\$ 150,665	\$ 40,132	\$ 895,614
Accrued payroll.....	1,885	31,029	—	63	32,977
Intergovernmental payable.....	836,929	146,940	661	15,619	1,000,149
Claims payable.....	—	—	—	61,000	61,000
Medical claims payable.....	1,111,170	—	—	—	1,111,170
Tax refunds payable.....	1,330,878	3,787	888	—	1,335,553
Obligations under securities lending.....	254,740	5,848	3,385	23,769	287,742
Due to fiduciary funds (Note 10).....	118,687	6,141	—	—	124,828
Due to other funds (Note 10).....	64,887	203,137	14,601	175	282,800
Due to component units (Note 18).....	4,109	—	—	11,017	15,126
Unearned revenue.....	3,865,679	23,391	13,132	403	3,902,605
Advance from other funds (Note 10).....	—	790,300	—	—	790,300
Deposits payable.....	2,718	—	—	6	2,724
Funds held for others.....	34,527	13,507	—	48,237	96,271
Total Liabilities.....	<u>7,982,914</u>	<u>1,572,192</u>	<u>183,332</u>	<u>200,421</u>	<u>9,938,859</u>
Deferred Inflows of Resources					
Unavailable revenue.....	209,629	7,075	—	7,269	223,973
Fund Balances (Note 11)					
Nonspendable.....	83,763	83,189	—	145,457	312,409
Restricted.....	226,008	479,591	177,465	1,542,681	2,425,745
Committed.....	2,736,561	—	1,045,161	1,065,258	4,846,980
Assigned.....	1,725,771	—	—	3,763	1,729,534
Unassigned.....	1,659,783	(892,965)	—	—	766,818
Total Fund Balances.....	<u>6,431,886</u>	<u>(330,185)</u>	<u>1,222,626</u>	<u>2,757,159</u>	<u>10,081,486</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 14,624,429</u>	<u>\$ 1,249,082</u>	<u>\$ 1,405,958</u>	<u>\$ 2,964,849</u>	<u>\$ 20,244,318</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, 2020

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		\$ 10,081,486
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).....	\$ 58,183,236	
Less: Accumulated depreciation (excluding internal service funds).....	(828,003)	
Net capital assets.....		57,355,233
– 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.		223,973
– Equity interest in component unit is not a financial resource and, therefore, is not reported in the funds.		372,174
– Net OPEB 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 14).		7,849
– 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.		64,762
– 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).		1,105,577
– 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).		864,378
– 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.....	(2,605,380)	
Limited obligation bonds payable.....	(1,774,945)	
GARVEE bonds payable.....	(959,525)	
Unamortized debt premiums (to be amortized as interest expense).....	(553,093)	
Notes from direct borrowings.....	(43,937)	
Capital leases payable.....	(10,656)	
Net long-term debt.....		(5,947,536)
– 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.....	(37,077)	
Compensated absences (excluding internal service funds).....	(589,493)	
Obligations for workers' compensation (excluding internal service funds).....	(715,472)	
Death benefit payable.....	(37)	
Pollution remediation payable.....	(7,946)	
Claims and judgments payable.....	(731,703)	
Pension liability (excluding internal service funds).....	(2,579,124)	
Net OPEB liability (excluding internal service funds).....	(5,917,305)	
Total other liabilities.....		(10,578,157)
– 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).		(35,901)
– 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).		(2,221,236)
– 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).		140,819
Total net position - governmental activities (see Exhibit A-1)		<u>\$ 51,433,421</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2020

*Exhibit B-2**(Dollars in Thousands)*

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Individual income tax.....	\$ 13,121,892	\$ —	\$ —	\$ —	\$ 13,121,892
Corporate income tax.....	728,989	—	—	—	728,989
Sales and use tax.....	8,546,796	—	—	8,954	8,555,750
Gasoline tax.....	—	1,463,703	561,695	25,359	2,050,757
Franchise tax.....	646,414	—	—	—	646,414
Highway use tax.....	—	10,000	837,919	—	847,919
Insurance tax.....	660,905	—	—	—	660,905
Beverage tax.....	462,403	—	—	—	462,403
Tobacco products tax.....	289,317	—	—	—	289,317
Other taxes.....	167,107	—	—	122,552	289,659
Federal funds.....	17,584,656	1,534,914	—	98,513	19,218,083
Local funds.....	128,634	19,901	12,590	9,812	170,937
Investment earnings.....	152,107	13,886	8,183	42,165	216,341
Interest earnings on loans.....	94	—	538	266	898
Sales and services.....	161,697	3,954	—	143,036	308,687
Rental and lease of property.....	16,142	4,259	723	2,289	23,413
Fees, licenses, and fines.....	761,993	814,151	138,710	220,680	1,935,534
Tobacco settlement.....	149,194	—	—	—	149,194
Contributions, gifts, and grants.....	49,517	8,757	—	56,727	115,001
Funds escheated.....	—	—	—	168,851	168,851
Federal COVID-19 funds.....	1,156,776	—	—	—	1,156,776
Miscellaneous.....	145,796	14,951	321	6,929	167,997
Total revenues.....	44,930,429	3,888,476	1,560,679	906,133	51,285,717
Expenditures					
Current:					
General government.....	1,287,493	—	—	56,447	1,343,940
Primary and secondary education.....	11,978,624	—	—	—	11,978,624
Higher education.....	4,394,575	—	—	422,035	4,816,610
Health and human services.....	21,534,355	—	—	78,118	21,612,473
Economic development.....	525,174	—	—	3,941	529,115
Environment and natural resources.....	461,344	—	—	230,686	692,030
Public safety, corrections, and regulation.....	3,822,895	—	—	275,071	4,097,966
Transportation.....	—	3,762,877	1,874,723	—	5,637,600
Agriculture.....	273,702	—	—	21,647	295,349
Capital outlay.....	—	—	—	205,341	205,341
Debt service:					
Principal retirement.....	522,591	89,637	71,837	—	684,065
Interest and fees.....	200,420	45,533	16,194	34	262,181
Debt issuance costs.....	448	425	723	986	2,582
Total expenditures.....	45,001,621	3,898,472	1,963,477	1,294,306	52,157,876
Excess revenues over (under) expenditures.....	(71,192)	(9,996)	(402,798)	(388,173)	(872,159)
Other Financing Sources (Uses)					
General obligation bonds issued.....	—	—	—	600,000	600,000
Premium on debt issued.....	—	—	—	82,392	82,392
Sale of capital assets.....	7,506	4,465	692	224	12,887
Insurance recoveries.....	2,045	26,488	—	549	29,082
Transfers in (Note 10).....	892,735	301,317	96,459	113,302	1,403,813
Transfers out (Note 10).....	(357,611)	(56,828)	(203,904)	(133,684)	(752,027)
Total other financing sources (uses).....	544,675	275,442	(106,753)	662,783	1,376,147
Net change in fund balances.....	473,483	265,446	(509,551)	274,610	503,988
Fund balances — July 1, as restated (Note 23).....	5,958,403	(595,631)	1,732,177	2,482,549	9,577,498
Fund balances — June 30.....	\$ 6,431,886	\$ (330,185)	\$ 1,222,626	\$ 2,757,159	\$ 10,081,486

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, 2020
(Dollars in Thousands)

Exhibit B-2a

Net change in fund balances - total governmental funds (see Exhibit B-2)	\$	503,988
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.)	\$	3,853,310
Less: Depreciation expense (excluding internal service funds)	(1,028,752)	
Net capital outlay adjustment		2,824,558
– 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.		
		(30,486)
– Donations of capital assets do not appear in the governmental funds because they are not financial resources, but increase net position in the Statement of Activities.		
		4,821
– Pension Contributions (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities.		
		529,079
– OPEB Contributions (excluding internal service funds) to defined benefit OPEB plans in the current fiscal year are not included on the Statement of Activities.		
		244,449
– 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).		
		17,860
– 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:		
Bonds and similar debt issued	(600,000)	
Premiums on debt issued	(82,392)	
Principal repayments:		
Bonds, notes, and similar debt	681,459	
Capital leases (excluding internal service funds)	2,606	
Net debt adjustments		1,673
– 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.		
		(26,214)
– 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.		
		(7,942)
– 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	(1,738)	
Compensated absences (excluding internal service funds)	(75,103)	
Workers' compensation (excluding internal service funds)	28,256	
Death benefit	3	
Pension expense (excluding internal service funds)	(884,021)	
OPEB expense (excluding internal service funds)	25,845	
Pollution remediation	683	
Amortization of deferred amounts	92,547	
Net expense accruals		(813,528)
– 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).		
		(9,900)
Change in net position - governmental activities (see Exhibit A-2)	\$	<u>3,238,358</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF NET POSITION PROPRIETARY FUNDS

June 30, 2020

(Dollars in Thousands)

	Business-type Activities —			
	Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Assets				
Current Assets				
Cash and cash equivalents (Note 3).....	\$ 3,069,550	\$ 456,531	\$ 37,762	\$ —
Investments (Note 3).....	—	246,950	6,656	—
Securities lending collateral (Note 3).....	1,101	9,926	819	6,282
Receivables: (Note 4)				
Accounts receivable, net.....	237,848	—	12,589	30,878
Intergovernmental receivable.....	303,708	280	—	2,924
Interest receivable.....	21,973	3,440	48	—
Premiums receivable.....	—	—	—	—
Contributions receivable, net.....	64,187	—	—	—
Notes receivable.....	—	111,905	—	—
Due from other funds (Note 10).....	18,410	673	—	119
Inventories.....	—	—	—	1,105
Prepaid items.....	—	—	—	218
Restricted cash and cash equivalents (Note 3).....	—	—	—	14,461
Total current assets.....	<u>3,716,777</u>	<u>829,705</u>	<u>57,874</u>	<u>55,987</u>
Noncurrent Assets				
Investments (Note 3).....	—	—	74,072	—
Notes receivable.....	—	1,136,445	—	—
Prepaid items.....	—	—	5,713	4,904
Restricted/designated cash and cash equivalents (Note 3).....	—	—	—	14,848
Restricted investments (Note 3).....	—	—	—	486,754
Net OPEB asset.....	—	12	40	3
Capital assets-nondepreciable (Note 5).....	—	—	—	764,677
Capital assets-depreciable, net (Note 5).....	—	—	2,540	1,388,320
Total noncurrent assets.....	<u>—</u>	<u>1,136,457</u>	<u>82,365</u>	<u>2,659,506</u>
Total Assets.....	<u>3,716,777</u>	<u>1,966,162</u>	<u>140,239</u>	<u>2,715,493</u>
Deferred Outflows of Resources				
Deferred loss on refunding.....	—	—	—	26,211
Deferred outflows for pensions.....	—	1,889	4,476	549
Deferred outflows for OPEB.....	—	3,341	3,604	1,315
Total Deferred Outflows of Resources.....	<u>—</u>	<u>5,230</u>	<u>8,080</u>	<u>28,075</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	216,699	210	27,584	20,176
Accrued payroll.....	—	—	1,350	—
Intergovernmental payable.....	141,144	1,187	—	3,307
Claims payable.....	—	—	—	—
Unemployment benefits payable.....	332,076	—	—	—
Obligations under securities lending.....	1,101	9,926	819	6,282
Interest payable.....	—	—	—	38,999
Due to fiduciary funds (Note 10).....	—	—	—	8,094
Due to other funds (Note 10).....	—	—	27,652	12,473
Due to component units (Note 18).....	—	—	—	—
Unearned revenue.....	1,561	—	—	—
Deposits payable.....	—	—	—	8,334
Short-term debt (Note 6).....	—	—	—	—
Annuity and life income payable (Note 8).....	—	—	6,656	—
Notes from direct borrowings (Note 8).....	—	—	—	—
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable (Note 8).....	—	—	—	29,860
Compensated absences (Note 8).....	—	45	105	19
Workers compensation (Note 8).....	—	—	22	—
Total current liabilities.....	<u>692,581</u>	<u>11,368</u>	<u>64,188</u>	<u>127,544</u>

Exhibit B-3

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 161,776	\$ 3,725,619	\$ 104,077
151,272	404,878	32,465
1,778	19,906	502
9,831	291,146	29,851
1,735	308,647	—
666	26,127	25
173	173	2,697
—	64,187	—
5	111,910	—
2,955	22,157	9,597
656	1,761	157
12,152	12,370	22
1,884	16,345	—
<u>344,883</u>	<u>5,005,226</u>	<u>179,393</u>
25,084	99,156	—
256	1,136,701	—
19	10,636	—
2,687	17,535	—
—	486,754	—
63	118	168
18,823	783,500	3,396
70,265	1,461,125	145,693
<u>117,197</u>	<u>3,995,525</u>	<u>149,257</u>
<u>462,080</u>	<u>9,000,751</u>	<u>328,650</u>
—	26,211	—
9,392	16,306	35,089
12,570	20,830	92,819
<u>21,962</u>	<u>63,347</u>	<u>127,908</u>
11,234	275,903	8,258
78	1,428	4,232
48	145,686	—
30,696	30,696	1,997
—	332,076	—
1,778	19,906	502
—	38,999	—
—	8,094	—
32	40,157	8,582
—	—	34,281
43,341	44,902	9,583
94	8,428	—
4,112	4,112	—
—	6,656	—
683	683	—
31	31	—
—	29,860	—
1,214	1,383	693
—	22	330
<u>93,341</u>	<u>989,022</u>	<u>68,458</u>

Continued

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS (Continued)**

June 30, 2020

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Noncurrent Liabilities				
Accounts payable.....	—	—	—	—
Interest payable.....	—	—	—	52,606
Advances from other funds (Note 10).....	—	—	—	29,854
Annuity and life income payable (Note 8).....	—	—	74,072	—
Notes from direct borrowings (Note 8).....	—	—	—	166,500
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable, net (Note 8).....	—	—	—	2,010,063
Compensated absences (Note 8).....	—	885	2,377	290
Workers compensation (Note 8).....	—	—	—	—
Net pension liability (Note 8).....	—	3,423	11,063	880
Net OPEB liability (Note 8).....	—	8,966	29,745	2,355
Total noncurrent liabilities.....	—	13,274	117,257	2,262,548
Total Liabilities.....	692,581	24,642	181,445	2,390,092
Deferred Inflows of Resources				
Deferred inflows for pensions.....	—	192	153	9
Deferred inflows for OPEB.....	—	4,185	11,418	1,068
Total Deferred Inflows of Resources.....	—	4,377	11,571	1,077
Net Position				
Net investment in capital assets.....	—	—	2,540	433,327
Restricted for:				
Expendable:				
Economic development.....	—	—	—	—
Environment and natural resources.....	—	5	—	—
Public safety, corrections, and regulation.....	—	—	—	—
Transportation.....	—	—	—	14,461
Agriculture.....	—	—	—	—
Debt service.....	—	—	—	160,748
Capital projects/repairs and renovations.....	—	—	—	—
Other purposes.....	—	—	36	—
Unrestricted.....	3,024,196	1,942,368	(47,273)	(256,137)
Total Net Position.....	<u>\$ 3,024,196</u>	<u>\$ 1,942,373</u>	<u>\$ (44,697)</u>	<u>\$ 352,399</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-3

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
3,004	3,004	—
—	52,606	—
—	29,854	—
—	74,072	—
10,742	177,242	—
63	63	—
—	2,010,063	—
7,370	10,922	16,859
66	66	1,615
18,253	33,619	47,480
47,466	88,532	124,221
<u>86,964</u>	<u>2,480,043</u>	<u>190,175</u>
<u>180,305</u>	<u>3,469,065</u>	<u>258,633</u>
862	1,216	1,235
25,795	42,466	55,871
<u>26,657</u>	<u>43,682</u>	<u>57,106</u>
77,511	513,378	149,089
23	23	—
2	7	—
5	5	1
—	14,461	—
8	8	—
—	160,748	—
588	588	—
2,336	2,372	5
196,607	4,859,761	(8,276)
<u>\$ 277,080</u>	<u>\$ 5,551,351</u>	<u>\$ 140,819</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Operating Revenues				
Employer unemployment contributions.....	\$ 240,961	\$ —	\$ —	\$ —
Federal funds.....	5,060	—	—	—
Sales and services.....	—	2,445	3,016,203	889
Student tuition and fees, net.....	—	—	—	—
Interest earnings on loans.....	—	17,076	—	—
Rental and lease earnings.....	—	—	—	—
Fees, licenses, and fines.....	—	—	5,377	11,627
Toll revenues.....	—	—	—	66,576
Insurance premiums.....	—	—	—	—
Miscellaneous.....	—	1	412	3,521
Total operating revenues.....	<u>246,021</u>	<u>19,522</u>	<u>3,021,992</u>	<u>82,613</u>
Operating Expenses				
Personal services.....	—	6,852	25,477	2,738
Supplies and materials.....	—	78	1,792	48,503
Services.....	—	1,689	299,837	7,312
Cost of goods sold.....	—	—	—	1,046
Depreciation.....	—	10	527	29,684
Lottery prizes.....	—	—	1,957,588	—
Claims.....	—	—	—	—
Unemployment benefits.....	5,707,068	—	—	—
Insurance and bonding.....	—	—	20	—
Other.....	—	361	5,480	11,996
Total operating expenses.....	<u>5,707,068</u>	<u>8,990</u>	<u>2,290,721</u>	<u>101,279</u>
Operating income (loss).....	<u>(5,461,047)</u>	<u>10,532</u>	<u>731,271</u>	<u>(18,666)</u>
Nonoperating Revenues (Expenses)				
Noncapital grants.....	12,707	51,283	—	—
Noncapital gifts, net.....	—	—	—	—
Investment earnings.....	93,860	27,699	1,156	8,475
Interest and fees.....	—	—	—	(84,530)
Insurance recoveries.....	—	—	—	102
Grants, aid, and subsidies.....	—	(4,534)	—	—
Gain (loss) on sale of equipment.....	—	—	(167)	—
Federal interest subsidy on debt.....	—	—	—	4,324
Federal COVID-19 funds.....	4,493,227	—	—	—
Miscellaneous.....	(36)	(261)	240	(560)
Total nonoperating revenues (expenses).....	<u>4,599,758</u>	<u>74,187</u>	<u>1,229</u>	<u>(72,189)</u>
Income (loss) before contributions and transfers.....	(861,289)	84,719	732,500	(90,855)
Capital contributions.....	—	—	—	3,317
Transfers in (Note 10).....	1,571	30,094	—	185,396
Transfers out (Note 10).....	—	—	(732,500)	(146,255)
Change in net position.....	(859,718)	114,813	—	(48,397)
Net position — July 1, as restated (Note 23).....	3,883,914	1,827,560	(44,697)	400,796
Net position — June 30.....	<u>\$ 3,024,196</u>	<u>\$ 1,942,373</u>	<u>\$ (44,697)</u>	<u>\$ 352,399</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-4

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
\$ —	\$ 240,961	\$ —
—	5,060	—
1,353	3,020,890	392,465
15	15	—
—	17,076	—
8,161	8,161	—
157,098	174,102	4,064
—	66,576	—
19,530	19,530	28,012
1,783	5,717	378
<u>187,940</u>	<u>3,558,088</u>	<u>424,919</u>
93,569	128,636	230,881
4,114	54,487	15,565
50,261	359,099	92,775
356	1,402	222
4,574	34,795	22,949
—	1,957,588	—
43,980	43,980	15,355
—	5,707,068	—
7,273	7,293	28,669
9,648	27,485	44,813
<u>213,775</u>	<u>8,321,833</u>	<u>451,229</u>
<u>(25,835)</u>	<u>(4,763,745)</u>	<u>(26,310)</u>
23	64,013	—
1,753	1,753	—
9,783	140,973	3,231
(376)	(84,906)	—
31,578	31,680	8,908
—	(4,534)	—
(91)	(258)	1,521
—	4,324	—
—	4,493,227	—
127	(490)	1,760
<u>42,797</u>	<u>4,645,782</u>	<u>15,420</u>
16,962	(117,963)	(10,890)
364	3,681	—
9,704	226,765	14,576
(786)	(879,541)	(13,586)
<u>26,244</u>	<u>(767,058)</u>	<u>(9,900)</u>
<u>250,836</u>	<u>6,318,409</u>	<u>150,719</u>
<u>\$ 277,080</u>	<u>\$ 5,551,351</u>	<u>\$ 140,819</u>

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Cash Flows From Operating Activities				
Receipts from customers.....	\$ 521,830	\$ 1,772	\$ 2,828,780	\$ 71,670
Receipts from federal agencies.....	4,044	—	—	—
Receipts from program loans — interest.....	—	17,076	—	—
Receipts from program loans — principal.....	—	106,573	—	—
Receipts from other funds.....	—	—	—	—
Payments to suppliers.....	—	(1,832)	(93,516)	(78,266)
Payments to employees.....	—	(6,221)	(25,119)	(2,486)
Payments for prizes, benefits, and claims.....	(5,416,776)	—	(1,946,517)	—
Payments for program loans issued.....	—	(147,212)	—	—
Payments to other funds.....	—	—	—	—
Other receipts.....	—	1	335	5,545
Other payments.....	(1)	(341)	—	(2,769)
Net cash provided by (used for) operating activities.....	<u>(4,890,903)</u>	<u>(30,184)</u>	<u>763,963</u>	<u>(6,306)</u>
Cash Flows From Noncapital Financing Activities				
Grant receipts.....	4,203,286	51,283	—	—
Grants, aid, and subsidies.....	—	(12,743)	—	—
Advances from other funds.....	—	—	—	1,135
Transfers from other funds.....	—	30,093	—	—
Transfers to other funds.....	—	—	(748,435)	—
Gifts.....	—	—	—	—
Insurance recoveries.....	—	—	—	—
Net cash provided by (used for) noncapital financing activities.....	<u>4,203,286</u>	<u>68,633</u>	<u>(748,435)</u>	<u>1,135</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets.....	—	—	(758)	(331,393)
Proceeds from the sale of capital assets.....	—	—	524	—
Proceeds from capital debt.....	—	—	—	590,785
Transfers from other funds.....	1,571	—	—	185,396
Transfers to other funds.....	—	—	—	(146,255)
Capital contributions.....	248	—	—	4,508
Principal paid on capital debt.....	—	—	—	(26,210)
Interest paid on capital debt.....	—	—	—	(65,048)
Federal subsidy for interest on debt.....	—	—	—	4,324
Insurance recoveries.....	—	—	—	102
Debt issuance costs paid.....	—	—	—	(437)
Net cash provided by (used for) capital and related financing activities.....	<u>1,819</u>	<u>—</u>	<u>(234)</u>	<u>215,772</u>
Cash Flows From Investing Activities				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	952,885
Purchase of non-State Treasurer investments.....	—	—	—	(1,156,969)
Redemptions from State Treasurer investment pool.....	—	—	—	—
Investment earnings.....	94,360	7,688	1,158	9,427
Net cash provided by (used for) investment activities.....	<u>94,360</u>	<u>7,688</u>	<u>1,158</u>	<u>(194,657)</u>
Net increase (decrease) in cash and cash equivalents.....	(591,438)	46,137	16,452	15,944
Cash and cash equivalents at July 1.....	3,660,988	410,394	21,310	13,365
Cash and cash equivalents at June 30.....	<u>\$ 3,069,550</u>	<u>\$ 456,531</u>	<u>\$ 37,762</u>	<u>\$ 29,309</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 181,078	\$ 3,605,130	\$ 37,591
—	4,044	—
—	17,076	—
—	106,573	—
—	—	386,925
(65,428)	(239,042)	(179,247)
(89,365)	(123,191)	(211,280)
(40,705)	(7,403,998)	(24,692)
—	(147,212)	—
—	—	(7,022)
2,024	7,905	2,159
<u>(15,964)</u>	<u>(19,075)</u>	<u>—</u>
<u>(28,360)</u>	<u>(4,191,790)</u>	<u>4,434</u>
29	4,254,598	—
37	(12,706)	—
—	1,135	—
9,704	39,797	14,576
(785)	(749,220)	(13,587)
1,794	1,794	—
<u>31,578</u>	<u>31,578</u>	<u>8,908</u>
<u>42,357</u>	<u>3,566,976</u>	<u>9,897</u>
(6,857)	(339,008)	(34,109)
240	764	3,648
4,112	594,897	—
—	186,967	—
—	(146,255)	—
327	5,083	—
(682)	(26,892)	(46)
(374)	(65,422)	—
—	4,324	—
—	102	—
<u>—</u>	<u>(437)</u>	<u>—</u>
<u>(3,234)</u>	<u>214,123</u>	<u>(30,507)</u>
21,953	974,838	—
(28,493)	(1,185,462)	—
—	—	6,000
<u>3,133</u>	<u>115,766</u>	<u>688</u>
<u>(3,407)</u>	<u>(94,858)</u>	<u>6,688</u>
7,356	(505,549)	(9,488)
158,991	4,265,048	113,565
<u>\$ 166,347</u>	<u>\$ 3,759,499</u>	<u>\$ 104,077</u>

Continued

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds			
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority
Reconciliation of Operating Income to Net Cash Provided By Operating Activities				
Operating income (loss).....	\$ (5,461,047)	\$ 10,532	\$ 731,271	\$ (18,666)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation.....	—	10	527	29,684
Nonoperating miscellaneous income (expense).....	(1)	—	279	(2,769)
Change in assets and deferred outflows:				
Receivables.....	(67,847)	—	16,387	(7,325)
Due from other funds.....	2,868	(674)	—	228
Inventories.....	—	—	—	330
Prepaid items.....	—	—	(3,499)	(1,849)
Net OPEB asset.....	—	(5)	(11)	(1)
Notes receivable.....	—	(40,638)	—	—
Deferred outflows for pensions.....	—	183	1,323	2
Deferred outflows for OPEB.....	—	(2,320)	(1,542)	(451)
Change in liabilities and deferred inflows:				
Accounts payable and accrued liabilities.....	635,124	(46)	18,640	(2,692)
Due to other funds.....	—	—	—	(6,557)
Due to component units.....	—	—	—	—
Due to fiduciary funds.....	—	—	—	1,359
Compensated absences.....	—	(27)	440	62
Workers' compensation.....	—	—	4	—
Unearned revenue.....	—	—	—	(325)
Net pension liability.....	—	796	311	150
Net OPEB liability.....	—	2,485	3,139	560
Deferred inflows for pensions.....	—	(205)	(163)	(12)
Deferred inflows for OPEB.....	—	(275)	(3,143)	(59)
Deposits payable.....	—	—	—	2,025
Net cash provided by (used for) operations.....	<u>\$ (4,890,903)</u>	<u>\$ (30,184)</u>	<u>\$ 763,963</u>	<u>\$ (6,306)</u>
Noncash Investing, Capital, and Financing Activities				
Noncash distributions from the State Treasurer				
Bond Index External Investment Pool and/or other agents....	\$ —	\$ 17,342	\$ —	\$ —
Donated or transferred assets	—	—	—	—
Change in construction in progress as a result of accrual of accounts payable.....	—	—	—	10,874
Capital asset writeoff.....	—	—	(110)	—
Assets acquired through the assumption of a liability.....	—	—	—	4,429
Change in fair value of investments.....	—	2,484	—	(9,765)
Increase in receivables related to nonoperating income.....	302,648	—	—	—
Change in securities lending collateral.....	(2,264)	(16,922)	(646)	5,294

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ (25,835)	\$ (4,763,745)	\$ (26,310)
4,574	34,795	22,949
301	(2,190)	1,781
(468)	(59,253)	(2,761)
(2,337)	85	1,245
4	334	20
(7,389)	(12,737)	—
(16)	(33)	(104)
—	(40,638)	—
2,306	3,814	(13,343)
(2,153)	(6,466)	(74,949)
4,979	656,005	(4,782)
(15)	(6,572)	2,705
—	—	(10,395)
—	1,359	—
1,146	1,621	2,923
56	60	166
(2,724)	(3,049)	896
544	1,801	22,591
3,529	9,713	64,117
(435)	(815)	281
(4,148)	(7,625)	17,404
(279)	1,746	—
<u>\$ (28,360)</u>	<u>\$ (4,191,790)</u>	<u>\$ 4,434</u>
\$ 2,788	\$ 20,130	\$ 778
36	36	—
—	10,874	—
(224)	(334)	(13,462)
181	4,610	—
2,702	(4,579)	(1,763)
—	302,648	—
(3,273)	(17,811)	(1,483)

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2020

Exhibit B-6

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private- Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3).....	\$ 1,088,596	\$ 5,719	\$ 204,944	\$ 972,191
Investments (Note 3):				
Corporate bonds.....	—	—	—	3,924
Corporate stocks.....	—	—	—	538
Certificates of deposit.....	—	—	36,596	400
Collective investment funds.....	53,580	—	—	—
State Treasurer investment pool.....	104,700,542	1,534,965	—	—
Unallocated insurance contracts.....	225,466	—	—	—
Synthetic guaranteed investment contracts.....	1,865,859	—	—	—
Non-State Treasurer pooled investments.....	10,823,098	—	—	—
Securities lending collateral (Note 3).....	906,253	16,887	1,173	3,121
Receivables:				
Taxes receivable.....	—	—	—	238,700
Accounts receivable.....	34,227	—	—	15,184
Intergovernmental receivable.....	113	—	—	1
Interest receivable.....	1,107	2,459	53	83
Contributions receivable.....	208,290	—	—	—
Due from other funds (Note 10).....	86,709	—	—	46,213
Due from component units.....	29,013	—	—	—
Notes receivable.....	318,234	—	—	—
Sureties.....	—	—	798,922	40,641
Capital assets-nondepreciable (Note 5).....	—	—	—	63
Total Assets.....	<u>120,341,087</u>	<u>1,560,030</u>	<u>1,041,688</u>	<u>1,321,059</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	1,520	—	—	14
Intergovernmental payable.....	—	—	—	1,080,507
Benefits payable.....	6,517	—	—	—
Obligations under securities lending.....	906,253	16,887	1,173	3,121
Deposits payable.....	—	—	—	3,862
Funds held for others.....	7,637	—	—	233,555
Total Liabilities.....	<u>921,927</u>	<u>16,887</u>	<u>1,173</u>	<u>1,321,059</u>
Net Position				
Restricted for:				
Pension benefits.....	114,893,039	—	—	—
Other postemployment benefits.....	2,426,540	—	—	—
Other employment benefits.....	2,099,581	—	—	—
Pool participants.....	—	913,609	—	—
Individuals, organizations, and other governments.....	—	629,534	1,040,515	—
Total Net Position.....	<u>\$ 119,419,160</u>	<u>\$ 1,543,143</u>	<u>\$ 1,040,515</u>	<u>\$ —</u>

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, 2020

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private- Purpose Trust Funds
Additions			
Contributions:			
Employer.....	\$ 4,163,161	\$ —	\$ —
Members.....	1,867,065	—	—
Trustee deposits.....	—	—	177,229
Other contributions.....	532,489	—	—
Total contributions.....	<u>6,562,715</u>	<u>—</u>	<u>177,229</u>
Investment income:			
Investment earnings.....	6,921,372	35,184	2,174
Less investment expenses.....	<u>(381,034)</u>	<u>(577)</u>	<u>(34)</u>
Net investment income.....	<u>6,540,338</u>	<u>34,607</u>	<u>2,140</u>
Pool share transactions:			
Reinvestment of dividends.....	—	34,607	—
Net share purchases/(redemptions).....	—	159,190	—
Net pool share transactions.....	<u>—</u>	<u>193,797</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	3,054	—	—
Interest earnings on loans.....	16,937	—	—
Miscellaneous.....	1,135	—	—
Total other additions.....	<u>21,126</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>13,124,179</u>	<u>228,404</u>	<u>179,369</u>
Deductions			
Claims and benefits.....	7,242,240	—	—
Medical insurance premiums.....	1,084,860	—	—
Refund of contributions.....	162,841	—	—
Distributions paid and payable.....	—	34,607	—
Payments in accordance with trust arrangements.....	—	—	158,351
Administrative expenses.....	32,871	—	—
Other deductions.....	795	—	—
Total deductions.....	<u>8,523,607</u>	<u>34,607</u>	<u>158,351</u>
Change in net position.....	4,600,572	193,797	21,018
Net position — July 1.....	<u>114,818,588</u>	<u>1,349,346</u>	<u>1,019,497</u>
Net position — June 30.....	<u>\$ 119,419,160</u>	<u>\$ 1,543,143</u>	<u>\$ 1,040,515</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INDEX

	Page
Note 1—Summary of Significant Accounting Policies	74
A. Financial Reporting Entity	74
B. Basis of Presentation	78
C. Measurement Focus and Basis of Accounting	80
D. Cash and Cash Equivalents	81
E. Investments	81
F. Securities Lending	81
G. Receivables and Payables	81
H. Inventories and Prepaid Items	81
I. Securities Held in Trust	81
J. Restricted/Designated Assets	82
K. Capital Assets	82
L. Tax Refund Liabilities	82
M. Compensated Absences	82
N. Long-Term Liabilities	83
O. Deferred Outflows/Inflows of Resources	83
P. Net Position/Fund Balance	84
Q. Revenues and Expenses	85
R. Food and Nutrition Services	85
Note 2—Changes in Financial Accounting and Reporting	86
DETAIL NOTES ON ALL FUNDS AND ACTIVITIES	
Note 3—Deposits and Investments	87
A. Deposits and Investments with State Treasurer	87
B. Deposits Outside the State Treasurer	90
C. Investments Outside the State Treasurer	91
Note 4—Receivables	101
Note 5—Capital Assets	102
Note 6—Short-Term Debt	106
Note 7—Derivative Instruments	108
A. Summary Information	108
B. Hedging Derivative Instruments	108
C. Investment Derivative Instruments	109
D. Synthetic Guaranteed Investment Contracts	110
Note 8—Long-Term Liabilities	111
A. Changes in Long-Term Liabilities	111
B. Bonds, Special Indebtedness, Direct Placements, and Notes from Direct Borrowings	115
C. Debt Authorized but Unissued	115
D. Demand Bonds	116
E. Debt Service Requirements	120
F. Bond Defeasances	121
G. Pollution Remediation Payable	122
H. Asset Retirement Obligation	123
Note 9—Lease Obligations—Operating and Capital	124
Note 10—Interfund Balances and Transfers	125
A. Interfund Balances	125
B. Interfund Transfers	126
Note 11—Fund Balance	127

NOTES TO THE FINANCIAL STATEMENTS

	Page
Note 12—Retirement Plans	128
A. Summary of Significant Accounting Policies and Plan Asset Matters	128
B. Plan Descriptions.....	128
Cost-Sharing, Multiple-Employer, Defined Benefit Plans.....	128
Single-Employer Defined Benefit Plans	132
Defined Contribution Plans	134
C. Plan Membership.....	135
D. Investments	136
E. Net Pension Liability of Participating Employers	136
F. GASB Statements 68 and 73 Employer Reporting.....	138
Note 13—Deferred Compensation Plans	147
Note 14—Other Postemployment Benefits	148
A. Summary of Significant Accounting Policies and Plan Asset Matters	148
B. Plan Descriptions.....	148
Cost-Sharing, Multiple-Employer, Defined Benefit Plans.....	148
C. Plan Membership.....	151
D. Investments	151
E. Net OPEB Liability of Participating Employers.....	152
F. GASB Statement 75 Employer Reporting.....	156
Note 15—Risk Management and Insurance	164
A. Public Entity Risk Pool	164
B. Employee Benefit Plans	165
C. Other Risk Management and Insurance Activities	166
Note 16—Individual Plan Financial Statements - Pension and Other Employee Benefit Trust Funds	172
Note 17—Pledged Revenues	176
Note 18—Component Units—Financial Information	178
Note 19—Related Organizations	181
Note 20—Related Party Transactions	182
Note 21—Commitments and Contingencies	183
A. No Commitment Debt	183
B. Litigation	183
C. Federal Grants	186
D. Highway Construction.....	186
E. Construction and Other Commitments	186
F. Tobacco Settlement	187
G. Other Contingencies.....	187
Note 22—Tax Abatements	189
Note 23—Fund Equity Reclassifications and Restatements	190
Note 24—Stewardship, Compliance, and Accountability	191
Note 25—Subsequent Events	192

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****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, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

The State's 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.

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 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 System are the financial data of the universities' significant fund-raising foundations (and similar organizations). 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	

NOTES TO THE FINANCIAL STATEMENTS**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 CAFR 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.

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 County 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.

NOTES TO THE FINANCIAL STATEMENTS**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.

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, seven of whom are appointed by the Governor and two of whom serve ex officio by virtue of their positions with the North Carolina Community College System and the University of North Carolina 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.

NOTES TO THE FINANCIAL STATEMENTS**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 the 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 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.

Availability of Financial Statements

Unless otherwise noted, complete financial statements for the following component units can be obtained from the Office of the State Auditor, 2 South Salisbury Street, 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
P.O. Box 28066
Raleigh, NC 27611-8066

North Carolina Biotechnology Center
P.O. Box 13547
Research Triangle Park, NC 27709-3547

Economic Development Partnership of
North Carolina
150 Fayetteville St. Suite 1200
Raleigh, NC 27601

State Education Assistance Authority
P.O. Box 14103
Research Triangle Park, NC 27709-4103

Centennial Authority
1400 Edwards Mill Road
Raleigh, NC 27607

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 Health Plan, North Carolina Arboretum, and the University of North Carolina Health Care System do not issue separate financial statements.

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, 2020, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2019, and the North Carolina Deferred Compensation Plan, the 401(k) Supplemental Retirement Income Plan, and the North Carolina Railroad Company whose statements are as of and for the fiscal year ended December 31, 2019. 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 nonfiduciary 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.

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.

Investment Trust Funds

These funds account for the external portion of the Investment Pool sponsored by the Department of State Treasurer and individual investment accounts held by the Department of State Treasurer for public hospitals that are not part of the State reporting entity.

Private-purpose Trust Funds

These funds account for resources held in trust for insurance carriers, designated beneficiaries by the Administrative Office of the Courts, and other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

NOTES TO THE FINANCIAL STATEMENTS**Agency Funds**

These funds account for sales tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, insurance company receivership assets, vehicle property tax collections held on behalf of local governments, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments. Insurance company receivership assets are held by the Commissioner of Insurance exclusively in his capacity as Receiver. These assets belong to insurance companies and other entities in receivership and are not the property of the State.

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, except for agency funds which do not have a measurement focus. 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 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 instant 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. For instant 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 instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. 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.

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.

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.

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 Units of output for motor vehicles	2-30 years 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

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

NOTES TO THE FINANCIAL STATEMENTS

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 University of North Carolina 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 position 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 the following items that qualify for reporting in this category. They are 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 University of North Carolina System (component unit) generally amortizes this amount using the straight-line method.

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 position 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 a component unit have the following items that qualify for reporting in this category. They are 1) service concession 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) a capital lease obligation adjustment by a university due to a change in the provisions of a lease resulting from a refunding by the lessor of tax-exempt debt (other deferred inflows), 6) deferred inflows for irrevocable split interest agreements that universities are beneficiaries of, and 7) 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.

NOTES TO THE FINANCIAL STATEMENTS

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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2020, the OSBM along with the Fiscal Research Division of the General Assembly recommended a Savings Reserve target balance of 10.9% of prior fiscal year's General Fund operating budget appropriations. At June 30, 2020, the balance of the Savings Reserve was \$1.17 billion, which represents 4.88% 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. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2020, the State implemented the following pronouncements and implementation guides issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*,
- Statement No. 90, *Majority Equity Interests*,
- Statement No. 92, *Omnibus 2020*,
- Implementation Guide No. 2019-1, *Implementation Guidance Update – 2019*.

Statement No. 89 requires interest cost incurred before the end of a construction period be recognized as an expense in the period that it is incurred. The interest cost incurred before the end of a construction period will not be included in the historical cost of the capital asset reported in a business-type activity or enterprise fund.

Statement No. 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the government's holding of the equity interest meets the definition of an investment. If the majority equity interest is held for the purpose of investment, then the majority equity interest should be measured using the equity method, unless held by a special-purpose government engaged in fiduciary activities, a fiduciary fund, an endowment, or a permanent fund, which should be measured at fair value. The standard further provides that if the government's holding of the majority equity interest in a legally separate organization does not meet the definition of an investment, then the government should report the majority equity interest as a component unit and the government that holds the majority equity interest should report an asset related to the majority equity interest using the equity method.

Statement No. 92 provides guidance regarding the reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. The standard also provides for changes in the terminology of *derivative* and *derivatives* to *derivative instrument* and *derivative instruments*.

Implementation Guide No. 2019-1 provides guidance and clarification for questions related to postemployment benefits, plan and employer accounting and financial reporting. The implementation guide also provides guidance for accounting and financial reporting for derivative instruments, nonexchange transactions, impairment of capital assets and insurance recoveries, sales and pledges of receivables and future revenues and intra-entity transfers of assets and future revenues, fund balance reporting and governmental fund type definitions, tax abatement disclosures, and irrevocable split-interest agreements.

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 Public School 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 holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. 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.

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 an investment trust 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, 2020, the economic impact on interest rates resulted in a usage of funds from the General Fund to meet program obligations of \$6.54 million.

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, the Local Government OPEB Trust, 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 an investment trust 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	\$ 6,902	31
Repurchase agreements	449,391	9
Total investments	<u>\$ 456,293</u>	

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.

Repurchase agreements are reported at cost. See Note 1E for additional information. U.S. Treasuries are valued at fair value at June 30, 2020 (\$6.9 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 the Local Government OPEB Trust (OPEB) funds. Other participants include local government LEOSSA trusts 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, 2020, there were twenty-four 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, 2020, there were four participants consisting of the Margaret R. Pardee Hospital, New Hanover Regional Medical Center, Columbus Regional Healthcare, and Watauga Medical Center. Two public hospitals also participate in the BIF.

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/ind-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):

Investments Measured at the NAV	Fair Value 6/30/2020	Unfunded Commitments
Private credit limited partnership	\$ 8,801	\$ 309
Private equity investment partnerships	44,363	22,154
Total investments measured at the NAV	<u>\$ 53,164</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 seven 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>\$ 4,444</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.....	\$ 919,631
Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name.....	5,592
Total.....	<u>\$ 925,223</u>

NOTES TO THE FINANCIAL STATEMENTS

C. Investments Outside the State Treasurer

Primary Government

At year-end, 90% 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 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 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 401(k) Plan and the 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.

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, 2019, the 401(k) and 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 \$10.82 billion. The 401(k) and 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 four synthetic guaranteed investment contracts, a separate account guaranteed investment contract, 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.....	\$ 1,042,984	\$ 14,347	\$ 674,236	\$ 288,132	\$ 66,269
U.S. agencies.....	41,148	6,799	5,734	2,990	25,625
Mortgage pass-throughs.....	680,221	25,484	25,765	55,377	573,595
Collateralized mortgage obligations.....	82,461	25,277	—	11,270	45,914
State and local government.....	57,851	5,273	22,920	20,198	9,460
Asset-backed securities.....	343,498	80,625	159,986	14,611	88,276
Fixed income collective investment funds.....	88,709	—	—	88,709	—
Debt mutual funds.....	23,032	—	23,032	—	—
Pooled debt funds.....	921,478	—	—	921,478	—
Domestic corporate bonds.....	634,750	54,143	359,456	142,482	78,669
Foreign corporate bonds.....	146,864	19,513	94,715	15,468	17,168
Foreign government bonds.....	23,478	15,852	5,486	2,140	—
	4,086,474	\$ 247,313	\$ 1,371,330	\$ 1,562,855	\$ 904,976
Other investments:					
Equity collective investment trusts.....	4,112,604				
Unallocated insurance contracts.....	225,466				
Domestic stocks.....	1,883,103				
Foreign stocks.....	2,115,427				
Short-term investment collective trust.....	150,038				
Hedge/commodity/debt collective investment trust.....	432,197				
Total investments.....	\$ 13,005,309				

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 fair value of the underlying investments of fully benefit-responsive SGICs exceeded the contract value by \$37.31 million.

Interest Rate Risk. The 401(k) and 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 401(k) and 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, 2019, the 401(k) and 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.....	\$ —	\$ 41,148	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs.....	22,727	556,951	—	—	—	—
Collateralized mortgage obligations.....	19,532	40,708	127	558	20,656	880
State and local government.....	12,877	40,833	4,141	—	—	—
Asset-backed securities.....	270,403	36,661	10,192	1,619	24,623	—
Fixed income collective investment funds.....	—	—	—	—	—	88,709
Debt mutual funds.....	—	—	—	—	—	23,032
Pooled debt funds.....	—	—	—	—	—	921,478
Domestic corporate bonds.....	22,044	30,442	200,595	332,629	47,580	1,460
Foreign corporate bonds.....	7,589	5,717	67,438	57,212	8,860	48
Foreign government bonds.....	—	4,637	18,349	492	—	—
	<u>\$ 355,172</u>	<u>\$ 757,097</u>	<u>\$ 300,842</u>	<u>\$ 392,510</u>	<u>\$ 101,719</u>	<u>\$ 1,035,607</u>

Custodial Credit Risk. The 401(k) and 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 401(k) and 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, 2019, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount	
		Foreign stocks
Euro.....	\$	475,997
Pound Sterling.....		296,507
Japanese Yen.....		284,324
Hong Kong Dollar.....		167,160
Swiss Franc.....		94,814
New Taiwan Dollar.....		66,597
Swedish Krona.....		51,437
Singapore Dollar.....		47,954
South Korean Won.....		47,634
Indian Rupee.....		44,627
Canadian Dollar.....		40,744
Australian Dollar.....		36,793
Danish Krone.....		27,193
South African Rand.....		27,148
Brazilian Real.....		15,446
Mexican Peso.....		8,218
Malaysian Ringgit.....		6,851
Other Currencies.....		10,079
Total.....	\$	<u>1,749,523</u>

Note: The totals in this table do not agree to the totals disclosed in the previous investment maturities table because the investment maturities table includes foreign stocks that are denominated in U.S. currency.

The fair value measurements of the 401(k) and 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, 2019, the investments of these Plans maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

	6/30/2020	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level			
U.S. Treasuries.....	\$ 1,042,984	\$ —	\$ 1,042,984
U.S. agencies.....	41,148	—	41,148
Mortgage pass-throughs.....	680,221	—	680,221
Collateralized mortgage obligations.....	82,461	—	82,461
State and local government.....	57,851	—	57,851
Asset-backed securities.....	343,498	—	343,498
Domestic corporate bonds.....	634,750	—	634,750
Foreign corporate bonds.....	146,864	—	146,864
Foreign government bonds.....	23,478	—	23,478
Domestic stocks.....	1,883,103	1,883,103	—
Foreign stocks.....	2,115,427	2,115,427	—
Total investments by fair value level.....	7,051,785	\$ 3,998,530	\$ 3,053,255
Investments measured at the net asset value (NAV)			
Short-term investment collective trust.....	150,038		
Hedge/commodity/debt collective investment trust.....	432,197		
Fixed income collective investment funds.....	88,709		
Debt mutual funds.....	23,032		
Pooled debt funds.....	921,478		
Equity collective investment trusts.....	4,112,604		
Total investments measured at the NAV.....	5,728,058		
Total investments measured at fair value.....	\$ 12,779,843		

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 6/30/2020	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Short-term investment collective trust.....	\$ 150,038	Daily	1 day
Hedge/commodity/debt collective investment trust.....	432,197	Daily	1 day
Fixed income collective investment funds.....	88,709	Daily	1 day
Debt mutual funds.....	23,032	Daily	1 day
Pooled debt funds.....	921,478	Daily	1 day
Equity collective investment trusts.....	4,112,604	Daily	1 day
Total investments measured at the NAV.....	\$ 5,728,058		

Short-term Investment Collective Trust - This type includes 2 funds, the BNY Mellon EB Temporary Investment Fund and the Wells Fargo/BlackRock Short-term Investment Fund. 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 Wells Fargo/BlackRock Short-term Investment Fund 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 Barclays 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 Fund in Fixed Income. The fund is an actively managed bond fund that seeks an excess return over the Bloomberg Barclays 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 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.....	\$ 314,285	\$ 309,746	\$ 4,539	\$ —	\$ —
U.S. agencies.....	19,640	—	19,640	—	—
State and local government.....	536	—	536	—	—
Repurchase agreements.....	440,156	440,156	—	—	—
Commercial paper.....	11,491	11,491	—	—	—
Annuity contracts.....	80,728	6,656	26,624	26,624	20,824
Money market mutual funds.....	153,187	153,187	—	—	—
Pooled debt funds.....	263,246	—	263,246	—	—
	<u>1,283,269</u>	<u>\$ 921,236</u>	<u>\$ 314,585</u>	<u>\$ 26,624</u>	<u>\$ 20,824</u>
Other investments:					
Domestic stocks.....	92,786				
Total investment securities.....	<u>\$ 1,376,055</u>				

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	Unrated
U.S. agencies.....	\$ 19,640	\$ —	\$ —	\$ —
State and local government.....	536	—	—	—
Commercial paper.....	—	—	11,491	—
Annuity contracts.....	—	80,728	—	—
Money market mutual funds.....	153,187	—	—	—
Pooled debt funds.....	—	—	—	263,246
Total.....	<u>\$ 173,363</u>	<u>\$ 80,728</u>	<u>\$ 11,491</u>	<u>\$ 263,246</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):

Investments by fair value level	6/30/2020	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasuries.....	\$ 314,285	\$ 294,287	\$ 19,998
U.S. agencies.....	19,640	—	19,640
State and local government.....	536	536	—
Commercial paper.....	11,491	—	11,491
Annuity contracts.....	80,728	80,728	—
Domestic stocks.....	92,786	92,786	—
Total investments by fair value level.....	519,466	<u>\$ 468,337</u>	<u>\$ 51,129</u>
Investments as a position in an External Investment Pool			
Pooled debt funds.....	263,246		
Total investments measured at fair value.....	<u>\$ 782,712</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 market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

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.....	\$ 130,865	\$ 15,250	\$ 90,858	\$ 14,060	\$ 10,697
U.S. agencies.....	135,634	868	28,547	5,411	100,808
Mortgage pass-throughs.....	2,003	—	—	—	2,003
Collateralized mortgage obligations.....	103,290	—	1,857	13,292	88,141
Asset-backed securities.....	79,082	—	5,717	8,923	64,442
Collective investment funds.....	122,339	92,911	7,250	22,178	—
Annuity contracts.....	44	44	—	—	—
Debt mutual funds.....	483,689	16,135	318,512	103,917	45,125
Money market mutual funds.....	341,084	341,084	—	—	—
Domestic corporate bonds.....	10,571	1,076	919	7,688	888
Foreign corporate bonds.....	9,580	—	—	7,965	1,615
Foreign government bonds.....	3,076	—	30	1,856	1,190
Other.....	440	—	215	1	224
	<u>1,421,697</u>	<u>\$ 467,368</u>	<u>\$ 453,905</u>	<u>\$ 185,291</u>	<u>\$ 315,133</u>
Other investments:					
Balanced mutual funds.....	5,268				
International mutual funds.....	39,201				
Equity mutual funds.....	125,760				
Investments in real estate.....	19,490				
Real estate investment trust.....	37,463				
Hedge funds.....	3,404,254				
Private equity limited partnerships.....	2,436,231				
Real assets limited partnerships.....	369,527				
Other limited partnerships.....	309,986				
Domestic stocks.....	283,116				
Foreign stocks.....	12,016				
Other.....	3,341				
Total investments.....	<u>\$ 8,467,350</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.....	\$ 10	\$ 125,673	\$ —	\$ 268	\$ 1,187	8,496
Mortgage pass-throughs.....	—	418	1,575	—	—	10
Collateralized mortgage obligations.....	3,682	4,159	1,114	11,976	41,665	40,694
Asset-backed securities.....	1,901	2,646	1,342	9,309	42,161	21,723
Collective investment funds.....	7,251	21,374	—	—	803	92,911
Annuity contracts.....	—	—	—	—	—	44
Debt mutual funds.....	5,735	10,283	181,564	180,761	34,098	71,248
Money market mutual funds.....	339,914	13	—	—	—	1,157
Domestic corporate bonds.....	119	541	2,509	530	6,661	211
Foreign corporate bonds.....	—	412	1,034	2,272	5,860	2
Foreign government bonds.....	—	648	622	1,776	30	—
Other.....	440	—	—	—	—	—
Total.....	<u>\$ 359,052</u>	<u>\$ 166,167</u>	<u>\$ 189,760</u>	<u>\$ 206,892</u>	<u>\$ 132,465</u>	<u>\$ 236,496</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	Held by Counterparty's Trust Dept. or Agent but not in the entity's name
Domestic stocks.....	\$ 7,976	125
Foreign stocks.....	11	15
Total	<u>\$ 7,987</u>	<u>\$ 140</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
Euro.....	\$ 19,631	\$ 117,162	\$ 2,179
British Pound Sterling.....	—	50,231	399
Canadian Dollar.....	—	5,742	—
Australian Dollar.....	—	9	—
Total.....	<u>\$ 19,631</u>	<u>\$ 173,144</u>	<u>\$ 2,578</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the UNC System's investments maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

	6/30/2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. Treasuries.....	\$ 130,865	\$ 130,668	\$ 197	\$ —
U.S. agencies.....	135,634	—	135,634	—
Mortgage pass-throughs.....	2,003	—	2,003	—
Collateralized mortgage obligations.....	103,290	—	103,290	—
Asset-backed securities.....	79,082	—	79,082	—
Collective investment funds.....	122,339	122,339	—	—
Annuity Contracts.....	44	—	44	—
Debt mutual funds.....	483,689	483,689	—	—
Money market mutual funds.....	335,809	335,809	—	—
Balanced mutual funds.....	5,268	5,268	—	—
International mutual funds.....	39,201	39,201	—	—
Equity mutual funds.....	125,760	125,760	—	—
Domestic corporate bonds.....	10,571	539	10,032	—
Foreign corporate bonds.....	9,580	—	9,580	—
Foreign government bonds.....	3,076	—	3,076	—
Domestic stocks.....	283,116	273,899	—	9,217
Foreign stocks.....	12,016	11,350	666	—
Investments in real estate.....	19,490	1,406	6,150	11,934
Real estate investment trust.....	37,363	37,363	—	—
Other.....	2,862	440	—	2,422
Total investments by fair value level.....	1,941,058	\$ 1,567,731	\$ 349,754	\$ 23,573
Investments measured at the net asset value (NAV)				
Real estate investment trust.....	100			
Hedge funds.....	3,404,254			
Private equity limited partnerships.....	2,436,231			
Real assets limited partnerships.....	369,527			
Other limited partnerships.....	309,986			
Other.....	854			
Total investments measured at the NAV.....	6,520,952			
Total investments measured at fair value.....	\$ 8,462,010			

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 valuations. 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.

Investments Measured at the NAV	Fair Value 6/30/2020	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
UNC at Chapel Hill:				
Hedge funds.....	\$ 3,398,866	\$ 27,977	From weekly to 3+ years	1 to 365 days
Private equity limited partnerships.....	2,301,033	957,560	Not currently eligible	10-15 years
Real assets limited partnerships.....	369,057	367,695	Not currently eligible	10-15 years
Total investments measured at the NAV.....	<u>\$ 6,068,956</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, 2020, are reported net of allowances for doubtful accounts as follows (dollars in thousands):

Governmental Activities:

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds	Total
Receivables, gross (excluding notes)..	\$ 6,070,252	\$ 330,500	\$ 54,286	\$ 183,666	\$ 32,573	\$ 6,671,277
Allowance for doubtful accounts.....	(1,332,615)	(3,040)	—	(147,893)	—	(1,483,548)
Receivables, net.....	<u>\$ 4,737,637</u>	<u>\$ 327,460</u>	<u>\$ 54,286</u>	<u>\$ 35,773</u>	<u>\$ 32,573</u>	<u>\$ 5,187,729</u>
Notes receivable, gross.....	\$ 15,418	\$ 109	\$ 20	\$ 65,128	\$ —	\$ 80,675
Allowance for doubtful accounts.....	—	—	—	(35)	—	(35)
Notes receivable, net.....	<u>\$ 15,418</u>	<u>\$ 109</u>	<u>\$ 20</u>	<u>\$ 65,093</u>	<u>\$ —</u>	<u>\$ 80,640</u>

Within governmental activities, the significant receivables not expected to be collected within one year total \$157.90 million. Amounts not expected to be collected within one year in the General Fund are \$99.72 million and \$58.18 million in Capital Projects Funds.

Business-type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	N.C. Turnpike Authority	Other Enterprise Funds	Total
Receivables, gross (excluding notes)..	\$ 720,345	\$ 3,720	\$ 12,637	\$ 33,802	\$ 12,408	\$ 782,912
Allowance for doubtful accounts.....	(92,629)	—	—	—	(3)	(92,632)
Receivables, net.....	<u>\$ 627,716</u>	<u>\$ 3,720</u>	<u>\$ 12,637</u>	<u>\$ 33,802</u>	<u>\$ 12,405</u>	<u>\$ 690,280</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, 2020 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2019 (as restated)	Increases	Decreases	Balance June 30, 2020
Capital Assets, nondepreciable				
Land and permanent easements	\$ 19,287,419	\$ 770,716	\$ (6,527)	\$ 20,051,608
Art, literature, and other artifacts	140,595	4,166	(260)	144,501
Construction in progress	3,093,913	2,868,788	(2,824,646)	3,138,055
Computer software in development	632,329	80,271	—	712,600
Total Capital Assets-nondepreciable	<u>23,154,256</u>	<u>3,723,941</u>	<u>(2,831,433)</u>	<u>24,046,764</u>
Capital Assets, depreciable				
Buildings	4,142,465	210,784	(17,767)	4,335,482
Machinery and equipment	1,987,651	134,496	(76,354)	2,045,793
General infrastructure	357,905	10,145	(1,525)	366,525
State highway system	39,804,532	2,635,633	(142,481)	42,297,684
Computer software	371,163	2,012	(2,353)	370,822
Total Capital Assets-depreciable	<u>46,663,716</u>	<u>2,993,070</u>	<u>(240,480)</u>	<u>49,416,306</u>
Less accumulated depreciation for				
Buildings	(1,413,075)	(75,817)	12,600	(1,476,292)
Machinery and equipment	(1,173,781)	(106,360)	60,063	(1,220,078)
General infrastructure	(128,603)	(8,015)	1,436	(135,182)
State highway system	(12,324,564)	(845,954)	139,631	(13,030,887)
Computer software	(81,554)	(15,555)	800	(96,309)
Total accumulated depreciation	<u>(15,121,577)</u>	<u>(1,051,701)</u>	<u>214,530</u>	<u>(15,958,748)</u>
Total Capital Assets-depreciable, net	<u>31,542,139</u>	<u>1,941,369</u>	<u>(25,950)</u>	<u>33,457,558</u>
Governmental activities				
Capital Assets, net	<u>\$ 54,696,395</u>	<u>\$ 5,665,310</u>	<u>\$ (2,857,383)</u>	<u>\$ 57,504,322</u>

NOTES TO THE FINANCIAL STATEMENTS**Business-type Activities**

	Balance July 1, 2019 (as restated)	Increases	Decreases	Balance June 30, 2020
Capital Assets, nondepreciable				
Land and permanent easements	\$ 306,888	\$ 167,923	\$ (158)	\$ 474,653
Art, literature, and other artifacts	1,277	9	—	1,286
Construction in progress	138,040	169,539	(18)	307,561
Total Capital Assets-nondepreciable	<u>446,205</u>	<u>337,471</u>	<u>(176)</u>	<u>783,500</u>
Capital Assets, depreciable				
Buildings	105,358	396	(242)	105,512
Machinery and equipment	27,447	2,201	(1,961)	27,687
General infrastructure	20,056	6	(155)	19,907
NC toll road system	1,534,469	—	—	1,534,469
Computer software	1,685	60	—	1,745
Total Capital Assets-depreciable	<u>1,689,015</u>	<u>2,663</u>	<u>(2,358)</u>	<u>1,689,320</u>
Less accumulated depreciation for				
Buildings	(46,334)	(2,754)	17	(49,071)
Machinery and equipment	(18,121)	(1,830)	1,202	(18,749)
General infrastructure	(13,123)	(343)	155	(13,311)
NC toll road system	(116,466)	(29,684)	—	(146,150)
Computer software	(730)	(184)	—	(914)
Total accumulated depreciation	<u>(194,774)</u>	<u>(34,795)</u>	<u>1,374</u>	<u>(228,195)</u>
Total Capital Assets-depreciable, net	<u>1,494,241</u>	<u>(32,132)</u>	<u>(984)</u>	<u>1,461,125</u>
Business-type activities				
Capital Assets, net	<u>\$ 1,940,446</u>	<u>\$ 305,339</u>	<u>\$ (1,160)</u>	<u>\$ 2,244,625</u>

Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):**Governmental activities**

General government	\$ 31,382
Primary and secondary education	1,735
Higher education	86
Health and human services	34,108
Economic development	1,091
Environment and natural resources	20,305
Public safety, corrections, and regulation	62,189
Transportation	893,408
Agriculture	7,397
Total depreciation expense	<u>\$ 1,051,701</u>

Business-type activities

N.C. State Lottery	\$ 527
EPA Revolving Loan	10
N.C. Turnpike Authority	29,684
Regulatory programs	2,571
North Carolina State Fair	1,043
Other business-type activities	960
Total depreciation expense	<u>\$ 34,795</u>

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, 2020, was as follows (dollars in thousands):

University of North Carolina System	Balance			Balance
	July 1, 2019 (as restated)	Increases	Decreases	
Capital Assets, nondepreciable				
Land and permanent easements	\$ 502,943	\$ 3,771	\$ (973)	\$ 505,741
Art, literature, and other artifacts	230,253	9,345	(88)	239,510
Construction in progress	894,908	998,215	(669,455)	1,223,668
Computer software in development	—	3,084	(2,539)	545
Other intangible assets	9,882	—	—	9,882
Total capital assets-nondepreciable	<u>1,637,986</u>	<u>1,014,415</u>	<u>(673,055)</u>	<u>1,979,346</u>
Capital Assets, depreciable				
Buildings	14,558,094	522,415	(29,563)	15,050,946
Machinery and equipment	2,828,545	186,092	(56,803)	2,957,834
Art, literature, and other artifacts	202	—	—	202
General infrastructure	2,113,521	133,018	(5,666)	2,240,873
Computer software	425,200	16,517	(607)	441,110
Other intangible assets	5,291	12,858	—	18,149
Total capital assets-depreciable	<u>19,930,853</u>	<u>870,900</u>	<u>(92,639)</u>	<u>20,709,114</u>
Less accumulated depreciation for				
Buildings	(4,775,559)	(350,892)	20,344	(5,106,107)
Machinery and equipment	(1,801,852)	(171,972)	43,418	(1,930,406)
Art, literature, and other artifacts	(189)	(5)	—	(194)
General infrastructure	(878,384)	(59,515)	2,252	(935,647)
Computer software	(220,303)	(66,974)	581	(286,696)
Other intangible assets	(1,958)	(119)	—	(2,077)
Total accumulated depreciation	<u>(7,678,245)</u>	<u>(649,477)</u>	<u>66,595</u>	<u>(8,261,127)</u>
Total capital assets-depreciable, net	<u>12,252,608</u>	<u>221,423</u>	<u>(26,044)</u>	<u>12,447,987</u>
University of North Carolina System capital assets, net	<u>\$ 13,890,594</u>	<u>\$ 1,235,838</u>	<u>\$ (699,099)</u>	<u>\$ 14,427,333</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2020, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$101.951 million and net depreciable capital assets of \$122.923 million.

Service Concession Arrangement for Noble Hall at Western Carolina University

In August 2016, construction was completed on Noble Hall pursuant to an 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

NOTES TO THE FINANCIAL STATEMENTS

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 a liability for \$1.19 million, the present value of this obligation. The University also reports the facility as a capital asset with a carrying amount of \$24.66 million at year-end and a related deferred inflow of resources of \$21.91 million.

Community Colleges

	Balance July 1, 2019 (as restated)	Increases	Decreases	Balance June 30, 2020
Capital Assets, nondepreciable				
Land and permanent easements	\$ 201,319	\$ 2,943	\$ (379)	\$ 203,883
Art, literature, and other artifacts	636	250	—	886
Construction in progress	278,933	271,057	(214,132)	335,858
Total capital assets-nondepreciable	<u>480,888</u>	<u>274,250</u>	<u>(214,511)</u>	<u>540,627</u>
Capital Assets, depreciable				
Buildings	3,452,382	216,476	(8,664)	3,660,194
Machinery and equipment	531,102	42,792	(17,094)	556,800
Art, literature, and other artifacts	756	15	—	771
General infrastructure	240,922	10,268	(462)	250,728
Computer software	—	—	—	—
Total capital assets-depreciable	<u>4,225,162</u>	<u>269,551</u>	<u>(26,220)</u>	<u>4,468,493</u>
Less accumulated depreciation for				
Buildings	(992,770)	(68,040)	5,354	(1,055,456)
Machinery and equipment	(236,112)	(28,785)	10,549	(254,348)
Art, literature, and other artifacts	(218)	(20)	—	(238)
General infrastructure	(68,869)	(5,601)	660	(73,810)
Computer software	—	—	—	—
Total accumulated depreciation	<u>(1,297,969)</u>	<u>(102,446)</u>	<u>16,563</u>	<u>(1,383,852)</u>
Total capital assets-depreciable, net	<u>2,927,193</u>	<u>167,105</u>	<u>(9,657)</u>	<u>3,084,641</u>
Community Colleges				
capital assets, net	<u>\$ 3,408,081</u>	<u>\$ 441,355</u>	<u>\$ (224,168)</u>	<u>\$ 3,625,268</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2020, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$13.881 million and net depreciable capital assets of \$8.302 million.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 6: SHORT-TERM DEBT****Primary Government****Business-type Activities (Enterprise Funds)**

The North Carolina Medical Board (an occupational licensing board) obtained a note from direct borrowings in the amount of \$3.952 million to purchase a new office building. As of June 30, 2020, the balance on the loan is \$3.952 million.

The North Carolina Real Estate Commission (an occupational licensing board) renewed a revolving line of credit agreement for an amount up to \$500 thousand. As of June 30, 2020, the total amount outstanding on the revolving line of credit was \$160 thousand resulting in an unused line of credit of \$340 thousand. In an event of default, the agreement will immediately terminate, and all indebtedness will become due and payable at the lender's option. Accelerations shall be automatic and not optional if the event of default is due to insolvency.

Short-term debt activity for the Occupational Licensing Boards (Enterprise Funds) for the fiscal year ended June 30, 2020, is as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2019</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2020</u>
<u>Occupational Licensing Boards</u>				
Notes from direct borrowings.....	\$ —	\$ 3,952	\$ —	\$ 3,952
Line of credit.....	—	160	—	160
Total short-term debt.....	<u>\$ —</u>	<u>\$ 4,112</u>	<u>\$ —</u>	<u>\$ 4,112</u>

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, 2020, the amount of outstanding commercial paper was \$35 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 net draws during the year totaling \$25 million to bring the total amount of outstanding commercial paper as of June 30, 2020 to \$50 million. 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, 2020, the total amount outstanding on the revolving line of credit was \$46 thousand resulting in an unused line of credit of \$254 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

Rex Healthcare has unused revolving lines of credit totaling \$251.4 million.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2020, is as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2019</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2020</u>
<u>University of North Carolina System</u>				
Commercial paper program.....	\$ 50,000	\$ 340,000	\$ (305,000)	\$ 85,000
Line of credit.....	<u>\$ 136</u>	<u>\$ 86</u>	<u>\$ (176)</u>	<u>\$ 46</u>
Total short-term debt.....	<u>\$ 50,136</u>	<u>\$ 340,086</u>	<u>\$ (305,176)</u>	<u>\$ 85,046</u>

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, 2020, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended (dollars in thousands).

Type	(a) Changes in Fair Value	(b) Fair Value at June 30, 2020	Fair Value Measurements Using			Notional
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
UNC at Chapel Hill:						
Cash flow hedges:						
Pay-fixed interest rate swaps	\$ (47,459)	\$ (157,130)	\$ —	\$ (157,130)	\$ —	\$ 250,000
Investment derivatives:						
Pay-fixed interest rate swaps	\$ (390)	\$ (1,843)	\$ —	\$ (1,843)	\$ —	\$ 11,040
U.S. dollar equity futures	\$ 35,682	\$ 5,686	\$ 5,686	\$ —	\$ —	\$ 256,950
Foreign currency forwards	3,628	604	—	604	—	\$ (96,970)
Total	\$ 38,920	\$ 4,447	\$ 5,686	\$ (1,239)	\$ —	

- (a) For the fiscal year ended June 30, 2020, the changes in fair value of cash flow hedges are classified as *deferred outflows of resources*, and the changes in fair value of investment derivatives are classified as *operating grants and contributions*.
- (b) At June 30, 2020, the fair value balances of cash flow hedges outstanding are classified as *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 at June 30, 2020 was negative \$171.33 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, 2020 (dollars in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity 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 one-month LIBOR
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 one-month LIBOR

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, both of the swaps have a negative fair value calculated as of June 30, 2020. As rates rise, the value of the swaps will increase, and as rates fall, the fair value of the swaps will decrease.

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 dates of the swap, the swap has a negative fair value as of June 30, 2020. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2020. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap will decrease. The University pays 5.24% and receives Securities Industry and Financial Markets Association (SIFMA) Swap Index rate. On June 30, 2020, SIFMA Swap Index rate was .13%. The interest rate swap has a notional amount of \$11.04 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 the 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 denominated in U.S. currency. More detailed information about the University's exposure to foreign currency risk is presented in Note 3C.

Credit risk. The University is exposed to credit risk on its foreign currency forward contracts. A third-party brokerage and advisory firm is used to assist in entering into the contracts. The foreign currency forward contracts are used to hedge direct or indirect foreign currency exposure within the University's investment portfolio. If collateral is required to be posted on these types of securities, the broker will request the required margin balance be posted in the appropriate cash account. If the cash balance is reduced in that account (due to ongoing losses on the position), then a margin call may be made. If the margin call is not funded, then the position could be immediately closed out by the broker. In the case of the foreign currency forward contracts that were in effect at June 30, 2020, no margin or collateral was required to be posted on those positions due to the broker's assessment of the fund's credit quality and a three-month contract period.

NOTES TO THE FINANCIAL STATEMENTS

In the case of these foreign currency forward contracts, there is an associated receivable from the counterparty (the foreign currency is sold at the forward price on the contract expiration date) and an associated liability to purchase that foreign currency at the prevailing market price. The receivable and liability result in a net asset or net liability on the position overall. At June 30, 2020, the contract net asset was \$604 thousand. Once the contract is closed out, the net asset balance is received from the broker at settlement, or the brokerage account is funded for any net liability at settlement. The broker settles the other side of the trade with the counterparty accordingly.

The counterparty on the University's foreign currency forward contract is JPMorgan Chase, a large and reputable domestic financial institution. The brokerage and advisory firm used to assist in hedging foreign currency risk performs constant due diligence and monitoring of the credit risk of the counterparties used. As of June 30, 2020, the credit ratings of the counterparty was A2 with Moody's Investors Service, AA- with Fitch Ratings, and A- with Standard & Poor's. This indicates a very low level of counterparty credit risk on these instruments, as all three ratings agencies consider these counterparty obligations to be of a high-quality investment-grade level.

D. Synthetic Guaranteed Investment Contracts**Primary Government**

In the Supplemental Retirement Income Plan of North Carolina, 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), and one SGIC with Transamerica Life Insurance Company (Transamerica Life) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.92%, 2.77%, 2.75%, and 2.41%, respectively. The fair value of the securities covered by the contracts as of December 31, 2019, is \$1.582 billion and the contract value is \$1.551 billion. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, 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 and one SGIC with Transamerica Life which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.92%, 2.77%, 2.75%, and 2.41%, respectively. The fair value of the securities covered by the contracts as of December 31, 2019, is \$322 million and the contract value is \$315 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 entered into wrap contracts with Prudential, Nationwide Life, American General, and Transamerica Life to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential, Nationwide Life, American General, and Transamerica Life 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, 2020, was as follows (dollars in thousands):

	Balance July 1, 2019 (as restated)	Increases	Decreases	Balance June 30, 2020	Due Within One Year
Governmental activities					
Bonds and similar debt payable:					
General obligation bonds	\$ 2,424,075	\$ 600,000	\$ (418,695)	\$ 2,605,380	\$ 336,995
Special indebtedness:					
Limited obligation bonds	1,946,915	—	(171,970)	1,774,945	172,955
GARVEE bonds	1,046,580	—	(87,055)	959,525	83,660
Issuance premium	581,316	82,392	(110,615)	553,093	—
Total bonds and similar debt payable	5,998,886	682,392	(788,335)	5,892,943	593,610
Notes from direct borrowings	47,676	—	(3,739)	43,937	3,752
Capital leases payable	13,308	—	(2,652)	10,656	2,874
Compensated absences	529,018	392,110	(314,083)	607,045	36,026
Pension liability (Note 12)	2,550,631	108,682	(32,709)	2,626,604	17,860
Net OPEB liability (Note 14)	5,349,480	692,046	—	6,041,526	—
Workers' compensation	745,508	113,605	(141,696)	717,417	138,790
Death benefit payable	40	—	(3)	37	—
Pollution remediation payable	8,629	—	(683)	7,946	469
Claims and judgments payable	731,703	—	—	731,703	—
Governmental activity long-term liabilities	<u>\$ 15,974,879</u>	<u>\$ 1,988,835</u>	<u>\$ (1,283,900)</u>	<u>\$ 16,679,814</u>	<u>\$ 793,381</u>
Business-type activities					
Bonds payable:					
Revenue bonds	\$ 1,456,614	\$ 486,954	\$ (26,210)	\$ 1,917,358	\$ 29,860
Issuance premium	72,420	57,331	(7,186)	122,565	—
Total bonds payable	1,529,034	544,285	(33,396)	2,039,923	29,860
Notes from direct borrowings	132,087	56,126	(10,288)	177,925	683
Capital leases payable	106	13	(25)	94	31
Annuity and life income payable	78,355	8,828	(6,455)	80,728	6,656
Compensated absences	10,699	9,013	(7,407)	12,305	1,383
Net pension liability (Note 12)	31,817	1,802	—	33,619	—
Net OPEB liability (Note 14)	78,821	9,711	—	88,532	—
Workers' compensation	29	77	(18)	88	22
Business-type activity long-term liabilities	<u>\$ 1,860,948</u>	<u>\$ 629,855</u>	<u>\$ (57,589)</u>	<u>\$ 2,433,214</u>	<u>\$ 38,635</u>

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 \$17.55 million, net pension liability of \$47.48 million, net OPEB liability of \$124.22 million, and workers' compensation liability of \$1.95 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 \$1.77 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 \$43.94 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 North Carolina Turnpike Authority has an unused line of credit in the amount of \$499.46 million. This unused line of credit is a Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan through the United States Department of Transportation.

The outstanding notes from direct borrowings of \$166.5 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 \$11.4 million.

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2020, was as follows (dollars in thousands):

	Balance July 1, 2019 (as restated)	Increases	Decreases	Balance June 30, 2020	Due Within One Year
University of North Carolina System					
Bonds payable:					
Revenue bonds	\$ 4,236,453	\$ 593,658	\$ (300,762)	\$ 4,529,349	\$ 159,417
Direct placements	158,293	30,227	(25,463)	163,057	45,062
Certificates of participation	4,181	—	(327)	3,854	336
Limited obligation bonds	224,785	14,920	(22,990)	216,715	8,175
Issuance premium	182,069	112,176	(16,393)	277,852	—
Issuance discount	(6,044)	—	1,270	(4,774)	—
Total bonds payable	4,799,737	750,981	(364,665)	5,186,053	212,990
Notes from direct borrowings	297,765	31,439	(28,383)	300,821	38,529
Capital leases payable	13,752	5,567	(5,675)	13,644	3,988
Annuity and life income payable	57,237	6,489	(9,558)	54,168	1,207
Compensated absences	487,642	498,530	(453,973)	532,199	75,283
Net pension liability (Note 12)	1,584,750	77,895	—	1,662,645	—
Net OPEB liability (Note 14)	6,924,221	1,022,365	—	7,946,586	—
Workers' compensation	65,296	8,978	(12,834)	61,440	13,316
Pollution remediation payable	4,771	—	(162)	4,609	284
Asset retirement obligation	13,728	118	—	13,846	—
Liability insurance trust fund payable	22,552	6,992	(6,130)	23,414	6,852
Total long-term liabilities	<u>\$ 14,271,451</u>	<u>\$ 2,409,354</u>	<u>\$ (881,380)</u>	<u>\$ 15,799,425</u>	<u>\$ 352,449</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 \$201.118 million, of which \$4.448 million was due within one year and \$196.67 million was due in more than one year.

Elizabeth City State University and the University of North Carolina at Chapel Hill have unused lines of credit in the amount of \$9.48 million and \$5.7 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS*Revenue Bonds*

Various universities within the University of North Carolina System (UNC System) have outstanding revenue bonds totaling \$2 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.

Various universities within the UNC System have outstanding revenue bonds totaling \$1.66 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. Fayetteville State University has pledged buildings, improvements, and additions as collateral for outstanding revenue bonds of \$9.12 million.

The University of North Carolina Hospitals has pledged future revenues as collateral for the revenue bonds payable of \$441 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, 2020, the amount pledged as collateral is \$390.71 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. Rex Healthcare also has outstanding revenue bonds of \$77 million secured by a pledge of and a lien on the accounts receivable and the proceeds derived from the ownership and operation of the Obligated Group.

Direct Placement Bonds

Various universities within the UNC System have outstanding direct placement bonds totaling \$96.67 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.

Various universities within the UNC System have outstanding direct placement bonds totaling \$66.38 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.

Special Indebtedness

The University of North Carolina at Wilmington has outstanding limited obligation bonds (LOBs) of \$110.21 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 \$48.94 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.

Various universities within the UNC System have outstanding limited obligation bonds totaling \$29.26 million and outstanding certificates of participation totaling \$3.85 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 at Charlotte has pledged a student housing complex that contains 14 buildings and related parking facilities as collateral for its outstanding limited obligation bonds of \$11.03 million. The University of North Carolina School of the Arts has pledged an apartment complex as collateral for its outstanding certificates of participation of \$3.85 million.

NOTES TO THE FINANCIAL STATEMENTS

The University of North Carolina at Pembroke has outstanding limited obligation bonds of \$28.3 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.

Notes from Direct Borrowings

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 \$124.28 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.

Various universities within the UNC System have outstanding notes from direct borrowings totaling \$62.24 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. Elizabeth City State University has outstanding notes from direct borrowings of \$10.27 million secured by student housing facilities.

Various universities within the UNC System have outstanding notes from direct borrowings totaling \$18.54 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 (\$15.48 million) or a period of 30 days after written notice (\$3.06 million). Appalachian State University has pledged land for its outstanding notes from direct borrowings of \$15.48 million.

Gateway Research Park has outstanding notes from direct borrowings of \$19.29 million secured with collateral of real estate and a vehicle.

Rex Healthcare has outstanding notes from direct borrowings of \$17.53 million collateralized by certain property of Rex Wakefield Enterprises.

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, 2020 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Fiscal Year	Original Borrowing	Outstanding Balance
Primary Government				
<u>Governmental activities</u>				
General obligation bonds.....	2.00% - 5.00%	2039	\$ 3,663,138	\$ 2,605,380
Special indebtedness:				
Limited obligation bonds.....	2.25% - 5.00%	2034	2,934,355	1,774,945
GARVEE bonds.....	4.00% - 5.00%	2034	1,089,570	959,525
Notes from direct borrowings.....	2.10% - 2.53%	2033	54,808	43,937
<u>Business-type activities</u>				
Revenue bonds**.....	1.50% - 7.10%	2055	\$ 2,373,833	\$ 1,917,358
Notes from direct borrowings.....	2.95% - 4.50%	2054	180,650	177,925
Component Units				
<u>University of North Carolina System</u>				
Revenue bonds**.....	0.10% - 7.51%*	2050	\$ 5,389,289	\$ 4,529,349
Direct Placements.....	1.40% - 3.91%*	2042	190,418	163,057
Certificates of participation.....	2.99% - 2.99%	2030	5,400	3,854
Limited obligation bonds.....	2.00% - 6.23%	2043	237,435	216,715
Notes from direct borrowings**.....	0.00% - 5.00%*	2041	409,873	300,821

* For variable rate debt, interest rates in effect at June 30, 2020 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 \$244.2 million for the primary government and \$258.8 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, 2020, the State had \$800 million in authorized but unissued general obligation bonds. At June 30, 2020, the State had no authorized but unissued special indebtedness supported by the General Fund. At June 30, 2020, the State had \$2.7 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, 2020, a total of \$271.3 million of such contracts have been entered into by the State and universities.

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 London Interbank Offered Rate (LIBOR) Rate. “Adjusted LIBOR 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) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum. As of June 30, 2020, 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.

The University of North Carolina Hospitals

With regard to the following demand bonds, the Hospitals has 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, the 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

NOTES TO THE FINANCIAL STATEMENTS

that began on February 15, 2002. A portion of the proceeds was used to reimburse the 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.

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. The Hospitals' Remarketing Agent, Wells Fargo Bank, N.A., 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 March, June, September, and December, commencing December 1, 2015 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 the Hospitals and Landesbank Hessen-Thüringen Girozentrale, 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 April, July, October and January thereafter until the expiration date or the termination date of the Agreements. On September 1, 2015, UNC Hospitals entered into a new multiple year agreement with Landesbank Hessen-Thüringen Girozentrale to provide liquidity service at a fee of 0.28%. The applicable percentage will be determined based upon the long-term ratings of the Bonds (without regard to any credit enhancement) as follows:

<u>S&P</u>	<u>Moody's</u>	<u>Commitment Rate</u>
AA- or better	Aa3	0.28%
A+	A1	0.38%
A	A2	0.48%
A-	A3	0.73%
BBB+ or lower	Baa1	1.78%

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 1.78% per annum.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase to and including the 60th day thereafter and while they are Bank Bonds, bear interest at the Formula Rate (base rate equal to the higher of the Prime Rate plus 1% for such day or the sum of 1% plus the Federal Funds Rate) and from and including the 61st day following the purchase date and thereafter bear interest at the higher of the Formula Rate or 7%, subject to a maximum rate as permitted by law; provided however, that at no time shall the base rate be less than the applicable rate of interest on the bonds which are not Bank Bonds. 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 due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2020, there were no Bank Bonds held by the 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 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July, and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding \$82.4 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$21.44 million, \$20.66 million, \$19.51 million, \$18.35 million, and \$17.2 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 4.25% (Prime Rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter. The current expiration date of the Agreements is September 20, 2020. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider. The Hospital has negotiated with TD Bank, N.A. to replace Landesbank Hessen-Thüringen Girozentrale effective September 11, 2020.

Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, the 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.

NOTES TO THE FINANCIAL STATEMENTS

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, N.A. The Hospitals' Remarketing Agents, Banc of America Securities, LLC (Series 2003A) and Wells Fargo Bank, N.A. (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 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals, Bank of America, N.A. (Series 2003A) and Wells Fargo Bank, N.A. (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 0.31% for fiscal year 2020. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August thereafter through July 2, 2021. 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:

<u>S&P</u>	<u>Moody's</u>	<u>Commitment Rate</u>
A	A2	0.51%
A- or lower	A3 or lower	0.71%

However, 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. At June 30, 2020, there were no Bank Bonds held by the 2003A Liquidity Facility. The current expiration date of the agreement is July 2, 2021.

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, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the 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 \$41.77 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$15.88 million, \$15.32 million, and \$14.52 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 4.75% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2020. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2020. The commitment fee remains in effect over the life of the Agreement, however, the commitment rate shall be increased to the per annum percentage described in the table below if (i) the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, falls to the corresponding levels specified in such table, (ii) such rating is withdrawn or suspended or (iii) an Event of Default occurs and is continuing hereunder. After any such increases are made, the commitment rate shall be decreased to the per annum percentage described in the table below if the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, rises to the corresponding levels specified in such table. Any such increases (or decreases, as the case may be) in the commitment rate shall be effective as of the date of such downgrade, upgrade, withdrawal, suspension or Event of Default, as applicable. The commitment rate shall be the fee listed below which corresponds to the lowest debt rating assigned to UNC Hospitals specified in the table below:

NOTES TO THE FINANCIAL STATEMENTS

<u>S&P</u>	<u>Moody's</u>	<u>Commitment Rate</u>
A	A2	0.65%
A-	A3	0.80%
BBB+	Baa1	1.00%
BBB	Baa2	1.25%
BBB-	Baa3	1.55%
Below Investment Grade	Below Investment Grade	2.55%

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 Bank Bond interest rate equal to the Base Rate plus 2%, 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. At June 30, 2020, 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" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem Bank Bonds in 11 equal monthly installments of principal, on the first business day of the second month after the purchase date of such Bank Bonds. The Hospitals shall pay interest of the base rate plus 2% in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding \$22.46 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$23.47 million within 364 days of the purchase date of the Bank Bonds assuming a maximum rate of 9%. The Hospital has negotiated with TD Bank, N.A. to replace Wells Fargo Bank, N.A. effective July 24, 2020.

NOTES TO THE FINANCIAL STATEMENTS**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 and net swap payments are based on rates as of June 30, 2020 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 Ending June 30	Governmental Activities			
	General Obligation Bonds		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 336,995	\$ 114,680	\$ 172,955	\$ 82,617
2022	318,595	98,971	174,120	73,969
2023	313,850	84,165	179,085	65,263
2024	290,880	69,517	183,345	56,790
2025	212,420	54,973	153,545	48,354
2026-2030	584,815	156,435	666,755	135,730
2031-2035	357,825	60,555	245,140	18,740
2036-2040	190,000	12,888	—	—
Total	<u>\$ 2,605,380</u>	<u>\$ 652,184</u>	<u>\$ 1,774,945</u>	<u>\$ 481,463</u>

Fiscal Year Ending June 30	Governmental Activities			
	GARVEE Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 83,660	\$ 47,976	\$ 3,752	\$ 950
2022	87,840	43,793	3,879	863
2023	92,235	39,401	4,011	774
2024	60,590	34,790	4,141	681
2025	63,620	31,760	4,276	585
2026-2030	369,130	107,781	17,742	1,528
2031-2035	202,450	25,923	6,136	186
Total	<u>\$ 959,525</u>	<u>\$ 331,424</u>	<u>\$ 43,937</u>	<u>\$ 5,567</u>

Fiscal Year Ending June 30	Business-type Activities			
	Revenue Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 29,860	\$ 80,482	\$ 683	\$ 1,521
2022	42,122	78,310	705	2,576
2023	37,679	76,749	723	3,337
2024	42,697	75,187	969	5,061
2025	45,071	73,391	1,494	5,893
2026-2030	275,233	339,611	10,725	28,928
2031-2035	331,788	358,653	18,312	27,255
2036-2040	439,308	296,735	33,396	24,488
2041-2045	269,329	181,005	45,743	18,600
2046-2050	255,456	120,469	36,275	11,419
2051-2055	148,815	19,022	28,900	4,485
Total	<u>\$ 1,917,358</u>	<u>\$ 1,699,614</u>	<u>\$ 177,925</u>	<u>\$ 133,563</u>

NOTES TO THE FINANCIAL STATEMENTS**Component Unit****University of North Carolina System**

Fiscal Year Ending June 30	Revenue Bonds			Direct Placements		Certificates of Participation	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2021	\$ 136,937	\$ 165,478	\$ 12,634	\$ 15,062	\$ 3,377	\$ 336	\$ 115
2022	139,619	161,369	12,224	16,037	3,135	346	105
2023	142,904	156,602	11,793	16,976	2,771	357	95
2024	147,599	151,542	11,340	15,950	2,388	368	84
2025	153,417	146,044	10,932	12,883	2,067	378	73
2026-2030	852,969	638,167	79,339	41,035	6,712	2,069	189
2031-2035	1,112,219	452,569	46,767	15,114	3,233	—	—
2036-2040	772,485	258,712	32,665	—	2,100	—	—
2041-2045	728,840	128,207	9,066	30,000	805	—	—
2046-2050	342,360	34,366	—	—	—	—	—
Total	<u>\$ 4,529,349</u>	<u>\$ 2,293,056</u>	<u>\$ 226,760</u>	<u>\$ 163,057</u>	<u>\$ 26,588</u>	<u>\$ 3,854</u>	<u>\$ 661</u>

Fiscal Year Ending June 30	Limited Obligation Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 8,175	\$ 8,871	\$ 38,529	\$ 8,721
2022	8,895	8,540	27,113	7,973
2023	9,585	8,155	26,754	7,235
2024	9,895	7,827	35,772	6,172
2025	10,345	7,372	21,844	5,408
2026-2030	58,705	29,895	104,098	14,943
2031-2035	67,520	16,723	20,783	6,578
2036-2040	38,955	4,518	24,853	2,275
2041-2045	4,640	403	1,075	—
Total	<u>\$ 216,715</u>	<u>\$ 92,304</u>	<u>\$ 300,821</u>	<u>\$ 59,305</u>

For revenue bonds and direct placements of the University of North Carolina System, the fiscal year 2021 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.

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 Asheville

On October 31, 2019, the University of North Carolina at Asheville issued \$20.88 million in Series 2019 General Revenue Refunding Bonds with an average interest rate of 2.71%. The bonds were issued to advance refund \$23.42 million of outstanding Series 2010 Build America Bonds with an average interest rate of 4.26%. The net proceeds of the refunding bonds, less delivery date expenses, were used to purchase U.S. government securities. The U.S. government securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$11.06 million over the next

NOTES TO THE FINANCIAL STATEMENTS

20 years and resulted in an economic gain of \$3.8 million. At June 30, 2020, there was no outstanding balance for the defeased Series 2010 Build America Bonds.

The University of North Carolina at Wilmington

On October 31, 2019, the University of North Carolina at Wilmington issued \$17.73 million in General Revenue Refunding Bonds, Series 2019B with an average interest rate of 4.21%. The bonds were issued for a current refunding of \$20.66 million of outstanding University of North Carolina System Taxable Pool Revenue Bonds (UNC Wilmington Build America Bonds), Series 2010D with an average interest rate of 6.71%. The refunding was undertaken to reduce total debt service payments by \$5.58 million over the next 21 years and resulted in an economic gain of \$4.45 million.

The University of North Carolina at Pembroke

On December 5, 2019, the University of North Carolina at Pembroke issued \$14.92 million in Series 2019 Limited Obligation Refunding Bonds with an average interest rate of 3.18%. The bonds were issued for a current refunding of \$17.51 million of outstanding 2010B Limited Obligation Bonds with an average interest rate of 6.54%. The refunding was undertaken to reduce total debt service payments by \$2.79 million over the next 21 years and resulted in an economic gain of \$2.1 million.

The University of North Carolina at Charlotte

On January 28, 2020, the University of North Carolina at Charlotte issued \$71.43 million in The University of North Carolina at Charlotte Tax-Exempt General Revenue Bonds, Series 2020A with an average interest rate of 4.32%. A portion of the bonds were issued for a current refunding of \$47.8 million of outstanding revenue bonds (The University of North Carolina at Charlotte Series 2005A Pool Revenue Bonds, \$1.81 million; Series 2009B Pool Revenue Bonds, \$900 thousand; Series 2009B General Revenue Build America Bonds, \$45.09 million), with an average interest rate of 6.19%. The remaining portion of the 2020A bonds were issued for construction of Phase XVI of the University's housing plan. The refunding was undertaken to reduce total debt service payments by \$9.05 million over the next 19 years and resulted in an economic gain of \$7.47 million.

On January 28, 2020, the University of North Carolina at Charlotte issued \$23.28 million in The University of North Carolina at Charlotte Taxable General Revenue Refunding Bonds, Series 2020B with an average interest rate of 2.96%. The bonds were issued to advance refund \$21.64 million of outstanding Taxable General Revenue Bonds, Series 2012B with an average interest rate of 4.3%. The net proceeds of the advance refunding bonds were used to purchase U.S. government securities. The substitution of these securities with monetary assets that are not essentially risk-free is not prohibited. The U.S. government securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$2.01 million over the next 21 years and resulted in an economic gain of \$1.51 million. At June 30, 2020, the outstanding balance was \$21.64 million for the defeased University of North Carolina at Charlotte Taxable General Revenue Bonds, Series 2012B.

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, 2020, the outstanding balance of prior year defeased bonds was \$200.77 million for the primary government and \$208.97 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 \$160.64 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 32 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the State recognized a pollution remediation liability of \$7.95 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 \$4.4 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 \$210 thousand for underground storage tank and asbestos removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

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 43 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 OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for communications, computer, and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when incurred. For the year ended June 30, 2020, total operating lease expenditures were \$85.02 million for Primary Government, \$121.93 million for the University of North Carolina System, and \$9.53 million for Community Colleges. Capital leases of nongovernmental component units of the University of North Carolina System are excluded from the amounts below. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2020 are as follows (dollars in thousands):

Fiscal Year	Operating Leases				Capital Leases			
	Primary Government		Component Units		Primary Government		Component Units	
	Governmental Activities	Business-type Activities	University of		Governmental Activities	Business type Activities	University of	
			North Carolina System	Community Colleges			North Carolina System	Community Colleges
2021	\$ 51,644	\$ 4,728	\$ 112,021	\$ 8,198	\$ 3,239	31	\$ 4,322	\$ 3,885
2022	41,166	3,866	100,801	7,219	2,672	31	2,744	3,821
2023	33,890	3,677	90,863	6,241	2,460	28	2,116	3,709
2024	27,539	3,440	80,543	5,487	1,958	11	1,304	3,693
2025	21,827	3,342	70,309	4,503	1,966	—	463	3,585
2026 - 2030	26,582	3,252	187,062	18,187	1,977	—	1,474	15,033
2031 - 2035	8,708	—	13,069	3,524	—	—	350	4,733
2036 - 2040	8,072	—	1,791	670	—	—	2,022	4,445
2041 - 2045	8,072	—	1,177	44	—	—	—	4,075
2046 - 2050	8,072	—	1,105	—	—	—	—	—
2051 - 2055	3,229	—	800	—	—	—	—	—
2056 - Beyond	—	—	—	—	—	—	—	—
Total Future Minimum Lease Payments.....	\$ 238,801	\$ 22,305	\$ 659,541	\$ 54,073	14,272	101	14,795	46,979
Less: Amounts Representing Interest					(3,616)	(7)	(1,151)	(14,660)
Present Value of Future Minimum Lease Payments					\$ 10,656	\$ 94	\$ 13,644	\$ 32,319

At June 30, 2020, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	University of North Carolina System	Community Colleges
Buildings.....	\$ 25,487	\$ —	\$ 7,880	\$ 40,380
Machinery and Equipment.....	7,941	136	14,705	1,340
Other.....	—	\$ —	—	—
Total Capital Assets.....	\$ 33,428	\$ 136	\$ 22,585	\$ 41,720

Depreciation for capital assets acquired under capital leases is included as part of depreciation expense (see Note 5).

NOTES TO THE FINANCIAL STATEMENTS**NOTE 10: INTERFUND BALANCES AND TRANSFERS****A. Interfund Balances****Due To/From Fiduciary Funds**

The General Fund balance of \$118.69 million due to fiduciary funds is composed of \$31.98 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as \$86.71 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of \$6.14 million and the N.C. Turnpike Authority balance of \$8.09 million due to fiduciary funds is related to fines and penalties collected by the Highway Fund and the N.C. Turnpike Authority and due to the agency fund.

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, 2020, consisted of the following (dollars in thousands):

	Due From Other Funds									
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. Turnpike Authority	Other Enterprise Funds	Internal Service Funds	Total
Due To Other Funds										
General Fund.....	\$ —	\$ 6,205	\$ —	\$ 28,530	\$ 18,410	\$ 673	\$ —	\$ 2,955	8,114	\$ 64,887
Highway Fund.....	1,468	—	200,396	—	—	—	6	—	1,267	203,137
Highway Trust Fund.....	—	14,488	—	—	—	—	113	—	—	14,601
Other Governmental Funds.....	52	—	—	9	—	—	—	—	114	175
N.C. State Lottery Fund.....	27,652	—	—	—	—	—	—	—	—	27,652
N.C. Turnpike Authority.....	—	10,644	1,829	—	—	—	—	—	—	12,473
Other Enterprise Funds.....	31	—	—	1	—	—	—	—	—	32
Internal Service Funds.....	4,740	3,740	—	—	—	—	—	—	102	8,582
Total.....	\$ 33,943	\$ 35,077	\$ 202,225	\$ 28,540	\$ 18,410	\$ 673	\$ 119	\$ 2,955	\$ 9,597	\$ 331,539

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 Highway Fund was advanced \$790.3 million from the Highway Trust Fund. This advance to the Highway Fund is to comply with cash management directives and also assist with disaster recovery relief expenditures.

The advance of \$29.85 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, 2020 consisted of the following (dollars in thousands):

	Transfers In									Total
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	
Transfers Out										
General Fund.....	\$ —	\$ 219,095	\$ 627	\$ 95,468	\$ 1,571	\$ 30,094	\$ —	\$ 9,701	\$ 1,055	\$ 357,611
Highway Fund.....	27,666	—	—	15,479	—	—	13,683	—	—	56,828
Highway Trust Fund.....	392	31,799	—	—	—	—	171,713	—	—	203,904
Other Governmental Funds.....	132,326	—	—	1,355	—	—	—	3	—	133,684
N.C. State Lottery Fund.....	731,500	—	—	1,000	—	—	—	—	—	732,500
N.C. Turnpike Authority	—	50,423	95,832	—	—	—	—	—	—	146,255
Other Enterprise Funds.....	786	—	—	—	—	—	—	—	—	786
Internal Service Funds.....	65	—	—	—	—	—	—	—	13,521	13,586
Total.....	\$ 892,735	\$ 301,317	\$ 96,459	\$ 113,302	\$ 1,571	\$ 30,094	\$ 185,396	\$ 9,704	\$ 14,576	\$ 1,645,154

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 \$729.4 million were made to the Education Lottery Fund for this fiscal year, as set forth in General Statute 18C-164. The remaining \$2.1 million transfer to the General Fund was made to the Alcohol Law Enforcement Branch for gambling enforcement activities as directed by House Bill 97 [Session Law 2015-241].

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 \$49 million was transferred to the NCTA during fiscal year 2020. The remaining \$122.7 million transfer from the Highway Trust Fund was made to the NCTA as a result of an increased state match for expenditures on the Complete 540 Project and the Mid-Currituck Bridge. Transfers from NCTA of \$50.4 million and \$95.8 million were made to the Highway Fund and Highway Trust Fund, respectively, as repayment for project participation incurred with proceeds from the sale of bonds for the Complete 540 Project.

Transfers totaling \$219.1 million were made to the Highway Fund from the General Fund. Senate Bill 356 [Session Law 2019-251] forgave repayment of a \$90 million advance from the General Fund required by Senate Bill 605 [Session Law 2019-15] made to meet the cash flow needs of the Highway Fund resulting from expenditures related to disaster relief. Senate Bill 356 [Session Law 2019-251] required a transfer of \$64 million from the General Fund to the Emergency Reserve to be used for major disasters. A transfer of \$36 million was made from the General Fund per Senate Bill 356 [Session Law 2019-251] for Hurricane Dorian recovery, Living Shoreline projects, as well as a flood mapping alert network and risk vulnerability assessment for the Strategic Highway Corridor System. Transfers of \$16.2 million were made for motor carrier safety. Transfers of \$12.5 million were made to the Disaster Recovery Fund per Senate Bill 605 [Session Law 2019-15], with smaller items comprising the remaining balance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11: FUND BALANCE

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2020 are as follows (dollars in thousands):

Fund Balance	Governmental Funds				
	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories.....	\$ 83,421	\$ 83,189	\$ —	\$ 25,048	\$ 191,658
Permanent corpus.....	—	—	—	120,409	120,409
Long-term portion of notes receivable.....	342	—	—	—	342
Restricted for:					
General government.....	31,136	—	—	1,439	32,575
Primary and secondary education.....	14,297	—	—	—	14,297
Higher education.....	6,950	—	—	—	6,950
Higher education student aid.....	—	—	—	919,305	919,305
Health and human services.....	68,590	—	—	1,427	70,017
Economic development.....	30,287	—	—	—	30,287
Environment and natural resources.....	11,812	—	—	51,622	63,434
Public safety, corrections, and regulation.....	62,936	—	—	29,276	92,212
Transportation.....	—	8,088	—	—	8,088
Highway construction/preservation.....	—	471,503	144,143	—	615,646
Debt service.....	—	—	33,322	62,841	96,163
Capital projects/repairs and renovations.....	—	—	—	476,771	476,771
Committed to:					
General government.....	313,274	—	—	39,275	352,549
Primary and secondary education.....	283,398	—	—	—	283,398
Public school capital projects/repairs and renovations.....	337,949	—	—	—	337,949
Higher education.....	238,718	—	—	—	238,718
Health and human services.....	889,010	—	—	72,923	961,933
Economic development.....	229,953	—	—	10,820	240,773
Environment and natural resources.....	103,666	—	—	303,796	407,462
Public safety, corrections, and regulation.....	83,593	—	—	244,982	328,575
Transportation.....	—	—	—	190	190
Highway construction/preservation.....	—	—	1,045,161	—	1,045,161
Agriculture.....	53,300	—	—	43,195	96,495
Disaster relief.....	192,115	—	—	—	192,115
Capital projects/repairs and renovations.....	11,585	—	—	350,077	361,662
Assigned to:					
Subsequent year's budget.....	1,487,114	—	—	—	1,487,114
General government.....	13,364	—	—	442	13,806
Primary and secondary education.....	2,978	—	—	—	2,978
Higher education.....	1,434	—	—	—	1,434
Health and human services.....	181,149	—	—	1,213	182,362
Economic development.....	536	—	—	—	536
Environment and natural resources.....	9,834	—	—	913	10,747
Public safety, corrections, and regulation.....	28,870	—	—	523	29,393
Agriculture.....	492	—	—	—	492
Capital projects/repairs and renovations.....	—	—	—	672	672
Unassigned.....	1,659,783	(892,965)	—	—	766,818
Total fund balance.....	\$ 6,431,886	\$ (330,185)	\$ 1,222,626	\$ 2,757,159	\$ 10,081,486

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 CAFR. The Supplemental Retirement Income Plan of North Carolina (401(k) Plan) issues separately audited financial statements. Information on how to obtain the 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, the Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The 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, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2020, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs	116
Charter Schools.....	59
Community Colleges.....	58
University of North Carolina System...	19
Other Component Units.....	5
	<u>258</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 full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor’s Alternate Benefit for life or a return of the member’s contributions. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with full 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 partial retirement benefits at age 50 with 15 years of creditable service as an officer. Effective July 1, 2019, LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with partial 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 or a return of the member’s contributions.

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, 2020 was 12.97% of covered payroll. This was equal to the actuarially determined contribution. 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, 2020, the number of participating local governments was as follows:

Cities.....	427
Counties.....	100
Special Districts.....	364
	<u>891</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

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 full 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 partial 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 or a return of the member's contributions. 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 full 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 partial retirement benefits at age 50 with 15 years of creditable service as an officer. Effective July 1, 2019, LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with partial 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 or a return of the member's contributions.

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, 2020, all employers made contributions of 9.70% of covered payroll for law enforcement officers and 8.95% for general employees and firefighters. These were different than the actuarially determined contributions. The employer contribution rate for law enforcement officers was less than the actuarially determined contribution of 10.22%. The employer contribution rate for general employees and firefighters was greater than the actuarially determined contribution of 8.56%. 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, 2020, there were 1,672 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.

NOTES TO THE FINANCIAL STATEMENTS

Benefits provided. FRSWPF provides retirement, disability and survivor benefits. The present retirement benefit is \$170 per month. 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 for members was added effective June 1, 2016 and provides that beneficiaries will receive the same benefit the deceased member would have received beginning when the deceased would have reached age 55. 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 an appropriation that is higher than the actuarially determined contribution. 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, 2020, there were 98 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 G.S. 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 2020 is zero. Registers of Deeds do not contribute.

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 General Statute 135-58 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 full 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 partial 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. Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to 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, 2020 was 33.60% of covered payroll. This was equal to the actuarially determined contribution. 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 making him eligible to participate in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System. Benefit provisions are established by General Statute 120-4.21 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 full retirement benefits at age 65 after five years of service. Plan members are eligible to retire with partial 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 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

NOTES TO THE FINANCIAL STATEMENTS

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, 2020, the State's contractually required contribution was 26.46% of covered payroll. This was equal to the actuarially determined contribution. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS***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, 2020, there were 102 sheriffs and two beneficiaries enrolled in the plan with 81 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, 2020, the Clerks remitted \$664 thousand and \$491 thousand was invoiced to the county governments, with \$378 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 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 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. The Board and the Department have entered into an agreement with Prudential Retirement Insurance and Annuity Company (Prudential) to perform recordkeeping, administration and education services.

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, as well as law enforcement officers as defined under North Carolina General Statutes 143-166.30 and 143-166.50, are eligible to enroll in the 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 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 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, 2019, there were approximately 261,400 employees enrolled with 1,035 participating employers.

The 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 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, 2019, are presented in this financial report as a pension and other employee benefit trust fund. The 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 401(k) Plan's financial statements are available online at myNCRetirement.com or by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statutes 143-166.30 and 143-166.50 require employer contributions to the 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

NOTES TO THE FINANCIAL STATEMENTS

each officer's monthly salary. In addition, State law enforcement officers receive a contribution into the 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, 2019, 51 state agencies and component units along with 450 local governmental units outside the reporting entity contributed the required 5%. In addition, five state agencies and 488 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 14,300 LEOs actively contributing to the 401(k) Plan and approximately 25,100 LEOs receiving employer contributions as of December 31, 2019.

The 401(k) Plan reported total member contributions of \$379.475 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2019, amounted to \$281.03 million for the State, \$31.19 million for universities, and \$8.29 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$14.05 million, by universities for \$1.56 million, and by the remaining component units, public schools and community colleges for \$414 thousand. In addition, the State contributed \$312 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The 401(k) Plan discloses a related party transaction in Note 20 of this CAFR. 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, 2020, the plan had 22,009 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 \$143.62 million for the fiscal year ended June 30, 2020. Annual covered payroll was \$2.10 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 \$125.98 million for the fiscal year ended June 30, 2020. The amount of pension expense recognized in the current fiscal year related to ORP was \$134.44 million. Forfeitures reduced the universities' pension expense by \$9.18 million for the fiscal year ended June 30, 2020. Any liabilities reported by the universities are immaterial to this CAFR.

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	228,291	75,002	14,765	99	743	294	4,713	957
Inactive plan members entitled to but not yet receiving benefits	177,573	79,588	136	-	53	110	4,379	-
Active plan members	311,736	132,058	40,219	101	560	170	5,141	4,775
	<u>717,600</u>	<u>286,648</u>	<u>55,120</u>	<u>200</u>	<u>1,356</u>	<u>574</u>	<u>14,233</u>	<u>5,732</u>
Valuation date	12-31-19	12-31-19	12-31-19	12-31-19	12-31-19	12-31-19	12-31-19	12-31-18

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, 2020:

Asset Class	Target Allocation
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Opportunistic Fixed Income	7%
Inflation Sensitive	6%
Total	100%

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, 2020, 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	4.35%	4.34%	4.33%	8.72%	4.36%	4.30%	4.28%

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, 2020, 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	\$ 86,164,011	\$ 31,372,060	\$ 487,908	\$ 31,129	\$ 734,576	\$ 30,571	\$ 162,913
Plan fiduciary net position	74,082,014	27,798,634	451,723	54,047	627,739	28,022	146,376
Net pension liability (asset)	<u>\$ 12,081,997</u>	<u>\$ 3,573,426</u>	<u>\$ 36,185</u>	<u>\$ (22,918)</u>	<u>\$ 106,837</u>	<u>\$ 2,549</u>	<u>\$ 16,537</u>
Plan fiduciary net position as a percentage of the total pension liability	85.98%	88.61%	92.58%	173.62%	85.46%	91.66%	89.85%

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2019, 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, 2020 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2019 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (1)	Local Governmental (1)	Firefighters' and Rescue Squad (1)	Registers of Deeds' (1)	Consolidated Judicial (1)	Legislative (1)	North Carolina National Guard (1)
Valuation date	12/31/19	12/31/19	12/31/19	12/31/19	12/31/19	12/31/19	12/31/19
Inflation	3%	3%	3%	3%	3%	3%	3%
Salary Increases	3.5-8.1%	3.5-8.1%	N/A	3.5-7.75%	3.5-5.5%	5.5%	N/A
Investment Rate of Return (2)	7%	7%	7%	3.75%	7%	7%	7%

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.

N/A - Not Applicable

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. 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, 2020 (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	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

Discount rate. The discount rate used to measure the total pension liability was 7% except for Registers of Deeds' Supplemental Pension Fund which was 3.75% for the December 31, 2019 valuation. This 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.

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the Plans' net pension liability to changes in the discount rate. The following presents the net pension liability of the plans at June 30, 2020 calculated using the discount rate of 7% (3.75% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%; RODSPF 2.75%) or 1-percentage-point higher (8%; RODSPF 4.75%) than the current rate (dollars in thousands):

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
<u>Cost-Sharing, Multiple-Employer</u>			
TSERS' net pension liability	\$ 21,744,757	\$ 12,081,997	\$ 3,976,941
LGERS' net pension liability	7,250,092	3,573,426	517,858
FRSWPF' net pension liability (asset)	96,953	36,185	(13,675)
<u>Single-Employer</u>			
CJRS' net pension liability	\$ 180,784	\$ 106,837	\$ 43,514
LRS' net pension liability	5,315	2,549	168
NCNGs' net pension liability	36,456	16,537	180
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
<u>Cost-Sharing, Multiple-Employer</u>			
RODs' net pension asset	\$ (19,466)	\$ (22,918)	\$ (25,839)

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, 2020 (dollars in thousands):

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government	\$ 490,020	\$ 18,652	\$ 26,637	\$ 956	\$ 11,032	\$ 547,297
Component Units						
University of North Carolina System	\$ 315,375	\$ —	\$ —	\$ —	\$ —	\$ 315,375
Community Colleges	120,282	—	—	—	—	120,282
Other Component Units	3,928	—	—	—	—	3,928
Total Contributions	<u>\$ 929,605</u>	<u>\$ 18,652</u>	<u>\$ 26,637</u>	<u>\$ 956</u>	<u>\$ 11,032</u>	<u>\$ 986,882</u>

NOTES TO THE FINANCIAL STATEMENTS**2. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

As of June 30, 2020, 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):

	Primary Government	Component Units		
		University of North Carolina System ⁽¹⁾	Community Colleges	Other Component Units ⁽²⁾
Proportionate Share of the Net Pension Liability				
Teachers' and State Employees' Retirement System	\$ 2,263,139	\$ 1,559,975	\$ 588,482	\$ 18,087
Net Pension Liability				
Firefighters' and Rescue Squad	36,283	—	—	—
Consolidated Judicial	92,993	—	—	—
Legislative Retirement	2,410	—	—	—
North Carolina National Guard	33,661	—	—	—
Pension Liability				
Special Separation Allowance	231,737	—	—	—
Total Pension Liability	<u>\$ 2,660,223</u>	<u>\$ 1,559,975</u>	<u>\$ 588,482</u>	<u>\$ 18,087</u>

(1) RexHealthcare 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, 2020, RexHealthcare had a net pension liability of \$102.670 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, 2020, Centennial Authority had a net pension liability of \$97 thousand.

Each net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate each net pension liability was determined by an actuarial valuation as of December 31, 2018. Update procedures were used to roll forward the total pension liability to June 30, 2019. 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.

The primary government's pension liability was measured as of June 30, 2019. The total pension liability was determined by an actuarial valuation as of December 31, 2018. Update procedures were used to roll forward the total pension liability to June 30, 2019. The discount rate used to measure the total pension liability was 2.79% at June 30, 2019. The economic assumptions used for the discount rate are based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

NOTES TO THE FINANCIAL STATEMENTS

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, 2019 and 2018 were as follows:

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Teachers' and State Employees' Retirement System				
Proportion – June 30, 2019	21.83%	15.05%	5.68%	0.17%
Proportion – June 30, 2018	21.75%	14.90%	5.80%	0.17%
Change – Increase (Decrease)	0.08	0.15	(0.12)	0.00

For the year ended June 30, 2020, 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 Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Pension Expense				
Teachers' and State Employees' Retirement System	\$ 838,105	\$ 575,205	\$ 211,862	\$ 6,942
Consolidated Judicial	37,777	–	–	–
Legislative	1,603	–	–	–
Special Separation Allowance	19,221	–	–	–
Total Pension Expense	<u>\$ 896,706</u>	<u>\$ 575,205</u>	<u>\$ 211,862</u>	<u>\$ 6,942</u>

As a result of its requirement to contribute, the primary government recognized expense of \$19.1 million for FRSWPF and \$2 million for NGPF for the year ended June 30, 2020. 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, 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2020, 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						
	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	\$ 189,306	\$ 1,690	\$ 6,148	\$ —	\$ —	\$ 15,235	\$ 212,379
Changes of assumptions	241,169	7,088	14,360	—	1,308	5,707	269,632
Net difference between projected and actual earnings on pension plan investments	43,400	1,037	1,738	130	429	—	46,734
Change in proportion and differences between agency's contributions and proportionate share of contributions	63,070	—	—	—	—	—	63,070
Contributions subsequent to the measurement date	490,020	18,652	26,637	956	11,032	—	547,297
Transactions subsequent to the measurement date	—	—	—	—	—	17,860	17,860
Total	\$ 1,026,965	\$ 28,467	\$ 48,883	\$ 1,086	\$ 12,769	\$ 38,802	\$ 1,156,972
Component Units:							
University of North Carolina System							
Difference between actual and expected experience	\$ 130,490						
Changes of assumptions	166,221						
Net difference between projected and actual earnings on pension plan investments	29,903						
Change in proportion and differences between agency's contributions and proportionate share of contributions	29,735						
Contributions subsequent to the measurement date	315,375						
Total ⁽¹⁾	\$ 671,724						
Community Colleges							
Difference between actual and expected experience	\$ 49,226						
Changes of assumptions	62,705						
Net difference between projected and actual earnings on pension plan investments	11,280						
Change in proportion and differences between agency's contributions and proportionate share of contributions	7,040						
Contributions subsequent to the measurement date	120,282						
Total	\$ 250,533						
Other Component Units							
Difference between actual and expected experience	\$ 1,513						
Changes of assumptions	1,927						
Net difference between projected and actual earnings on pension plan investments	347						
Change in proportion and differences between agency's contributions and proportionate share of contributions	1,069						
Contributions subsequent to the measurement date	3,928						
Total ⁽²⁾	\$ 8,784						

(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, 2020, Rex Healthcare had deferred outflows of resources of \$17.716 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, 2020, Centennial Authority had deferred outflows of resources of \$56 thousand.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2020, 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						Total
	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Special Separation Allowance	
Primary Government:							
Difference between actual and expected experience	\$ 4,533	\$ 5,222	\$ 879	\$ 298	\$ 9,049	\$ —	\$ 19,981
Changes of assumptions	—	7,250	—	—	—	2,899	10,149
Change in proportion and differences between agency's contributions and proportionate share of contributions	8,222	—	—	—	—	—	8,222
Total	\$ 12,755	\$ 12,472	\$ 879	\$ 298	\$ 9,049	\$ 2,899	\$ 38,352
Component Units:							
University of North Carolina System							
Difference between actual and expected experience	\$ 3,123						
Change in proportion and differences between agency's contributions and proportionate share of contributions	2,111						
Total⁽¹⁾	\$ 5,234						
Community Colleges							
Difference between actual and expected experience	\$ 1,178						
Change in proportion and differences between agency's contributions and proportionate share of contributions	11,423						
Total	\$ 12,601						
Other Component Units							
Difference between actual and expected experience	\$ 36						
Change in proportion and differences between agency's contributions and proportionate share of contributions	101						
Total⁽²⁾	\$ 137						

(1) RexHealthcare 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, 2020, RexHealthcare had deferred inflows of resources of \$4.967 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, 2020, Centennial Authority had deferred inflows of resources of \$6 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, 2021. 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
2021	\$ 357,300	\$ 244,314	\$ 85,718	\$ 3,109
2022	100,041	64,195	18,533	990
2023	51,674	32,147	9,453	499
2024	15,175	10,459	3,946	121

Other Plans

Year Ending June 30	Primary Government				
	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Special Separation Allowance
2021	\$ 4,552	\$ 13,531	\$ (85)	\$ (2,706)	\$ 4,860
2022	(2,527)	2,323	(147)	(4,851)	4,766
2023	(2,555)	4,744	30	119	4,069
2024	(1,206)	769	34	126	3,218
2025	(921)	—	—	—	1,130

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, 2020, 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
Unrestricted net position	\$ (5,551,351)	\$ 4,859,761	\$ (691,590)	\$ (7,317,628)
Effect on unrestricted net position				
TSERS	\$ (2,241,059)	\$ (34,835)	\$ (2,275,894)	\$ (2,184,517)
Other Plans	(422,681)	—	(422,681)	—
Total effect on unrestricted net position	\$ (2,663,740)	\$ (34,835)	\$ (2,698,575)	\$ (2,184,517)

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Special Separation Allowance
	(1)		(1)	(1)		(3)
Valuation date	12/31/18	12/31/18	12/31/18	12/31/18	12/31/18	12/31/18
Inflation	3%	3%	3%	3%	3%	2.5%
Salary Increases	3.5% - 8.1%	N/A	3.5% - 5.5%	5.5%	N/A	3.5% - 8.1%
Investment Rate of Return (2)	7%	7%	7%	7%	7%	N/A

(1) - Salary increases include 3.5% 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 1% 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, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net pension liability to changes in the discount rate. The following presents the primary government's and component units' net pension liability calculated using the discount rate of 7%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate (dollars in thousands):

	<u>Net Pension Liability (Asset)</u>		
	<u>1% Decrease (6%)</u>	<u>Current Discount Rate (7%)</u>	<u>1% Increase (8%)</u>
Teachers' and State Employees' Proportionate Share			
Primary Government	\$ 4,307,381	\$ 2,263,139	\$ 548,278
University of North Carolina System	2,969,067	1,559,975	377,927
Community Colleges	1,120,046	588,482	142,569
Other Component Units	34,425	18,087	4,382
Firefighters' and Rescue Squad	\$ 96,237	\$ 36,283	\$ (12,903)
Consolidated Judicial	\$ 165,042	\$ 92,993	\$ 31,298
Legislative	\$ 5,205	\$ 2,410	\$ 8
North Carolina National Guard	\$ 54,100	\$ 33,661	\$ 16,830

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 2.79%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate (dollars in thousands):

	<u>Total Pension Liability</u>		
	<u>1% Decrease (1.79%)</u>	<u>Current Discount Rate (2.79%)</u>	<u>1% Increase (3.79%)</u>
Special Separation Allowance	\$ 248,853	\$ 231,737	\$ 216,021

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, 2020 (dollars in thousands):

	Consolidated Judicial	Legislative	Special Separation Allowance
Total pension liability			
Service Cost	\$ 18,710	\$ 1,088	\$ 7,842
Interest	46,838	2,052	6,519
Differences between expected and actual experience	845	(596)	11,825
Changes of assumptions	-	-	3,091
Benefit payments, including refunds of member contributions	(46,451)	(2,732)	(16,922)
Net change in total pension liability	<u>19,942</u>	<u>(188)</u>	<u>12,355</u>
Total pension liability - beginning (a)	691,953	30,655	219,382
Total pension liability - ending (c)	<u>\$ 711,895</u>	<u>\$ 30,467</u>	<u>\$ 231,737</u>
Plan fiduciary net position			
Contributions-employer	\$ 25,636	\$ 809	\$ —
Contributions-member	5,151	257	—
Net investment income	38,211	1,726	—
Benefit payments, including refunds of member contributions	(46,451)	(2,732)	—
Administrative expense	(30)	(14)	—
Other	(119)	(50)	—
Net change in plan fiduciary net position	<u>22,398</u>	<u>(4)</u>	<u>—</u>
Plan fiduciary net position - beginning (b)	596,504	28,061	—
Plan fiduciary net position - ending (d)	<u>\$ 618,902</u>	<u>\$ 28,057</u>	<u>\$ —</u>
Net pension liability - beginning (a) - (b)	95,449	2,594	—
Net pension liability - ending (c) - (d)	<u>\$ 92,993</u>	<u>\$ 2,410</u>	<u>\$ —</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: DEFERRED COMPENSATION PLANS

1. IRC SECTION 457 PLAN

General Statute 143B-426.24 authorized the creation of the North Carolina Public Employee Deferred Compensation Plan (the 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 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 have entered into an agreement with Prudential Retirement Insurance and Annuity Company (Prudential) to perform recordkeeping, administration, and education services. At December 31, 2019, there were approximately 56,900 plan members with 535 employers adopting the 457 Plan.

The 457 Plan is a defined contribution plan. Benefits of the 457 Plan depend solely on amounts contributed to the plan plus investment earnings net of expenses. The assets of the 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 70 ½. All costs of administering and funding the 457 Plan are the responsibility of the plan participants.

The audited statements for the year ended December 31, 2019 are presented in this financial report as a pension and other employee benefit trust fund. The 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 457 Plan's financial statements are available online at myNCRetirement.com or by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 20 of this CAFR. The 457 Plan's investment risks are described in Note 3.

2. IRC SECTION 403(B) PLANS

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, 2019, there were 15,212 employees participating in the plan. No direct costs are incurred by the State.

The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department of State Treasurer (the Department) administer the North Carolina Public School Teachers' and Professional Educators' Investment Plan (the NC 403(b) Program) pursuant to General Statutes 115C-341.2 and 115D-25.4. The NC 403(b) Program offers investment, recordkeeping, administrative, and communications services to participating employers, which serve as the sponsors of their 403(b) plans. The NC 403(b) Program is available to all local school Boards of Education and community colleges across the State. Each individual employer has the discretion to adopt the NC 403(b) Program. The NC 403(b) Program is designed to provide a low-cost supplemental retirement savings option to public school and community college employees. The Board and the Department have entered into an agreement with Prudential to perform recordkeeping, administration and education services. At June 30, 2020, there were 93 school districts enrolled in the NC 403(b) Program with 1,339 employees participating.

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 Comprehensive Annual Financial Report (CAFR).

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, 2020, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs.....	116
Charter Schools.....	59
Community Colleges.....	58
University of North Carolina System.....	19
Other Component Units.....	5
Local governments.....	<u>11</u>
	<u>269</u>

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 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

Contributions. 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 Bill. For the fiscal year ended June 30, 2020, the State and the other employers contributed the legislatively mandated 6.47% 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, 2020, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs	116
Charter Schools.....	59
Community Colleges.....	58
University of North Carolina System.....	19
Other Component Units.....	5
	258

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, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from 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.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System 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, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

NOTES TO THE FINANCIAL STATEMENTS

Contributions. Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2020, the State and the other employers made a statutory contribution of 0.10% 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 Health Benefit Fund	Disability Income Plan of N.C.
Retired members and beneficiaries		
currently receiving benefits	231,224	N/A
Retired members and survivors of deceased members currently receiving benefits	N/A	5,684
Terminated members entitled to but not yet receiving benefits	45,096	-
Active members	348,905	328,014
Total	<u>625,225</u>	<u>333,698</u>
Date of valuation	<i>12/31/19</i>	<i>12/31/19</i>
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, 2020 as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Opportunistic Fixed Income	7%
Inflation Sensitive	6%
Total	<u>100%</u>

Rate of return. For the year ended June 30, 2020, 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 Health Benefit Fund</u>	<u>Disability Income Plan of N.C.</u>
Money-weighted Rate of Return	3.80%	8.68%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net OPEB Liability of Participating Employers

The components of the net OPEB liability of the participating employers at June 30, 2020, were as follows (dollars in thousands):

	<u>Retiree Health Benefit Fund</u>	<u>Disability Income Plan of N.C.</u>
Total OPEB liability	\$ 29,802,158	\$ 316,039
Plan fiduciary net position	<u>2,061,307</u>	<u>365,233</u>
Net OPEB liability (asset)	<u>\$ 27,740,851</u>	<u>\$ (49,194)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.92%	115.57%

NOTES TO THE FINANCIAL STATEMENTS

Actuarial Assumptions. The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, 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, 2020 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund <u>(1)</u>	Disability Income Plan of N.C. <u>(1)</u>
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return (2)	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, 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. 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, 2020.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2020 (see the discussion of the OPEB plans' investment policy in Section D) are summarized in the following table:

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

NOTES TO THE FINANCIAL STATEMENTS

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

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. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2019 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount rate. The discount rate used to measure the total OPEB liability for RHBF was 2.21% at June 30, 2020 compared to 3.5% at June 30, 2019. 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 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. 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. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the plans at June 30, 2020, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate (dollars in thousands):

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
RHBF net OPEB liability	\$ 32,898,894	\$ 27,740,851	\$ 23,585,188

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC net OPEB asset	\$ (42,486)	\$ (49,194)	\$ (55,707)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (dollars in thousands):

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF net OPEB liability	\$ 22,364,142	\$ 27,740,851	\$ 34,927,547

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC net OPEB asset	\$ (49,275)	\$ (49,194)	\$ (49,123)

NOTES TO THE FINANCIAL STATEMENTS**F. GASB Statement 75 Employer Reporting****1. EMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the OPEB plans at June 30, 2020 (dollars in thousands):

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Total
Primary Government	\$ 249,620	\$ 3,779	\$ 253,399
Component Units			
University of North Carolina System	\$ 289,718	\$ 7,853	\$ 297,571
Community Colleges	59,451	1,560	61,011
Other Component Units	2,030	32	2,062
Total Contributions	<u>\$ 600,819</u>	<u>\$ 13,224</u>	<u>\$ 614,043</u>

2. OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

As of June 30, 2020, the primary government and component units reported net OPEB liabilities and net OPEB assets for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net OPEB Liability Retiree Health Benefit Fund	<u>\$ 6,130,058</u>	<u>\$ 7,946,586</u>	<u>\$ 1,536,342</u>	<u>\$ 46,204</u>
	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net OPEB Asset Disability Income Plan of N.C.	<u>\$ (8,135)</u>	<u>\$ (10,937)</u>	<u>\$ (2,124)</u>	<u>\$ (65)</u>

Each net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability (asset) used to calculate each net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2018. Update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2019. For RHBF and DIPNC, the primary government's and each component unit's proportion of the collective net OPEB liability (asset) 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 (asset) was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year OPEB contributions.

NOTES TO THE FINANCIAL STATEMENTS

The primary government's and component units' proportions of the collective net OPEB liability for the Retiree Health Benefit Fund and the collective net OPEB asset for the Disability Income Plan of N.C. as of June 30, 2019 and 2018 were as follows:

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Retiree Health Benefit Fund				
Proportion – June 30, 2019	19.38%	25.12%	4.86%	0.15%
Proportion – June 30, 2018	19.06%	24.31%	5.02%	0.14%
Change – Increase (Decrease)	0.32	0.81	(0.16)	0.01
Disability Income Plan of N.C.				
Proportion – June 30, 2019	18.85%	25.35%	4.92%	0.15%
Proportion – June 30, 2018	18.78%	25.03%	5.04%	0.14%
Change – Increase (Decrease)	0.07	0.32	(0.12)	0.01

For the fiscal year ended June 30, 2020, the primary government and component units recognized OPEB expense for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
OPEB Expense				
Retiree Health Benefit Fund	\$ (22,265)	\$ (144,297)	\$ (42,347)	\$ 908
Disability Income Plan of N.C.	8,357	10,265	2,133	67
Total OPEB Expense	<u>\$ (13,908)</u>	<u>\$ (134,032)</u>	<u>\$ (40,214)</u>	<u>\$ 975</u>

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2020, 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 Health Benefit Fund	Disability Income Plan of N.C.	Total
Primary Government:			
Difference between actual and expected experience	\$ —	\$ 8,310	\$ 8,310
Changes of assumptions	294,612	901	295,513
Net difference between projected and actual earnings on OPEB plan investments	4,082	1,550	5,632
Change in proportion and differences between agency's contributions and proportionate share of contributions	413,536	1,637	415,173
Contributions subsequent to the measurement date	249,620	3,779	253,399
Total	<u>\$ 961,850</u>	<u>\$ 16,177</u>	<u>\$ 978,027</u>
Component Units:			
University of North Carolina System			
Difference between actual and expected experience	\$ —	\$ 11,173	\$ 11,173
Changes of assumptions	381,950	1,212	383,162
Net difference between projected and actual earnings on OPEB plan investments	5,292	2,083	7,375
Change in proportion and differences between agency's contributions and proportionate share of contributions	668,971	165	669,136
Contributions subsequent to the measurement date	289,718	7,853	297,571
Total	<u>\$ 1,345,931</u>	<u>\$ 22,486</u>	<u>\$ 1,368,417</u>
Community Colleges			
Difference between actual and expected experience	\$ —	\$ 2,170	\$ 2,170
Changes of assumptions	73,844	235	74,079
Net difference between projected and actual earnings on OPEB plan investments	1,023	405	1,428
Change in proportion and differences between agency's contributions and proportionate share of contributions	47,767	423	48,190
Contributions subsequent to the measurement date	59,451	1,560	61,011
Total	<u>\$ 182,085</u>	<u>\$ 4,793</u>	<u>\$ 186,878</u>
Other Component Units			
Difference between actual and expected experience	\$ —	\$ 66	\$ 66
Changes of assumptions	2,221	7	2,228
Net difference between projected and actual earnings on OPEB plan investments	31	12	43
Change in proportion and differences between agency's contributions and proportionate share of contributions	6,746	15	6,761
Contributions subsequent to the measurement date	2,030	32	2,062
Total	<u>\$ 11,028</u>	<u>\$ 132</u>	<u>\$ 11,160</u>

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2020, 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 Health Benefit Fund	Disability Income Plan of N.C.	Total
Primary Government:			
Difference between actual and expected experience	\$ 309,043	\$ —	\$ 309,043
Changes of assumptions	1,843,041	835	1,843,876
Change in proportion and differences between agency's contributions and proportionate share of contributions	166,351	303	166,654
Total	<u>\$ 2,318,435</u>	<u>\$ 1,138</u>	<u>\$ 2,319,573</u>
Component Units:			
University of North Carolina System			
Difference between actual and expected experience	\$ 400,608	\$ —	\$ 400,608
Changes of assumptions	2,389,092	1,122	2,390,214
Change in proportion and differences between agency's contributions and proportionate share of contributions	541,958	854	542,812
Total	<u>\$ 3,331,658</u>	<u>\$ 1,976</u>	<u>\$ 3,333,634</u>
Community Colleges			
Difference between actual and expected experience	\$ 77,451	\$ —	\$ 77,451
Changes of assumptions	461,892	218	462,110
Change in proportion and differences between agency's contributions and proportionate share of contributions	122,124	57	122,181
Total	<u>\$ 661,467</u>	<u>\$ 275</u>	<u>\$ 661,742</u>
Other Component Units			
Difference between actual and expected experience	\$ 2,329	\$ —	\$ 2,329
Changes of assumptions	13,891	7	13,898
Change in proportion and differences between agency's contributions and proportionate share of contributions	877	10	887
Total	<u>\$ 17,097</u>	<u>\$ 17</u>	<u>\$ 17,114</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, 2021. 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):

Year Ending June 30	Retiree Health Benefit Fund			
	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
2021	\$ (518,965)	\$ (788,169)	\$ (166,830)	\$ (2,836)
2022	(518,965)	(788,169)	(166,830)	(2,836)
2023	(518,375)	(787,404)	(166,682)	(2,831)
2024	(130,354)	(39,213)	(40,982)	(230)
2025	80,454	127,510	2,491	634

Year Ending June 30	Disability Income Plan of N.C.			
	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
2021	\$ 3,939	\$ 4,324	\$ 980	\$ 32
2022	2,498	3,067	662	19
2023	1,867	2,216	498	14
2024	1,226	1,354	330	9
2025	1,634	1,903	437	12
Thereafter	96	(207)	51	(3)

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 Activities	Business-type Activities	Total Primary Government	Component Units
Unrestricted net position	<u>\$ (5,551,351)</u>	<u>\$ 4,859,761</u>	<u>\$ (691,590)</u>	<u>\$ (7,317,628)</u>
Effect on unrestricted net position RHBF	\$ (8,317,534)	\$ (130,958)	\$ (8,448,492)	\$ (13,539,354)
Restricted net position	<u>\$ 1,458,418</u>	<u>\$ 178,212</u>	<u>\$ 1,636,630</u>	<u>\$ 8,783,904</u>
Effect on restricted net position DIPNC	\$ 6,920	\$ 78	\$ 6,998	\$ 10,891

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions. The total OPEB liability (asset) in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
	(1)	(1)
Valuation Date	12/31/2018	12/31/2018
Inflation	3%	3%
Salary Increases	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return (2)	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2028	9.5% grading down to 5% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.5% grading down to 5% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3%	N/A

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

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, 2019:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net OPEB liability (asset) to changes in the discount rate. The following presents the primary government's and component units' net OPEB liability (asset) calculated using the discount rate, as well as what the proportionate share of the 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 rate (dollars in thousands):

	<u>Net OPEB Liability</u>		
	Current		
	1% Decrease <u>(2.5%)</u>	Discount <u>Rate (3.5%)</u>	1% Increase <u>(4.5%)</u>
Retiree Health Benefit Fund			
Proportionate Share			
Primary Government	\$ 7,284,725	\$ 6,130,058	\$ 5,205,510
University of North Carolina System	9,443,417	7,946,586	6,748,066
Community Colleges	1,825,730	1,536,342	1,304,628
Other Component Units	54,907	46,204	39,236
 <u>Net OPEB Asset</u>			
Current			
	1% Decrease <u>(2.75%)</u>	Discount <u>Rate (3.75%)</u>	1% Increase <u>(4.75%)</u>
Disability Income Plan of N.C.			
Proportionate Share			
Primary Government	\$ (6,890)	\$ (8,135)	\$ (9,344)
University of North Carolina System	(9,264)	(10,937)	(12,563)
Community Colleges	(1,799)	(2,124)	(2,440)
Other Component Units	(55)	(65)	(74)

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates. The following presents the primary government's and component units' net OPEB liability (asset) calculated using the healthcare cost trend rates, as well as what the proportionate share of the 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 health care cost trend rates (dollars in thousands):

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4% - 5.5%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5% - 6.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6% - 7.5%, Administrative - 4%)
Retiree Health Benefit Fund			
Proportionate Share			
Primary Government	\$ 5,047,639	\$ 6,130,058	\$ 7,553,270
University of North Carolina System	6,543,413	7,946,586	9,791,540
Community Colleges	1,265,061	1,536,342	1,893,034
Other Component Units	38,046	46,204	56,931

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%)
Disability Income Plan of N.C.			
Proportionate Share			
Primary Government	\$ (8,149)	\$ (8,135)	\$ (8,121)
University of North Carolina System	(10,946)	(10,937)	(10,919)
Community Colleges	(2,128)	(2,124)	(2,121)
Other Component Units	(65)	(65)	(65)

NOTES TO THE FINANCIAL STATEMENTS**NOTE 15: RISK MANAGEMENT AND INSURANCE****A. Public Entity Risk Pool****Public School Insurance Fund**

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, 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 has to 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 76 out of 116 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):

	Fiscal Year	
	2020	2019 As Restated
Unpaid claims at beginning of year (as restated)	\$ 6,226	\$ 6,080
Incurred claims:		
Provision for insured events		
of the current year	2,867	16,887
Increases (decreases) in provision		
for insured events of prior years	32,691	(2,803)
Total incurred claims	35,558	14,084
Payments:		
Claims attributable to insured		
events of the current year	2,861	10,969
Claims attributable to insured		
events of the prior years	30,256	2,969
Total payments	33,117	13,938
Total unpaid claims at end		
of the year	\$ 8,667	\$ 6,226

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 \$45.5 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 \$15 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 the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. As of June 30, 2020, the amount of outstanding claims for reinsurance was \$5.32 million. There were no premium deficiencies in fiscal year 2020. Investment income was not considered in the determination of premium deficiencies.

NOTES TO THE FINANCIAL STATEMENTS**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 2019 and in Calendar Year 2020. 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 an other 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 Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 266,823	\$ 3,107,165	\$ (3,087,601)	\$ 286,387
2019-20	286,387	3,178,647	(3,231,772)	233,262

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, 2019 to June 30, 2020, 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 0.16% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2019 to June 2020.

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 Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 3,899	\$ 44,357	\$ (44,653)	\$ 3,603
2019-20	3,603	55,438	(54,059)	4,982

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 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 for a period of up to 365 days following the waiting period. The first six months of benefits are payable by the employer outside of DIPNC. The remaining six months are paid by the employer outside of DIPNC, but the employer is reimbursed by DIPNC. Effective for disabilities that began on or after July 1, 2019, DIPNC will not reimburse employers for the second six months of costs to provide the benefit. 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 an other postemployment benefit 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. 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 a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

NOTES TO THE FINANCIAL STATEMENTS

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 \$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 Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 2,145	\$ 87,817	\$ (36,918)	\$ 53,044
2019-20	53,044	15,355	(23,641)	44,758

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.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ending June 30, 2019 and June 30, 2020, 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, 2019 and June 30, 2020, 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, 2020, 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 \$22.594 million and \$23.413 million are the present values of the aggregate actuarially determined claims liabilities of \$23.841 million and \$23.629 million, discounted at 2.5% at June 30, 2019 and 2.5% at June 30, 2020.

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 Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 26,356	\$ 143	\$ (3,905)	\$ 22,594
2019-20	22,594	6,750	(5,931)	23,413

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 \$10 million excess insurance over the \$1 million statutory limit payable for any one claim under the State Tort Claims Act. 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 directly to the private insurer. 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 provided for agencies of the State and its component units with a limit of \$5 million per occurrence, subject to a 10% participation in each loss and a \$100,000 deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. 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, 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 employees of Local Education Agencies (LEAs).

NOTES TO THE FINANCIAL STATEMENTS

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 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 under the State's Workers' Compensation Act, Chapter 97, if it is caused by an injury by accident as defined by the North Carolina Workers' Compensation Act or specific traumatic incident that arose out of and in the course and scope of employment. 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 Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 812,588	\$ 142,346	\$ (144,101)	\$ 810,833
2019-20	810,833	122,660	(154,548)	778,945

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 State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. 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 by 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 Commission and is paid by the eligible units to the Commission 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. As of June 30, 2020, the Fund consisted of 1,133 eligible units representing approximately 43,624 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 liabilities do not include nonincremental claims adjustment expenses. The Fund considers anticipated investment income in determining if

NOTES TO THE FINANCIAL STATEMENTS

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, 2020, 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 Fund maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Fund's retention of \$500,000 per occurrence and a \$1.5 million limit for employer's liability above the Fund's retention of \$500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Fund's excess of loss and aggregate reinsurance policies. As of June 30, 2020, there were no claims recoverable from reinsurers. This amount fluctuates from year to year.

The following schedule shows the changes in the reported liability for the past two fiscal years (dollars in thousands):

	Beginning of Fiscal Year Liability (as restated)	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2018-19	\$ 24,521	\$ 8,462	\$ (5,672)	\$ 27,311
2019-20	21,729	7,876	(7,588)	22,017

THIS PAGE INTENTIONALLY LEFT BLANK.

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, 2020 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Assets						
Cash and cash equivalents.....	\$ 128,423	\$ 707	\$ 527	\$ 1,761	\$ 4,283	\$ 71,111
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts....	—	—	—	—	—	—
State Treasurer investment pool.....	73,772,413	624,566	27,398	449,963	142,088	27,659,811
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	629,879	5,323	244	3,862	1,301	236,704
Receivables:						
Accounts receivable.....	6,489	6	—	—	1	2,933
Intergovernmental receivable.....	—	—	—	—	—	—
Interest receivable.....	392	3	1	3	4	136
Contributions receivable.....	102,474	—	101	—	—	65,154
Due from other funds.....	61,822	2,513	—	—	—	—
Due from component units.....	18,148	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	<u>74,720,040</u>	<u>633,118</u>	<u>28,271</u>	<u>455,589</u>	<u>147,677</u>	<u>28,035,849</u>
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	747	2	1	4	—	483
Obligations under securities lending.....	629,879	5,323	244	3,862	1,301	236,704
Funds held for others.....	7,400	54	4	—	—	28
Total Liabilities.....	<u>638,026</u>	<u>5,379</u>	<u>249</u>	<u>3,866</u>	<u>1,301</u>	<u>237,215</u>
Net Position						
Restricted for:						
Pension benefits.....	74,082,014	627,739	28,022	451,723	146,376	27,798,634
Other postemployment benefits.....	—	—	—	—	—	—
Other employment benefits.....	—	—	—	—	—	—
Total Net Position.....	<u>\$ 74,082,014</u>	<u>\$ 627,739</u>	<u>\$ 28,022</u>	<u>\$ 451,723</u>	<u>\$ 146,376</u>	<u>\$ 27,798,634</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
\$ —	\$ —	\$ 19,578	\$ 858,513	\$ 2,769	\$ 828	\$ 96	\$ 1,088,596
44,525	9,055	—	—	—	—	—	53,580
187,362	38,104	—	—	—	—	—	225,466
1,550,529	315,330	—	—	—	—	—	1,865,859
—	—	496,955	1,136,370	337,126	—	53,852	104,700,542
9,622,056	1,201,042	—	—	—	—	—	10,823,098
—	—	428	28,427	61	22	2	906,253
22	—	—	—	24,776	—	—	34,227
—	—	—	—	—	113	—	113
—	—	18	544	5	1	—	1,107
4,587	488	1,065	33,805	517	—	99	208,290
—	—	522	21,526	326	—	—	86,709
—	—	153	10,549	163	—	—	29,013
295,686	22,548	—	—	—	—	—	318,234
<u>11,704,767</u>	<u>1,586,567</u>	<u>518,719</u>	<u>2,089,734</u>	<u>365,743</u>	<u>964</u>	<u>54,049</u>	<u>120,341,087</u>
1,225	249	46	—	—	—	—	1,520
—	—	4,982	—	298	—	—	6,517
—	—	428	28,427	61	22	2	906,253
—	—	—	—	151	—	—	7,637
<u>1,225</u>	<u>249</u>	<u>5,456</u>	<u>28,427</u>	<u>510</u>	<u>22</u>	<u>2</u>	<u>921,927</u>
11,703,542	—	—	—	—	942	54,047	114,893,039
—	—	—	2,061,307	365,233	—	—	2,426,540
—	1,586,318	513,263	—	—	—	—	2,099,581
<u>\$11,703,542</u>	<u>\$ 1,586,318</u>	<u>\$ 513,263</u>	<u>\$ 2,061,307</u>	<u>\$ 365,233</u>	<u>\$ 942</u>	<u>\$ 54,047</u>	<u>\$ 119,419,160</u>

NOTES TO THE FINANCIAL STATEMENTS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Additions						
Contributions:						
Employer.....	\$ 2,055,075	\$ 26,637	\$ 956	\$ —	\$ —	\$ 640,969
Members.....	964,544	5,224	253	2,581	—	436,754
Other contributions.....	—	—	—	18,652	11,032	—
Total contributions.....	<u>3,019,619</u>	<u>31,861</u>	<u>1,209</u>	<u>21,233</u>	<u>11,032</u>	<u>1,077,723</u>
Investment Income:						
Investment earnings (loss).....	3,321,224	28,214	1,253	20,243	6,391	1,240,281
Less investment expenses.....	(270,639)	(2,291)	(101)	(1,649)	(519)	(101,272)
Net investment income (loss).....	<u>3,050,585</u>	<u>25,923</u>	<u>1,152</u>	<u>18,594</u>	<u>5,872</u>	<u>1,139,009</u>
Other additions:						
Fees, licenses, and fines.....	—	—	—	—	—	2,390
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	421	—	5	14	—	295
Total other additions.....	<u>421</u>	<u>—</u>	<u>5</u>	<u>14</u>	<u>—</u>	<u>2,685</u>
Total additions.....	<u>6,070,625</u>	<u>57,784</u>	<u>2,366</u>	<u>39,841</u>	<u>16,904</u>	<u>2,219,417</u>
Deductions						
Claims and benefits.....	4,830,125	48,556	2,369	29,694	9,018	1,493,892
Medical insurance premiums.....	—	—	—	—	—	—
Refund of contributions.....	104,874	364	19	259	—	57,325
Administrative expenses.....	12,910	27	13	886	83	4,889
Other deductions.....	150	—	—	—	—	624
Total deductions.....	<u>4,948,059</u>	<u>48,947</u>	<u>2,401</u>	<u>30,839</u>	<u>9,101</u>	<u>1,556,730</u>
Change in net position.....	<u>1,122,566</u>	<u>8,837</u>	<u>(35)</u>	<u>9,002</u>	<u>7,803</u>	<u>662,687</u>
Net position — July 1.....	<u>72,959,448</u>	<u>618,902</u>	<u>28,057</u>	<u>442,721</u>	<u>138,573</u>	<u>27,135,947</u>
Net position — June 30.....	<u>\$ 74,082,014</u>	<u>\$ 627,739</u>	<u>\$ 28,022</u>	<u>\$ 451,723</u>	<u>\$ 146,376</u>	<u>\$ 27,798,634</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
\$ 224,001	\$ 3,594	\$ 29,576	\$ 1,162,967	\$ 17,848	\$ 580	\$ 958	\$ 4,163,161
379,475	78,234	—	—	—	—	—	1,867,065
—	—	27,605	475,200	—	—	—	532,489
<u>603,476</u>	<u>81,828</u>	<u>57,181</u>	<u>1,638,167</u>	<u>17,848</u>	<u>580</u>	<u>958</u>	<u>6,562,715</u>
1,928,479	245,536	40,329	56,625	28,409	22	4,366	6,921,372
—	—	(125)	(4,338)	(86)	(1)	(13)	(381,034)
<u>1,928,479</u>	<u>245,536</u>	<u>40,204</u>	<u>52,287</u>	<u>28,323</u>	<u>21</u>	<u>4,353</u>	<u>6,540,338</u>
—	—	—	—	—	664	—	3,054
15,760	1,177	—	—	—	—	—	16,937
344	56	—	—	—	—	—	1,135
<u>16,104</u>	<u>1,233</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>664</u>	<u>—</u>	<u>21,126</u>
<u>2,548,059</u>	<u>328,597</u>	<u>97,385</u>	<u>1,690,454</u>	<u>46,171</u>	<u>1,265</u>	<u>5,311</u>	<u>13,124,179</u>
622,937	91,639	55,438	—	55,210	1,574	1,788	7,242,240
—	—	192	1,084,668	—	—	—	1,084,860
—	—	—	—	—	—	—	162,841
10,413	2,149	332	162	835	160	12	32,871
—	—	—	—	21	—	—	795
<u>633,350</u>	<u>93,788</u>	<u>55,962</u>	<u>1,084,830</u>	<u>56,066</u>	<u>1,734</u>	<u>1,800</u>	<u>8,523,607</u>
1,914,709	234,809	41,423	605,624	(9,895)	(469)	3,511	4,600,572
9,788,833	1,351,509	471,840	1,455,683	375,128	1,411	50,536	114,818,588
<u>\$ 11,703,542</u>	<u>\$ 1,586,318</u>	<u>\$ 513,263</u>	<u>\$ 2,061,307</u>	<u>\$ 365,233</u>	<u>\$ 942</u>	<u>\$ 54,047</u>	<u>\$ 119,419,160</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PLEDGED REVENUES

Primary Government**Governmental Activities**

The State has pledged future federal transportation revenues to repay \$959.525 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2020. These bonds were issued in May 2015, August 2017 and June 2019. 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 \$1.291 billion, payable through fiscal year 2034. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$131.634 million and \$1.46 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, 2020, the Triangle Expressway had \$1.432 billion of Appropriation and Revenue bonds payable and the Monroe Expressway had \$485 million of Appropriation and Revenue bonds payable. For the Senior Lien and Toll Revenue bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway and the Monroe Expressway. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of federal interest subsidy payments and investment income.

The State has elected to treat the State Annual Appropriation Revenue Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on these bonds.

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 \$3.617 billion, payable through fiscal year 2055 (final maturity date). For the current fiscal year, principal and interest paid, and available revenues (toll revenues, fees, federal interest subsidy, federal transportation funds and investment revenues) were \$91.258 million and \$90.568 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 and special indebtedness as shown in the table below (dollars in thousands):

Purpose	Revenue Source	Future Revenues Pledged		Current Year		Final Maturity Date	Payable as of 6/30/2020
		(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments		
Revenue Bonds							
Housing and Dining	Housing and Dining Revenues	\$ 10,341	11-23%	\$ 1,852	\$ 459	2021	\$ 10,339
Utilities	Utilities Revenues	16,820	7%	27,608	8,415	2022	16,820
Millennial Campus (2)	University Charges to Athletics and Auxiliary Services	77,974	100%	—	1,755	2049	39,865
Health Care Facilities	Patient Service Revenues	670,923	20.8%	87,501	18,191	2050	426,720
Total		<u>\$ 776,058</u>		<u>\$ 116,961</u>	<u>\$ 28,820</u>		<u>\$ 493,744</u>
Direct Placements							
Utilities	Utilities Revenues	\$ 2,773	32%	\$ 670	\$ 711	2026	\$ 2,595
Housing and Dining	Housing and Dining Revenues	24,670	53.7%	1,826	1,207	2035	18,701
Total		<u>\$ 27,443</u>		<u>\$ 2,496</u>	<u>\$ 1,918</u>		<u>\$ 21,296</u>
Special Indebtedness							
Student Housing System	Housing Revenues	\$ 92,586	32% - 92%	\$ 7,243	\$ 6,866	2041	\$ 81,099

(1) The Future Revenues Pledged amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

(2) The facility funded by the Millennial Campus Revenue bonds is currently under construction. Revenues will be earned once the facility is placed into service. Bond proceeds totaling \$3.3 million were deposited into a University fund to pay all of the debt service requirements during the construction period.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: COMPONENT UNITS – FINANCIAL INFORMATION

Financial statements as of and for the fiscal year ended June 30, 2020 are presented below (dollars in thousands).

Statement of Net Position

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Assets					
Cash and cash equivalents.....	\$ 3,315,752	\$ 372,552	\$ 1,032,420	\$ 89,290	\$ 4,810,014
Investments.....	2,540,549	121,909	—	1,212,597	3,875,055
Securities lending collateral.....	87,143	5,621	22,514	12,627	127,905
Receivables, net.....	1,210,203	86,062	85,539	78,724	1,460,528
Due from component units.....	3,511	1,500	—	3,050	8,061
Due from primary government.....	23,813	—	—	—	23,813
Inventories.....	184,744	16,545	—	675	201,964
Prepaid items.....	104,968	9,354	—	3,788	118,110
Notes receivable, net.....	146,153	1,105	—	1,601,826	1,749,084
Investment in joint venture.....	164,916	—	—	—	164,916
Restricted/designated cash and cash equivalents.....	1,960,438	115,154	—	1,252,063	3,327,655
Restricted investments.....	6,387,813	301,979	—	3,878,878	10,568,670
Restricted due from primary government.....	14,577	11,017	—	—	25,594
Restricted due from component units.....	—	2,200	—	3,711	5,911
Advances to Outside Entities.....	18,501	—	—	—	18,501
Beneficial interest in assets held by others.....	1,593	—	—	—	1,593
Net OPEB asset.....	10,937	2,124	9	56	13,126
Capital assets-nondepreciable.....	2,081,297	554,508	—	162,186	2,797,991
Capital assets-depreciable, net.....	12,570,910	3,092,943	—	849,501	16,513,354
Total Assets.....	30,827,818	4,694,573	1,140,482	9,148,972	45,811,845
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives....	171,331	—	—	2,640	173,971
Deferred loss on refunding.....	49,312	—	—	468	49,780
Deferred outflow s for asset retirement obligation.....	13,233	—	—	—	13,233
Deferred outflow s for pensions.....	689,440	250,533	1,258	7,582	948,813
Deferred outflow s for OPEB.....	1,368,417	186,878	1,473	9,687	1,566,455
Other deferred outflow s.....	—	2,037	—	—	2,037
Total Deferred Outflow s of Resources.....	2,291,733	439,448	2,731	20,377	2,754,289
Liabilities					
Accounts payable and accrued liabilities.....	1,099,620	86,871	48,202	208,653	1,443,346
Medical claims payable.....	—	—	233,262	—	233,262
Interest payable.....	43,617	10	—	22,732	66,359
Obligations under securities lending.....	87,143	5,621	22,514	12,627	127,905
Short-term debt.....	85,046	—	—	—	85,046
Due to component units.....	—	—	—	13,972	13,972
Due to primary government.....	58,801	—	—	62,414	121,215
Unearned revenue.....	834,923	24,963	34,401	45,742	940,029
Advance from primary government.....	—	—	—	2,647	2,647
Obligations under reverse repurchase agreements.....	14,312	—	—	—	14,312
Deposits payable.....	21,572	—	—	4,110	25,682
Funds held for others.....	1,414,211	6,026	—	2,694,235	4,114,472
Hedging derivatives liability.....	171,331	—	—	2,797	174,128
Long-term liabilities:					
Due w ithin one year.....	356,897	16,643	24	164,922	538,486
Due in more than one year.....	15,643,646	2,255,220	7,423	2,267,572	20,173,861
Total Liabilities.....	19,831,119	2,395,354	345,826	5,502,423	28,074,722

NOTES TO THE FINANCIAL STATEMENTS

Statement of Net Position

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Deferred Inflows of Resources					
SCA revenue applicable to future years.....	21,909	—	—	—	21,909
Deferred state aid.....	64,840	—	—	134,455	199,295
Deferred inflow s for pensions.....	10,201	12,601	79	64	22,945
Deferred inflow s for OPEB.....	3,333,634	661,742	2,378	14,736	4,012,490
Deferred inflow s for irrevocable split-interest agreements.....	21,565	—	—	—	21,565
Other deferred inflow s.....	2,491	—	—	—	2,491
Total Deferred Inflow s of Resources.....	3,454,640	674,343	2,457	149,255	4,280,695
Net Position					
Net investment in capital assets.....	9,161,017	3,557,289	—	901,307	13,619,613
Restricted for:					
Nonexpendable:					
Higher education.....	2,907,940	247,584	—	—	3,155,524
Health and human services.....	402	—	—	—	402
Expendable:					
Higher education.....	3,594,722	281,828	—	505,520	4,382,070
Health and human services.....	416,944	—	1	—	416,945
Economic development.....	—	—	—	951,719	951,719
Unrestricted.....	(6,247,233)	(2,022,377)	794,929	1,159,125	(6,315,556)
Total Net Position.....	\$ 9,833,792	\$ 2,064,324	\$ 794,930	\$ 3,517,671	\$ 16,210,717

Statement of Activities

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Total expenses.....	\$ 13,475,055	\$ 2,357,650	\$ 4,005,905	\$ 1,029,012	\$ 20,867,622
Program revenues:					
Charges for services..... [1]	8,962,688	293,779	3,745,835	438,902	13,441,204
Operating grants and contributions:					
Federal aid - COVID-19.....	200,275	38,093	—	—	238,368
State aid - program.....	—	—	—	200,154	200,154
Other operating grants and contributions.....	1,391,949	812,862	54,919	277,751	2,537,481
Capital grants and contributions:					
State capital aid.....	248,710	121,018	—	—	369,728
Other capital grants and contributions.....	134,030	257,360	—	11,806	403,196
Net program (expense) revenue	(2,537,403)	(834,538)	(205,151)	(100,399)	(3,677,491)
Non-tax general revenues:					
Unrestricted investment earnings.....	—	—	—	20,678	20,678
State aid - general.....	3,108,375	1,086,173	—	142,745	4,337,293
Miscellaneous.....	7,366	11	933	3,547	11,857
Total non-tax general revenues.....	3,115,741	1,086,184	933	166,970	4,369,828
Contributions to endow ments.....	116,860	8,890	—	—	125,750
Change in net position.....	695,198	260,536	(204,218)	66,571	818,087
Net position — July 1, as restated	9,138,594	1,803,788	999,148	3,451,100	15,392,630
Net position — June 30.....	\$ 9,833,792	\$ 2,064,324	\$ 794,930	\$ 3,517,671	\$ 16,210,717

[1] The State Health Plan's charges for services include \$1.5 billion from the primary government.

Significant Transactions Between Component Units

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
State Health Plan - premium revenue (expense).....	\$ (354,780)	\$ (95,595)	\$ 452,931	\$ (2,556)	\$ —

NOTES TO THE FINANCIAL STATEMENTS

Intra-Entity Balances — Between Primary Government and Component Units

	Due From /Restricted Due From Component Units		Due From /Restricted Due From Primary Government		
	General Fund	Total	University of North Carolina System	Community Colleges	Total
Due To Component Units:					
General Fund.....	\$ —	\$ —	\$ 4,109	\$ —	\$ 4,109
Other Governmental Funds	—	—	—	11,017	11,017
Other Funds.....	—	—	34,281	—	34,281
Due To Primary Government:					
University of North Carolina System.....	58,801	58,801	—	—	—
Other Component Units.....	62,414	62,414	—	—	—
Total.....	\$ 121,215	\$ 121,215	\$ 38,390	\$ 11,017	\$ 49,407

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: RELATED ORGANIZATIONS

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 Management Advisory Committee. 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 have entered into an agreement with Prudential Financial, Inc. to perform recordkeeping, administration, and investment management services for both Plans.

The Plans contract with Galliard Capital Management, Inc. (Galliard), a subsidiary of Wells Fargo Bank N.A., to act as a delegated fiduciary investment manager for the North Carolina Stable Value Fund. Wells Fargo provides collective investment vehicles and custodial and trustee services for the North Carolina Stable Value Fund. Galliard has discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has 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 revisions to the investment structure and guidelines and to lower participant fees.

Prudential Retirement, a specialized unit of the Prudential Financial Investment Division, provides recordkeeping, communications, and participant services for the Plans. The fee to Prudential is deducted from the participants' account balances.

One of the funds within the North Carolina Fixed Income Fund is a commingled vehicle offered by Prudential Trust Company and managed by Prudential Investment Management, Inc. Jennison Associates, a registered investment advisory division within Prudential Global Investment Management, manages a portion of the North Carolina Stable Value Fund. Affiliates of Prudential Retirement also are a wrap provider (Prudential Insurance Company of America) and an investment manager (PGIM, Inc.) for the North Carolina Stable Value Fund.

The Bank of New York Mellon serves as the custodian for the Plans and provides global custody services related to the Pooled Account. These fees are deducted from the participants' account balances. 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, 2020, this support totaled \$96.88 million for the UNC System and \$2.85 million for community colleges.

The receivables from related parties as of June 30, 2020 were \$213 thousand for the University of North Carolina System and \$37 thousand for community colleges. The payables to related parties as of June 30, 2020 were \$3.66 million for the University of North Carolina System and \$122 thousand for community colleges.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

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. 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 2052, the outstanding principal of such bonds and notes as of June 30, 2020, was \$5.69 billion with interest rates varying from .75% to 6.25%.

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. 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, 2020, was \$2.2 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 to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. The NCDOT, as a conduit issuer, issued \$100 million of senior private activity bonds (PABs) on behalf of I-77 Mobility Partners LLC and will provide additional direct funds of \$116.4 million. The PABs are not an obligation of the Department or the State. The NCDOT has a contingent obligation up to a maximum of \$75 million over the life of the project in the event of certain revenue shortfalls.

The North Carolina Agricultural Finance Authority (Authority) has issued Agricultural Development Revenue Bonds to provide financial assistance to North Carolina farmers and agribusinesses for the acquisition, construction, and equipping of various agricultural projects deemed to be in furtherance of the Authority's purpose. The bonds are secured by an Indenture of Trust and a Letter of Credit and are payable solely from payments received on the underlying loan obligations. Neither the Authority nor the State of North Carolina is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2020, there were three series of Agricultural Development Revenue Bonds outstanding with an aggregate principal amount payable of \$14.68 million.

B. Litigation

Hoke County et al. v. State of North Carolina and State Board of Education — Right to a Sound Basic Education (formerly Leandro) — In 1994, students and boards of education in five counties in the State filed 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

NOTES TO THE FINANCIAL STATEMENTS

State filed a 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. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of State resources which may ultimately be required cannot be determined at this time, however, the total cost could exceed \$100 million.

On June 15, 2011, the General Assembly enacted legislation which placed certain restrictions on the North Carolina Pre-Kindergarten program (NC Pre-K) 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 NC Pre-K 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 NC Pre-K program. The State has 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 for further proceedings.

On March 13, 2018, the 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 2019-20 fiscal year 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 that systemic changes and investments were required for the State to fulfill its obligations. To that end, the Court ordered the parties to work toward the development of a comprehensive, remedial Plan to provide all children with the opportunity for a sound basic education. Court has not ordered the State to appropriate any funds but has ordered the State to remedy the deficiencies identified in its Order of January 21, 2020.

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 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 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. The State appealed to the North Carolina Court of Appeals regarding only the defense of sovereign immunity, and the case was sent back to Superior Court. 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 plan in existence in September 2011, or its equivalent, with no premium for their lifetimes. 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 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 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.

Kirby v. North Carolina Department of Transportation — The Transportation Corridor Official Map Act (Map Act) was enacted in 1987 to provide the North Carolina Department of Transportation (NCDOT) with the authority to record corridor maps that impose restrictions on a landowner's rights to improve, develop and subdivide property within the corridor, which 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

NOTES TO THE FINANCIAL STATEMENTS

on a case-by-case basis. NCDOT completed 13 road projects involving approximately 5,000 of these parcels more than two years ago, which would bar any claims for damages due to the statute of limitations. The remaining approximately 4,000 parcels remained vulnerable to claims for damages pursuant to the Map Act. Through settlement of claims and acquisitions of property vulnerable to claims, NCDOT has acquired approximately 3,767 parcels at a total cost, including acquisition of the parcel and resolution of any claims for damages as a result of the Map Act, of approximately \$700 million. Approximately 285 parcels that have not been acquired are subject to active litigation. At this time, it is not possible to project the amount of the total Map Act liability; however, NCDOT currently estimates that it will cost approximately \$200 million to settle the remaining filed claims. Additional claims are expected to be filed that are not accounted for within that estimate. To date, Map Act acquisitions have been paid from the Highway Trust Fund.

Archer Western v. N.C., et al. — The North Carolina Department of Health and Human Services (DHHS) contracted with Archer Western Contractors, LLC (Archer Western), formerly known as Archer Western Contractors, Ltd., to build a new inpatient psychiatric hospital in Morganton, North Carolina. The construction contract was executed with Archer Western in January 2012, and the notice to proceed was issued to Archer Western in April 2012. State officials found contractor Archer Western in default in April 2017, and State officials entered into a takeover agreement in June 2017 with surety, Travelers Casualty & Surety of America. After final acceptance of the completed project by the State Construction Office (SCO) in March 2019, Archer Western filed its verified claim in the amount of \$117.8 million on July 11, 2019. DHHS has retained an outside law firm to represent it in this matter. A Verified Claim hearing, as required by N.C. General Statute 143-135.3, was held on December 17 and 18, 2019. On February 28, 2020, the Director of the SCO denied all claims and instructed DHHS to proceed with processing the final payment/change order of \$4.3 million. On June 4, 2020, Archer Western and Travelers filed separate lawsuits in Wake County Superior Court, with each incorporating the Verified Claim. The defendants include the State, DHHS, and the Department of Administration as well as numerous private entities involved in the construction.

Buffkin v. Hooks — The American Civil Liberties Union (ACLU) 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 the North Carolina Department of Public Safety. The suit seeks class certification for “all current and future prisoners in DPS custody who have or will have chronic hepatitis-C virus and have not been treated with direct-acting antiviral drugs.” The plaintiffs seek relief in the form of a declaratory judgment that DPS’ policy for treating inmates infected with HCV violates 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 are requesting 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 are seeking compensatory and punitive damages. If plaintiffs are successful in their suit, defendants may be responsible for costs and attorneys’ fees.

Plaintiffs moved for class certification, which was granted March 20, 2019. Plaintiffs also moved for preliminary injunctive relief, which was denied through the same March 20 Order. The parties are currently engaged in the discovery process. Ranges of infected inmate populations vary greatly from state to state. More than 30,000 inmates are incarcerated in North Carolina prisons, with more than 30,000 being introduced into the system each year. If the certified class is successful in the litigation, potential costs of complying with the injunctive relief ordered could exceed \$200 million.

Samantha R. v. State of North Carolina and the Department of Health and Human Services (DHHS) — In May 2017, six individual plaintiffs and the plaintiff organization, Disability Rights North Carolina (DRNC), filed a suit in Wake County Superior Court (the Court). They asserted that the State and DHHS have violated the North Carolina Persons with Disabilities Act (the Act) and the State Constitution. The plaintiffs seek an injunction requiring the defendants to administer publicly funded behavioral health programs in compliance with the Act and the State Constitution. As the plaintiffs do not seek monetary damages, it is hard to put a dollar amount on the litigation. However, if the Court does enter some type of injunction, DHHS anticipates that substantial funds would be needed for implementation of any service or systems modification. The N.C. Attorney General’s office staff attorneys are representing DHHS and the State. 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 the plaintiff’s partial motion for summary judgment by order dated February 4, 2020. The court ruled that the State was in violation of N.C. General Statute 169A-7(b) of the North Carolina Persons with Disabilities Protection Act. The State and DHHS are awaiting further orders with additional specifics.

Monarch Tax Credits, LLC v. North Carolina Department of Revenue — The plaintiff has filed suit in the North Carolina Business Court (the Court) asserting a variety of constitutional and statutory challenges to Department of Revenue (Department) compliance efforts related to tax credits brokered by the plaintiff. The plaintiff has suggested its damages may exceed \$100 million. The Department has moved to dismiss the action on a variety of grounds, including sovereign immunity. Although the Court has not yet issued an order on the motion to dismiss, the Department believes that the Court is likely to dismiss all of the plaintiff’s statutory claims and the majority of the plaintiff’s constitutional issues. However, the Court requested additional briefing on one question related to the plaintiff’s

NOTES TO THE FINANCIAL STATEMENTS

constitutional claims. It is reasonably possible that the plaintiff will prevail on one or more of their statutory or constitutional claims. However, the chance that the plaintiff will be able to recover the full amount of their suggested damages is remote.

North Carolina Farm Bureau Mutual Insurance Company, Inc. v. North Carolina Department of Revenue — The taxpayer is challenging a final determination issued by the Department of Revenue (Department) disallowing more than \$17.1 million in renewable energy tax credits claimed by the taxpayer over a three year period. The N.C. Office of Administrative Hearings (OAH) upheld the Department's final determination, and the taxpayer has paid more than \$25 million in taxes, interest, and penalties to the Department. The taxpayer has petitioned the North Carolina Business Court to review the OAH decision. It is reasonably possible that the Business Court or the North Carolina Supreme Court will disagree with the OAH decision and require the Department to refund the more than \$25 million the taxpayer paid to the Department following issuance of the OAH decision.

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 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 questioned costs 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 cost-sharing payments for professional medical services during fiscal years 2012 and 2013. Based on the audit, the Office of Inspector General recommended that the State refund \$41.2 million to the Federal Government for non-compliant payments. The State disagrees with the findings and recommendation. Once a final determination of liability is made, the amount will be paid to Centers for Medicaid Services (CMS). As of June 30, 2020, the State has not received a demand for recovery from CMS.

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, 2020, the State has 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. Once a final determination of liability is made, the amount will be paid to CMS.

As of June 30, 2020, 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, 2020, the amount due to CMS was \$149.23 million.

D. Highway Construction

The State has placed on deposit in court \$189.39 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 \$52.37 million in these proceedings.

As of June 30, 2020, the North Carolina Department of Transportation had no outstanding contractor claims.

E. Construction and Other Commitments

At June 30, 2020, the State had commitments of \$5.755 billion for construction of highway infrastructure. Of this amount, \$3.347 billion relates to the Highway Fund, \$453 million relates to the N.C. Turnpike Authority, and \$1.955 billion relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$157.24 million, including \$33.32 million for the Department of Military and Veterans Affairs, \$30.48 million for the Department of Natural and Cultural Resources, \$29.83 million for the Department of Environmental Quality, \$19.19 million for the Department of Public Safety, \$13.33 million for the Division of Mental Health within the Department of Health and Human Services, and \$9.85 million for the Department of Justice. The

NOTES TO THE FINANCIAL STATEMENTS

Department of Environmental Quality has other significant commitments of \$292.76 million for clean water and other cost reimbursement grants. The Department of Public Instruction has other significant commitments of \$188.84 million for needs-based public school building capital fund cost reimbursement grants awarded to Local Education Agencies (LEAs) for school capital projects.

At June 30, 2020, the University of North Carolina System (component unit) had outstanding construction commitments of \$1.05 billion (including \$386.32 million for UNC Health Care System, \$119.57 million for North Carolina State University, \$105.48 million for Western Carolina University, \$97.04 million for the University of North Carolina at Chapel Hill, \$55.53 million for East Carolina University, \$49.56 million for the North Carolina School of Science and Mathematics, and \$43.31 million for the North Carolina Agricultural and Technical State University).

At June 30, 2020, community colleges (component units) had outstanding construction commitments of \$239.43 million (including \$78.94 million for Central Piedmont Community College, \$48.48 million for Wake Technical Community College, \$19.13 million for Fayetteville Technical Community College, \$15.25 million for Durham Technical Community College, \$9.61 million for Guilford Technical Community College, \$8.45 million for Southwestern Community College, \$6.92 million for Wilkes Community College, and \$6.72 million for Halifax Community College).

The 911 Board (Board), part of the Department of Information Technology Services, sets aside a portion of its fund balance 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. At June 30, 2020, the 911 Fund (special revenue fund) had outstanding commitments on these cost-reimbursement grants and contracts to the PSAPs totaling \$18.37 million.

At June 30, 2020, the Department of Natural and Cultural Resources had outstanding commitments of \$44.18 million for clean water grants to nongovernmental organizations and local and state government.

The State Treasurer has entered into 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 UNC 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, 2020, the UNC Investment Fund had approximately \$1.34 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 actually 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 \$3.5 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. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which will be phased in over eight years (2013-2020). The settlement agreement was extended for an additional year to July 1, 2021 in order to give the State more time to meet the requirements. In House Bill 950 [Session Law 2012-142 Section 10.23A.(e)], \$10.3 million was appropriated

NOTES TO THE FINANCIAL STATEMENTS

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 Senate Bill 402 [Session Law 2013-360], additional money was appropriated in the expansion budget for \$3.83 million for 2013-14 and \$9.39 million for 2014-15. Both parties of the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer will have full authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential 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.

In House Bill 97 [Session Law 2015-241], the North Carolina Housing Finance Agency (NCHFA), in consultation with the Department of Health and Human Services (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 DHHS and then must be appropriated by the General Assembly in order for the NCHFA to expend the funds. DHHS transferred \$2.89 million to the Community Living Housing Fund in 2014-15. House Bill 1030 authorized the NCHFA to expend receipts of \$5.52 million transferred from DHHS to the CLHF in 2016-17. Senate Bills 257 [Session Law 2017-57] and 99 [Session Law 2018-5] provided funds of \$4.2 million and \$3.96 million, respectively, transferred from DHHS to the CLHF. DHHS continues to meet its commitment to the agreement with the funds available through continuing budget provisions.

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. As of June 30, 2020, the total amount of the liability cannot be reasonably estimated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22: TAX ABATEMENTS

As of June 30, 2020, 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, 2020 on an accrual basis as a result of the agreements with the State is \$43.46 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). Amounts in the "Adjustments" column are primarily due to the correction of errors related to prior periods.

	July 1, 2019 Fund Equity as Previously Reported	Adjustments	July 1, 2019 Fund Equity as Restated
Primary Government			
Major Governmental Funds:			
General Fund	\$ 5,975,700	\$ (17,297)	\$ 5,958,403
Highway Fund	(595,631)	—	(595,631)
Highway Trust Fund	1,732,177	—	1,732,177
Other Governmental Funds:			
Special Revenue Funds	1,560,550	(3)	1,560,547
Capital Projects Funds	772,915	—	772,915
Permanent Funds	149,087	—	149,087
Total Governmental Funds	<u>9,594,798</u>	<u>(17,300)</u>	<u>9,577,498</u>
Internal Service Funds	151,500	(781)	150,719
Government-wide adjustments:			
Equity interest in component unit	380,116	—	380,116
Capital assets	54,506,807	49,533	54,556,340
Deferred losses on refundings	82,830	—	82,830
Deferred outflows for pensions	1,391,194	15,478	1,406,672
Deferred inflows for pensions	(53,296)	—	(53,296)
Deferred outflows for OPEB	543,286	7,828	551,114
Deferred inflows for OPEB	(2,803,905)	—	(2,803,905)
Unavailable revenue	251,788	(1,601)	250,187
Long-term liabilities	(15,873,401)	(30)	(15,873,431)
Accrued interest payable	(35,339)	—	(35,339)
OPEB assets	5,558	—	5,558
Total Government-wide adjustments	<u>38,395,638</u>	<u>71,208</u>	<u>38,466,846</u>
Total Governmental Activities	<u>\$ 48,141,936</u>	<u>\$ 53,127</u>	<u>\$ 48,195,063</u>
Business-type Activities - Enterprise Funds:			
Unemployment Compensation Fund	3,883,914	—	3,883,914
EPA Revolving Loan Fund	1,816,493	11,067	1,827,560
N.C. State Lottery Fund	(44,697)	—	(44,697)
N.C. Turnpike Authority	400,796	—	400,796
Other enterprise funds	212,652	38,184	250,836
Total Business-type Activities - Enterprise Funds	<u>\$ 6,269,158</u>	<u>\$ 49,251</u>	<u>\$ 6,318,409</u>
Component Units			
University of North Carolina System	\$ 9,192,984	\$ (54,390)	\$ 9,138,594
Community Colleges	1,810,819	(7,031)	1,803,788
State Health Plan	999,148	—	999,148
Other component units	3,457,238	(6,138)	3,451,100
Total Component Units	<u>\$ 15,460,189</u>	<u>\$ (67,559)</u>	<u>\$ 15,392,630</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Equity Deficit**Primary Government**

At June 30, 2020, the following internal service funds reported a net position deficit: Mail Service Center, \$2.54 million; Computing Services, \$25.25 million; Surplus Property, \$217 thousand.

At June 30, 2020, the following nonmajor enterprise funds reported a net position deficit: State Banking Commission, \$13.71 million; Utilities Commission, \$11.64 million.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25: SUBSEQUENT EVENTS

Primary Government*General Obligation Public Improvement (Connect NC) Bonds*

On October 22, 2020, the State of North Carolina issued \$400 million of General Obligation Public Improvement (Connect NC) Bonds, Series 2020A. The bonds are dated October 22, 2020 and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2021. The bonds will mature from June 1, 2021 to June 1, 2040 and were issued at coupon rates ranging from 1.5% to 5%. The bonds carry an all-in true interest cost of 1.48%. The bonds maturing on or after June 1, 2031 are subject to redemption prior to maturity. The bonds were issued pursuant to the provisions of the Connect NC Bond Act of 2015 (Act), Session Law 2015-280 of the 2015 Session Laws of the General Assembly of North Carolina, and were later approved by a state-wide voter referendum held on March 15, 2016. A resolution was duly adopted by the Council of State on August 4, 2020. The bonds were the fourth series issued under the Act. The bonds were issued to provide financing for various capital improvements throughout the State as authorized in the Act and to pay the costs incurred in the issuance and delivery of the bonds.

Limited Obligation (Build NC) Bonds, Series 2020B

On November 12, 2020, the North Carolina Department of Transportation issued \$700 million in tax-exempt Limited Obligation (Build NC) Bonds, Series 2020B. The bonds are dated November 12, 2020 and bear interest from that date. Interest on the bonds will be payable semiannually on each May 1 and November 1, commencing May 1, 2021. The bonds consist of serial bonds that will mature from May 1, 2021 to May 1, 2035, with interest rates of 5%. The bonds were issued to provide funds for the purposes of funding transportation projects across the State, funding the Debt Service Reserve Fund, and to pay certain costs in connection with the issuance of the bonds.

Triangle Expressway System Senior Lien Turnpike Revenue Bond Anticipation Notes, Series 2020

On October 29, 2020, the North Carolina Turnpike Authority issued \$499.46 million in tax-exempt Triangle Expressway System Senior Lien Turnpike Revenue Bond Anticipation Notes, Series 2020. Interest on the notes will be payable semiannually on each January 1 and July 1, commencing January 1, 2021. The expected maturity for the notes is February 1, 2024. The notes will be issued to provide funds for the construction of the Complete 540 Phase 1 project, and to pay certain costs in connection with the issuance of the bonds.

401(K) Supplemental Retirement Income Plan and 457 Deferred Compensation Plan – Coronavirus Related Distributions and Loans

Eligible participants in the 401(k) and NC 457(b) Plans have accessed their fund balances under the CARES Act provisions adopted by the Supplemental Retirement Board of Trustees. The CARES Act provides eligible participants, through a self-certification process, the ability to withdraw or borrow amounts greater than typically permitted. Coronavirus Related Distributions (CRDs), which are not subject to the Plans' age or employment restrictions for distributions, have had the greatest take up rate. CRDs do not have the typical penalty associated with distributions prior to age 59 ½ which is highly favorable for Plan participants. Distributions will not be taxed as personal income if repaid to an individual's account. Plan participants have up to three years to repay all or part of the distribution should they choose to do so. Eligible Plan participants have also taken CRD loans as provided by the CARES Act and have the option to defer loan payments through the end of 2020. As of July 31, 2020, CRDs taken by participants total \$102.7 million, and CRD loans taken by participants total \$6.55 million.

NOTES TO THE FINANCIAL STATEMENTS**Component Units***University of North Carolina System – North Carolina State University – General Revenue Bonds 2020A and 2020B*

On July 7, 2020, the Board of Governors of the University of North Carolina, on behalf of North Carolina State University at Raleigh (NCSU), issued \$82.34 million of General Revenue Bonds, Series 2020A, and \$184.45 million of taxable General Revenue Bonds, Series 2020B. The bonds are dated July 7, 2020 and bear interest from that date. Interest on the bonds will be paid semiannually on each April 1 and October 1, commencing October 1, 2020. The Series 2020A bonds consist of serial bonds that will mature from October 1, 2022 to October 1, 2035, with interest rates of 5%. This series also consists of term bonds that will mature on October 1, 2044, with an interest rate of 2.38%. The Series 2020B bonds consist of serial bonds that will mature from October 1, 2020 to October 1, 2042, with interest rates ranging from 0.6% to 3.02%. This series also consists of term bonds that will mature on October 1, 2039, with an interest rate of 2.62%. The bonds were issued to provide funds for campus construction projects, refund certain bonds of the University, and to pay certain costs in connection with the issuance of the bonds.

University of North Carolina System – Western Carolina University – General Revenue Series 2020B and 2020C

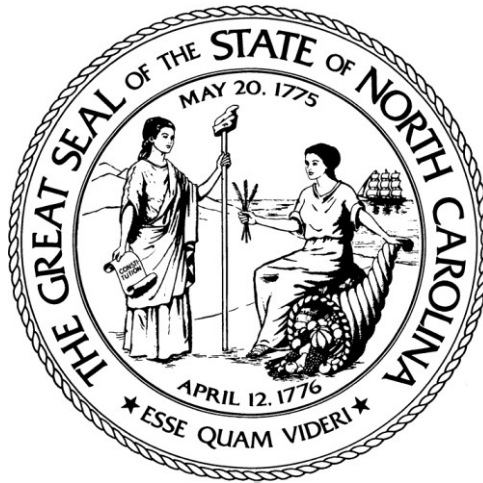
On September 30, 2020, the Board of Governors of the University of North Carolina, on behalf of Western Carolina University, issued \$75.82 million of General Revenue Bonds, Series 2020B, and \$14.18 million of taxable General Revenue Refunding Bonds, Series 2020C. The bonds are dated September 30, 2020 and bear interest from that date. Interest on the bonds will be payable semiannually on each October 1 and April 1, commencing April 1, 2021. The Series 2020B bonds consist of serial bonds that will mature from April 1, 2029 to April 1, 2041, with interest rates ranging from 2.25% to 5%. This series also consist of term bonds that will mature on April 1, 2045 and April 1, 2050, with interest rates of 2.3% and 2.35%, respectively. The Series 2020C bonds consist of serial bonds that will mature on April 1, 2023 to April 1, 2028, with interest rates ranging from .91% to 2.01%. The bonds were issued to provide funds for a campus residence hall construction project, refund certain bonds of the University, and to pay certain costs in connection with the issuance of the bonds.

THIS PAGE INTENTIONALLY LEFT BLANK.



REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK.



REQUIRED SUPPLEMENTARY INFORMATION PENSION PLANS

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.

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Seven Fiscal Years

(Dollars in Thousands)

	2020	2019	2018	2017	2016
Teachers' and State Employees'					
Total pension liability					
Service Cost	\$ 1,851,058	\$ 1,782,475	\$ 1,630,323	\$ 1,469,395	\$ 1,580,544
Interest	5,663,045	5,460,427	5,281,004	5,195,104	4,937,464
Changes of benefit terms	-	-	44,339	449,563	35,605
Differences between expected and actual experience	258,502	535,860	815,911	229,339	(190,178)
Changes of assumptions	-	-	1,637,700	381,934	1,743,836
Benefit payments, including refunds of member contributions	(4,934,999)	(4,835,144)	(4,666,391)	(4,545,296)	(4,339,637)
Net change in total pension liability	<u>2,837,606</u>	<u>2,943,618</u>	<u>4,742,886</u>	<u>3,180,039</u>	<u>3,767,634</u>
Total pension liability - beginning	83,326,405	80,382,787	75,639,901	72,459,862	68,692,228
Total pension liability - ending (a)	<u>\$ 86,164,011</u>	<u>\$ 83,326,405</u>	<u>\$ 80,382,787</u>	<u>\$ 75,639,901</u>	<u>\$ 72,459,862</u>
Plan fiduciary net position					
Contributions-employer	\$ 2,055,075	\$ 1,915,146	\$ 1,602,901	\$ 1,441,194	\$ 1,275,003
Contributions-member	964,544	951,566	910,797	894,538	864,151
Net investment income	3,050,585	4,514,117	4,885,354	6,656,652	472,174
Benefit payments, including refunds of member contributions	(4,934,999)	(4,835,144)	(4,666,391)	(4,545,296)	(4,339,637)
Administrative expense	(12,910)	(11,815)	(11,604)	(11,265)	(10,217)
Other	271	(1,120)	181	808	325
Net change in plan fiduciary net position	<u>1,122,566</u>	<u>2,532,750</u>	<u>2,721,238</u>	<u>4,436,631</u>	<u>(1,738,201)</u>
Plan fiduciary net position - beginning	72,959,448	70,426,698	67,705,460	63,268,829	65,007,030
Plan fiduciary net position - ending (b)	<u>\$ 74,082,014</u>	<u>\$ 72,959,448</u>	<u>\$ 70,426,698</u>	<u>\$ 67,705,460</u>	<u>\$ 63,268,829</u>
TSERS's net pension liability - ending (a) - (b)	<u>\$ 12,081,997</u>	<u>\$ 10,366,957</u>	<u>\$ 9,956,089</u>	<u>\$ 7,934,441</u>	<u>\$ 9,191,033</u>
Plan fiduciary net position as a percentage of the total pension liability	85.98%	87.56%	87.61%	89.51%	87.32%
Covered payroll	\$ 15,844,834	\$ 15,582,963	\$ 14,869,212	\$ 14,440,822	\$ 13,934,459
Net pension liability as a percentage of covered payroll	76.25%	66.53%	66.96%	54.94%	65.96%
Local Governmental Employees'					
Total pension liability					
Service Cost	\$ 841,148	\$ 798,120	\$ 713,227	\$ 656,231	\$ 684,288
Interest	2,037,306	1,934,144	1,838,989	1,803,590	1,707,699
Changes of benefit terms	-	-	-	-	12,581
Differences between expected and actual experience	177,954	252,859	378,665	73,083	50,205
Changes of assumptions	-	-	595,781	138,096	183,019
Benefit payments, including refunds of member contributions	(1,551,217)	(1,472,856)	(1,402,793)	(1,322,277)	(1,251,918)
Net change in total pension liability	<u>1,505,191</u>	<u>1,512,267</u>	<u>2,123,869</u>	<u>1,348,723</u>	<u>1,385,874</u>
Total pension liability - beginning	29,866,869	28,354,602	26,230,733	24,882,010	23,496,136
Total pension liability - ending (a)	<u>\$ 31,372,060</u>	<u>\$ 29,866,869</u>	<u>\$ 28,354,602</u>	<u>\$ 26,230,733</u>	<u>\$ 24,882,010</u>
Plan fiduciary net position					
Contributions-employer	\$ 640,969	\$ 534,107	\$ 492,317	\$ 461,329	\$ 414,168
Contributions-member	436,754	420,437	401,632	391,459	375,572
Net investment income	1,139,009	1,675,331	1,789,337	2,413,758	175,189
Benefit payments, including refunds of member contributions	(1,551,217)	(1,472,856)	(1,402,793)	(1,322,277)	(1,251,918)
Administrative expense	(4,889)	(4,634)	(4,324)	(4,264)	(3,926)
Other	2,061	1,302	3,081	3,330	3,248
Net change in plan fiduciary net position	<u>662,687</u>	<u>1,153,687</u>	<u>1,279,250</u>	<u>1,943,335</u>	<u>(287,667)</u>
Plan fiduciary net position - beginning	27,135,947	25,982,260	24,703,010	22,759,675	23,047,342
Plan fiduciary net position - ending (b)	<u>\$ 27,798,634</u>	<u>\$ 27,135,947</u>	<u>\$ 25,982,260</u>	<u>\$ 24,703,010</u>	<u>\$ 22,759,675</u>
LGERS's net pension liability (asset) - ending (a) - (b)	<u>\$ 3,573,426</u>	<u>\$ 2,730,922</u>	<u>\$ 2,372,342</u>	<u>\$ 1,527,723</u>	<u>\$ 2,122,335</u>
Plan fiduciary net position as a percentage of the total pension liability	88.61%	90.86%	91.63%	94.18%	91.47%
Covered payroll	\$ 6,914,444	\$ 6,665,378	\$ 6,368,275	\$ 6,192,808	\$ 5,860,574
Net pension liability (asset) as a percentage of covered payroll	51.68%	40.97%	37.25%	24.67%	36.21%

2015	2014
\$ 1,562,846	\$ 1,556,027
4,803,766	4,648,995
-	355,224
(278,170)	(345,392)
-	-
(4,184,410)	(3,989,397)
<u>1,904,032</u>	<u>2,225,457</u>
66,788,196	64,562,739
<u>\$ 68,692,228</u>	<u>\$ 66,788,196</u>

\$ 1,262,988	\$ 1,177,341
854,306	825,548
1,468,624	9,121,005
(4,184,410)	(3,989,397)
(10,646)	(10,762)
393	320
<u>(608,745)</u>	<u>7,124,055</u>
65,615,775	58,491,720
<u>\$ 65,007,030</u>	<u>\$ 65,615,775</u>
<u>\$ 3,685,198</u>	<u>\$ 1,172,421</u>

94.64% 98.24%

\$ 13,803,148 \$ 13,548,227

26.70% 8.65%

\$ 670,936	\$ 654,735
1,628,373	1,555,958
65,914	(7,790)
(72,177)	(80,590)
-	-
(1,172,578)	(1,106,799)
<u>1,120,468</u>	<u>1,015,514</u>
22,375,668	21,360,154
<u>\$ 23,496,136</u>	<u>\$ 22,375,668</u>

\$ 408,694	\$ 413,175
363,863	346,961
520,578	3,161,964
(1,172,578)	(1,106,799)
(4,086)	(3,974)
3,285	3,297
<u>119,756</u>	<u>2,814,624</u>
22,927,586	20,112,962
<u>\$ 23,047,342</u>	<u>\$ 22,927,586</u>
<u>\$ 448,794</u>	<u>\$ (551,918)</u>

98.09% 102.47%

\$ 5,650,694 \$ 5,553,383

7.94% (9.94%)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Seven Fiscal Years

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Firefighters' and Rescue Squad Workers'					
Total pension liability					
Service Cost	\$ 7,733	\$ 7,640	\$ 7,542	\$ 4,841	\$ 5,610
Interest	32,500	32,140	31,686	31,475	30,035
Changes of benefit terms	-	-	-	-	118
Differences between expected and actual experience	(1,376)	(4,922)	(121)	2,048	(2,177)
Changes of assumptions	-	-	10,593	2,549	15,577
Benefit payments, including refunds of member contributions	(29,953)	(29,502)	(31,727)	(29,070)	(27,998)
Net change in total pension liability	<u>8,904</u>	<u>5,356</u>	<u>17,973</u>	<u>11,843</u>	<u>21,165</u>
Total pension liability - beginning	<u>479,004</u>	<u>473,648</u>	<u>455,675</u>	<u>443,832</u>	<u>422,667</u>
Total pension liability - ending (a)	<u>\$ 487,908</u>	<u>\$ 479,004</u>	<u>\$ 473,648</u>	<u>\$ 455,675</u>	<u>\$ 443,832</u>
Plan fiduciary net position					
Contributions-member	\$ 2,581	\$ 2,770	\$ 2,790	\$ 2,594	\$ 2,778
Contributions-nonemployer	18,652	18,302	17,952	17,602	13,900
Net investment income	18,593	27,363	29,505	39,928	2,867
Benefit payments, including refunds of member contributions	(29,953)	(29,502)	(31,727)	(29,070)	(27,998)
Administrative expense	(885)	(1,002)	(885)	(919)	(860)
Other	14	(18)	10	15	18
Net change in plan fiduciary net position	<u>9,002</u>	<u>17,913</u>	<u>17,645</u>	<u>30,150</u>	<u>(9,295)</u>
Plan fiduciary net position - beginning	<u>442,721</u>	<u>424,808</u>	<u>407,163</u>	<u>377,013</u>	<u>386,308</u>
Plan fiduciary net position - ending (b)	<u>\$ 451,723</u>	<u>\$ 442,721</u>	<u>\$ 424,808</u>	<u>\$ 407,163</u>	<u>\$ 377,013</u>
FRSWPF's net pension liability - ending (a) - (b)	<u>\$ 36,185</u>	<u>\$ 36,283</u>	<u>\$ 48,840</u>	<u>\$ 48,512</u>	<u>\$ 66,819</u>
Plan fiduciary net position as a percentage of the total pension liability	92.58%	92.43%	89.69%	89.35%	84.94%
Covered payroll	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'					
Total pension liability					
Service Cost	\$ 1,125	\$ 1,117	\$ 1,086	\$ 860	\$ 579
Interest	1,122	1,133	1,157	1,164	1,354
Differences between expected and actual experience	(124)	(770)	(1,125)	440	(45)
Changes of assumptions	-	-	-	-	7,082
Benefit payments, including refunds of member contributions	(1,788)	(1,754)	(1,793)	(1,793)	(1,718)
Net change in total pension liability	<u>335</u>	<u>(274)</u>	<u>(675)</u>	<u>671</u>	<u>7,252</u>
Total pension liability - beginning	<u>30,794</u>	<u>31,068</u>	<u>31,743</u>	<u>31,072</u>	<u>23,820</u>
Total pension liability - ending (a)	<u>\$ 31,129</u>	<u>\$ 30,794</u>	<u>\$ 31,068</u>	<u>\$ 31,743</u>	<u>\$ 31,072</u>
Plan fiduciary net position					
Contributions-employer	\$ 958	\$ 950	\$ 856	\$ 869	\$ 817
Net investment income	4,353	3,721	(230)	(13)	3,722
Benefit payments, including refunds of member contributions	(1,788)	(1,754)	(1,793)	(1,793)	(1,718)
Administrative expense	(12)	(12)	(14)	(19)	(47)
Net change in plan fiduciary net position	<u>3,511</u>	<u>2,905</u>	<u>(1,181)</u>	<u>(956)</u>	<u>2,774</u>
Plan fiduciary net position - beginning	<u>50,536</u>	<u>47,631</u>	<u>48,812</u>	<u>49,768</u>	<u>46,994</u>
Plan fiduciary net position - ending (b)	<u>\$ 54,047</u>	<u>\$ 50,536</u>	<u>\$ 47,631</u>	<u>\$ 48,812</u>	<u>\$ 49,768</u>
RODSPF's net pension asset - ending (a) - (b)	<u>\$ (22,918)</u>	<u>\$ (19,742)</u>	<u>\$ (16,563)</u>	<u>\$ (17,069)</u>	<u>\$ (18,696)</u>
Plan fiduciary net position as a percentage of the total pension liability	173.62%	164.11%	153.31%	153.77%	160.17%
Covered payroll	N/A	N/A	N/A	N/A	N/A
Net pension asset as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A

<u>2015</u>	<u>2014</u>
\$ 5,884	\$ 5,710
29,671	29,394
-	8,770
(2,799)	2,714
-	(16,688)
<u>(26,912)</u>	<u>(25,614)</u>
5,844	4,286
416,823	412,537
<u>\$ 422,667</u>	<u>\$ 416,823</u>
\$ 2,822	\$ 2,781
13,900	14,627
8,711	53,842
(26,912)	(25,614)
(1,622)	(1,045)
4	2
<u>(3,097)</u>	<u>44,593</u>
389,405	344,812
<u>\$ 386,308</u>	<u>\$ 389,405</u>
<u>\$ 36,359</u>	<u>\$ 27,418</u>
91.40%	93.42%
N/A	N/A
N/A	N/A

\$ 578	\$ 563
1,372	1,342
(558)	302
-	-
<u>(1,715)</u>	<u>(1,666)</u>
(323)	541
24,143	23,602
<u>\$ 23,820</u>	<u>\$ 24,143</u>
\$ 802	\$ 817
1,114	2,714
(1,715)	(1,666)
(16)	(18)
<u>185</u>	<u>1,847</u>
46,809	44,962
<u>\$ 46,994</u>	<u>\$ 46,809</u>
<u>\$ (23,174)</u>	<u>\$ (22,666)</u>
197.29%	193.88%
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 Seven Fiscal Years

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Consolidated					
Judicial					
Total pension liability					
Service Cost	\$ 18,869	\$ 18,710	\$ 17,192	\$ 15,630	\$ 16,904
Interest	48,149	46,838	45,397	44,837	42,009
Changes of benefit terms	-	-	430	4,349	332
Differences between expected and actual experience	4,583	845	7,660	2,193	(4,295)
Changes of assumptions	-	-	12,836	3,032	26,588
Benefit payments, including refunds of member contributions	(48,920)	(46,451)	(43,392)	(42,053)	(40,462)
Net change in total pension liability	<u>22,681</u>	<u>19,942</u>	<u>40,123</u>	<u>27,988</u>	<u>41,076</u>
Total pension liability - beginning	711,895	691,953	651,830	623,842	582,766
Total pension liability - ending (a)	<u>\$ 734,576</u>	<u>\$ 711,895</u>	<u>\$ 691,953</u>	<u>\$ 651,830</u>	<u>\$ 623,842</u>
Plan fiduciary net position					
Contributions-employer	\$ 26,637	\$ 25,636	\$ 23,988	\$ 19,592	\$ 18,908
Contributions-member	5,224	5,151	5,706	7,399	7,561
Net investment income	25,923	38,211	41,123	55,762	3,972
Benefit payments, including refunds of member contributions	(48,920)	(46,451)	(43,392)	(42,053)	(40,462)
Administrative expense	(27)	(30)	(24)	(37)	(73)
Other	-	(119)	-	-	-
Net change in plan fiduciary net position	<u>8,837</u>	<u>22,398</u>	<u>27,401</u>	<u>40,663</u>	<u>(10,094)</u>
Plan fiduciary net position - beginning	618,902	596,504	569,103	528,440	538,534
Plan fiduciary net position - ending (b)	<u>\$ 627,739</u>	<u>\$ 618,902</u>	<u>\$ 596,504</u>	<u>\$ 569,103</u>	<u>\$ 528,440</u>
CJRS's net pension liability - ending (a) - (b)	<u>\$ 106,837</u>	<u>\$ 92,993</u>	<u>\$ 95,449</u>	<u>\$ 82,727</u>	<u>\$ 95,402</u>
Plan fiduciary net position as a percentage of the total pension liability	85.46%	86.94%	86.21%	87.31%	84.71%
Covered payroll	\$ 79,277	\$ 75,712	\$ 77,255	\$ 66,504	\$ 69,489
Net pension liability as a percentage of covered payroll	134.76%	122.82%	123.55%	124.39%	137.29%
Legislative					
Total pension liability					
Service Cost	\$ 1,058	\$ 1,088	\$ 1,006	\$ 872	\$ 822
Interest	2,051	2,052	2,028	2,056	1,708
Changes of benefit terms	-	-	24	215	22
Differences between expected and actual experience	(617)	(596)	207	(122)	(520)
Changes of assumptions	-	-	511	121	5,151
Benefit payments, including refunds of member contributions	(2,388)	(2,732)	(2,531)	(2,437)	(2,430)
Net change in total pension liability	<u>104</u>	<u>(188)</u>	<u>1,245</u>	<u>705</u>	<u>4,753</u>
Total pension liability - beginning	30,467	30,655	29,410	28,705	23,952
Total pension liability - ending (a)	<u>\$ 30,571</u>	<u>\$ 30,467</u>	<u>\$ 30,655</u>	<u>\$ 29,410</u>	<u>\$ 28,705</u>
Plan fiduciary net position					
Contributions-employer	\$ 956	\$ 809	\$ 689	\$ 675	\$ 65
Contributions-member	253	257	253	253	253
Net investment income	1,151	1,726	1,975	2,744	181
Benefit payments, including refunds of member contributions	(2,388)	(2,732)	(2,531)	(2,437)	(2,430)
Administrative expense	(13)	(14)	(14)	(18)	(53)
Other	6	(50)	-	-	-
Net change in plan fiduciary net position	<u>(35)</u>	<u>(4)</u>	<u>372</u>	<u>1,217</u>	<u>(1,984)</u>
Plan fiduciary net position - beginning	28,057	28,061	27,689	26,472	28,456
Plan fiduciary net position - ending (b)	<u>\$ 28,022</u>	<u>\$ 28,057</u>	<u>\$ 28,061</u>	<u>\$ 27,689</u>	<u>\$ 26,472</u>
LRS's net pension liability (asset) - ending (a) - (b)	<u>\$ 2,549</u>	<u>\$ 2,410</u>	<u>\$ 2,594</u>	<u>\$ 1,721</u>	<u>\$ 2,233</u>
Plan fiduciary net position as a percentage of the total pension liability	91.66%	92.09%	91.54%	94.15%	92.22%
Covered payroll	\$ 3,613	\$ 3,611	\$ 3,618	\$ 3,705	\$ 3,616
Net pension liability (asset) as a percentage of covered payroll	70.55%	66.74%	71.70%	46.45%	61.75%

<u>2015</u>	<u>2014</u>
\$ 16,812	\$ 16,637
40,846	39,405
-	3,031
(2,289)	(2,484)
-	-
<u>(38,364)</u>	<u>(35,428)</u>
17,005	21,161
565,761	544,600
<u>\$ 582,766</u>	<u>\$ 565,761</u>
\$ 18,949	\$ 21,390
6,238	5,598
12,176	74,294
(38,364)	(35,428)
(30)	(48)
1	3
<u>(1,030)</u>	<u>65,809</u>
539,564	473,755
<u>\$ 538,534</u>	<u>\$ 539,564</u>
<u>\$ 44,232</u>	<u>\$ 26,197</u>
92.41%	95.37%
\$ 69,638	\$ 76,367
63.52%	34.30%
\$ 844	\$ 747
1,742	1,678
-	146
(579)	762
-	-
<u>(2,473)</u>	<u>(2,614)</u>
(466)	719
24,418	23,699
<u>\$ 23,952</u>	<u>\$ 24,418</u>
\$ -	\$ -
253	253
642	4,293
(2,473)	(2,614)
(17)	(37)
-	-
<u>(1,595)</u>	<u>1,895</u>
30,051	28,156
<u>\$ 28,456</u>	<u>\$ 30,051</u>
<u>\$ (4,504)</u>	<u>\$ (5,633)</u>
118.80%	123.07%
\$ 3,611	\$ 3,608
(124.73%)	(156.13%)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Seven Fiscal Years

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
North Carolina					
National Guard					
Total pension liability					
Service Cost	\$ 315	\$ 327	\$ 304	\$ 305	\$ 593
Interest	11,746	12,368	12,288	11,975	10,700
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(12,364)	(12,701)	(1,748)	1,204	30
Changes of assumptions	-	-	3,926	955	15,149
Benefit payments, including refunds of member contributions	(9,018)	(8,736)	(8,766)	(8,677)	(8,512)
Net change in total pension liability	<u>(9,321)</u>	<u>(8,742)</u>	<u>6,004</u>	<u>5,762</u>	<u>17,960</u>
Total pension liability - beginning	<u>172,234</u>	<u>180,976</u>	<u>174,972</u>	<u>169,210</u>	<u>151,250</u>
Total pension liability - ending (a)	<u>\$ 162,913</u>	<u>\$ 172,234</u>	<u>\$ 180,976</u>	<u>\$ 174,972</u>	<u>\$ 169,210</u>
Plan fiduciary net position					
Contributions-nonemployer	\$ 11,032	\$ 9,072	\$ 8,923	\$ 8,517	\$ 7,066
Net investment income	5,871	8,463	8,766	11,626	842
Benefit payments, including refunds of member contributions	(9,018)	(8,736)	(8,766)	(8,677)	(8,512)
Administrative expense	(83)	(13)	(249)	(168)	(97)
Other	1	(16)	2	-	1
Net change in plan fiduciary net position	<u>7,803</u>	<u>8,770</u>	<u>8,676</u>	<u>11,298</u>	<u>(700)</u>
Plan fiduciary net position - beginning	<u>138,573</u>	<u>129,803</u>	<u>121,127</u>	<u>109,829</u>	<u>110,529</u>
Plan fiduciary net position - ending (b)	<u>\$ 146,376</u>	<u>\$ 138,573</u>	<u>\$ 129,803</u>	<u>\$ 121,127</u>	<u>\$ 109,829</u>
NGPF's net pension liability - ending (a) - (b)	<u>\$ 16,537</u>	<u>\$ 33,661</u>	<u>\$ 51,173</u>	<u>\$ 53,845</u>	<u>\$ 59,381</u>
Plan fiduciary net position as a percentage of the total pension liability	89.85%	80.46%	71.72%	69.23%	64.91%
Covered payroll	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A

<u>2015</u>	<u>2014</u>
\$ 550	\$ 512
9,916	9,330
8,734	5,752
(198)	192
-	-
<u>(7,958)</u>	<u>(7,502)</u>
11,044	8,284
140,206	131,922
<u>\$ 151,250</u>	<u>\$ 140,206</u>
\$ 6,039	\$ 7,007
2,493	14,942
(7,958)	(7,502)
(75)	(73)
-	1
<u>499</u>	<u>14,375</u>
110,030	95,655
<u>\$ 110,529</u>	<u>\$ 110,030</u>
<u>\$ 40,721</u>	<u>\$ 30,176</u>
73.08%	78.48%
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)

Teachers' and State Employees'	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 2,055,075	\$ 1,915,146	\$ 1,565,728	\$ 1,438,306	\$ 1,210,904
Contributions in relation to the actuarially determined contribution (1)	2,055,075	1,915,146	1,602,901	1,441,194	1,275,003
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,173)</u>	<u>\$ (2,888)</u>	<u>\$ (64,099)</u>
Covered payroll	\$ 15,844,834	\$ 15,582,963	\$ 14,869,212	\$ 14,440,822	\$ 13,934,459
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%	9.15%
Local Governmental Employees'					
Actuarially determined contribution	\$ 625,511	\$ 512,287	\$ 483,559	\$ 453,193	\$ 393,920
Contributions in relation to the actuarially determined contribution (1)	640,969	534,107	492,317	461,329	414,168
Contribution excess	<u>\$ (15,458)</u>	<u>\$ (21,820)</u>	<u>\$ (8,758)</u>	<u>\$ (8,136)</u>	<u>\$ (20,248)</u>
Covered payroll	\$ 6,914,444	\$ 6,665,378	\$ 6,368,275	\$ 6,192,808	\$ 5,860,574
Contributions as a percentage of covered payroll	9.27%	8.01%	7.73%	7.45%	7.07%
Firefighters' and Rescue Squad Workers' (2)					
Actuarially determined contribution	\$ 14,324	\$ 14,544	\$ 14,287	\$ 17,705	\$ 13,241
Contributions in relation to the actuarially determined contribution (1)	18,652	18,302	17,952	17,602	13,900
Contribution deficiency (excess)	<u>\$ (4,328)</u>	<u>\$ (3,758)</u>	<u>\$ (3,665)</u>	<u>\$ 103</u>	<u>\$ (659)</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
Registers of Deeds'					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution (1)	958	950	856	869	817
Contribution excess	<u>\$ (958)</u>	<u>\$ (950)</u>	<u>\$ (856)</u>	<u>\$ (869)</u>	<u>\$ (817)</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.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 1,262,988	\$ 1,177,341	\$ 1,078,783	\$ 1,015,762	\$ 926,429
1,262,988	1,177,341	1,120,482	1,015,762	680,670
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,699)</u>	<u>\$ -</u>	<u>\$ 245,759</u>
\$ 13,803,148	\$ 13,548,227	\$ 13,451,164	\$ 13,652,715	\$ 13,806,691
9.15%	8.69%	8.33%	7.44%	4.93%

\$ 402,429	\$ 397,462	\$ 370,152	\$ 376,340	\$ 342,910
408,694	413,175	383,889	389,399	361,998
<u>\$ (6,265)</u>	<u>\$ (15,713)</u>	<u>\$ (13,737)</u>	<u>\$ (13,059)</u>	<u>\$ (19,088)</u>
\$ 5,650,694	\$ 5,553,383	\$ 5,421,364	\$ 5,402,147	\$ 5,329,651
7.23%	7.44%	7.08%	7.21%	6.79%

\$ 13,900	\$ 14,620	\$ 14,074	\$ 14,389	\$ 12,243
13,900	14,627	15,447	14,398	10,110
<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ (1,373)</u>	<u>\$ (9)</u>	<u>\$ 2,133</u>
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

\$ -	\$ -	\$ -	\$ -	\$ -
802	817	937	843	772
<u>\$ (802)</u>	<u>\$ (817)</u>	<u>\$ (937)</u>	<u>\$ (843)</u>	<u>\$ (772)</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)

Consolidated Judicial	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 26,637	\$ 24,947	\$ 23,988	\$ 19,592	\$ 18,324
Contributions in relation to the actuarially determined contribution	26,637	25,636	23,988	19,592	18,908
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (689)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (584)</u>
Covered payroll	\$ 79,277	\$ 75,712	\$ 77,255	\$ 66,504	\$ 69,489
Contributions as a percentage of covered payroll	33.60%	33.86%	31.05%	29.46%	27.21%

Legislative

Actuarially determined contribution	\$ 956	\$ 809	\$ 689	\$ 675	\$ 65
Contributions in relation to the actuarially determined contribution	956	809	689	675	65
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,613	\$ 3,611	\$ 3,618	\$ 3,705	\$ 3,616
Contributions as a percentage of covered payroll	26.46%	22.40%	19.04%	18.22%	1.80%

**North Carolina
National Guard ***

Actuarially determined contribution	\$ 11,032	\$ 9,072	\$ 8,923	\$ 8,517	\$ 7,066
Contributions in relation to the actuarially determined contribution	11,032	9,072	8,923	8,517	7,066
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.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 18,949	\$ 21,390	\$ 18,992	\$ 18,956	\$ 13,322
18,949	21,390	18,992	18,956	10,457
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,865</u>
\$ 69,638	\$ 76,367	\$ 71,533	\$ 75,673	\$ 69,206
27.21%	28.01%	26.55%	25.05%	15.11%

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,611	\$ 3,608	\$ 3,600	\$ 3,314	\$ 4,029
0.00%	0.00%	0.00%	0.00%	0.00%

\$ 6,039	\$ 5,349	\$ 5,667	\$ 6,075	\$ 5,719
6,039	7,007	7,007	7,007	7,007
<u>\$ -</u>	<u>\$ (1,658)</u>	<u>\$ (1,340)</u>	<u>\$ (932)</u>	<u>\$ (1,288)</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 INVESTMENT RETURNS
ALL DEFINED BENEFIT PENSION PLANS

Last Seven Fiscal Years

Annual money-weighted rate of return, net of investment expense	2020	2019	2018	2017	2016
<i>Cost-Sharing, Multiple Employer</i>					
Teachers' and State Employees'	4.35%	6.57%	7.61%	10.75%	0.74%
Local Governmental Employees'	4.34%	6.58%	7.59%	10.74%	0.77%
Firefighters' and Rescue Squad Workers'	4.33%	6.55%	7.59%	10.76%	0.75%
Registers of Deeds'	8.72%	7.91%	(0.47%)	(0.03%)	8.04%
<i>Single-Employer</i>					
Consolidated Judicial	4.36%	6.57%	7.60%	10.75%	0.75%
Legislative	4.30%	6.43%	7.64%	10.72%	0.66%
North Carolina National Guard	4.28%	6.52%	7.44%	10.63%	0.77%

<u>2015</u>	<u>2014</u>
2.27%	15.88%
2.27%	15.86%
2.26%	15.62%
2.26%	6.04%
2.27%	15.87%
2.25%	15.91%
2.25%	15.63%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2020

Changes of benefit terms.

	<u>Cost of Living Increase</u>									
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Cost-Sharing, Multiple-Employer</u>										
Teachers' and State Employees'	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A
Local Governmental Employees'	N/A	N/A	N/A	0.11%	0.63%	N/A	N/A	N/A	N/A	0.10%
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	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A
Legislative	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A
North Carolina National Guard (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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.

(1) In 2015, 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.

N/A - not applicable

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.

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 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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2020

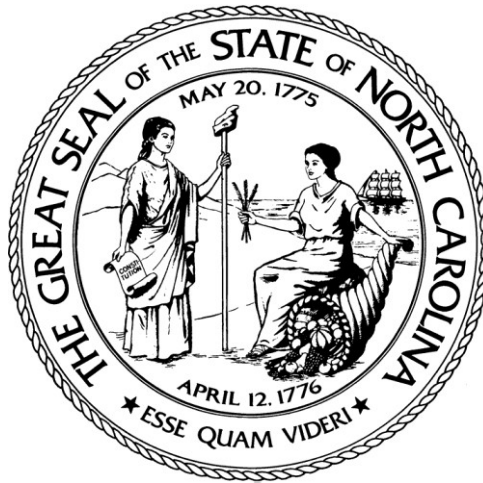
Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund.

In 2015, 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, 2010, and December 31, 2014. 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 the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. Also, as a result of market conditions and the allocation of assets in the Register of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%.

As a result of the same Experience Review, the Boards of Trustees also adopted new actuarial cost methods for the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Registers of Deeds' Supplemental Pension Fund. These plans now use the Entry Age Normal cost method to determine plan liabilities and funding requirements. The Boards of Trustees adopted a new asset valuation method for 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' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

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 7.20% to 7.00% for the December 31, 2017 valuation. For the December 31, 2019 valuation, the discount rate was 7.00%.

THIS PAGE INTENTIONALLY LEFT BLANK.



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

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, 2020. The net pension liabilities of employers were measured as of June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Seven Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Teachers' and State Employees'	2020	2019	2018	2017	2016
Primary Government					
Proportion of the net pension liability	21.83%	21.75%	21.74%	21.93%	22.47%
Proportionate share of the net pension liability	\$ 2,263,139	\$ 2,165,010	\$ 1,725,012	\$ 2,015,413	\$ 828,018
Covered payroll	\$ 3,542,384	\$ 3,499,295	\$ 3,264,890	\$ 3,311,814	\$ 3,498,284
Proportionate share of the net pension liability as a percentage of covered payroll	63.89%	61.87%	52.84%	60.86%	23.67%
Component Units					
University of North Carolina System					
Proportion of the net pension liability	15.05%	14.90%	14.72%	14.43%	14.45%
Proportionate share of the net pension liability	\$ 1,559,975	\$ 1,482,962	\$ 1,167,833	\$ 1,325,896	\$ 532,624
Covered payroll	\$ 2,374,044	\$ 2,280,501	\$ 2,202,204	\$ 2,117,672	\$ 2,053,148
Proportionate share of the net pension liability as a percentage of covered payroll	65.71%	65.03%	53.03%	62.61%	25.94%
Community Colleges					
Proportion of the net pension liability	5.68%	5.80%	5.96%	5.92%	5.89%
Proportionate share of the net pension liability	\$ 588,482	\$ 577,687	\$ 472,532	\$ 543,846	\$ 216,890
Covered payroll	\$ 873,702	\$ 876,939	\$ 895,962	\$ 871,399	\$ 861,639
Proportionate share of the net pension liability as a percentage of covered payroll	67.36%	65.88%	52.74%	62.41%	25.17%
Other Component Units					
Proportion of the net pension liability	0.17%	0.17%	0.16%	0.16%	0.17%
Proportionate share of the net pension liability	\$ 18,087	\$ 16,760	\$ 12,763	\$ 14,653	\$ 6,224
Covered payroll	\$ 28,153	\$ 27,263	\$ 27,154	\$ 25,454	\$ 25,574
Proportionate share of the net pension liability as a percentage of covered payroll	64.25%	61.48%	47.00%	57.57%	24.34%
Plan fiduciary net position as a percentage of the total pension liability	87.56%	87.61%	89.51%	87.32%	94.64%

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

<u>2015</u>	<u>2014</u>
22.78%	22.95%
\$ 267,119	\$ 1,393,385
\$ 3,255,443	\$ 3,203,001
8.21%	43.50%
14.79%	14.48%
\$ 173,441	\$ 878,936
\$ 2,089,885	\$ 1,987,497
8.30%	44.22%
5.87%	5.80%
\$ 68,803	\$ 352,004
\$ 853,383	\$ 1,165,333
8.06%	30.21%
0.17%	0.17%
\$ 2,049	\$ 10,605
\$ 25,673	\$ 39,228
7.98%	27.03%
98.24%	90.60%

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S (NONEMPLOYER)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Seven Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Firefighters' and Rescue Squad Workers'	2020	2019	2018	2017	2016
Primary Government					
Proportion of the net pension liability	100.00%	100.00%	100.00%	100.00%	100.00%
Proportionate share of the net pension liability	\$ 36,283	\$ 48,840	\$ 48,512	\$ 66,819	\$ 36,359
Plan fiduciary net position as a percentage of the total pension liability	92.43%	89.69%	89.35%	84.94%	91.40%

Single-Employer, Defined Benefit Pension Plans

**North Carolina
National Guard**

Primary Government

Proportion of the net pension liability	100.00%	100.00%	100.00%	100.00%	100.00%
Proportionate share of the net pension liability	\$ 33,661	\$ 51,173	\$ 53,845	\$ 59,381	\$ 40,721
Plan fiduciary net position as a percentage of the total pension liability	80.46%	71.72%	69.23%	64.91%	73.08%

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

<u>2015</u>	<u>2014</u>
100.00%	100.00%
\$ 27,418	\$ 67,725
93.42%	83.58%

100.00%	100.00%
\$ 30,176	\$ 36,267
78.48%	72.51%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Seven Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	2020	2019	2018	2017	2016
Primary Government					
Contractually required contribution	\$ 490,020	\$ 435,359	\$ 377,224	\$ 325,836	\$ 303,031
Contributions in relation to the contractually required contribution	490,020	435,359	377,224	325,836	303,031
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,778,103	\$ 3,542,384	\$ 3,499,295	\$ 3,264,890	\$ 3,311,814
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%	9.15%
Component Units					
University of North Carolina System					
Contractually required contribution	\$ 315,375	\$ 291,770	\$ 245,838	\$ 219,780	\$ 193,767
Contributions in relation to the contractually required contribution	315,375	291,770	245,838	219,780	193,767
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,431,573	\$ 2,374,044	\$ 2,280,501	\$ 2,202,204	\$ 2,117,672
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%	9.15%
Community Colleges					
Contractually required contribution	\$ 120,282	\$ 107,378	\$ 94,534	\$ 89,417	\$ 79,733
Contributions in relation to the contractually required contribution	120,282	107,378	94,534	89,417	79,733
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 927,386	\$ 873,702	\$ 876,939	\$ 895,962	\$ 871,399
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%	9.15%
Other Component Units					
Contractually required contribution	\$ 3,928	\$ 3,460	\$ 2,939	\$ 2,710	\$ 2,329
Contributions in relation to the contractually required contribution	3,928	3,460	2,939	2,710	2,329
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 30,285	\$ 28,153	\$ 27,263	\$ 27,154	\$ 25,454
Contributions as a percentage of covered payroll	12.97%	12.29%	10.78%	9.98%	9.15%

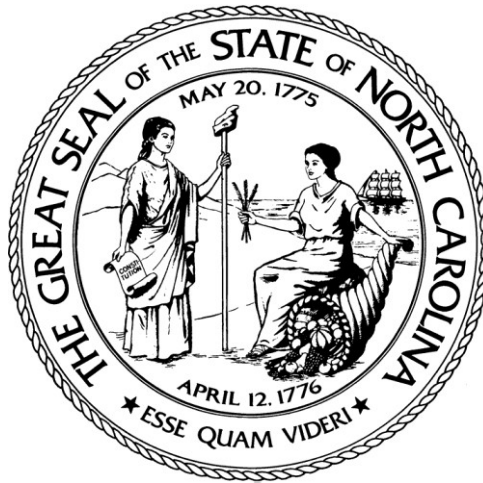
<u>2015</u>	<u>2014</u>
\$ 320,093	\$ 282,898
<u>320,093</u>	<u>282,898</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 3,498,284	\$ 3,255,443
9.15%	8.69%

\$ 187,863	\$ 181,611
<u>187,863</u>	<u>181,611</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 2,053,148	\$ 2,089,885
9.15%	8.69%

\$ 78,840	\$ 74,159
<u>78,840</u>	<u>74,159</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 861,639	\$ 853,383
9.15%	8.69%

\$ 2,340	\$ 2,231
<u>2,340</u>	<u>2,231</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 25,574	\$ 25,673
9.15%	8.69%

THIS PAGE INTENTIONALLY LEFT BLANK.



REQUIRED SUPPLEMENTARY INFORMATION PENSIONS — GASB STATEMENT 73

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.

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 Four Fiscal Years

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Special Separation Allowance				
Total pension liability				
Service Cost	\$ 7,842	\$ 7,090	\$ 5,779	\$ 6,112
Interest	6,519	6,721	5,328	7,314
Changes of benefit terms	-	-	18,621	-
Differences between expected and actual experience	11,825	894	8,582	3,927
Changes of assumptions	3,091	5,051	(5,675)	(1,216)
Benefit payments, including refunds of member contributions	<u>(16,922)</u>	<u>(16,031)</u>	<u>(15,631)</u>	<u>(14,895)</u>
Net change in total pension liability	12,355	3,725	17,004	1,242
Total pension liability - beginning	219,382	215,657	198,653	197,411
Total pension liability - ending	<u>\$ 231,737</u>	<u>\$ 219,382</u>	<u>\$ 215,657</u>	<u>\$198,653</u>
Covered-employee payroll	\$ 265,387	\$ 258,472	\$ 243,663	\$161,416
Total pension liability as a percentage of covered-employee payroll	87.32%	84.88%	88.51%	123.07%

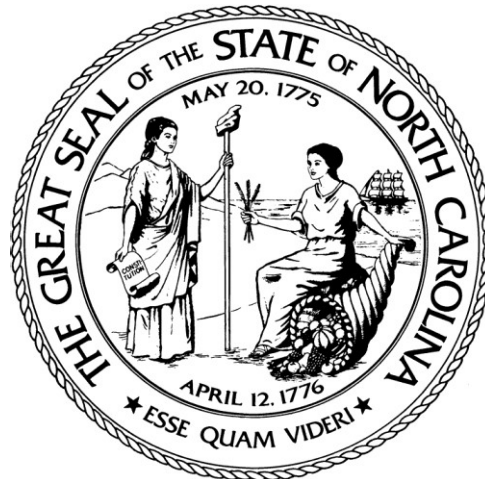
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOTAL PENSION LIABILITY

For the Fiscal Year Ended June 30, 2020

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 was lowered from 2.98% at June 30, 2018 to 2.79% at June 30, 2019 due to a change in the Municipal Bond Rate.

THIS PAGE INTENTIONALLY LEFT BLANK.



REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFIT PLANS

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.

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

THIS PAGE INTENTIONALLY LEFT BLANK.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS

Last Four Fiscal Years

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retiree Health Benefit				
Total OPEB liability				
Service Cost	\$ 1,824,174	\$ 1,539,092	\$ 1,753,384	\$ 2,650,984
Interest	1,203,196	1,192,810	1,261,878	1,332,874
Changes of benefit terms	224,085	(72,358)	-	-
Differences between expected and actual experience	30,157	(156,655)	(80,951)	(2,821,033)
Changes of assumptions	(5,489,969)	1,824,892	(6,141,972)	(10,835,144)
Benefit payments, including refunds of member contributions	<u>(1,084,668)</u>	<u>(1,030,956)</u>	<u>(977,176)</u>	<u>(922,021)</u>
Net change in total OPEB liability	<u>(3,293,025)</u>	<u>3,296,825</u>	<u>(4,184,837)</u>	<u>(10,594,340)</u>
Total OPEB liability - beginning	<u>33,095,183</u>	<u>29,798,358</u>	<u>33,983,195</u>	<u>44,577,535</u>
Total OPEB liability - ending (a)	<u><u>\$29,802,158</u></u>	<u><u>\$33,095,183</u></u>	<u><u>\$29,798,358</u></u>	<u><u>\$33,983,195</u></u>
Plan fiduciary net position				
Contributions-employer	\$ 1,162,967	\$ 1,104,902	\$ 1,018,693	\$ 950,813
Contributions-other	475,200	-	-	-
Net investment income	52,286	71,780	72,384	94,132
Benefit payments, including refunds of member contributions	(1,084,668)	(1,030,956)	(977,176)	(922,021)
Administrative expense	(162)	(215)	(298)	(490)
Net change in plan fiduciary net position	<u>605,623</u>	<u>145,511</u>	<u>113,603</u>	<u>122,434</u>
Plan fiduciary net position - beginning	<u>1,455,684</u>	<u>1,310,173</u>	<u>1,196,570</u>	<u>1,074,136</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 2,061,307</u></u>	<u><u>\$ 1,455,684</u></u>	<u><u>\$ 1,310,173</u></u>	<u><u>\$ 1,196,570</u></u>
Retiree Health Benefit net OPEB liability - ending (a) - (b)	<u><u>\$27,740,851</u></u>	<u><u>\$31,639,499</u></u>	<u><u>\$28,488,185</u></u>	<u><u>\$32,786,625</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.92%	4.40%	4.40%	3.52%
Covered payroll	\$17,974,758	\$17,622,035	\$16,837,901	\$16,365,112
Net OPEB liability as a percentage of covered payroll	154.33%	179.55%	169.19%	200.34%
Disability Income				
Total OPEB liability				
Service Cost	\$ 22,708	\$ 22,567	\$ 25,919	\$ 25,441
Interest	11,424	13,800	14,654	14,111
Changes of benefit terms	-	-	(44,158)	(403)
Differences between expected and actual experience	5,137	4,106	48,787	22,345
Changes of assumptions	2	(4,980)	6,692	-
Benefit payments, including refunds of member contributions	<u>(55,210)</u>	<u>(61,946)</u>	<u>(69,949)</u>	<u>(71,728)</u>
Net change in total OPEB liability	<u>(15,939)</u>	<u>(26,453)</u>	<u>(18,055)</u>	<u>(10,234)</u>
Total OPEB liability - beginning	<u>331,978</u>	<u>358,431</u>	<u>376,486</u>	<u>386,720</u>
Total OPEB liability - ending (a)	<u><u>\$ 316,039</u></u>	<u><u>\$ 331,978</u></u>	<u><u>\$ 358,431</u></u>	<u><u>\$ 376,486</u></u>
Plan fiduciary net position				
Contributions-employer	\$ 17,848	\$ 24,468	\$ 23,385	\$ 61,654
Net investment income	28,322	24,725	(1,481)	(122)
Benefit payments, including refunds of member contributions	(55,210)	(61,946)	(69,949)	(71,728)
Administrative expense	(835)	(926)	(777)	(1,050)
Other	<u>(20)</u>	<u>-</u>	<u>23</u>	<u>32</u>
Net change in plan fiduciary net position	<u>(9,895)</u>	<u>(13,679)</u>	<u>(48,799)</u>	<u>(11,214)</u>
Plan fiduciary net position - beginning	<u>375,128</u>	<u>388,807</u>	<u>437,606</u>	<u>448,820</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 365,233</u></u>	<u><u>\$ 375,128</u></u>	<u><u>\$ 388,807</u></u>	<u><u>\$ 437,606</u></u>
Disability Income's net OPEB asset - ending (a) - (b)	<u><u>\$ (49,194)</u></u>	<u><u>\$ (43,150)</u></u>	<u><u>\$ (30,376)</u></u>	<u><u>\$ (61,120)</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	115.57%	113.00%	108.47%	116.23%
Covered payroll	\$17,848,000	\$17,477,148	\$16,703,858	\$16,224,737
Net OPEB asset as a percentage of covered payroll	(0.28%)	(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)

Retiree Health Benefit	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 2,823,873	\$ 2,971,069	\$ 2,613,258	\$ 2,728,064	\$ 2,516,706
Contributions in relation to the actuarially determined contribution (1)	1,162,967	1,104,902	1,018,693	950,813	880,847
Contribution deficiency	<u>\$ 1,660,906</u>	<u>\$ 1,866,167</u>	<u>\$ 1,594,565</u>	<u>\$ 1,777,251</u>	<u>\$ 1,635,859</u>
Covered payroll	\$ 17,974,758	\$ 17,622,035	\$ 16,837,901	\$ 16,365,112	\$ 15,729,411
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%	5.81%	5.60%
Disability Income					
Actuarially determined contribution	\$ 17,848	\$ 22,720	\$ 23,385	\$ 24,337	\$ 63,963
Contributions in relation to the actuarially determined contribution (1)	17,848	24,468	23,385	61,654	63,963
Contribution excess	<u>\$ -</u>	<u>\$ (1,748)</u>	<u>\$ -</u>	<u>\$ (37,317)</u>	<u>\$ -</u>
Covered payroll	\$ 17,848,000	\$ 17,477,148	\$ 16,703,858	\$ 16,224,737	\$ 15,600,732
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%	0.38%	0.41%

(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.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 2,211,436	\$ 2,226,586	\$ 2,072,951	\$ 2,371,490	\$ 2,926,070
854,383	815,157	813,223	710,027	743,659
<u>\$ 1,357,053</u>	<u>\$ 1,411,429</u>	<u>\$ 1,259,728</u>	<u>\$ 1,661,463</u>	<u>\$ 2,182,411</u>
\$ 15,562,532	\$ 15,095,500	\$ 15,343,830	\$ 14,200,540	\$ 15,176,714
5.49%	5.40%	5.30%	5.00%	4.90%

\$ 63,267	\$ 65,878	\$ 64,969	\$ 71,244	\$ 69,229
63,267	65,878	64,969	80,537	78,259
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,293)</u>	<u>\$ (9,030)</u>
\$ 15,430,976	\$ 14,972,273	\$ 14,765,682	\$ 15,487,885	\$ 15,049,808
0.41%	0.44%	0.44%	0.52%	0.52%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
ALL DEFINED BENEFIT OPEB PLANSLast Four Fiscal Years

Annual money-weighted rate of return, net of investment expense	2020	2019	2018	2017
Retiree Health Benefit	3.80%	5.73%	6.58%	9.31%
Disability Income	8.68%	7.74%	(0.42)%	(0.06%)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2020

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.

Additionally, the December 31, 2017 DIPNC actuarial valuation includes a liability for the Sate's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

Method and assumptions used in calculations of actuarially determined contributions. An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of 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 Disability Income Plan of North Carolina (DIPNC). See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions. In 2015, 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, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan 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 the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

For the actuarial valuation measured as of June 30, 2020, the discount rate for the RHBF was updated to 2.21%. In the prior year, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed December 2019.

THIS PAGE INTENTIONALLY LEFT BLANK.



REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFIT PLANS – EMPLOYERS (PRIMARY GOVERNMENT AND COMPONENT UNITS)

Required supplementary information for employers provides information on the allocations of net OPEB 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 OPEB Liability

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net OPEB Asset

Schedule of the Primary Government's and Component Units' Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

THIS PAGE INTENTIONALLY LEFT BLANK.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

Last Three Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Retiree Health Benefit	2020	2019	2018
Primary Government			
Proportion of the net OPEB liability	19.38%	19.06%	19.24%
Proportionate share of the net OPEB liability	\$ 6,130,058	\$ 5,428,301	\$ 6,308,532
Covered payroll	\$ 3,624,657	\$ 3,575,074	\$ 3,272,409
Proportionate share of the net OPEB liability as a percentage of covered payroll	169.12%	151.84%	192.78%
Component Units			
University of North Carolina System			
Proportion of the net OPEB liability	25.12%	24.31%	23.06%
Proportionate share of the net OPEB liability	\$ 7,946,586	\$ 6,924,221	\$ 7,560,701
Covered payroll	\$ 4,401,308	\$ 4,068,314	\$ 4,632,586
Proportionate share of the net OPEB liability as a percentage of covered payroll	180.55%	170.20%	163.21%
Community Colleges			
Proportion of the net OPEB liability	4.86%	5.02%	4.93%
Proportionate share of the net OPEB liability	\$ 1,536,342	\$ 1,429,417	\$ 1,617,372
Covered payroll	\$ 980,064	\$ 889,736	\$ 853,363
Proportionate share of the net OPEB liability as a percentage of covered payroll	156.76%	160.66%	189.53%
Other Component Units			
Proportion of the net OPEB liability	0.15%	0.14%	0.14%
Proportionate share of the net OPEB liability	\$ 46,204	\$ 40,997	\$ 44,486
Covered payroll	\$ 29,330	\$ 28,298	\$ 26,235
Proportionate share of the net OPEB liability as a percentage of covered payroll	157.53%	144.88%	169.57%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	4.40%	3.52%

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

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'
PROPORTIONATE SHARE OF THE NET OPEB ASSET**

Last Three Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Disability Income	2020	2019	2018
Primary Government			
Proportion of the net OPEB asset	18.85%	18.78%	19.02%
Proportionate share of the net OPEB asset	\$ (8,135)	\$ (5,707)	\$ (11,624)
Covered payroll	\$ 3,547,857	\$ 3,498,571	\$ 3,272,409
Proportionate share of the net OPEB asset as a percentage of covered payroll	(0.23%)	(0.16%)	(0.36%)
Component Units			
University of North Carolina System			
Proportion of the net OPEB asset	25.35%	25.03%	24.73%
Proportionate share of the net OPEB asset	\$ (10,937)	\$ (7,603)	\$ (15,118)
Covered payroll	\$ 4,402,143	\$ 4,107,143	\$ 4,632,586
Proportionate share of the net OPEB asset as a percentage of covered payroll	(0.25%)	(0.19%)	(0.33%)
Community Colleges			
Proportion of the net OPEB asset	4.92%	5.04%	5.20%
Proportionate share of the net OPEB asset	\$ (2,124)	\$ (1,520)	\$ (3,177)
Covered payroll	\$ 981,429	\$ 890,000	\$ 853,848
Proportionate share of the net OPEB asset as a percentage of covered payroll	(0.22%)	(0.17%)	(0.37%)
Other Component Units			
Proportion of the net OPEB asset	0.15%	0.14%	0.14%
Proportionate share of the net OPEB asset	\$ (65)	\$ (43)	\$ (83)
Covered payroll	\$ 27,143	\$ 27,857	\$ 26,235
Proportionate share of the net OPEB asset as a percentage of covered payroll	(0.24%)	(0.15%)	(0.32%)
Plan fiduciary net position as a percentage of the total OPEB liability	113.00%	108.47%	116.23%

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS

Last Three Fiscal Years

(Dollars in Thousands)

Retiree Health	2020	2019	2018
Primary Government			
Contractually required contribution	\$ 249,620	\$ 227,266	\$ 216,292
Contributions in relation to the contractually required contribution	249,620	227,266	216,292
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,858,114	\$ 3,624,657	\$ 3,575,074
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%
Component Units			
University of North Carolina System			
Contractually required contribution	\$ 289,718	\$ 275,962	\$ 246,133
Contributions in relation to the contractually required contribution	289,718	275,962	246,133
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,477,867	\$ 4,401,308	\$ 4,068,314
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%
Community Colleges			
Contractually required contribution	\$ 59,451	\$ 61,450	\$ 53,829
Contributions in relation to the contractually required contribution	59,451	61,450	53,829
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 918,872	\$ 980,064	\$ 889,736
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%
Other Component Units			
Contractually required contribution	\$ 2,030	\$ 1,839	\$ 1,712
Contributions in relation to the contractually required contribution	2,030	1,839	1,712
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 31,376	\$ 29,330	\$ 28,298
Contributions as a percentage of covered payroll	6.47%	6.27%	6.05%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS

Last Three Fiscal Years

(Dollars in Thousands)

Disability Income	2020	2019	2018
Primary Government			
Contractually required contribution	\$ 3,779	\$ 4,967	\$ 4,898
Contributions in relation to the contractually required contribution	3,779	4,967	4,898
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,779,000	\$ 3,547,857	\$ 3,498,571
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%
Component Units			
University of North Carolina System			
Contractually required contribution	\$ 7,853	\$ 6,163	\$ 5,750
Contributions in relation to the contractually required contribution	7,853	6,163	5,750
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 7,853,000	\$ 4,402,143	\$ 4,107,143
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%
Community Colleges			
Contractually required contribution	\$ 1,560	\$ 1,374	\$ 1,246
Contributions in relation to the contractually required contribution	1,560	1,374	1,246
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,560,000	\$ 981,429	\$ 890,000
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%
Other Component Units			
Contractually required contribution	\$ 32	\$ 38	\$ 39
Contributions in relation to the contractually required contribution	32	38	39
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 32,000	\$ 27,143	\$ 27,857
Contributions as a percentage of covered payroll	0.10%	0.14%	0.14%



REQUIRED SUPPLEMENTARY INFORMATION BUDGET

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.

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

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, 2020

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Individual income.....	\$ 13,030,100	\$ 13,030,100	\$ 12,414,699	\$ (615,401)
Corporate income.....	735,600	735,600	657,759	(77,841)
Sales and use.....	8,203,300	8,203,300	7,820,595	(382,705)
Franchise.....	745,700	745,700	645,951	(99,749)
Insurance.....	565,300	565,300	656,154	90,854
Beverage.....	411,500	411,500	410,612	(888)
Inheritance.....	85,100	—	1,168	1,168
Tobacco products.....	256,200	256,200	251,946	(4,254)
Other.....	132,700	132,700	137,192	4,492
Non-Tax:				
Fees, licenses and fines.....	228,800	228,800	687,126	458,326
Investment income.....	167,200	167,200	135,547	(31,653)
Disproportionate share receipts.....	165,300	165,300	165,300	—
Other.....	291,891	204,091	287,691	83,600
Tobacco settlement.....	136,200	136,200	149,194	12,994
Departmental:				
Federal funds.....	14,250,746	13,505,028	15,229,425	1,724,397
Federal COVID-19 funds.....	—	4,373,481	4,534,887	161,406
Local funds.....	783,101	909,990	836,412	(73,578)
Inter-agency grants and allocations.....	23,901	52,167	34,895	(17,272)
Intra-governmental transactions.....	4,833,158	7,822,233	6,005,119	(1,817,114)
Sales and services.....	202,435	211,909	163,336	(48,573)
Rental and lease of property.....	17,141	18,796	17,152	(1,644)
Fees, licenses and fines.....	1,525,977	667,291	677,348	10,057
Contributions, gifts and grants.....	277,700	1,260,121	1,261,101	980
Miscellaneous.....	560,734	220,450	221,643	1,193
Total Revenues.....	47,629,784	54,023,457	53,402,252	(621,205)
Expenditures				
Current:				
General government.....	1,238,378	2,878,628	2,073,878	804,750
Primary and secondary education.....	12,432,023	13,675,043	12,549,141	1,125,902
Higher education.....	5,456,562	5,612,906	5,542,509	70,397
Health and human services.....	20,748,721	23,975,597	23,337,155	638,442
Environment and natural resources.....	649,802	863,723	692,134	171,589
Economic development.....	787,539	729,090	629,191	99,899
Public safety, corrections, and regulation.....	3,602,520	5,285,181	4,571,432	713,749
Agriculture.....	215,001	399,672	364,217	35,455
Debt service.....	734,545	773,428	761,274	12,154
Total Expenditures.....	45,865,091	54,193,268	50,520,931	3,672,337
Excess (deficiency) of revenues over expenditures.....	1,764,693	(169,811)	2,881,321	3,051,132
Total Fund Balance at July 1.....	5,860,416	5,860,416	5,860,416	—
Total Fund Balance at June 30.....	\$ 7,625,109	\$ 5,690,605	\$ 8,741,737	\$ 3,051,132
Fund balance reserved:				
Statutory.....			\$ 3,938,862	
Non-reverting purposes.....			3,331,795	
Fund balance unreserved.....			1,471,080	
Total Fund Balance at June 30.....			\$ 8,741,737	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

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 Accounting System (NCAS) 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 NCAS 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, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 430 North Salisbury 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, 2020 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	<u>General Fund</u>
Fund balance (budgetary basis)	
June 30, 2020.....	\$ 8,741,737
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	3,141,585
Less tax refunds payable.....	(1,330,878)
Accounts receivable and other receivables.....	536,332
Federal funds, net.....	1,064,834
Unearned revenue.....	(3,832,001)
Total accrued revenues.....	<u>(420,128)</u>
Accrued expenditures	
Medical claims payable.....	(1,111,170)
Accounts payable, accrued liabilities, and other payables.....	(1,159,730)
Total accrued expenditures.....	<u>(2,270,900)</u>
Other Adjustments	
Notes receivable.....	15,418
Inventories.....	83,421
Advances to outside entities.....	120,330
Timing Differences	
Forward funded state aid.....	<u>162,008</u>
Fund balance (GAAP basis)	
June 30, 2020.....	<u>\$ 6,431,886</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. At the beginning of fiscal year 2019-20, the balance of the Savings Reserve was \$1.254 billion. Session Law 2019-250 authorized the transfer of \$36.56 million from the Unreserved Fund Balance to the Savings Reserve. It also authorized OSC to transfer \$33.17 million to the State Emergency Response/Disaster Relief Reserve, \$70.81 million to the Department of Public Safety and \$17.6 million to the Department of Environmental Quality. At the end of the fiscal year 2019-20, the balance of this reserve was \$1.169 billion.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account was established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. At the end of the fiscal year 2019-20, the balance of this reserve was \$11.585 million.

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 2019-20, the balance was \$54.101 million. In accordance with Session Law 2019-250, the Office of State Controller was authorized to transfer \$33.2 million from the Savings Reserve to the Disaster Relief Reserve for fiscal year. It also authorized the transfer of \$5.0 million from General Fund Disaster Reserve to the reserve. Session Law 2019-224 authorized the transfer of \$5.0 million from the Hurricane Florence Disaster Recovery Reserve to the reserve. Funds in the amount of \$12.1 million were transferred from the Office of State Budget and Management to the reserve. During the fiscal year \$44.659 million was transferred out of the Reserve. At the end of the fiscal year 2019-20, the balance of this reserve was \$64.742 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 end of the fiscal year 2019-20, the balance of this reserve was \$186.373 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. No funds were transferred from the reserve during the fiscal year. At the end of the fiscal year 2019-20, the balance of this reserve was \$425.301 million.

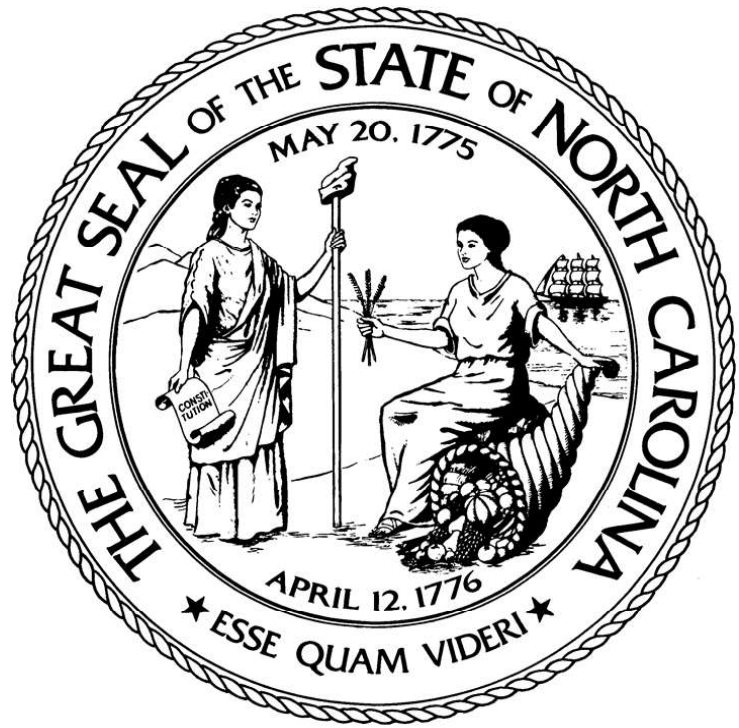
Carryforward Reserve (Session Law 2014-100). In accordance with Session Law 2014-100, Section 6.7, the General Assembly required the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, to review current budgeting practices in 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 2019-20 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 the fiscal year 2019-20, the balance of this reserve was \$461.721 million.

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 2019-20, the balance was \$327.994 million. Funds in the amount of \$200.621 million were transferred out of the Reserve during the fiscal year. At the end of the fiscal year 2019-20, the balance of this reserve was \$127.373 million.

Coronavirus Relief Reserve (Session Law 2020-4) Established as a reserve in the General Fund. The purpose is to maintain federal funds received from the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak in North Carolina. Federal funds in the amount of \$3.585 billion were received to establish the reserve. Session Law 2020-4 authorized OSC to transfer \$1.276 billion to the Office of State Budget and Management. It also authorized the transfer of \$300 million to establish the Local Government Coronavirus Relief Reserve. Session Law 2020-32 required the transfer of \$300 million to the Office of State Budget and Management. Funds in the amount of \$220 million were transferred to OSBM per Session Law 2020-80 and \$2 million per Session Law 2020-53. Interest in the amount of \$4.9 million was earned on the principal during the fiscal year and remains in the reserve. At the end of the fiscal year 2019-20, the balance of this reserve was \$1.492 billion.

Local Government Coronavirus Relief Reserve (Session Law 220-4) Established as a reserve in the General Fund. The purpose is to maintain federal funds received from the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak on local governments in North Carolina. Session Law 2020-4 authorized OSC to transfer \$300 million to establish the Local Government Coronavirus Relief Reserve. Session Law 2020-4 authorized OSC to transfer from the reserve to the Office of State Budget and Management \$150 million. Session Law 2020-80 authorized OSC to transfer from the reserve to the OSBM an additional \$150 million. Interest in the amount of \$133.2 thousand was earned on the principal during the fiscal year and remains in the reserve. At the end of the fiscal year 2019-20, the balance of this reserve was \$133.2 thousand.

THIS PAGE INTENTIONALLY LEFT BLANK.



*COMBINING FUND
STATEMENTS
AND
SCHEDULES*

THIS PAGE INTENTIONALLY LEFT BLANK.



*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2020

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,373,601	\$ —	\$ 50	\$ 1,373,651
Investments	300,322	—	—	300,322
Securities lending collateral	21,601	1,726	442	23,769
Receivables, net:				
Taxes receivable.....	6,997	—	—	6,997
Accounts receivable.....	25,147	37	—	25,184
Intergovernmental receivable.....	1,944	569	—	2,513
Interest receivable.....	899	161	19	1,079
Due from other funds	28,540	—	—	28,540
Inventories.....	25,048	—	—	25,048
Notes receivable, net.....	796	64,297	—	65,093
Securities held in trust.....	48,137	—	—	48,137
Restricted/designated cash and cash equivalents.....	—	355,165	20,303	375,468
Restricted investments.....	—	516,460	135,301	651,761
Total Assets.....	<u>1,833,032</u>	<u>938,415</u>	<u>156,115</u>	<u>2,927,562</u>
Deferred Outflows of Resources				
Forward funded state aid.....	37,287	—	—	37,287
Total Assets and Deferred Outflows.....	<u>\$ 1,870,319</u>	<u>\$ 938,415</u>	<u>\$ 156,115</u>	<u>\$ 2,964,849</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 14,022	\$ 26,110	\$ —	\$ 40,132
Accrued payroll.....	63	—	—	63
Intergovernmental payable.....	6,418	9,201	—	15,619
Claims payable.....	61,000	—	—	61,000
Obligations under securities lending.....	21,601	1,726	442	23,769
Due to other funds	175	—	—	175
Due to component units	—	11,017	—	11,017
Unearned revenue.....	403	—	—	403
Deposits payable.....	6	—	—	6
Funds held for others.....	48,237	—	—	48,237
Total Liabilities.....	<u>151,925</u>	<u>48,054</u>	<u>442</u>	<u>200,421</u>
Deferred Inflows of Resources				
Unavailable revenue.....	7,269	—	—	7,269
Fund Balances				
Nonspendable.....	25,048	—	120,409	145,457
Restricted.....	971,678	539,612	31,391	1,542,681
Committed.....	711,308	350,077	3,873	1,065,258
Assigned.....	3,091	672	—	3,763
Total Fund Balances.....	<u>1,711,125</u>	<u>890,361</u>	<u>155,673</u>	<u>2,757,159</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 1,870,319</u>	<u>\$ 938,415</u>	<u>\$ 156,115</u>	<u>\$ 2,964,849</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

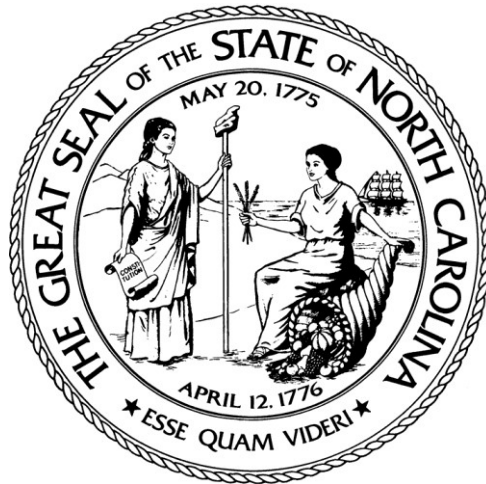
For the Fiscal Year Ended June 30, 2020

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales and use tax.....	\$ 8,954	\$ —	\$ —	\$ 8,954
Gasoline tax.....	25,359	—	—	25,359
Other taxes.....	122,552	—	—	122,552
Federal funds.....	80,103	18,410	—	98,513
Local funds.....	9,812	—	—	9,812
Investment earnings.....	30,062	9,236	2,867	42,165
Interest earnings on loans.....	—	266	—	266
Sales and services.....	140,410	2,626	—	143,036
Rental and lease of property.....	2,279	10	—	2,289
Fees, licenses, and fines.....	212,765	2,033	5,882	220,680
Contributions, gifts, and grants.....	37,330	19,358	39	56,727
Funds escheated.....	168,851	—	—	168,851
Miscellaneous.....	5,852	1,077	—	6,929
Total revenues.....	<u>844,329</u>	<u>53,016</u>	<u>8,788</u>	<u>906,133</u>
Expenditures				
Current:				
General government.....	56,223	224	—	56,447
Higher education.....	46,185	375,850	—	422,035
Health and human services.....	78,118	—	—	78,118
Economic development.....	3,941	—	—	3,941
Environment and natural resources.....	186,120	44,517	49	230,686
Public safety, corrections, and regulation.....	275,071	—	—	275,071
Agriculture.....	21,647	—	—	21,647
Capital outlay.....	—	205,341	—	205,341
Debt service:				
Interest and fees.....	—	34	—	34
Debt issuance costs.....	—	986	—	986
Total expenditures.....	<u>667,305</u>	<u>626,952</u>	<u>49</u>	<u>1,294,306</u>
Excess revenues over (under) expenditures.....	<u>177,024</u>	<u>(573,936)</u>	<u>8,739</u>	<u>(388,173)</u>
Other Financing Sources (Uses)				
General obligation bonds issued.....	—	600,000	—	600,000
Premium on debt issued.....	—	82,392	—	82,392
Sale of capital assets.....	224	—	—	224
Insurance recoveries.....	57	492	—	549
Transfers in.....	93,423	19,879	—	113,302
Transfers out.....	(120,150)	(11,381)	(2,153)	(133,684)
Total other financing sources (uses).....	<u>(26,446)</u>	<u>691,382</u>	<u>(2,153)</u>	<u>662,783</u>
Net change in fund balances.....	150,578	117,446	6,586	274,610
Fund balances — July 1, as restated.....	1,560,547	772,915	149,087	2,482,549
Fund balances — June 30.....	<u>\$ 1,711,125</u>	<u>\$ 890,361</u>	<u>\$ 155,673</u>	<u>\$ 2,757,159</u>

THIS PAGE INTENTIONALLY LEFT BLANK.



NONMAJOR SPECIAL REVENUE FUNDS

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

The following are included in the nonmajor special revenue funds:

- Escheat Fund
- Correction Enterprises Fund
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- 911 Fund
- Environment Management Protection Funds
- Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2020

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	911 Fund
Assets				
Cash and cash equivalents	\$ 654,674	\$ 10,401	\$ 73,284	\$ 118,673
Investments	287,161	—	—	—
Securities lending collateral	14,320	—	—	2,659
Receivables, net:				
Taxes receivable.....	—	—	2,476	—
Accounts receivable.....	—	2,950	517	7,338
Intergovernmental receivable.....	—	456	—	—
Interest receivable.....	640	—	—	118
Due from other funds	—	1,221	—	3,223
Inventories.....	—	18,856	—	—
Notes receivable, net.....	—	—	648	—
Securities held in trust.....	—	—	—	—
Total Assets.....	<u>956,795</u>	<u>33,884</u>	<u>76,925</u>	<u>132,011</u>
Deferred Outflows of Resources				
Forward funded state aid.....	37,287	—	—	—
Total Assets and Deferred Outflows.....	<u>\$ 994,082</u>	<u>\$ 33,884</u>	<u>\$ 76,925</u>	<u>\$ 132,011</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 113	\$ 2,974	\$ 403	\$ 4,426
Accrued payroll.....	—	3	—	—
Intergovernmental payable.....	—	16	—	4,469
Claims payable.....	61,000	—	—	—
Obligations under securities lending.....	14,320	—	—	2,659
Due to other funds	—	—	—	103
Unearned revenue.....	—	—	—	—
Deposits payable.....	—	—	—	—
Funds held for others.....	—	—	—	—
Total Liabilities.....	<u>75,433</u>	<u>2,993</u>	<u>403</u>	<u>11,657</u>
Deferred Inflows of Resources				
Unavailable revenue.....	—	—	—	—
Fund Balances				
Nonspendable.....	—	18,856	—	—
Restricted.....	918,649	—	—	—
Committed.....	—	12,035	76,522	120,354
Assigned.....	—	—	—	—
Total Fund Balances.....	<u>918,649</u>	<u>30,891</u>	<u>76,522</u>	<u>120,354</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 994,082</u>	<u>\$ 33,884</u>	<u>\$ 76,925</u>	<u>\$ 132,011</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 215,024	\$ 301,545	\$ 1,373,601
12,614	547	300,322
2,021	2,601	21,601
581	3,940	6,997
10,902	3,440	25,147
514	974	1,944
91	50	899
5,534	18,562	28,540
—	6,192	25,048
3	145	796
48,137	—	48,137
<u>295,421</u>	<u>337,996</u>	<u>1,833,032</u>
—	—	37,287
<u>\$ 295,421</u>	<u>\$ 337,996</u>	<u>\$ 1,870,319</u>
\$ 1,409	\$ 4,697	\$ 14,022
—	60	63
982	951	6,418
—	—	61,000
2,021	2,601	21,601
—	72	175
—	403	403
—	6	6
48,137	100	48,237
<u>52,549</u>	<u>8,890</u>	<u>151,925</u>
<u>2,590</u>	<u>4,679</u>	<u>7,269</u>
—	6,192	25,048
19,803	33,226	971,678
219,568	282,829	711,308
911	2,180	3,091
<u>240,282</u>	<u>324,427</u>	<u>1,711,125</u>
<u>\$ 295,421</u>	<u>\$ 337,996</u>	<u>\$ 1,870,319</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	911 Fund
Revenues				
Taxes:				
Sales and use tax.....	\$ —	\$ —	\$ —	\$ —
Gasoline tax.....	—	—	17,820	—
Other taxes.....	—	—	—	94,305
Federal funds.....	—	—	—	—
Local funds.....	—	—	—	—
Investment earnings.....	23,269	—	—	2,114
Sales and services.....	—	83,857	—	758
Rental and lease of property.....	—	254	—	—
Fees, licenses, and fines.....	—	—	9,649	—
Contributions, gifts, and grants.....	—	—	—	—
Funds escheated.....	168,851	—	—	—
Miscellaneous.....	—	118	—	—
Total revenues.....	<u>192,120</u>	<u>84,229</u>	<u>27,469</u>	<u>97,177</u>
Expenditures				
Current:				
General government.....	—	—	—	—
Higher education.....	46,102	—	—	—
Health and human services.....	—	—	—	—
Economic development.....	—	—	—	—
Environment and natural resources.....	—	—	10,982	—
Public safety, corrections, and regulation...	—	81,465	—	77,941
Agriculture.....	—	—	—	—
Total expenditures.....	<u>46,102</u>	<u>81,465</u>	<u>10,982</u>	<u>77,941</u>
Excess revenues over (under) expenditures..	<u>146,018</u>	<u>2,764</u>	<u>16,487</u>	<u>19,236</u>
Other Financing Sources (Uses)				
Sale of capital assets.....	—	91	—	—
Insurance recoveries.....	—	55	—	—
Transfers in.....	—	202	—	—
Transfers out.....	(25,256)	(2,727)	(4,495)	—
Total other financing sources (uses).....	<u>(25,256)</u>	<u>(2,379)</u>	<u>(4,495)</u>	<u>—</u>
Net change in fund balances.....	120,762	385	11,992	19,236
Fund balances — July 1, as restated.....	797,887	30,506	64,530	101,118
Fund balances — June 30.....	<u>\$ 918,649</u>	<u>\$ 30,891</u>	<u>\$ 76,522</u>	<u>\$ 120,354</u>

Exhibit C-4

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 8,954	\$ —	\$ 8,954
7,539	—	25,359
11,648	16,599	122,552
6,471	73,632	80,103
2,195	7,617	9,812
2,222	2,457	30,062
74	55,721	140,410
23	2,002	2,279
107,979	95,137	212,765
15,870	21,460	37,330
—	—	168,851
388	5,346	5,852
<u>163,363</u>	<u>279,971</u>	<u>844,329</u>
—	56,223	56,223
—	83	46,185
—	78,118	78,118
—	3,941	3,941
171,104	4,034	186,120
—	115,665	275,071
—	21,647	21,647
<u>171,104</u>	<u>279,711</u>	<u>667,305</u>
<u>(7,741)</u>	<u>260</u>	<u>177,024</u>
—	133	224
—	2	57
25,305	67,916	93,423
(6,916)	(80,756)	(120,150)
<u>18,389</u>	<u>(12,705)</u>	<u>(26,446)</u>
10,648	(12,445)	150,578
229,634	336,872	1,560,547
<u>\$ 240,282</u>	<u>\$ 324,427</u>	<u>\$ 1,711,125</u>

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Escheat Fund			Correction Enterprises Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund		
	Final		Variance	Final		Variance	Final		Variance
	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget	Budget	Actual	with Final Budget
Revenues									
Departmental:									
Federal funds.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Local funds.....	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations.....	—	—	—	—	—	—	—	—	—
Intra-governmental transactions...	—	—	—	202	202	—	16,792	16,791	(1)
Sales and services.....	—	—	—	91,029	83,648	(7,381)	—	—	—
Sale, rental, and lease of property	—	—	—	635	301	(334)	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	10,078	9,579	(499)
Contributions, gifts, and grants....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	241,249	218,641	(22,608)	136	118	(18)	—	—	—
Total revenues.....	241,249	218,641	(22,608)	92,002	84,269	(7,733)	26,870	26,370	(500)
Expenditures									
Current:									
General government.....	—	—	—	—	—	—	—	—	—
Higher education.....	74,451	74,430	21	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources.....	—	—	—	—	—	—	53,715	15,714	38,001
Public safety and corrections.....	—	—	—	92,037	88,024	4,013	—	—	—
Agriculture.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	74,451	74,430	21	92,037	88,024	4,013	53,715	15,714	38,001
Excess revenues over (under) expenditures	<u>\$166,798</u>	<u>144,211</u>	<u>\$ (22,587)</u>	<u>\$ (35)</u>	<u>(3,755)</u>	<u>\$ (3,720)</u>	<u>\$ (26,845)</u>	<u>10,656</u>	<u>\$ 37,501</u>
Fund balances (budgetary basis)									
at July 1.....		<u>803,785</u>			<u>14,156</u>			<u>62,628</u>	
Fund balances (budgetary basis)									
at June 30.....		<u>\$ 947,996</u>			<u>\$ 10,401</u>			<u>\$ 73,284</u>	

Exhibit C-5

911 Fund			Environment Management Protection Funds			Departmental Funds			Total Nonmajor Special Revenue Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
\$ —	\$ —	\$ —	\$ 9,031	\$ 6,739	\$ (2,292)	\$ 108,049	\$ 73,645	\$ (34,404)	\$ 117,080	\$ 80,384	\$ (36,696)
—	—	—	2,195	2,195	—	8,440	7,514	(926)	10,635	9,709	(926)
—	—	—	16,967	15,445	(1,522)	22,226	17,217	(5,009)	39,193	32,662	(6,531)
16,162	16,162	—	70,689	63,732	(6,957)	102,678	95,166	(7,512)	206,523	192,053	(14,470)
792	759	(33)	26	74	48	63,914	55,454	(8,460)	155,761	139,935	(15,826)
—	—	—	23	23	—	2,399	2,131	(268)	3,057	2,455	(602)
93,257	93,072	(185)	111,410	108,162	(3,248)	97,462	78,734	(18,728)	312,207	289,547	(22,660)
—	—	—	229	229	—	5,142	4,227	(915)	5,371	4,456	(915)
1,486	2,089	603	2,666	1,532	(1,134)	26,567	21,144	(5,423)	272,104	243,524	(28,580)
<u>111,697</u>	<u>112,082</u>	<u>385</u>	<u>213,236</u>	<u>198,131</u>	<u>(15,105)</u>	<u>436,877</u>	<u>355,232</u>	<u>(81,645)</u>	<u>1,121,931</u>	<u>994,725</u>	<u>(127,206)</u>
—	—	—	—	—	—	83,474	67,130	16,344	83,474	67,130	16,344
—	—	—	—	—	—	1,270	713	557	75,721	75,143	578
—	—	—	—	—	—	155,567	102,819	52,748	155,567	102,819	52,748
—	—	—	—	—	—	6,257	4,076	2,181	6,257	4,076	2,181
—	—	—	244,223	187,569	56,654	6,511	4,520	1,991	304,449	207,803	96,646
138,259	90,725	47,534	—	—	—	224,617	184,122	40,495	454,913	362,871	92,042
—	—	—	—	—	—	28,377	24,560	3,817	28,377	24,560	3,817
<u>138,259</u>	<u>90,725</u>	<u>47,534</u>	<u>244,223</u>	<u>187,569</u>	<u>56,654</u>	<u>506,073</u>	<u>387,940</u>	<u>118,133</u>	<u>1,108,758</u>	<u>844,402</u>	<u>264,356</u>
<u>\$ (26,562)</u>	21,357	<u>\$ 47,919</u>	<u>\$ (30,987)</u>	10,562	<u>\$ 41,549</u>	<u>\$ (69,196)</u>	(32,708)	<u>\$ 36,488</u>	<u>\$ 13,173</u>	150,323	<u>\$ 137,150</u>
	<u>97,316</u>			<u>216,691</u>			<u>333,223</u>			<u>1,527,799</u>	
	<u>\$ 118,673</u>			<u>\$ 227,253</u>			<u>\$ 300,515</u>			<u>\$ 1,678,122</u>	

THIS PAGE INTENTIONALLY LEFT BLANK.



NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets, as well as capital grants to component units and other governmental entities. They are financed principally by debt proceeds and transfers from the General Fund.

The following activities are included in the nonmajor capital projects funds:

Non-Debt Supported Fund

Debt Supported Fund

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2020

Exhibit C-6

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Assets			
Securities lending collateral.....	\$ 1,726	\$ —	\$ 1,726
Receivables, net:			
Accounts receivable.....	37	—	37
Intergovernmental receivable.....	569	—	569
Interest receivable.....	109	52	161
Notes receivable, net.....	29,812	34,485	64,297
Restricted/designated cash and cash equivalents.....	353,906	1,259	355,165
Restricted investments.....	—	516,460	516,460
Total Assets.....	<u>\$ 386,159</u>	<u>\$ 552,256</u>	<u>\$ 938,415</u>
Liabilities			
Accounts payable and accrued liabilities:			
Accounts payable.....	\$ 17,137	\$ 8,973	\$ 26,110
Intergovernmental payable.....	390	8,811	9,201
Obligations under securities lending.....	1,726	—	1,726
Due to component units.....	11,017	—	11,017
Total Liabilities.....	<u>30,270</u>	<u>17,784</u>	<u>48,054</u>
Fund Balances			
Restricted.....	5,140	534,472	539,612
Committed.....	350,077	—	350,077
Assigned.....	672	—	672
Total Fund Balances.....	<u>355,889</u>	<u>534,472</u>	<u>890,361</u>
Total Liabilities and Fund Balances.....	<u>\$ 386,159</u>	<u>\$ 552,256</u>	<u>\$ 938,415</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS**

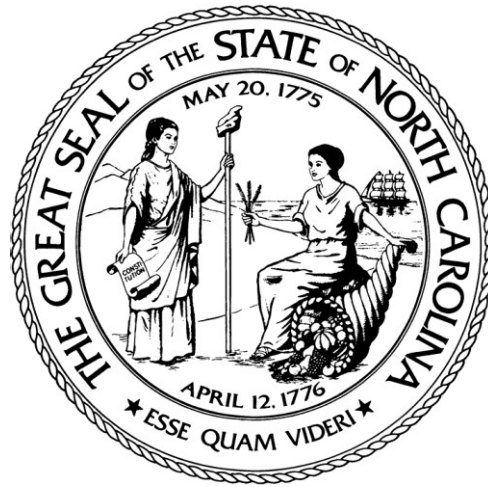
For the Fiscal Year Ended June 30, 2020

Exhibit C-7

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Revenues			
Federal funds.....	\$ 18,410	\$ —	\$ 18,410
Investment earnings.....	1,410	7,826	9,236
Interest earnings on loans.....	251	15	266
Sales and services.....	2,626	—	2,626
Rental and lease of property.....	10	—	10
Fees, licenses, and fines.....	2,033	—	2,033
Contributions, gifts, and grants.....	19,358	—	19,358
Miscellaneous.....	1,077	—	1,077
Total revenues.....	<u>45,175</u>	<u>7,841</u>	<u>53,016</u>
Expenditures			
Current:			
General government.....	—	224	224
Higher education.....	1,363	374,487	375,850
Environment and natural resources.....	19,948	24,569	44,517
Capital outlay.....	138,125	67,216	205,341
Debt service:			
Interest and fees.....	—	34	34
Debt issuance costs.....	—	986	986
Total expenditures.....	<u>159,436</u>	<u>467,516</u>	<u>626,952</u>
Excess revenues over (under) expenditures.....	<u>(114,261)</u>	<u>(459,675)</u>	<u>(573,936)</u>
Other Financing Sources (Uses)			
General obligation bonds issued.....	—	600,000	600,000
Premium on debt issued.....	—	82,392	82,392
Insurance recoveries.....	492	—	492
Transfers in.....	19,878	1	19,879
Transfers out.....	<u>(896)</u>	<u>(10,485)</u>	<u>(11,381)</u>
Total other financing sources (uses).....	<u>19,474</u>	<u>671,908</u>	<u>691,382</u>
Net change in fund balances.....	<u>(94,787)</u>	<u>212,233</u>	<u>117,446</u>
Fund balances — July 1.....	450,676	322,239	772,915
Fund balances — June 30.....	<u>\$ 355,889</u>	<u>\$ 534,472</u>	<u>\$ 890,361</u>

THIS PAGE INTENTIONALLY LEFT BLANK.



NONMAJOR PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

June 30, 2020

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents.....	\$ —	\$ 50	\$ 50
Securities lending collateral.....	76	366	442
Receivables, net:			
Interest receivable.....	3	16	19
Restricted/designated cash and cash equivalents.....	3,576	16,727	20,303
Restricted investments.....	135,301	—	135,301
Total Assets.....	<u>\$ 138,956</u>	<u>\$ 17,159</u>	<u>\$ 156,115</u>
Liabilities			
Obligations under securities lending.....	\$ 76	\$ 366	\$ 442
Fund Balances			
Nonspendable.....	107,539	12,870	120,409
Restricted.....	31,341	50	31,391
Committed.....	—	3,873	3,873
Total Fund Balances.....	<u>138,880</u>	<u>16,793</u>	<u>155,673</u>
Total Liabilities and Fund Balances.....	<u>\$ 138,956</u>	<u>\$ 17,159</u>	<u>\$ 156,115</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS**

For the Fiscal Year Ended June 30, 2020

Exhibit C-9

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues			
Investment earnings	\$ 2,558	\$ 309	\$ 2,867
Fees, licenses, and fines.....	4,625	1,257	5,882
Contributions, gifts, and grants.....	39	—	39
Total revenues.....	<u>7,222</u>	<u>1,566</u>	<u>8,788</u>
Expenditures			
Current:			
Environment and natural resources.....	1	48	49
Total expenditures.....	<u>1</u>	<u>48</u>	<u>49</u>
Excess revenues over expenditures.....	<u>7,221</u>	<u>1,518</u>	<u>8,739</u>
Other Financing Sources (Uses)			
Transfers out.....	(2,153)	—	(2,153)
Net change in fund balances.....	5,068	1,518	6,586
Fund balances — July 1, as restated.....	133,812	15,275	149,087
Fund balances — June 30.....	<u>\$ 138,880</u>	<u>\$ 16,793</u>	<u>\$ 155,673</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)
NONMAJOR PERMANENT FUNDS**

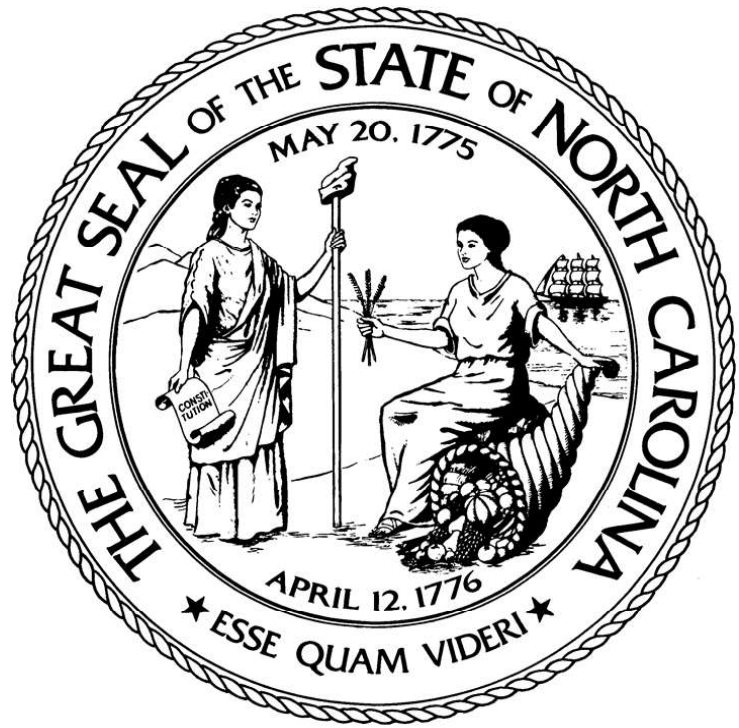
For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:						
Departmental:						
Intra-governmental transactions.....	\$ 2,195	\$ 2,447	\$ 252	\$ —	\$ —	\$ —
Fees, licenses, and fines.....	2,407	4,624	2,217	1,271	1,256	(15)
Contributions, gifts, and grants.....	7	39	32	—	—	—
Miscellaneous.....	4,265	9,693	5,428	304	308	4
Total revenues.....	<u>8,874</u>	<u>16,803</u>	<u>7,929</u>	<u>1,575</u>	<u>1,564</u>	<u>(11)</u>
Expenditures:						
Current:						
Environmental and natural resources.....	4,849	4,600	249	51	38	13
Total expenditures.....	<u>4,849</u>	<u>4,600</u>	<u>249</u>	<u>51</u>	<u>38</u>	<u>13</u>
Excess revenues over (under) expenditures	<u>\$ 4,025</u>	12,203	<u>\$ 8,178</u>	<u>\$ 1,524</u>	1,526	<u>\$ 2</u>
Fund balances (budgetary basis)						
at July 1, as restated.....		126,674			15,250	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 138,877</u>			<u>\$ 16,776</u>	

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
\$ 2,195	\$ 2,447	\$ 252
3,678	5,880	2,202
7	39	32
<u>4,569</u>	<u>10,001</u>	<u>5,432</u>
<u>10,449</u>	<u>18,367</u>	<u>7,918</u>
<u>4,900</u>	<u>4,638</u>	<u>262</u>
<u>4,900</u>	<u>4,638</u>	<u>262</u>
<u>\$ 5,549</u>	<u>13,729</u>	<u>\$ 8,180</u>
	 <u>141,924</u>	
	 <u>\$ 155,653</u>	

THIS PAGE INTENTIONALLY LEFT BLANK.



PROPRIETARY FUNDS

THIS PAGE INTENTIONALLY LEFT BLANK.



NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for and report activities for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

- Public School Insurance
- North Carolina State Fair
- USS North Carolina Battleship Commission
- Agricultural Farmers Market
- Workers' Compensation
- Utilities Commission
- State Banking Commission
- ABC Commission
- Occupational Licensing Boards
- Departmental Funds

**COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS**

June 30, 2020

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market
Assets				
Current Assets				
Cash and cash equivalents.....	\$ 6,111	\$ 5,292	\$ 5,659	\$ 3,754
Investments.....	99,414	—	—	—
Securities lending collateral.....	134	—	95	—
Receivables:				
Accounts receivable, net.....	5,323	36	50	4
Intergovernmental receivable.....	—	—	—	—
Interest receivable.....	14	—	—	—
Premiums receivable.....	173	—	—	—
Due from other funds.....	—	—	—	—
Notes receivable.....	—	—	—	—
Inventories.....	—	133	268	17
Prepaid items.....	10,833	—	254	—
Restricted cash and cash equivalents.....	—	—	588	—
Total current assets.....	<u>122,002</u>	<u>5,461</u>	<u>6,914</u>	<u>3,775</u>
Noncurrent Assets				
Investments.....	—	—	—	—
Notes receivable.....	—	—	—	—
Prepaid items.....	—	—	—	—
Restricted/designated cash and cash equivalents.....	—	—	—	—
Net OPEB asset.....	1	8	1	2
Capital assets-nondepreciable.....	—	1,345	358	3,740
Capital assets-depreciable, net.....	—	11,609	5,485	5,500
Total noncurrent assets.....	<u>1</u>	<u>12,962</u>	<u>5,844</u>	<u>9,242</u>
Total Assets.....	<u>122,003</u>	<u>18,423</u>	<u>12,758</u>	<u>13,017</u>
Deferred Outflows of Resources				
Deferred outflows for pensions.....	108	1,036	400	257
Deferred outflows for OPEB.....	140	1,395	454	201
Total Deferred Outflows of Resources.....	<u>248</u>	<u>2,431</u>	<u>854</u>	<u>458</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	19	76	447	23
Accrued payroll.....	—	15	5	6
Intergovernmental payable.....	3	24	—	14
Claims payable.....	8,667	—	—	—
Obligations under securities lending.....	134	—	95	—
Due to other funds.....	—	—	—	—
Unearned revenue.....	2,425	2,542	55	—
Deposits payable.....	—	—	—	—
Short-term debt.....	—	—	—	—
Notes from direct borrowings.....	—	—	—	—
Capital leases payable.....	—	—	—	—
Compensated absences.....	4	25	21	9
Total current liabilities.....	<u>11,252</u>	<u>2,682</u>	<u>623</u>	<u>52</u>

Exhibit D-1

<u>Workers' Compensation</u>	<u>Utilities Commission</u>	<u>State Banking Commission</u>	<u>ABC Commission</u>	<u>Occupational Licensing Boards</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 44,479	\$ 8,052	\$ 5,210	\$ 20,563	\$ 56,786	\$ 5,870	\$ 161,776
15,427	—	—	—	36,431	—	151,272
911	149	—	—	408	81	1,778
—	3,457	20	193	689	59	9,831
—	—	—	1,735	—	—	1,735
38	8	—	—	602	4	666
—	—	—	—	—	—	173
2,338	617	—	—	—	—	2,955
—	—	—	—	5	—	5
—	32	—	4	83	119	656
—	—	—	—	1,065	—	12,152
—	—	—	—	1,296	—	1,884
<u>63,193</u>	<u>12,315</u>	<u>5,230</u>	<u>22,495</u>	<u>97,365</u>	<u>6,133</u>	<u>344,883</u>
—	—	—	—	25,084	—	25,084
—	—	—	—	256	—	256
—	—	—	—	19	—	19
—	—	—	—	2,687	—	2,687
—	21	15	6	3	6	63
—	—	—	550	10,963	1,867	18,823
—	138	33	1,593	35,458	10,449	70,265
—	159	48	2,149	74,470	12,322	117,197
<u>63,193</u>	<u>12,474</u>	<u>5,278</u>	<u>24,644</u>	<u>171,835</u>	<u>18,455</u>	<u>462,080</u>
—	3,261	2,177	727	481	945	9,392
—	4,519	2,032	1,144	790	1,895	12,570
—	7,780	4,209	1,871	1,271	2,840	21,962
—	25	71	1,438	9,024	111	11,234
—	—	—	—	49	3	78
—	—	—	—	—	7	48
22,017	—	—	—	12	—	30,696
911	149	—	—	408	81	1,778
—	—	—	7	25	—	32
3,906	—	—	—	34,209	204	43,341
—	—	—	—	—	94	94
—	—	—	—	4,112	—	4,112
—	—	—	—	683	—	683
—	—	—	—	31	—	31
—	93	70	29	933	30	1,214
<u>26,834</u>	<u>267</u>	<u>141</u>	<u>1,474</u>	<u>49,486</u>	<u>530</u>	<u>93,341</u>

Continued

**COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS (Continued)**

June 30, 2020

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market
Noncurrent Liabilities				
Accounts payable.....	—	—	—	—
Notes from direct borrowings.....	—	—	—	—
Capital leases payable.....	—	—	—	—
Compensated absences.....	96	587	120	202
Workers compensation.....	—	26	—	17
Net pension liability.....	215	2,197	843	586
Net OPEB liability.....	566	5,866	1,879	1,565
Total noncurrent liabilities.....	<u>877</u>	<u>8,676</u>	<u>2,842</u>	<u>2,370</u>
Total Liabilities.....	<u>12,129</u>	<u>11,358</u>	<u>3,465</u>	<u>2,422</u>
Deferred Inflows of Resources				
Deferred inflows for pensions.....	11	86	187	28
Deferred inflows for OPEB.....	375	2,751	1,158	748
Total Deferred Inflows of Resources.....	<u>386</u>	<u>2,837</u>	<u>1,345</u>	<u>776</u>
Net Position				
Net investment in capital assets.....	—	12,954	5,843	9,240
Restricted for:				
Expendable:				
Economic development.....	—	—	—	—
Environment and natural resources.....	—	—	—	—
Public safety, corrections, and regulation.....	—	—	—	—
Agriculture.....	—	5	—	2
Capital projects/repairs and renovations.....	—	—	588	—
Other purposes.....	—	—	7	—
Unrestricted.....	109,736	(6,300)	2,364	1,035
Total Net Position.....	<u>\$ 109,736</u>	<u>\$ 6,659</u>	<u>\$ 8,802</u>	<u>\$ 10,277</u>

Exhibit D-1

Workers' Compensation	Utilities Commission	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
—	—	—	—	3,004	—	3,004
—	—	—	—	10,742	—	10,742
—	—	—	—	63	—	63
—	1,991	1,512	410	1,850	602	7,370
—	—	—	—	—	23	66
—	5,844	4,298	1,607	900	1,763	18,253
—	15,129	11,126	4,342	2,353	4,640	47,466
—	22,964	16,936	6,359	18,912	7,028	86,964
26,834	23,231	17,077	7,833	68,398	7,558	180,305
—	178	115	63	72	122	862
—	8,480	6,008	2,036	1,558	2,681	25,795
—	8,658	6,123	2,099	1,630	2,803	26,657
—	138	33	2,143	34,844	12,316	77,511
—	11	12	—	—	—	23
—	—	—	—	—	2	2
—	—	—	4	1	—	5
—	—	—	—	—	1	8
—	—	—	—	—	—	588
—	—	—	—	2,329	—	2,336
36,359	(11,784)	(13,758)	14,436	65,904	(1,385)	196,607
\$ 36,359	\$ (11,635)	\$ (13,713)	\$ 16,583	\$ 103,078	\$ 10,934	\$ 277,080

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS**

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market
Operating Revenues				
Sales and services.....	\$ —	\$ 364	\$ 717	\$ 28
Student tuition and fees, net.....	—	—	—	—
Rental and lease earnings.....	—	5,517	82	1,164
Fees, licenses, and fines.....	—	10,616	1,953	2,022
Insurance premiums.....	12,399	—	—	—
Miscellaneous.....	—	7	148	2
Total operating revenues.....	<u>12,399</u>	<u>16,504</u>	<u>2,900</u>	<u>3,216</u>
Operating Expenses				
Personal services.....	567	7,102	2,154	1,514
Supplies and materials.....	2	924	117	133
Services.....	49	5,411	1,185	875
Cost of goods sold.....	—	37	257	—
Depreciation.....	—	1,043	190	476
Claims.....	35,558	—	—	—
Insurance and bonding.....	6,396	201	26	95
Other.....	—	1,263	122	30
Total operating expenses.....	<u>42,572</u>	<u>15,981</u>	<u>4,051</u>	<u>3,123</u>
Operating income (loss).....	<u>(30,173)</u>	<u>523</u>	<u>(1,151)</u>	<u>93</u>
Nonoperating Revenues (Expenses)				
Noncapital grants.....	—	—	—	—
Noncapital gifts, net.....	—	584	264	—
Investment earnings.....	4,153	—	45	—
Interest and fees.....	—	—	—	—
Insurance recoveries.....	31,573	—	—	—
Loss on sale of equipment.....	—	—	—	—
Miscellaneous.....	(9)	71	104	5
Total nonoperating revenues (expenses).....	<u>35,717</u>	<u>655</u>	<u>413</u>	<u>5</u>
Income (loss) before contributions and transfers.....	5,544	1,178	(738)	98
Capital contributions.....	—	36	328	—
Transfers in.....	—	—	—	—
Transfers out.....	—	(319)	—	(3)
Change in net position.....	5,544	895	(410)	95
Net position — July 1, as restated.....	104,192	5,764	9,212	10,182
Net position — June 30.....	<u>\$ 109,736</u>	<u>\$ 6,659</u>	<u>\$ 8,802</u>	<u>\$ 10,277</u>

Exhibit D-2

Workers' Compensation	Utilities Commission	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ —	\$ 19	\$ —	\$ 1	\$ 80	\$ 144	\$ 1,353
—	—	—	—	15	—	15
—	—	—	—	—	1,398	8,161
—	19,093	11,166	20,314	87,603	4,331	157,098
7,131	—	—	—	—	—	19,530
—	347	22	8	1,216	33	1,783
<u>7,131</u>	<u>19,459</u>	<u>11,188</u>	<u>20,323</u>	<u>88,914</u>	<u>5,906</u>	<u>187,940</u>
—	14,875	10,990	3,543	47,829	4,995	93,569
—	458	248	506	1,164	562	4,114
941	980	1,220	15,226	22,590	1,784	50,261
—	—	—	—	—	62	356
—	18	6	117	2,430	294	4,574
7,876	—	—	—	546	—	43,980
—	—	—	19	434	102	7,273
—	781	750	342	5,938	422	9,648
<u>8,817</u>	<u>17,112</u>	<u>13,214</u>	<u>19,753</u>	<u>80,931</u>	<u>8,221</u>	<u>213,775</u>
<u>(1,686)</u>	<u>2,347</u>	<u>(2,026)</u>	<u>570</u>	<u>7,983</u>	<u>(2,315)</u>	<u>(25,835)</u>
—	23	—	—	—	—	23
—	—	—	—	—	905	1,753
2,086	176	—	—	3,250	73	9,783
—	—	—	—	(376)	—	(376)
—	—	—	—	—	5	31,578
—	(45)	(5)	—	(37)	(4)	(91)
(25)	(4)	—	—	(24)	9	127
<u>2,061</u>	<u>150</u>	<u>(5)</u>	<u>—</u>	<u>2,813</u>	<u>988</u>	<u>42,797</u>
375	2,497	(2,031)	570	10,796	(1,327)	16,962
—	—	—	—	—	—	364
8,546	467	—	—	—	691	9,704
—	(260)	(154)	—	—	(50)	(786)
<u>8,921</u>	<u>2,704</u>	<u>(2,185)</u>	<u>570</u>	<u>10,796</u>	<u>(686)</u>	<u>26,244</u>
<u>27,438</u>	<u>(14,339)</u>	<u>(11,528)</u>	<u>16,013</u>	<u>92,282</u>	<u>11,620</u>	<u>250,836</u>
<u>\$ 36,359</u>	<u>\$ (11,635)</u>	<u>\$ (13,713)</u>	<u>\$ 16,583</u>	<u>\$ 103,078</u>	<u>\$ 10,934</u>	<u>\$ 277,080</u>

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market
Cash Flows From Operating Activities				
Receipts from customers.....	\$ 11,955	\$ 16,729	\$ 3,076	\$ 3,233
Payments to suppliers.....	(13,600)	(8,019)	(1,929)	(1,217)
Payments to employees.....	(585)	(7,242)	(2,026)	(1,501)
Payments for prizes, benefits, and claims.....	(33,118)	—	—	—
Other receipts.....	—	77	—	7
Other payments.....	—	—	—	—
Net cash provided by (used for) operating activities.....	<u>(35,348)</u>	<u>1,545</u>	<u>(879)</u>	<u>522</u>
Cash Flows From Noncapital Financing Activities				
Grant receipts.....	—	—	—	—
Grants, aid, and subsidies.....	—	24	—	13
Transfers from other funds.....	—	—	—	—
Transfers to other funds.....	—	(319)	—	(2)
Gifts.....	—	584	305	—
Insurance recoveries.....	31,573	—	—	—
Net cash provided by (used for) noncapital financing activities.....	<u>31,573</u>	<u>289</u>	<u>305</u>	<u>11</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets.....	—	—	(257)	—
Proceeds from the sale of capital assets.....	—	—	—	—
Proceeds from capital debt.....	—	—	—	—
Capital contributions.....	—	—	327	—
Principal paid on capital debt.....	—	—	—	—
Interest paid on capital debt.....	—	—	—	—
Net cash provided by (used for) capital and related financing activities.....	<u>—</u>	<u>—</u>	<u>70</u>	<u>—</u>
Cash Flows From Investing Activities				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	—
Purchase of non-State Treasurer investments.....	—	—	—	—
Investment earnings.....	268	—	44	—
Net cash provided by (used for) investment activities.....	<u>268</u>	<u>—</u>	<u>44</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents.....	(3,507)	1,834	(460)	533
Cash and cash equivalents at July 1.....	9,618	3,458	6,707	3,221
Cash and cash equivalents at June 30.....	<u>\$ 6,111</u>	<u>\$ 5,292</u>	<u>\$ 6,247</u>	<u>\$ 3,754</u>

Exhibit D-3

Workers' Compensation	Utilities Commission	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 5,116	\$ 15,664	\$ 11,232	\$ 20,548	\$ 87,683	\$ 5,842	\$ 181,078
(901)	(2,295)	(2,205)	(15,767)	(16,562)	(2,933)	(65,428)
—	(14,812)	(11,262)	(3,395)	(43,907)	(4,635)	(89,365)
(7,587)	—	—	—	—	—	(40,705)
—	329	9	—	1,561	41	2,024
—	—	—	—	(15,964)	—	(15,964)
<u>(3,372)</u>	<u>(1,114)</u>	<u>(2,226)</u>	<u>1,386</u>	<u>12,811</u>	<u>(1,685)</u>	<u>(28,360)</u>
—	23	—	—	—	6	29
—	—	—	—	—	—	37
8,546	467	—	—	—	691	9,704
—	(260)	(154)	—	—	(50)	(785)
—	—	—	—	—	905	1,794
—	—	—	—	—	5	31,578
<u>8,546</u>	<u>230</u>	<u>(154)</u>	<u>—</u>	<u>—</u>	<u>1,557</u>	<u>42,357</u>
—	—	—	(111)	(6,466)	(23)	(6,857)
—	—	—	—	240	—	240
—	—	—	—	4,112	—	4,112
—	—	—	—	—	—	327
—	—	—	—	(682)	—	(682)
—	—	—	—	(374)	—	(374)
<u>—</u>	<u>—</u>	<u>—</u>	<u>(111)</u>	<u>(3,170)</u>	<u>(23)</u>	<u>(3,234)</u>
—	—	—	—	21,953	—	21,953
—	—	—	—	(28,493)	—	(28,493)
760	179	—	—	1,809	73	3,133
<u>760</u>	<u>179</u>	<u>—</u>	<u>—</u>	<u>(4,731)</u>	<u>73</u>	<u>(3,407)</u>
5,934	(705)	(2,380)	1,275	4,910	(78)	7,356
38,545	8,757	7,590	19,288	55,859	5,948	158,991
<u>\$ 44,479</u>	<u>\$ 8,052</u>	<u>\$ 5,210</u>	<u>\$ 20,563</u>	<u>\$ 60,769</u>	<u>\$ 5,870</u>	<u>\$ 166,347</u>

Continued

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS (Continued)**

For the Fiscal Year Ended June 30, 2020

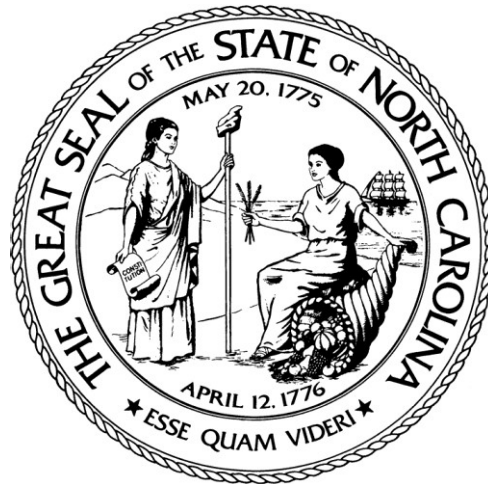
(Dollars in Thousands)

	<u>Public School Insurance</u>	<u>North Carolina State Fair</u>	<u>USS North Carolina Battleship Commission</u>	<u>Agricultural Farmers Market</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities				
Operating income (loss).....	\$ (30,173)	\$ 523	\$ (1,151)	\$ 93
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation.....	—	1,043	190	476
Nonoperating miscellaneous income (expense).....	—	71	124	5
Change in assets and deferred outflows:				
Receivables.....	2,485	207	(18)	19
Due from other funds.....	—	—	—	—
Inventories.....	—	3	3	5
Prepaid items.....	(7,155)	—	(88)	—
Net OPEB asset.....	—	(2)	—	—
Deferred outflows for pensions.....	26	466	(41)	110
Deferred outflows for OPEB.....	(66)	(25)	70	(51)
Change in liabilities and deferred inflows:				
Accounts payable and accrued liabilities.....	2,442	(188)	(56)	(87)
Due to other funds.....	—	—	—	—
Compensated absences.....	21	53	7	19
Workers' compensation.....	—	23	—	10
Unearned revenue.....	(2,929)	24	(5)	—
Net pension liability.....	2	(105)	122	(44)
Net OPEB liability.....	39	167	(430)	6
Deferred inflows for pensions.....	(36)	28	20	20
Deferred inflows for OPEB.....	(4)	(370)	374	(59)
Deposits payable.....	—	(373)	—	—
Net cash provided by (used for) operations.....	<u>\$ (35,348)</u>	<u>\$ 1,545</u>	<u>\$ (879)</u>	<u>\$ 522</u>
Noncash Investing, Capital, and Financing Activities				
Noncash distributions from the State Treasurer				
Bond Index External Investment Pool and/or other agents....	\$ 2,425	\$ —	\$ —	\$ —
Donated or transferred assets.....	—	36	—	—
Capital asset writeoff.....	—	—	(18)	—
Assets acquired through the assumption of a liability.....	—	—	—	—
Change in fair value of investments.....	1,453	—	—	—
Change in securities lending collateral.....	(448)	—	(49)	—

Exhibit D-3

<u>Workers' Compensation</u>	<u>Utilities Commission</u>	<u>State Banking Commission</u>	<u>ABC Commission</u>	<u>Occupational Licensing Boards</u>	<u>Departmental Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ (1,686)	\$ 2,347	\$ (2,026)	\$ 570	\$ 7,983	\$ (2,315)	\$ (25,835)
—	18	6	117	2,430	294	4,574
—	2	—	—	88	11	301
16	(3,448)	66	233	(36)	8	(468)
(2,337)	—	—	—	—	—	(2,337)
—	—	—	(3)	—	(4)	4
39	—	—	—	(185)	—	(7,389)
—	(6)	(4)	(2)	—	(2)	(16)
—	621	579	162	9	374	2,306
—	(1,090)	(413)	(387)	(237)	46	(2,153)
289	(77)	13	331	2,323	(11)	4,979
—	—	—	(3)	(12)	—	(15)
—	445	209	19	306	67	1,146
—	—	—	—	—	23	56
307	—	—	—	(82)	(39)	(2,724)
—	282	49	142	152	(56)	544
—	1,718	881	685	259	204	3,529
—	(215)	(134)	(42)	(46)	(30)	(435)
—	(1,711)	(1,452)	(436)	(141)	(349)	(4,148)
—	—	—	—	—	94	(279)
<u>\$ (3,372)</u>	<u>\$ (1,114)</u>	<u>\$ (2,226)</u>	<u>\$ 1,386</u>	<u>\$ 12,811</u>	<u>\$ (1,685)</u>	<u>\$ (28,360)</u>
\$ 363	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,788
—	—	—	—	—	—	36
—	(91)	(3)	—	(116)	4	(224)
—	—	—	—	181	—	181
954	—	—	—	295	—	2,702
(1,475)	(436)	—	—	(705)	(160)	(3,273)

THIS PAGE INTENTIONALLY LEFT BLANK.



INTERNAL SERVICE FUNDS

The internal service funds are used to account for and report the operations of state agencies that provide services to other state agencies, component units, or other governments on a cost reimbursement basis.

The following activities are included in the internal service funds:

Department of Administration:

Motor Fleet Management
Mail Service Center
Temporary Solutions
Surplus Property

Department of Information Technology:

Computing Services
State Telecommunications Services

Department of Insurance:

State Property Fire Insurance

COMBINING STATEMENT OF NET POSITION INTERNAL SERVICE FUNDS

June 30, 2020

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Assets					
Current Assets					
Cash and cash equivalents.....	\$ 23,061	\$ 21,540	\$ 934	\$ 19,798	\$ 23,654
Investments.....	32,465	—	—	—	—
Securities lending collateral.....	502	—	—	—	—
Receivables:					
Accounts receivable, net.....	3,945	2,821	525	8,689	2,547
Interest receivable.....	25	—	—	—	—
Premiums receivable.....	2,697	—	—	—	—
Due from other funds.....	—	1,581	—	1,363	5,357
Inventories.....	—	67	89	—	1
Prepaid items.....	—	—	—	—	—
Total current assets.....	<u>62,695</u>	<u>26,009</u>	<u>1,548</u>	<u>29,850</u>	<u>31,559</u>
Noncurrent Assets					
Net OPEB asset.....	3	2	3	2	144
Capital assets-nondepreciable.....	—	288	—	—	3,089
Capital assets-depreciable, net.....	—	108,145	50	6	31,153
Total noncurrent assets.....	<u>3</u>	<u>108,435</u>	<u>53</u>	<u>8</u>	<u>34,386</u>
Total Assets.....	<u>62,698</u>	<u>134,444</u>	<u>1,601</u>	<u>29,858</u>	<u>65,945</u>
Deferred Outflows of Resources:					
Deferred outflows for pensions.....	468	329	365	387	31,020
Deferred outflows for OPEB.....	946	260	229	853	84,376
Total Deferred Outflows of Resources.....	<u>1,414</u>	<u>589</u>	<u>594</u>	<u>1,240</u>	<u>115,396</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	2,926	1,021	56	6	1,699
Accrued payroll.....	—	—	—	4,225	7
Claims payable.....	1,997	—	—	—	—
Obligations under securities lending.....	502	—	—	—	—
Due to other funds.....	8,480	—	101	1	—
Due to component units.....	34,281	—	—	—	—
Unearned revenue.....	9,583	—	—	—	—
Compensated absences.....	17	9	12	7	597
Workers compensation.....	105	—	—	—	225
Total current liabilities.....	<u>57,891</u>	<u>1,030</u>	<u>169</u>	<u>4,239</u>	<u>2,528</u>
Noncurrent Liabilities					
Compensated absences.....	345	166	220	199	14,603
Workers compensation.....	292	—	332	—	991
Net pension liability.....	832	628	742	641	40,872
Net OPEB liability.....	2,174	1,619	1,914	1,653	107,028
Total noncurrent liabilities.....	<u>3,643</u>	<u>2,413</u>	<u>3,208</u>	<u>2,493</u>	<u>163,494</u>
Total Liabilities.....	<u>61,534</u>	<u>3,443</u>	<u>3,377</u>	<u>6,732</u>	<u>166,022</u>
Deferred Inflows of Resources:					
Deferred inflows for pensions.....	63	49	54	15	117
Deferred inflows for OPEB.....	1,285	1,338	1,305	843	40,456
Total Deferred Inflows of Resources.....	<u>1,348</u>	<u>1,387</u>	<u>1,359</u>	<u>858</u>	<u>40,573</u>
Net Position					
Net investment in capital assets.....	—	108,433	50	6	34,242
Restricted for:					
Public safety, corrections, and regulation.....	1	—	—	—	—
Other purposes.....	—	2	2	1	—
Unrestricted.....	1,229	21,768	(2,593)	23,501	(59,496)
Total Net Position.....	<u>\$ 1,230</u>	<u>\$ 130,203</u>	<u>\$ (2,541)</u>	<u>\$ 23,508</u>	<u>\$ (25,254)</u>

Exhibit E-1

State Telecommu- nications Services	Surplus Property	Totals
\$ 11,398	\$ 3,692	\$ 104,077
—	—	32,465
—	—	502
11,320	4	29,851
—	—	25
—	—	2,697
1,296	—	9,597
—	—	157
22	—	22
<u>24,036</u>	<u>3,696</u>	<u>179,393</u>
11	3	168
—	19	3,396
6,207	132	145,693
<u>6,218</u>	<u>154</u>	<u>149,257</u>
<u>30,254</u>	<u>3,850</u>	<u>328,650</u>
2,141	379	35,089
5,419	736	92,819
<u>7,560</u>	<u>1,115</u>	<u>127,908</u>
857	1,693	8,258
—	—	4,232
—	—	1,997
—	—	502
—	—	8,582
—	—	34,281
—	—	9,583
45	6	693
—	—	330
<u>902</u>	<u>1,699</u>	<u>68,458</u>
1,220	106	16,859
—	—	1,615
3,097	668	47,480
8,109	1,724	124,221
<u>12,426</u>	<u>2,498</u>	<u>190,175</u>
<u>13,328</u>	<u>4,197</u>	<u>258,633</u>
917	20	1,235
9,679	965	55,871
<u>10,596</u>	<u>985</u>	<u>57,106</u>
6,207	151	149,089
—	—	1
—	—	5
7,683	(368)	(8,276)
<u>\$ 13,890</u>	<u>\$ (217)</u>	<u>\$ 140,819</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS**

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Operating Revenues					
Sales and services.....	\$ —	\$ 36,932	\$ 3,812	\$ 91,665	\$ 167,368
Fees, licenses, and fines.....	—	—	—	—	4,064
Insurance premiums.....	28,012	—	—	—	—
Miscellaneous.....	—	91	126	—	10
Total operating revenues.....	<u>28,012</u>	<u>37,023</u>	<u>3,938</u>	<u>91,665</u>	<u>171,442</u>
Operating Expenses					
Personal services.....	2,640	1,755	1,882	86,102	129,595
Supplies and materials.....	16	2,797	35	229	8,308
Services.....	246	7,171	810	454	18,525
Cost of goods sold.....	—	222	—	—	—
Depreciation.....	—	15,305	21	—	5,057
Claims.....	15,355	—	—	—	—
Insurance and bonding.....	27,161	1,289	—	—	164
Other.....	177	105	644	126	38,132
Total operating expenses.....	<u>45,595</u>	<u>28,644</u>	<u>3,392</u>	<u>86,911</u>	<u>199,781</u>
Operating income (loss).....	<u>(17,583)</u>	<u>8,379</u>	<u>546</u>	<u>4,754</u>	<u>(28,339)</u>
Nonoperating Revenues (Expenses)					
Investment earnings.....	3,231	—	—	—	—
Insurance recoveries.....	8,906	2	—	—	—
Gain on sale of equipment.....	—	1,521	—	—	—
Miscellaneous.....	1,590	100	—	—	70
Total nonoperating revenues (expenses).....	<u>13,727</u>	<u>1,623</u>	<u>—</u>	<u>—</u>	<u>70</u>
Income (loss) before contributions and transfers.....	(3,856)	10,002	546	4,754	(28,269)
Transfers in.....	—	—	—	—	12,774
Transfers out.....	—	—	—	—	(1,867)
Change in net position.....	<u>(3,856)</u>	<u>10,002</u>	<u>546</u>	<u>4,754</u>	<u>(17,362)</u>
Net position — July 1, as restated.....	5,086	120,201	(3,087)	18,754	(7,892)
Net position — June 30.....	<u>\$ 1,230</u>	<u>\$ 130,203</u>	<u>\$ (2,541)</u>	<u>\$ 23,508</u>	<u>\$ (25,254)</u>

Exhibit E-2

State Telecommu- nications Services	Surplus Property	Totals
\$ 90,862	\$ 1,826	\$ 392,465
—	—	4,064
—	—	28,012
2	149	378
<u>90,864</u>	<u>1,975</u>	<u>424,919</u>
7,114	1,793	230,881
4,010	170	15,565
65,277	292	92,775
—	—	222
2,541	25	22,949
—	—	15,355
47	8	28,669
5,441	188	44,813
<u>84,430</u>	<u>2,476</u>	<u>451,229</u>
<u>6,434</u>	<u>(501)</u>	<u>(26,310)</u>
—	—	3,231
—	—	8,908
—	—	1,521
—	—	1,760
<u>—</u>	<u>—</u>	<u>15,420</u>
6,434	(501)	(10,890)
1,802	—	14,576
<u>(11,719)</u>	<u>—</u>	<u>(13,586)</u>
<u>(3,483)</u>	<u>(501)</u>	<u>(9,900)</u>
17,373	284	150,719
<u>\$ 13,890</u>	<u>\$ (217)</u>	<u>\$ 140,819</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Cash Flows From Operating Activities					
Receipts from customers.....	\$ 17,596	\$ 7,516	\$ 1,528	\$ 876	\$ 6,857
Receipts from other funds.....	14,993	30,051	2,291	89,935	163,837
Payments to suppliers.....	(30,073)	(10,060)	(627)	(350)	(64,465)
Payments to employees.....	(2,167)	(1,938)	(2,066)	(85,240)	(110,573)
Payments for benefits and claims.....	(24,238)	—	—	(454)	—
Payments to other funds.....	—	(1,775)	(861)	(3)	(3,392)
Other receipts.....	1,613	190	126	—	79
Net cash provided by (used for) operating activities.....	<u>(22,276)</u>	<u>23,984</u>	<u>391</u>	<u>4,764</u>	<u>(7,657)</u>
Cash Flows From Noncapital Financing Activities					
Transfers from other funds.....	—	—	—	—	12,774
Transfers to other funds.....	—	—	—	—	(1,867)
Insurance recoveries.....	8,906	2	—	—	—
Net cash provided by (used for) noncapital financing activities.....	<u>8,906</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>10,907</u>
Cash Flows From Capital and Related Financing Activities					
Acquisition and construction of capital assets.....	—	(30,649)	—	(6)	(877)
Proceeds from the sale of capital assets.....	—	3,648	—	—	—
Principal paid on capital debt.....	—	—	—	—	—
Net cash used for capital and related financing activities.....	<u>—</u>	<u>(27,001)</u>	<u>—</u>	<u>(6)</u>	<u>(877)</u>
Cash Flows From Investing Activities					
Redemptions from State Treasurer investment pool.....	6,000	—	—	—	—
Investment earnings.....	688	—	—	—	—
Net cash provided by investment activities.....	<u>6,688</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents.....	(6,682)	(3,015)	391	4,758	2,373
Cash and cash equivalents at July 1.....	29,743	24,555	543	15,040	21,281
Cash and cash equivalents at June 30.....	<u>\$ 23,061</u>	<u>\$ 21,540</u>	<u>\$ 934</u>	<u>\$ 19,798</u>	<u>\$ 23,654</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities					
Operating income (loss).....	\$ (17,583)	\$ 8,379	\$ 546	\$ 4,754	\$ (28,339)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation.....	—	15,305	21	—	5,057
Nonoperating miscellaneous income.....	1,613	99	—	—	69
Change in assets and deferred outflows:					
Receivables.....	3,084	651	7	(4,112)	(20)
Due from other funds.....	—	(15)	—	3,258	(718)
Inventories.....	—	14	2	—	4
Net OPEB asset.....	(1)	(1)	(1)	(1)	(97)
Deferred outflows for pensions.....	272	77	87	35	(13,836)
Deferred outflows for OPEB.....	30	(100)	(130)	(255)	(70,223)
Change in liabilities and deferred inflows:					
Accounts payable and accrued liabilities.....	(3,206)	(266)	(5)	723	(2,798)
Due to other funds.....	2,704	—	4	—	—
Due to component units.....	(10,395)	—	—	—	—
Compensated absences.....	62	75	6	(12)	2,548
Workers' compensation.....	352	(12)	(26)	—	(148)
Unearned revenue.....	896	—	—	—	—
Net pension liability.....	28	25	20	114	22,594
Net OPEB liability.....	238	139	141	361	62,965
Deferred inflows for pensions.....	(43)	(40)	(12)	(8)	(244)
Deferred inflows for OPEB.....	(327)	(346)	(269)	(93)	15,529
Net cash provided by (used for) operations.....	<u>\$ (22,276)</u>	<u>\$ 23,984</u>	<u>\$ 391</u>	<u>\$ 4,764</u>	<u>\$ (7,657)</u>
Noncash Investing, Capital, and Financing Activities					
Noncash distributions from the State Treasurer					
Bond Index External Investment Pool and/or other agents.....	\$ 778	\$ —	\$ —	\$ —	\$ —
Capital asset writeoff.....	—	(13,462)	—	—	—
Change in fair value of investments.....	(1,763)	—	—	—	—
Change in securities lending collateral.....	(1,483)	—	—	—	—

Exhibit E-3

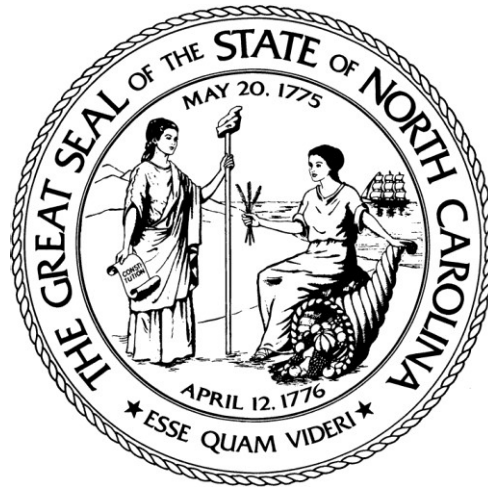
State Telecommu- nications Services	Surplus Property	Totals
\$ 2,649	\$ 569	\$ 37,591
84,369	1,449	386,925
(73,239)	(433)	(179,247)
(7,586)	(1,710)	(211,280)
—	—	(24,692)
(741)	(250)	(7,022)
3	148	2,159
<u>5,455</u>	<u>(227)</u>	<u>4,434</u>
1,802	—	14,576
(11,720)	—	(13,587)
—	—	8,908
<u>(9,918)</u>	<u>—</u>	<u>9,897</u>
(2,577)	—	(34,109)
—	—	3,648
(46)	—	(46)
<u>(2,623)</u>	<u>—</u>	<u>(30,507)</u>
—	—	6,000
—	—	688
—	—	6,688
(7,086)	(227)	(9,488)
18,484	3,919	113,565
<u>\$ 11,398</u>	<u>\$ 3,692</u>	<u>\$ 104,077</u>
\$ 6,434	\$ (501)	\$ (26,310)
2,541	25	22,949
—	—	1,781
(2,564)	193	(2,761)
(1,280)	—	1,245
—	—	20
(2)	(1)	(104)
2	20	(13,343)
(3,846)	(425)	(74,949)
792	(22)	(4,782)
—	(3)	2,705
—	—	(10,395)
246	(2)	2,923
—	—	166
—	—	896
(336)	146	22,591
(167)	440	64,117
645	(17)	281
2,990	(80)	17,404
<u>\$ 5,455</u>	<u>\$ (227)</u>	<u>\$ 4,434</u>
\$ —	\$ —	\$ 778
—	—	(13,462)
—	—	(1,763)
—	—	(1,483)

THIS PAGE INTENTIONALLY LEFT BLANK.



FIDUCIARY FUNDS

THIS PAGE INTENTIONALLY LEFT BLANK.



INVESTMENT TRUST FUNDS

Investment trust funds account for and report the external portion of the Investment Pool and individual investment accounts provided to other, legally separate entities that are not part of the State financial reporting entity.

The following activities are included in the investment trust funds:

State Treasurer Investment Pool
Equity Index Investment Account
Bond Index Investment Pool

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS**

June 30, 2020

*Exhibit F-1**(Dollars in Thousands)*

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index Investment Pool	Totals
Assets				
Cash and cash equivalents.....	\$ 5,719	\$ —	\$ —	\$ 5,719
Investments:				
State Treasurer investment pool.....	800,967	629,534	104,464	1,534,965
Securities lending collateral.....	16,029	858	—	16,887
Receivables:				
Interest receivable.....	2,459	—	—	2,459
Total Assets.....	<u>825,174</u>	<u>630,392</u>	<u>104,464</u>	<u>1,560,030</u>
Liabilities				
Obligations under securities lending.....	<u>16,029</u>	<u>858</u>	<u>—</u>	<u>16,887</u>
Net Position				
Restricted for:				
Pool participants.....	809,145	—	104,464	913,609
Individuals, organizations, and other governments.....	—	629,534	—	629,534
Total Net Position.....	<u>\$ 809,145</u>	<u>\$ 629,534</u>	<u>\$ 104,464</u>	<u>\$ 1,543,143</u>

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION INVESTMENT TRUST FUNDS

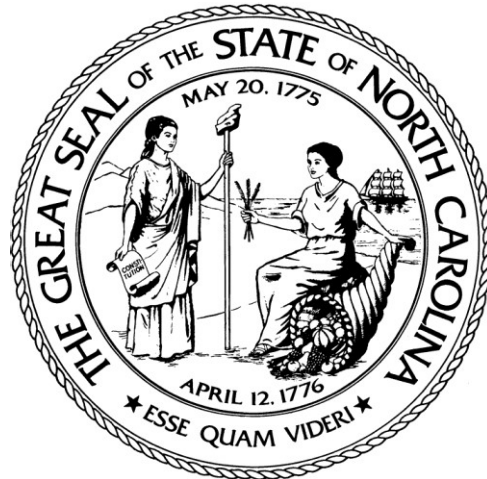
For the Fiscal Year Ended June 30, 2020

Exhibit F-2

(Dollars in Thousands)

	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index Investment Pool	Totals
Additions				
Investment Income:				
Investment earnings	\$ 14,351	\$ 12,775	\$ 8,058	\$ 35,184
Less investment expenses.....	(458)	(98)	(21)	(577)
Net investment income	<u>13,893</u>	<u>12,677</u>	<u>8,037</u>	<u>34,607</u>
Pool share transactions:				
Reinvestment of dividends.....	13,893	12,677	8,037	34,607
Net share purchases/(redemptions).....	128,364	23,153	7,673	159,190
Net pool share transactions.....	<u>142,257</u>	<u>35,830</u>	<u>15,710</u>	<u>193,797</u>
Total Additions.....	<u>156,150</u>	<u>48,507</u>	<u>23,747</u>	<u>228,404</u>
Deductions				
Distributions paid and payable.....	13,893	12,677	8,037	34,607
Change in net position.....	142,257	35,830	15,710	193,797
Net position — July 1.....	666,888	593,704	88,754	1,349,346
Net position — June 30.....	<u>\$ 809,145</u>	<u>\$ 629,534</u>	<u>\$ 104,464</u>	<u>\$ 1,543,143</u>

THIS PAGE INTENTIONALLY LEFT BLANK.



PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for and report resources held in trust in which the principal and income benefit individuals, private organizations, or other governments.

The following activities are included in the private purpose trust funds:

Deposits of Insurance Carriers Fund
Administrative Office of the Courts Trust Fund
Departmental Funds

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS**

June 30, 2020

Exhibit F-3

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Assets				
Cash and cash equivalents.....	\$ 121	\$ 151,443	\$ 53,380	\$ 204,944
Investments:				
Certificates of deposit.....	—	36,596	—	36,596
Securities lending collateral.....	5	—	1,168	1,173
Receivables:				
Interest receivable.....	—	—	53	53
Sureties.....	798,922	—	—	798,922
Total Assets.....	<u>799,048</u>	<u>188,039</u>	<u>54,601</u>	<u>1,041,688</u>
Liabilities				
Obligations under securities lending.....	<u>5</u>	<u>—</u>	<u>1,168</u>	<u>1,173</u>
Net Position				
Restricted for:				
Individuals, organizations, and other governments.....	799,043	188,039	53,433	1,040,515
Total Net Position.....	<u>\$ 799,043</u>	<u>\$ 188,039</u>	<u>\$ 53,433</u>	<u>\$ 1,040,515</u>

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS

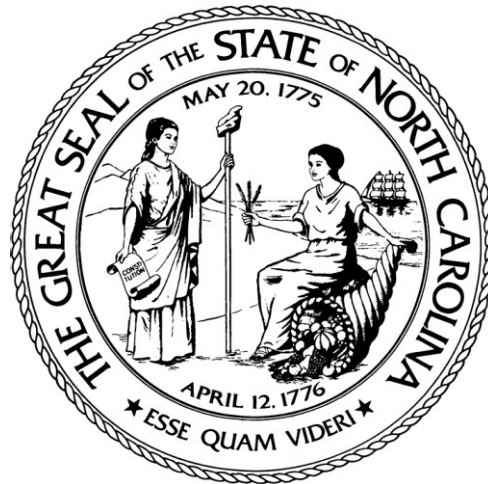
For the Fiscal Year Ended June 30, 2020

Exhibit F-4

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Additions				
Contributions:				
Trustee deposits.....	\$ 26,788	\$ 150,441	\$ —	\$ 177,229
Investment Income:				
Investment earnings.....	2	1,137	1,035	2,174
Less investment expenses.....	—	—	(34)	(34)
Net investment income.....	2	1,137	1,001	2,140
Total Additions.....	26,790	151,578	1,001	179,369
Deductions				
Payments in accordance with trust arrangements.....	28,205	128,946	1,200	158,351
Change in net position.....	(1,415)	22,632	(199)	21,018
Net position — July 1.....	800,458	165,407	53,632	1,019,497
Net position — June 30.....	\$ 799,043	\$ 188,039	\$ 53,433	\$ 1,040,515

THIS PAGE INTENTIONALLY LEFT BLANK.



AGENCY FUNDS

Agency funds account for and report resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

The following activities are included in the agency funds:

- Local Sales Tax Collections
- Clerks of Court
- Insurers in Receivership
- Vehicle Property Tax Collections
- Departmental Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020
Local Sales Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 643,054	\$ 3,739,362	\$ (3,794,608)	\$ 587,808
Receivables:				
Taxes receivable.....	193,000	238,700	(193,000)	238,700
Due from other funds.....	37,758	31,978	(37,758)	31,978
Total Assets.....	<u>\$ 873,812</u>	<u>\$ 4,010,040</u>	<u>\$ (4,025,366)</u>	<u>\$ 858,486</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 873,812	\$ 4,010,040	\$ (4,025,366)	\$ 858,486
Total Liabilities.....	<u>\$ 873,812</u>	<u>\$ 4,010,040</u>	<u>\$ (4,025,366)</u>	<u>\$ 858,486</u>
Clerks of Court				
Assets				
Cash and cash equivalents.....	\$ 87,216	\$ 1,550,452	\$ (1,551,798)	\$ 85,870
Receivables:				
Accounts receivable.....	287	3,334	(3,572)	49
Sureties.....	57,825	21,879	(39,063)	40,641
Total Assets.....	<u>\$ 145,328</u>	<u>\$ 1,575,665</u>	<u>\$ (1,594,433)</u>	<u>\$ 126,560</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 4,515	\$ 84,654	\$ (86,867)	\$ 2,302
Funds held for others.....	140,813	489,331	(505,886)	124,258
Total Liabilities.....	<u>\$ 145,328</u>	<u>\$ 573,985</u>	<u>\$ (592,753)</u>	<u>\$ 126,560</u>
Insurers in Receivership				
Assets				
Cash and cash equivalents.....	\$ 13,372	\$ —	\$ (553)	\$ 12,819
Investments:				
Corporate bonds.....	5,994	—	(2,070)	3,924
Corporate stocks.....	436	102	—	538
Receivables:				
Accounts receivable.....	16,876	—	(5,270)	11,606
Interest receivable.....	9	—	—	9
Capital assets-nondepreciable.....	63	—	—	63
Total Assets.....	<u>\$ 36,750</u>	<u>\$ 102</u>	<u>\$ (7,893)</u>	<u>\$ 28,959</u>
Liabilities				
Funds held for others.....	\$ 36,750	\$ 102	\$ (7,893)	\$ 28,959
Total Liabilities.....	<u>\$ 36,750</u>	<u>\$ 102</u>	<u>\$ (7,893)</u>	<u>\$ 28,959</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2020

Exhibit F-5

(Dollars in Thousands)

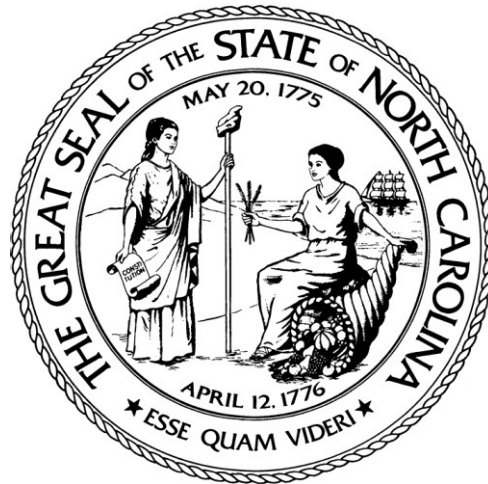
	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020
Vehicle Property Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 87,478	\$ 1,001,361	\$ (1,001,790)	\$ 87,049
Securities lending collateral.....	5,304	—	(3,538)	1,766
Receivables:				
Intergovernmental receivables.....	—	1	—	1
Interest receivable.....	119	74	(119)	74
Total Assets.....	<u>\$ 92,901</u>	<u>\$ 1,001,436</u>	<u>\$ (1,005,447)</u>	<u>\$ 88,890</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 87,597	\$ 1,511,639	\$ (1,512,112)	\$ 87,124
Obligations under securities lending.....	5,304	—	(3,538)	1,766
Total Liabilities.....	<u>\$ 92,901</u>	<u>\$ 1,511,639</u>	<u>\$ (1,515,650)</u>	<u>\$ 88,890</u>
Departmental Funds				
Assets				
Cash and cash equivalents.....	\$ 113,865	\$ 1,407,671	\$ (1,322,891)	\$ 198,645
Investments:				
Certificates of deposit.....	400	—	—	400
Securities lending collateral.....	1,651	—	(296)	1,355
Receivables:				
Accounts receivable.....	6,983	3,529	(6,983)	3,529
Due from other funds.....	16,607	1,358	(3,730)	14,235
Total Assets.....	<u>\$ 139,506</u>	<u>\$ 1,412,558</u>	<u>\$ (1,333,900)</u>	<u>\$ 218,164</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 6	\$ 543	\$ (535)	\$ 14
Intergovernmental payable.....	100,561	415,505	(383,471)	132,595
Obligations under securities lending.....	1,651	—	(296)	1,355
Deposits payable.....	2,408	5,107	(3,653)	3,862
Funds held for others.....	34,880	122,099	(76,641)	80,338
Total Liabilities.....	<u>\$ 139,506</u>	<u>\$ 543,254</u>	<u>\$ (464,596)</u>	<u>\$ 218,164</u>
Total Agency Funds				
Assets				
Cash and cash equivalents.....	\$ 944,985	\$ 7,698,846	\$ (7,671,640)	\$ 972,191
Investments:				
Corporate bonds.....	5,994	—	(2,070)	3,924
Corporate stocks.....	436	102	—	538
Certificates of deposit.....	400	—	—	400
Securities lending collateral.....	6,955	—	(3,834)	3,121
Receivables:				
Taxes receivable.....	193,000	238,700	(193,000)	238,700
Accounts receivable.....	24,146	6,863	(15,825)	15,184
Intergovernmental receivables.....	—	1	—	1
Interest receivable.....	128	74	(119)	83
Due from other funds.....	54,365	33,336	(41,488)	46,213
Sureties.....	57,825	21,879	(39,063)	40,641
Capital assets-nondepreciable.....	63	—	—	63
Total Assets.....	<u>\$ 1,288,297</u>	<u>\$ 7,999,801</u>	<u>\$ (7,967,039)</u>	<u>\$ 1,321,059</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 6	\$ 543	\$ (535)	\$ 14
Intergovernmental payable.....	1,066,485	6,021,838	(6,007,816)	1,080,507
Obligations under securities lending.....	6,955	—	(3,834)	3,121
Deposits payable.....	2,408	5,107	(3,653)	3,862
Funds held for others.....	212,443	611,532	(590,420)	233,555
Total Liabilities.....	<u>\$ 1,288,297</u>	<u>\$ 6,639,020</u>	<u>\$ (6,606,258)</u>	<u>\$ 1,321,059</u>

THIS PAGE INTENTIONALLY LEFT BLANK.



COMPONENT UNITS

THIS PAGE INTENTIONALLY LEFT BLANK.



COMPONENT UNITS – DISCRETELY PRESENTED

The component units listed below are legally separate entities for which the State is financially accountable.

Nonmajor component units are comprised of the following entities:

- State Education Assistance Authority
- N.C. Housing Finance Agency
- The Golden LEAF, Inc.
- N.C. State Ports Authority
- N.C. Global TransPark Authority
- North Carolina Railroad Company
- North Carolina Biotechnology Center
- N.C. Partnership for Children, Inc.
- Centennial Authority
- Economic Development Partnership of N.C.

This section also includes a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements.

COMBINING STATEMENT OF NET POSITION NONMAJOR COMPONENT UNITS

June 30, 2020

(Dollars in Thousands)

	State Education Assistance Authority	N.C. Housing Finance Agency	The Golden LEAF, Inc.	N.C. State Ports Authority	N.C. Global TransPark Authority
Assets					
Cash and cash equivalents.....	\$ —	\$ 31,404	\$ 2,368	\$ 4,039	\$ 12,978
Investments.....	—	1,036	1,141,078	54,210	—
Securities lending collateral.....	—	12,101	—	1	23
Receivables, net.....	40,665	12,040	—	7,972	4,582
Due from component units.....	2,638	—	412	—	—
Inventories.....	—	—	—	675	—
Prepaid items.....	25	—	46	3,121	—
Notes receivable, net.....	1,105,709	488,013	96	—	—
Restricted/designated cash and cash equivalents.....	589,741	644,147	—	319	—
Restricted investments.....	2,599,020	1,125,186	57,501	4,571	—
Restricted due from component units.....	—	—	3,711	—	—
Net OPEB asset.....	5	20	—	30	1
Capital assets-nondepreciable.....	—	—	904	80,766	29,268
Capital assets-depreciable, net.....	1,981	3,526	2,293	383,320	121,130
Total Assets.....	<u>4,339,784</u>	<u>2,317,473</u>	<u>1,208,409</u>	<u>539,024</u>	<u>167,982</u>
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives..	—	2,640	—	—	—
Deferred loss on refunding.....	—	—	—	468	—
Deferred outflows for pensions.....	667	2,742	—	3,962	155
Deferred outflows for OPEB.....	2,077	3,078	—	3,982	550
Total Deferred Outflows of Resources.....	<u>2,744</u>	<u>8,460</u>	<u>—</u>	<u>8,412</u>	<u>705</u>
Liabilities					
Accounts payable and accrued liabilities.....	16,035	4,743	166,512	8,726	880
Obligations under securities lending	—	12,101	—	1	23
Interest payable.....	1,749	20,227	—	743	13
Due to component units.....	—	—	9,848	—	4,124
Due to primary government.....	—	—	57,452	—	—
Unearned revenue.....	—	29,767	—	410	90
Advance from primary government.....	—	—	—	206	2,441
Deposits payable.....	—	4,057	—	—	—
Funds held for others.....	2,694,179	—	—	—	56
Hedging derivatives liability.....	—	2,640	—	157	—
Long-term liabilities:					
Due within one year.....	114,724	41,406	20	6,613	555
Due in more than one year.....	771,464	1,357,288	20	132,184	6,126
Total Liabilities.....	<u>3,598,151</u>	<u>1,472,229</u>	<u>233,852</u>	<u>149,040</u>	<u>14,308</u>
Deferred Inflows of Resources					
Deferred state aid.....	125,930	8,525	—	—	—
Deferred inflows for pensions.....	6	11	—	33	8
Deferred inflows for OPEB.....	1,775	5,291	—	7,379	291
Total Deferred Inflows of Resources.....	<u>127,711</u>	<u>13,827</u>	<u>—</u>	<u>7,412</u>	<u>299</u>
Net Position					
Net investment in capital assets.....	1,982	3,526	3,197	359,580	144,983
Restricted for:					
Expendable:					
Higher education.....	505,520	—	—	—	—
Economic development.....	—	823,409	11,226	5,087	467
Unrestricted.....	109,164	12,942	960,134	26,317	8,630
Total Net Position.....	<u>\$ 616,666</u>	<u>\$ 839,877</u>	<u>\$ 974,557</u>	<u>\$ 390,984</u>	<u>\$ 154,080</u>

Exhibit G-1

	North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	Economic Development Partnership of N.C.	Total
\$	13,026	\$ 3,391	\$ 7,089	\$ 5,241	\$ 9,754	\$ 89,290
	—	16,273	—	—	—	1,212,597
	—	—	—	502	—	12,627
	4,456	210	4,127	4,558	114	78,724
	—	—	—	—	—	3,050
	—	—	—	—	—	675
	83	144	119	3	247	3,788
	—	8,008	—	—	—	1,601,826
	6	—	24	17,826	—	1,252,063
	91,779	—	—	821	—	3,878,878
	—	—	—	—	—	3,711
	—	—	—	—	—	56
	51,248	—	—	—	—	162,186
	226,590	8,687	18	101,502	454	849,501
	<u>387,188</u>	<u>36,713</u>	<u>11,377</u>	<u>130,453</u>	<u>10,569</u>	<u>9,148,972</u>
	—	—	—	—	—	2,640
	—	—	—	—	—	468
	—	—	—	56	—	7,582
	—	—	—	—	—	9,687
	—	—	—	56	—	20,377
	4,738	403	5,538	726	352	208,653
	—	—	—	502	—	12,627
	—	—	—	—	—	22,732
	—	—	—	—	—	13,972
	—	—	—	—	4,962	62,414
	10,223	—	4,771	463	18	45,742
	—	—	—	—	—	2,647
	53	—	—	—	—	4,110
	—	—	—	—	—	2,694,235
	—	—	—	—	—	2,797
	—	121	33	—	1,450	164,922
	—	—	120	97	273	2,267,572
	<u>15,014</u>	<u>524</u>	<u>10,462</u>	<u>1,788</u>	<u>7,055</u>	<u>5,502,423</u>
	—	—	—	—	—	134,455
	—	—	—	6	—	64
	—	—	—	—	—	14,736
	—	—	—	6	—	149,255
	277,838	8,681	18	101,502	—	901,307
	—	—	—	—	—	505,520
	91,779	1,601	—	18,150	—	951,719
	2,557	25,907	897	9,063	3,514	1,159,125
\$	<u>372,174</u>	<u>36,189</u>	<u>915</u>	<u>128,715</u>	<u>3,514</u>	<u>3,517,671</u>

**COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS**

For the Fiscal Year Ended June 30, 2020

(Dollars in Thousands)

	State Education Assistance Authority	N.C. Housing Finance Agency	The Golden LEAF, Inc.	N.C. State Ports Authority	N.C. Global TransPark Authority
Total expenses.....	\$ 298,968	\$ 385,427	\$ 67,458	\$ 65,602	\$ 8,994
Program revenues:					
Charges for services.....	63,149	287,154	—	58,349	2,257
Operating grants and contributions:					
State aid - program.....	78,482	31,419	—	—	—
Other operating grants and contributions.....	166,656	94,177	661	205	353
Capital grants and contributions:					
Other capital grants and contributions.....	—	—	—	4,173	2,133
Net program (expense) revenue.....	9,319	27,323	(66,797)	(2,875)	(4,251)
Non-tax general revenues:					
Unrestricted investment earnings.....	8,141	—	94	—	324
State aid - general.....	—	10,660	42,048	50,521	1,408
Miscellaneous.....	—	332	—	102	1
Total non-tax general revenues.....	8,141	10,992	42,142	50,623	1,733
Change in net position.....	17,460	38,315	(24,655)	47,748	(2,518)
Net position — July 1, as restated.....	599,206	801,562	999,212	343,236	156,598
Net position — June 30.....	<u>\$ 616,666</u>	<u>\$ 839,877</u>	<u>\$ 974,557</u>	<u>\$ 390,984</u>	<u>\$ 154,080</u>

Exhibit G-2

North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	Economic Development Partnership of N.C.	Total
\$ 42,897	\$ 18,190	\$ 106,423	\$ 14,726	\$ 20,327	\$ 1,029,012
22,018	334	5	5,464	172	438,902
—	—	90,253	—	—	200,154
—	—	10,106	3,902	1,691	277,751
—	—	—	5,500	—	11,806
(20,879)	(17,856)	(6,059)	140	(18,464)	(100,399)
11,119	998	2	—	—	20,678
—	13,600	5,439	—	19,069	142,745
1,818	768	46	480	—	3,547
12,937	15,366	5,487	480	19,069	166,970
(7,942)	(2,490)	(572)	620	605	66,571
380,116	38,679	1,487	128,095	2,909	3,451,100
<u>\$ 372,174</u>	<u>\$ 36,189</u>	<u>\$ 915</u>	<u>\$ 128,715</u>	<u>\$ 3,514</u>	<u>\$ 3,517,671</u>

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2020

Exhibit G-3

(Dollars in Thousands)

	State Health Plan
Cash Flows From Operating Activities	
Receipts from customers.....	\$ 3,740,589
Payments to suppliers.....	(348,006)
Payments to employees.....	(4,721)
Payments for claims.....	(3,229,674)
Net cash provided by (used for) operating activities.....	<u>158,188</u>
Cash Flows From Noncapital Financing Activities	
Grant receipts	24,767
Grants, aid and subsidies	(475,200)
Net cash provided by (used for) noncapital financing activities.....	<u>(450,433)</u>
Cash Flows From Investing Activities	
Investment earnings.....	<u>27,957</u>
Net increase (decrease) in cash and cash equivalents.....	(264,288)
Cash and cash equivalents at July 1.....	1,296,708
Cash and cash equivalents at June 30.....	<u>\$ 1,032,420</u>
Reconciliation of Operating Income (Loss) to Net Cash Used For Operating Activities	
Operating income (loss).....	\$ 216,064
Change in assets and deferred outflows:	
Receivables.....	1,237
Net OPEB asset.....	(4)
Deferred outflows for pensions.....	(197)
Deferred outflows for OPEB.....	(47)
Change in liabilities and deferred inflows:	
Accounts payable and accrued liabilities.....	(2,049)
Compensated absences.....	96
Unearned revenue.....	(4,385)
Medical claims payable.....	(53,125)
Net pension liability.....	755
Net OPEB liability.....	513
Deferred inflows for pensions.....	(56)
Deferred inflows for OPEB.....	(614)
Net cash provided by (used for) operating activities.....	<u>\$ 158,188</u>
Noncash Investing, Capital, and Financing Activities:	
Increase in receivables related to nonoperating income.....	3,069
Changes in securities lending collateral.....	(63,036)



STATISTICAL SECTION

THIS PAGE INTENTIONALLY LEFT BLANK.

Index to Statistical Section

This part of the State of North Carolina's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Contents	Page
<i>Financial Trends</i>	318
These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.	
Table 1 - Net Position by Component - Fiscal Years 2011-2020	
Table 2 - Changes in Net Position - Fiscal Years 2011-2020	
Table 3 - Fund Balances of Governmental Funds - Fiscal Years 2011-2020	
Table 4 - Changes in Fund Balances of Governmental Funds - Fiscal Years 2011-2020	
Table 5 - Schedule of Revenues by Source - General Fund - Fiscal Years 2011-2020	
 <i>Revenue Capacity</i>	 330
These schedules contain information to help the reader assess the factors affecting the State's ability to generate its individual income and sales taxes.	
Table 6 - Personal Income by Industry - Fiscal Years 2009-2018	
Table 7 - Individual Income Tax Filers and Liability - Calendar Years 2009 and 2018 and Individual Income Tax Rates - Calendar Years 2010-2019	
Table 8 - Taxable Sales by Business Group - Fiscal Years 2011-2020	
Table 9 - Sales Tax Revenue Payers by Business Group - Fiscal Years 2011 and 2020	
 <i>Debt Capacity</i>	 342
These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	
Table 10 - Ratios of Outstanding Debt by Type - Fiscal Years 2011-2020	
Table 11 - Ratios of General Bonded and Similar Debt Outstanding - Fiscal Years 2011-2020	
Table 12 - Schedule of General Obligation Bonds Payable - June 30, 2020	
Table 13 - Schedule of Special Indebtedness Debt - June 30, 2020	
Table 14 - Pledged Revenue Coverage - Fiscal Years 2011-2020	
 <i>Demographic and Economic Information</i>	 354
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
Table 15 - Schedule of Demographic Data - Years 2011-2020	
Table 16 - Principal Employers - Fiscal Years 2011 and 2020	
Table 17 - Teachers and State Employees by Function - Fiscal Years 2011-2020	
 <i>Operating Information</i>	 360
These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	
Table 18 - Operating Indicators by Function - Fiscal Years 2011-2020	
Table 19 - Capital Asset Statistics by Function - Fiscal Years 2011-2020	
Table 20 - Ten Year Claims Development Information - Public School Insurance Fund - Fiscal Years 2011-2020	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

NET POSITION BY COMPONENT

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Governmental Activities					
Net investment in capital assets.....	\$ 55,526,354	\$ 52,846,067	\$ 49,966,225	\$ 47,274,373	\$ 45,313,618
Restricted.....	1,458,418	1,248,281	1,187,465	1,122,895	1,039,216
Unrestricted.....	(5,551,351)	(5,899,285)	(5,831,775)	(6,518,107)	376,874
Total Governmental Activities Net Position	<u>\$ 51,433,421</u>	<u>\$ 48,195,063</u>	<u>\$ 45,321,915</u>	<u>\$ 41,879,161</u>	<u>\$ 46,729,708</u>
Business-type Activities					
Net investment in capital assets.....	\$ 513,378	\$ 562,921	\$ 606,649	\$ 532,834	\$ 653,235
Restricted.....	178,212	114,803	16,963	15,785	7,043
Unrestricted.....	4,859,761	5,640,685	5,096,931	4,592,444	3,831,415
Total Business-type Activities Net Position.....	<u>\$ 5,551,351</u>	<u>\$ 6,318,409</u>	<u>\$ 5,720,543</u>	<u>\$ 5,141,063</u>	<u>\$ 4,491,693</u>
Primary Government					
Net investment in capital assets.....	\$ 56,039,732	\$ 53,408,988	\$ 50,572,874	\$ 47,807,207	\$ 45,966,853
Restricted.....	1,636,630	1,363,084	1,204,428	1,138,680	1,046,259
Unrestricted.....	(691,590)	(258,600)	(734,844)	(1,925,663)	4,208,289
Total Primary Government Net Position.....	<u>\$ 56,984,772</u>	<u>\$ 54,513,472</u>	<u>\$ 51,042,458</u>	<u>\$ 47,020,224</u>	<u>\$ 51,221,401</u>

Table 1

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 43,589,998	\$ 42,139,297	\$ 40,394,260	\$ 38,705,712	\$ 37,338,472
1,061,817	861,988	852,901	703,781	730,021
(1,829,718)	(3,398,663)	(3,042,454)	(3,594,082)	(3,792,148)
<u>\$ 42,822,097</u>	<u>\$ 39,602,622</u>	<u>\$ 38,204,707</u>	<u>\$ 35,815,411</u>	<u>\$ 34,276,345</u>
\$ 535,344	\$ 442,100	\$ 410,031	\$ 391,831	\$ 294,172
1,256	1,940	995	1,468	3,131
2,638,877	1,032,581	(250,294)	(661,669)	(766,888)
<u>\$ 3,175,477</u>	<u>\$ 1,476,621</u>	<u>\$ 160,732</u>	<u>\$ (268,370)</u>	<u>\$ (469,585)</u>
\$ 44,125,342	\$ 42,581,397	\$ 40,804,291	\$ 39,097,543	\$ 37,632,644
1,063,073	863,928	853,896	705,249	733,152
809,159	(2,366,082)	(3,292,748)	(4,255,751)	(4,559,036)
<u>\$ 45,997,574</u>	<u>\$ 41,079,243</u>	<u>\$ 38,365,439</u>	<u>\$ 35,547,041</u>	<u>\$ 33,806,760</u>

CHANGES IN NET POSITION

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expenses					
Governmental Activities					
General government.....	\$ 1,441,776	\$ 1,392,293	\$ 1,284,612	\$ 1,220,572	\$ 1,064,299
Primary and secondary education.....	11,974,701	11,697,451	11,026,473	10,721,373	10,372,787
Higher education.....	4,815,552	4,788,720	4,390,938	4,137,922	4,003,154
Health and human services.....	21,594,958	19,567,645	19,076,459	18,871,497	18,422,804
Economic development.....	525,242	505,806	518,717	475,172	402,773
Environment and natural resources.....	708,815	666,594	603,594	549,838	547,540
Public safety, corrections, and regulation.....	4,230,658	3,792,606	3,564,262	3,355,432	2,960,451
Transportation.....	2,979,441	3,907,427	3,154,210	2,953,576	2,767,006
Agriculture.....	313,068	392,214	204,253	196,538	179,152
Interest on long-term debt.....	171,372	163,799	138,513	194,559	199,516
Total Governmental Activities Expenses.....	<u>48,755,583</u>	<u>46,874,555</u>	<u>43,962,031</u>	<u>42,676,479</u>	<u>40,919,482</u>
Business-type Activities					
Unemployment Compensation.....	5,707,104	169,967	196,572	238,193	255,851
N.C. State Lottery.....	2,290,926	2,154,116	1,938,395	1,808,537	1,752,837
EPA Revolving Loan.....	13,785	23,657	13,974	14,648	19,047
N.C. Turnpike Authority.....	186,369	132,456	88,703	108,845	87,467
Regulatory programs.....	131,503	121,652	118,917	113,780	94,857
Insurance programs.....	51,423	22,362	14,646	23,828	12,502
North Carolina State Fair.....	15,981	18,197	19,006	17,459	16,183
Other business-type activities.....	15,421	17,015	16,065	23,293	20,903
Total Business-type Activities Expenses.....	<u>8,412,512</u>	<u>2,659,422</u>	<u>2,406,278</u>	<u>2,348,583</u>	<u>2,259,647</u>
Total Primary Government Expenses.....	<u>\$ 57,168,095</u>	<u>\$ 49,533,977</u>	<u>\$ 46,368,309</u>	<u>\$ 45,025,062</u>	<u>\$ 43,179,129</u>
Program Revenues					
Governmental Activities					
Charges for Services:					
Transportation.....	\$ 967,438	\$ 992,925	\$ 978,504	\$ 973,237	\$ 875,603
Public safety, corrections, and regulation.....	577,517	633,050	652,818	614,165	622,044
General government.....	297,451	293,563	264,692	275,983	264,708
Health and human services.....	352,364	355,483	343,247	374,624	357,597
Other activities.....	418,187	356,404	328,341	333,437	299,269
Operating grants and contributions.....	19,211,056	16,980,579	16,324,807	16,197,394	15,924,934
Capital grants and contributions.....	1,328,260	1,317,197	994,934	1,064,722	940,448
Total Governmental Activities Program Revenues.....	<u>23,152,273</u>	<u>20,929,201</u>	<u>19,887,343</u>	<u>19,833,562</u>	<u>19,284,603</u>
Business-type Activities					
Charges for services:					
Unemployment Compensation.....	246,021	505,379	585,552	933,147	1,309,907
N.C. State Lottery.....	3,021,992	2,864,962	2,610,475	2,433,036	2,388,977
EPA Revolving Loan.....	19,522	20,888	21,918	19,217	21,908
N.C. Turnpike Authority.....	82,613	65,155	49,647	45,520	39,147
Regulatory programs.....	139,884	132,263	130,375	135,783	112,525
Insurance programs.....	19,530	9,142	19,455	18,425	18,628
North Carolina State Fair.....	16,504	15,694	16,416	16,102	15,539
Other business-type activities.....	12,022	12,394	12,987	12,658	12,042
Operating grants and contributions.....	4,736,461	203,779	142,370	136,200	156,515
Capital grants and contributions.....	3,681	27,578	5,249	10,317	14,932
Total Business-type Activities Program Revenues.....	<u>8,298,230</u>	<u>3,857,234</u>	<u>3,594,444</u>	<u>3,760,405</u>	<u>4,090,120</u>
Total Primary Government Program Revenues.....	<u>\$ 31,450,503</u>	<u>\$ 24,786,435</u>	<u>\$ 23,481,787</u>	<u>\$ 23,593,967</u>	<u>\$ 23,374,723</u>
Net (Expense) Revenue					
Governmental Activities.....	\$ (25,603,310)	\$ (25,945,354)	\$ (24,074,688)	\$ (22,842,917)	\$ (21,634,879)
Business-type Activities.....	(114,282)	1,197,812	1,188,166	1,411,822	1,830,473
Total Primary Government Net Expense.....	<u>\$ (25,717,592)</u>	<u>\$ (24,747,542)</u>	<u>\$ (22,886,522)</u>	<u>\$ (21,431,095)</u>	<u>\$ (19,804,406)</u>

Table 2

2015	2014	2013	2012	2011
\$ 1,158,892	\$ 1,080,982	\$ 1,034,277	\$ 937,353	\$ 1,209,923
10,224,967	9,772,994	9,830,464	9,760,909	10,024,775
3,859,549	3,901,543	3,986,465	4,238,695	4,350,475
18,705,192	17,812,888	18,313,335	17,752,493	16,859,438
408,289	420,464	595,248	667,106	744,703
490,185	484,718	515,496	470,965	596,227
2,896,088	2,911,146	2,907,980	2,976,448	2,729,418
2,673,649	2,607,663	2,490,991	2,400,599	2,177,062
165,735	191,242	187,608	188,985	114,275
216,519	216,521	233,606	282,542	306,696
<u>40,799,065</u>	<u>39,400,161</u>	<u>40,095,470</u>	<u>39,676,095</u>	<u>39,112,992</u>
349,069	700,190	2,496,445	3,283,900	4,420,762
1,450,494	1,341,219	1,215,944	1,141,941	1,028,536
22,965	27,789	23,711	14,026	42,897
89,004	88,278	95,897	17,565	4,940
90,397	86,253	76,447	69,980	80,454
21,632	18,427	17,591	38,701	36,885
14,975	13,957	13,441	13,030	13,595
16,269	12,917	13,400	12,084	9,148
<u>2,054,805</u>	<u>2,289,030</u>	<u>3,952,876</u>	<u>4,591,227</u>	<u>5,637,217</u>
<u>\$ 42,853,870</u>	<u>\$ 41,689,191</u>	<u>\$ 44,048,346</u>	<u>\$ 44,267,322</u>	<u>\$ 44,750,209</u>
\$ 742,586	\$ 730,048	\$ 706,231	\$ 685,596	\$ 709,064
601,407	580,817	604,447	594,377	540,280
253,506	242,809	228,054	218,011	195,286
320,100	324,689	331,559	308,986	295,465
385,081	323,722	330,613	289,293	335,999
16,152,680	15,261,306	15,767,596	15,605,227	15,632,256
942,238	1,260,306	1,010,889	977,961	1,198,549
<u>19,397,598</u>	<u>18,723,697</u>	<u>18,979,389</u>	<u>18,679,451</u>	<u>18,906,899</u>
1,552,934	1,651,108	1,535,068	1,473,576	1,294,104
1,977,486	1,844,636	1,695,009	1,601,837	1,464,639
23,955	22,603	19,490	23,366	20,388
30,710	24,725	13,499	664	—
96,155	90,938	78,557	70,732	80,008
18,641	10,780	19,275	17,547	16,046
14,985	14,828	14,506	14,470	14,915
11,239	10,781	10,681	10,578	10,771
409,351	347,108	1,423,525	1,966,023	2,998,116
21,251	11,942	21,109	15,436	11,687
<u>4,156,707</u>	<u>4,029,449</u>	<u>4,830,719</u>	<u>5,194,229</u>	<u>5,910,674</u>
<u>\$ 23,554,305</u>	<u>\$ 22,753,146</u>	<u>\$ 23,810,108</u>	<u>\$ 23,873,680</u>	<u>\$ 24,817,573</u>
\$ (21,401,467)	\$ (20,676,464)	\$ (21,116,081)	\$ (20,996,644)	\$ (20,206,093)
<u>2,101,902</u>	<u>1,740,419</u>	<u>877,843</u>	<u>603,002</u>	<u>273,457</u>
<u>\$ (19,299,565)</u>	<u>\$ (18,936,045)</u>	<u>\$ (20,238,238)</u>	<u>\$ (20,393,642)</u>	<u>\$ (19,932,636)</u>

Continued

CHANGES IN NET POSITION (Continued)

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Revenues and Other Changes in Net Position					
Governmental Activities					
Taxes:					
Individual income tax.....	\$ 13,121,892	\$ 13,242,924	\$ 12,607,563	\$ 11,950,085	\$ 11,980,791
Corporate income tax.....	726,186	779,886	750,381	805,062	1,120,553
Sales and use tax.....	8,556,460	8,436,190	7,951,984	7,646,658	7,184,788
Gasoline tax.....	2,054,235	2,118,180	2,013,961	1,945,769	1,938,849
Franchise tax.....	640,865	754,936	676,309	749,408	521,628
Highway use tax.....	847,919	838,571	798,314	784,549	728,580
Insurance tax.....	661,881	577,430	588,042	517,781	503,621
Beverage tax.....	462,401	435,471	411,071	394,883	380,065
Inheritance tax.....	—	—	—	—	—
Tobacco products tax.....	288,933	294,030	296,064	284,531	291,841
Other taxes.....	290,178	276,828	315,429	298,367	296,595
Tobacco settlement.....	148,929	155,818	162,108	140,569	136,561
Federal COVID-19.....	173,448	—	—	—	—
Unrestricted investment earnings (loss).....	133,251	153,490	97,346	62,683	43,551
Miscellaneous.....	76,395	84,549	60,840	50,650	35,246
Contributions to permanent funds.....	5,919	4,916	4,845	4,561	4,718
Transfers.....	652,776	613,895	607,892	665,199	518,461
Total Governmental Activities.....	<u>28,841,668</u>	<u>28,767,114</u>	<u>27,342,149</u>	<u>26,300,755</u>	<u>25,685,848</u>
Business-type Activities					
Miscellaneous.....	—	2,879	—	535	42
Transfers.....	(652,776)	(613,895)	(607,892)	(665,199)	(518,461)
Total Business-type Activities.....	<u>(652,776)</u>	<u>(611,016)</u>	<u>(607,892)</u>	<u>(664,664)</u>	<u>(518,419)</u>
Total Primary Government.....	<u>\$ 28,188,892</u>	<u>\$ 28,156,098</u>	<u>\$ 26,734,257</u>	<u>\$ 25,636,091</u>	<u>\$ 25,167,429</u>
Change in Net Position					
Governmental Activities.....	\$ 3,238,358	\$ 2,821,760	\$ 3,267,461	\$ 3,457,838	\$ 4,050,969
Business-type Activities.....	(767,058)	586,796	580,274	747,158	1,312,054
Total Primary Government.....	<u>\$ 2,471,300</u>	<u>\$ 3,408,556</u>	<u>\$ 3,847,735</u>	<u>\$ 4,204,996</u>	<u>\$ 5,363,023</u>

Table 2

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 11,288,542	\$ 10,576,575	\$ 11,113,597	\$ 10,459,307	\$ 10,020,535
1,272,879	1,318,091	1,194,850	1,233,989	1,132,931
6,869,090	5,839,362	5,556,484	5,530,046	6,172,377
1,945,462	1,907,803	1,889,439	1,892,163	1,675,476
556,786	888,815	845,130	804,973	794,091
653,931	596,801	555,581	506,211	469,811
529,927	476,402	540,844	479,755	501,032
360,280	342,784	330,918	322,190	311,809
—	—	113,721	57,839	24,184
279,795	273,426	287,340	293,597	291,699
292,535	348,938	305,726	294,516	301,217
137,910	139,169	213,078	146,135	131,318
—	—	—	—	—
20,139	19,452	13,621	(56,055)	32,980
42,167	192,002	44,837	41,960	45,014
4,382	3,861	2,834	3,297	3,188
416,483	429,810	448,733	401,740	371,424
<u>24,670,308</u>	<u>23,353,291</u>	<u>23,456,733</u>	<u>22,411,663</u>	<u>22,279,086</u>
4	3	7	—	3
<u>(416,483)</u>	<u>(429,810)</u>	<u>(448,733)</u>	<u>(401,740)</u>	<u>(371,424)</u>
<u>(416,479)</u>	<u>(429,807)</u>	<u>(448,726)</u>	<u>(401,740)</u>	<u>(371,421)</u>
<u>\$ 24,253,829</u>	<u>\$ 22,923,484</u>	<u>\$ 23,008,007</u>	<u>\$ 22,009,923</u>	<u>\$ 21,907,665</u>
\$ 3,268,841	\$ 2,676,827	\$ 2,340,652	\$ 1,415,019	\$ 2,072,993
1,685,423	1,310,612	429,117	201,262	(97,964)
<u>\$ 4,954,264</u>	<u>\$ 3,987,439</u>	<u>\$ 2,769,769</u>	<u>\$ 1,616,281</u>	<u>\$ 1,975,029</u>

FUND BALANCES OF GOVERNMENTAL FUNDS ⁽¹⁾

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
General Fund						
Nonspendable.....	83,763	160,906	70,193	72,345	84,122	83,079
Restricted.....	226,008	162,836	137,695	112,346	162,568	173,575
Committed.....	2,736,561	2,683,751	2,329,651	2,021,250	1,518,439	1,447,011
Assigned.....	1,725,771	554,243	517,815	217,747	376,677	116,705
Unassigned.....	1,659,783	2,396,667	2,335,267	1,977,982	1,619,055	686,453
Total General Fund.....	<u>\$ 6,431,886</u>	<u>\$ 5,958,403</u>	<u>\$ 5,390,621</u>	<u>\$ 4,401,670</u>	<u>\$ 3,760,861</u>	<u>\$ 2,506,823</u>
All Other Governmental Funds						
Nonspendable.....	228,646	231,482	224,714	215,690	218,575	211,883
Restricted.....	2,199,737	2,225,062	1,012,887	1,176,441	1,067,534	1,252,733
Committed.....	2,110,419	2,505,415	2,622,022	2,754,107	2,308,077	1,870,499
Assigned.....	3,763	3,027	3,449	929	1,166	1,011
Unassigned.....	(892,965)	(1,345,891)	(495,336)	—	—	—
Total All Other Governmental Funds.....	<u>\$ 3,649,600</u>	<u>\$ 3,619,095</u>	<u>\$ 3,367,736</u>	<u>\$ 4,147,167</u>	<u>\$ 3,595,352</u>	<u>\$ 3,336,126</u>

Table 3

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
81,458	75,153	81,395	93,482
83,885	130,411	140,032	81,815
911,720	910,629	889,584	1,115,156
283,280	30,957	—	—
193,482	150,713	(62,042)	(107,348)
<u>\$ 1,553,825</u>	<u>\$ 1,297,863</u>	<u>\$ 1,048,969</u>	<u>\$ 1,183,105</u>
216,528	210,307	218,674	198,830
768,448	923,253	807,205	896,515
1,713,790	1,409,097	1,402,286	1,343,103
—	778	496	—
—	—	(1,311)	(1,627)
<u>\$ 2,698,766</u>	<u>\$ 2,543,435</u>	<u>\$ 2,427,350</u>	<u>\$ 2,436,821</u>

(1) All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS ⁽¹⁾

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues					
Taxes.....	\$ 27,654,005	\$ 27,743,450	\$ 26,401,176	\$ 25,376,794	\$ 24,942,287
Federal funds.....	19,218,083	17,878,544	16,987,521	16,896,580	16,325,844
Local funds.....	170,937	171,986	172,815	180,725	189,786
Investment earnings.....	216,341	241,587	148,974	116,006	88,114
Interest earnings on loans.....	898	994	975	900	1,094
Sales and services.....	308,687	326,316	336,952	323,677	325,883
Rental and lease of property.....	23,413	40,218	21,921	25,682	20,906
Fees, licenses and fines.....	1,935,534	1,969,177	1,947,486	1,894,212	1,813,402
Tobacco settlement.....	149,194	155,926	160,653	141,054	137,230
Contributions, gifts, and grants.....	115,001	151,950	110,742	104,856	102,217
Funds escheated.....	168,851	129,913	105,127	126,701	75,105
Federal recovery funds.....	1,156,776	—	—	—	196,752
Miscellaneous.....	167,997	167,298	157,480	195,388	176,847
Total revenues.....	<u>51,285,717</u>	<u>48,977,359</u>	<u>46,551,822</u>	<u>45,382,575</u>	<u>44,395,467</u>
Expenditures					
Current:					
General government.....	1,343,940	1,247,648	1,195,086	1,169,676	1,136,781
Primary and secondary education.....	11,978,624	11,696,298	11,022,159	10,699,781	10,381,474
Higher education.....	4,816,610	4,790,041	4,390,338	4,136,832	4,002,167
Health and human services.....	21,612,473	19,674,618	19,121,283	18,930,282	18,501,376
Economic development.....	529,115	509,626	505,695	472,037	407,575
Environment and natural resources.....	692,030	639,449	568,828	518,631	527,448
Public safety, corrections, and regulation.....	4,097,966	3,785,440	3,382,199	3,288,609	3,029,405
Transportation.....	5,637,600	6,534,522	5,669,605	4,839,716	4,313,225
Agriculture.....	295,349	400,471	202,592	195,562	183,389
Capital outlay.....	205,341	152,880	129,798	158,793	144,674
Debt service:					
Principal retirement (2).....	684,065	633,309	966,248	595,300	587,628
Interest and fees (2).....	262,181	240,896	240,013	279,631	293,503
Debt issuance costs.....	2,582	1,653	1,986	1,009	1,398
Total expenditures.....	<u>52,157,876</u>	<u>50,306,851</u>	<u>47,395,830</u>	<u>45,285,859</u>	<u>43,510,043</u>
Excess revenues over (under) expenditures.....	<u>(872,159)</u>	<u>(1,329,492)</u>	<u>(844,008)</u>	<u>96,716</u>	<u>885,424</u>
Other Financing Sources (Uses)					
Bonds issued.....	600,000	400,000	—	200,000	—
Special Indebtedness issued.....	—	300,000	—	—	—
GARVEE bonds issued.....	—	600,000	—	—	—
Refunding bonds issued.....	—	—	949,200	—	329,360
Other debt issued.....	—	2,765	32,945	630	1,875
Premium on debt issued.....	82,392	215,733	180,865	30,018	88,066
Payments to refunded bond escrow agent.....	—	—	(774,195)	—	(416,509)
Sale of capital assets.....	12,887	18,501	21,867	33,289	70,263
Insurance recoveries.....	29,082	19,308	34,842	12,125	8,881
Transfers in.....	1,403,813	1,397,089	1,047,384	1,253,047	1,036,161
Transfers out.....	(752,027)	(784,123)	(439,966)	(441,561)	(515,965)
Total other financing sources (uses).....	<u>1,376,147</u>	<u>2,169,273</u>	<u>1,052,942</u>	<u>1,087,548</u>	<u>602,132</u>
Net change in fund balances.....	<u>\$ 503,988</u>	<u>\$ 839,781</u>	<u>\$ 208,934</u>	<u>\$ 1,184,264</u>	<u>\$ 1,487,556</u>
Debt service as a percentage of noncapital expenditures..	1.96%	1.88%	2.74%	2.06%	2.15%

Table 4

2015	2014	2013	2012	2011
\$ 24,032,552	\$ 22,605,977	\$ 22,769,317	\$ 21,816,945	\$ 21,689,379
16,509,242	15,967,504	16,161,532	15,626,696	14,215,501
195,962	173,727	186,327	188,405	186,944
43,574	76,144	41,259	50,612	100,104
2,864	1,797	3,684	3,347	4,104
318,411	312,872	304,179	292,705	276,663
22,400	23,791	27,559	26,574	25,165
1,644,450	1,597,517	1,574,727	1,547,973	1,496,606
138,622	139,937	211,162	140,979	138,256
121,750	99,672	74,857	65,954	109,170
165,062	106,760	112,671	68,207	111,481
209,492	236,869	273,192	658,570	2,265,393
182,507	328,781	184,763	146,204	158,945
<u>43,586,888</u>	<u>41,671,348</u>	<u>41,925,229</u>	<u>40,633,171</u>	<u>40,777,711</u>
1,142,043	1,036,518	986,897	901,654	1,000,101
10,213,160	9,749,844	9,818,572	9,738,102	10,000,438
3,850,111	3,900,386	3,986,575	4,237,649	4,350,683
18,781,793	17,901,879	18,416,229	17,854,993	16,914,978
412,783	442,364	571,037	667,057	741,447
454,602	456,099	455,894	429,882	603,112
2,932,540	2,896,879	2,899,287	2,937,742	2,751,665
4,044,532	4,152,663	3,992,200	3,801,196	3,660,069
178,282	179,848	171,196	181,387	113,153
113,689	127,634	182,107	231,688	364,121
562,820	553,016	1,261,685	514,195	1,026,602
303,433	331,451	461,739	346,540	393,432
3,048	1,193	6,605	7,074	4,178
<u>42,992,836</u>	<u>41,729,774</u>	<u>43,210,023</u>	<u>41,849,159</u>	<u>41,923,979</u>
<u>594,052</u>	<u>(58,426)</u>	<u>(1,284,794)</u>	<u>(1,215,988)</u>	<u>(1,146,268)</u>
231,360	—	—	—	—
—	—	250,000	400,000	500,000
264,930	—	—	179,540	—
299,020	506,255	1,320,970	367,350	774,745
1,622	6,733	9,380	15,825	—
117,506	98,789	284,428	131,892	191,035
(349,828)	(603,550)	(748,022)	(428,830)	(370,982)
13,432	14,939	12,939	12,889	12,118
9,039	15,975	9,925	16,444	7,319
1,044,348	1,233,471	1,112,704	1,115,417	1,131,568
(632,660)	(805,682)	(651,195)	(715,002)	(698,321)
<u>998,769</u>	<u>466,930</u>	<u>1,601,129</u>	<u>1,095,525</u>	<u>1,547,482</u>
<u>\$ 1,592,821</u>	<u>\$ 408,504</u>	<u>\$ 316,335</u>	<u>\$ (120,463)</u>	<u>\$ 401,214</u>
2.13%	2.25%	4.24%	2.18%	3.61%

(1) All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds.

(2) For the fiscal year ended June 30, 2011, principal retirement expenditures include payments for a current refunding of \$499.87 million and interest and fees expenditures include payments of \$49.9 million to terminate interest rate swaps. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.24%. For the fiscal year ended June 30, 2013, principal retirement expenditures include payments for a current refunding of \$696.96 million and interest and fees expenditures include net payments of \$124.91 million to terminate basis swaps and swaptions. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.26%. For the fiscal year ended June 30, 2018, principal retirement expenditures include payments for a current refunding of \$353.2 million. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 1.95%.

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax Revenues					
Individual income tax.....	\$ 13,121,892	\$ 13,242,924	\$ 12,607,563	\$ 11,950,085	\$ 11,980,791
Corporate income tax.....	728,989	774,121	749,488	807,208	1,117,999
Sales and use tax.....	8,546,796	8,428,539	7,940,757	7,634,608	7,177,819
Franchise tax.....	646,414	750,674	669,598	748,018	524,967
Beverage tax.....	462,403	435,328	411,161	394,995	379,986
Insurance tax.....	660,905	577,506	588,907	516,970	503,413
Tobacco products tax.....	289,317	292,614	292,284	291,671	286,968
License tax.....	35,033	35,128	33,869	30,470	30,785
Real estate conveyance tax.....	87,542	80,103	72,933	68,793	62,250
Manufacturing tax..... (3)	980	1,120	46,699	46,922	47,435
Other taxes..... (1)	43,552	41,760	53,097	39,188	41,523
Total tax revenues.....	<u>24,623,823</u>	<u>24,659,817</u>	<u>23,466,356</u>	<u>22,528,928</u>	<u>22,153,936</u>
Non-tax Revenues					
Federal Funds:					
Departmental revenues.....	17,584,656	16,260,190	15,626,073	15,497,006	15,138,975
Federal COVID-19 funds..... (4)	1,156,776	—	—	—	—
Federal recovery funds..... (2)	—	—	—	—	45,220
	<u>18,741,432</u>	<u>16,260,190</u>	<u>15,626,073</u>	<u>15,497,006</u>	<u>15,184,195</u>
Local Funds:					
Departmental revenues.....	128,634	138,775	139,422	143,580	155,486
Investment Earnings:					
Income from General Fund investments.....	130,042	150,073	96,968	62,315	40,795
Income from securities lending.....	5,130	5,765	297	925	1,354
Departmental revenues.....	16,935	13,651	10,052	6,010	3,684
	<u>152,107</u>	<u>169,489</u>	<u>107,317</u>	<u>69,250</u>	<u>45,833</u>
Interest Earnings on Loans:					
Departmental revenues.....	94	287	332	259	442
Sales and Services:					
Departmental revenues.....	161,579	169,206	179,553	171,534	171,318
Other non-tax revenues.....	118	83	88	105	109
	<u>161,697</u>	<u>169,289</u>	<u>179,641</u>	<u>171,639</u>	<u>171,427</u>
Rental and Lease of Property:					
Proceeds from rental and lease of property.....	5,002	21,031	943	5,718	51
Departmental revenues.....	11,140	12,013	12,914	10,711	11,161
	<u>16,142</u>	<u>33,044</u>	<u>13,857</u>	<u>16,429</u>	<u>11,212</u>
Fees, Licenses and Fines:					
Court fines and fees.....	203,244	231,286	239,613	242,013	244,724
Secretary of State service fees.....	141,261	125,521	123,891	112,479	108,208
Banking and investment fees.....	3,938	3,771	3,911	4,101	4,595
Permits (ABC Commission).....	23,157	26,524	25,829	24,682	24,025
Probation supervision fees.....	10,753	12,001	12,082	12,669	13,626
Department of Insurance fees.....	51,182	48,094	48,209	45,897	44,461
DWI service and restoration fees.....	3,744	4,782	5,104	5,672	6,490
Departmental revenues.....	314,553	328,980	334,539	302,396	307,282
Other non-tax revenues.....	10,161	9,619	8,824	9,417	8,667
	<u>761,993</u>	<u>790,578</u>	<u>802,002</u>	<u>759,326</u>	<u>762,078</u>
Tobacco Settlement:					
Tobacco settlement.....	149,194	155,926	160,653	141,054	137,230
Contributions, Gifts and Grants:					
Departmental revenues.....	49,517	45,582	44,088	43,996	39,755
Miscellaneous:					
Local sales and use tax administration.....	14,677	14,421	13,711	13,038	11,374
Sales tax refunds.....	1,929	2,545	1,734	1,876	2,189
Departmental revenues.....	128,938	139,229	127,723	165,645	143,840
Other non-tax revenue.....	252	277	342	237	236
	<u>145,796</u>	<u>156,472</u>	<u>143,510</u>	<u>180,796</u>	<u>157,639</u>
Total non-tax revenues.....	<u>20,306,606</u>	<u>17,919,632</u>	<u>17,216,895</u>	<u>17,023,335</u>	<u>16,665,297</u>
Total Revenues.....	<u>\$ 44,930,429</u>	<u>\$ 42,579,449</u>	<u>\$ 40,683,251</u>	<u>\$ 39,552,263</u>	<u>\$ 38,819,233</u>

Table 5

2015	2014	2013	2012	2011
\$ 11,288,542	\$ 10,576,575	\$ 11,111,462	\$ 10,457,217	\$ 10,018,039
1,270,985	1,331,934	1,224,702	1,194,865	1,139,584
6,858,523	5,838,079	5,554,065	5,516,304	6,133,915
552,221	890,692	857,867	797,596	793,094
360,138	342,955	330,711	322,194	311,814
529,927	476,402	521,510	463,574	485,989
277,830	277,736	283,629	293,286	290,743
46,265	47,612	44,378	45,577	48,924
56,028	50,424	—	—	—
40,611	36,743	36,447	36,321	33,013
37,919	111,873	187,482	128,865	108,543
<u>21,318,989</u>	<u>19,981,025</u>	<u>20,152,253</u>	<u>19,255,799</u>	<u>19,363,658</u>
15,293,459	14,526,468	14,878,307	14,433,383	12,828,192
—	—	—	—	—
84,429	151,757	182,756	421,815	1,791,264
<u>15,377,888</u>	<u>14,678,225</u>	<u>15,061,063</u>	<u>14,855,198</u>	<u>14,619,456</u>
161,514	144,826	158,413	164,679	149,545
19,282	17,458	12,991	13,533	30,925
554	6,853	9,125	(1,590)	9,527
2,045	2,481	2,597	4,014	7,295
<u>21,881</u>	<u>26,792</u>	<u>24,713</u>	<u>15,957</u>	<u>47,747</u>
2,192	1,098	2,883	2,445	3,133
164,521	158,684	140,603	137,527	130,166
75	87	80	92	112
<u>164,596</u>	<u>158,771</u>	<u>140,683</u>	<u>137,619</u>	<u>130,278</u>
103	117	94	85	88
10,383	9,966	10,210	10,348	11,523
<u>10,486</u>	<u>10,083</u>	<u>10,304</u>	<u>10,433</u>	<u>11,611</u>
234,510	236,790	250,789	258,968	225,710
101,792	94,923	89,994	85,062	76,451
7,684	7,568	6,107	6,690	6,092
24,065	15,151	15,138	15,169	15,176
14,231	14,579	15,566	16,134	15,000
43,392	40,603	39,224	39,100	38,174
7,594	8,033	8,590	8,946	8,928
304,463	287,233	288,922	252,398	217,191
7,940	8,895	9,696	8,086	4,750
<u>745,671</u>	<u>713,775</u>	<u>724,026</u>	<u>690,553</u>	<u>607,472</u>
138,622	139,937	211,162	140,979	138,256
39,088	26,441	21,487	20,452	22,591
10,519	9,388	8,942	12,177	13,692
2,452	3,716	2,826	3,555	2,432
112,647	214,371	104,432	103,317	101,336
3,072	66,643	9,865	306	4,871
<u>128,690</u>	<u>294,118</u>	<u>126,065</u>	<u>119,355</u>	<u>122,331</u>
<u>16,790,628</u>	<u>16,194,066</u>	<u>16,480,799</u>	<u>16,157,670</u>	<u>15,852,420</u>
<u>\$ 38,109,617</u>	<u>\$ 36,175,091</u>	<u>\$ 36,633,052</u>	<u>\$ 35,413,469</u>	<u>\$ 35,216,078</u>

(1) SL2013-316 repealed piped natural gas and estate (reported as inheritance) taxes. The collections for these tax types will continue to decline until zero. Beginning fiscal year ending June 30, 2019, 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.

(2) Beginning fiscal year ending June 30, 2017, Federal recovery funds were combined with Federal Funds: Departmental revenues, due to continued decline in revenue stream.

(3) SL2017-57 repealed manufacturing tax. The collections for this tax will continue to decline until zero.

(4) Beginning fiscal year ending June 30, 2020, Federal COVID-19 funds were reported as a result of funds received directly from federal agencies under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2009-2018

(Dollars in Thousands)

	2018	2017	2016	2015	2014
Manufacturing.....	\$ 36,848,252	\$ 35,493,993	\$ 34,331,290	\$ 36,848,252	\$ 32,663,058
Retail trade.....	19,515,299	18,880,584	18,445,061	19,515,299	17,227,306
Services.....	123,597,464	116,425,601	110,990,484	123,597,464	101,512,938
Agricultural, forestry, fishing, etc.....	818,976	784,528	810,566	818,976	810,293
Government.....	60,644,959	58,443,751	57,254,177	60,644,959	53,827,305
Construction.....	21,166,845	19,588,730	18,343,996	21,166,845	15,887,282
Wholesale trade.....	17,289,020	16,931,490	15,965,229	17,289,020	14,994,989
Transportation and warehousing.....	10,068,382	9,412,817	8,798,591	10,068,382	8,036,618
Finance and insurance.....	23,194,570	21,449,890	19,521,691	23,194,570	17,639,760
Mining.....	318,311	298,355	192,219	318,311	168,758
Utilities.....	2,559,384	2,352,142	2,026,892	2,559,384	1,809,498
Information.....	8,611,213	8,111,620	7,994,034	8,611,213	7,302,160
Real estate and rental and leasing.....	6,699,651	6,460,325	6,491,702	6,699,651	5,062,430
Other.....	147,529,231	139,135,200	132,029,652	147,529,231	121,053,528
Total.....	\$ 478,861,557	\$ 453,769,026	\$ 433,195,584	\$ 478,861,557	\$ 397,995,923
Average Effective Rate (1):					
Individual Income Tax.....	2.6%	2.6%	2.8%	2.4%	2.7%

Source: United States Department of Commerce - Bureau of Economic Analysis (Data for 2019 & 2020 is not available)

Table 6

2013	2012	2011	2010	2009
\$ 31,396,324	\$ 30,665,848	\$ 29,862,927	\$ 29,312,247	\$ 28,917,061
16,363,209	15,714,199	14,966,515	14,919,571	14,538,823
94,155,224	92,630,810	86,373,005	81,868,883	78,005,457
770,044	749,827	632,718	661,227	514,885
53,810,584	53,184,884	52,765,707	52,490,261	50,933,464
14,695,182	13,984,141	12,462,615	12,097,385	12,822,131
13,995,352	13,497,515	12,666,822	11,970,852	11,578,755
7,482,287	7,246,264	6,940,013	6,494,938	6,318,087
18,283,201	25,073,812	18,500,449	21,467,170	26,748,733
195,625	211,604	232,048	247,311	184,916
1,569,505	1,850,950	2,190,305	2,258,749	2,084,966
6,389,957	6,105,228	5,768,439	5,632,762	5,793,284
4,240,605	3,266,757	2,040,127	1,941,685	2,458,800
112,676,758	115,743,449	109,650,577	100,264,561	97,416,351
<u>\$ 376,023,857</u>	<u>\$ 379,925,288</u>	<u>\$ 355,052,267</u>	<u>\$ 341,627,602</u>	<u>\$ 338,315,713</u>
3%	2.8%	2.8%	2.7%	2.6%

(1) Average effective tax rate equals individual income tax revenues divided by personal income.

**INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2009 AND 2018
INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2010-2019**

North Carolina Taxable Income	Individual Income Tax Filers and Liability by Income Level							
	Calendar Year 2018				Calendar Year 2009			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to \$15,000.....	2,205,371	45.9%	\$ 434,779,605	3.6%	2,105,668	51.3%	\$ 400,232,510	4.7%
\$15,001 to \$25,000.....	544,193	11.3%	585,368,549	4.8%	535,686	13.1%	596,003,934	7.0%
\$25,001 to \$50,000.....	845,450	17.6%	1,647,732,229	13.6%	729,630	17.8%	1,618,336,112	19.0%
\$50,001 to \$75,000.....	434,768	9.0%	1,435,468,945	11.8%	337,693	8.2%	1,328,194,819	15.6%
\$75,001 to \$100,000.....	258,022	5.4%	1,198,746,785	9.8%	164,344	4.0%	939,363,021	11.0%
\$100,001 to \$200,000.....	356,279	7.4%	2,598,193,681	21.3%	172,484	4.2%	1,607,598,017	18.9%
\$200,001 and up.....	163,960	3.4%	4,276,665,486	35.1%	58,914	1.4%	2,033,277,174	23.8%
	<u>4,808,043</u>	<u>100.0%</u>	<u>\$ 12,176,955,280</u>	<u>100.0%</u>	<u>4,104,419</u>	<u>100.0%</u>	<u>\$ 8,523,005,587</u>	<u>100.0%</u>

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calendar year 2018 is the most recent year for which data is available.

Individual Income Tax Rates - Last 10 Years

Calendar Year 2010				
Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 3 Surtax
Married - Joint:			> \$100,000	
Taxable income	\$1-\$21,250	\$21,251-\$100,000	up to \$250,000 7.75%	2%
Tax rate	6%	7%	> 250,000	3%
Married - Separate:			> \$50,000	
Taxable income	\$1-\$10,625	\$10,626-\$50,000	up to \$125,000 7.75%	2%
Tax rate	6%	7%	>125,000	3%
Head of Household:			> \$80,000	
Taxable income	\$1-\$17,000	\$17,001-\$80,000	up to \$200,000 7.75%	2%
Tax rate	6%	7%	>200,000	3%
Single:			> \$60,000	
Taxable income	\$1-\$12,750	\$12,751-\$60,000	up to \$150,000 7.75%	2%
Tax rate	6%	7%	>150,000	3%

Income Tax Rate Restrictions

- The State Constitution (Article V, section 2(6)) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed ten percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed."

Source: North Carolina Department of Revenue

Table 7

Individual Income Tax Rates - Last 10 Years				
Calendar Years 2011-2013				
Tax Year	Bracket 1	Bracket 2	Bracket 3	
Married - Joint:				
Taxable income	\$1-\$21,250	\$21,251-\$100,000	> \$100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000	
Tax rate	6%	7%	7.75%	
Calendar Year 2014				
Married - Joint, Married - Separate, Head of Household, and Single:				
Taxable income	>\$0			
Tax rate	5.8%			
Calendar Years 2015-2016				
Married - Joint, Married - Separate, Head of Household, and Single:				
Taxable income	>\$0			
Tax rate	5.75%			
Calendar Years 2017-2019				
Married - Joint, Married - Separate, Head of Household, and Single:				
Taxable income	>\$0			
Tax rate	5.499%			

Income Tax Surtax Expired - Effective from the tax year beginning on or after January 1, 2011 North Carolina no longer has an income tax surtax.

Federal Adjusted Gross Income Starting Point - Effective with tax year 2012 the starting point in determining North Carolina taxable income is federal adjusted gross income (FAGI) subject to some modifications.

Income Tax Rate and Base Structure Changes - Effective for tax years beginning on or after January 1, 2014, SL 2013-316 (HB998), *An Act to Simplify the NC Tax Structure and to Reduce Individual and Business Tax Rates* (enacted July 23, 2013) replaces the multi-tiered bracket system with a flat rate structure.

Income Tax Rate and Base Structure Changes -The 2015 Appropriations Act reduces the personal income tax rate to 5.499% effective with taxable year 2017 and increases the withholding tax rate on or after January 1, 2016 to equal the statutory personal income tax rate plus 0.1% to reduce the incidence of deficient withholding.

Income Tax Rate Restrictions - The State Constitution (Article V, section 2(6)) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed seven percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed." [Applicable to taxable years beginning on or after January 1, 2019]

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	2020	2019	2018	2017	2016
General merchandise.....	\$ 45,601,205	\$ 41,960,513	\$ 38,965,273	\$ 38,193,321	\$ 35,258,344
Food.....	29,256,742	29,981,154	28,318,061	27,164,722	26,204,343
Lumber & building material.....	19,048,555	18,383,205	16,500,032	15,426,794	13,635,227
Automotive.....	9,837,130	9,691,420	9,098,884	9,058,317	7,667,914
3% and 4.75% tax group (1).....	705,394	647,756	588,128	541,143	479,938
Furniture.....	5,050,850	5,182,589	4,914,916	4,778,592	4,372,666
Apparel.....	5,620,937	6,018,989	5,700,497	5,648,766	5,414,102
Unclassified.....	44,629,147	44,693,250	41,113,549	38,358,149	35,124,312
Total.....	\$ 159,749,960	\$ 156,558,876	\$ 145,199,340	\$ 139,169,804	\$ 128,156,846
General State Sales Tax Rate	4.75%	4.75%	4.75%	4.75%	4.75%

Source: North Carolina Department of Revenue

Table 8

2015	2014	2013	2012	2011
\$ 33,018,301	\$ 30,122,560	\$ 29,092,064	\$ 28,488,712	\$ 26,997,731
24,663,183	22,892,242	21,961,810	21,188,038	20,063,710
12,711,938	11,754,511	11,034,483	10,936,526	9,980,618
6,920,644	6,272,460	5,855,515	5,798,630	5,592,481
448,267	456,127	460,461	447,963	429,092
4,160,558	3,887,077	3,739,815	3,599,804	3,416,656
5,140,968	4,707,181	4,554,679	4,343,728	3,962,251
33,241,081	30,258,424	28,668,485	28,026,651	26,316,563
<u>\$ 120,304,940</u>	<u>\$ 110,350,582</u>	<u>\$ 105,367,312</u>	<u>\$ 102,830,052</u>	<u>\$ 96,759,102</u>
4.75%	4.75%	4.75%	4.75%	5.75%

(1) 3% and 4.75% tax group includes manufactured homes, airplanes, boats, and modular homes. In fiscal year 2016, airplanes sold or purchased at retail for use was subject to a 3% tax rate from July 1, 2015 to September 30, 2015 and a 4.75% tax rate beginning October 1, 2015. In the fiscal years prior to 2015, some manufactured homes were included in the 2% tax group and some modular homes were included in the 2.5% tax group. In the fiscal years prior to 2014, there was also a 1% tax group that included farm, mill, laundry machinery, fuel to farmers, manufacturers, and laundries.

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2011 & 2020

(Dollars in Thousands)

	2020		2011	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 2,171,446	24.27%	\$ 1,556,012	23.70%
Food.....	1,397,728	15.63%	1,159,702	17.66%
Utilities.....	1,337,167	14.95%	999,108	15.21%
Lumber & building material.....	906,242	10.13%	575,148	8.76%
Automotive.....	496,126	5.55%	333,430	5.08%
Furniture.....	240,945	2.69%	197,329	3.00%
Apparel.....	268,026	3.00%	228,324	3.48%
Farming.....	—	0.00%	39	0.00%
Unclassified.....	2,127,572	23.78%	1,517,969	23.11%
Total.....	<u>\$ 8,945,252</u>	<u>100.00%</u>	<u>\$ 6,567,061</u>	<u>100.00%</u>
General State Sales Tax Rate.....	4.75%		5.75%	

Recent Significant Sales Tax Rate and Base Changes

Fiscal Year 2010-11	<p>Effective <u>July 1, 2010</u>, tax on electricity sold to farmers/manufacturers decreased from 0.8% to 0%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.3% to 0%. Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011).</p> <p>Effective <u>July 10, 2010</u>, refund provision to joint governmental agency created to operate a cable television system for purchases made on/after July 1, 2007 and before June 30, 2010.</p> <p>Effective <u>January 1, 2011</u>, sales tax law on accommodations was modernized to classify facilitators who assist accommodation owners with rentals as retailers subject to sales and use and room occupancy taxes. Facilitation or similar fees are includable in the sales price.</p> <p>Effective <u>June 18, 2011</u>, refund provision to joint governmental agency created to operate a cable television system extended to purchases made on/after July 1, 2007 and before June 30, 2011 (previously before June 30, 2010).</p>
Fiscal Year 2011-12	<p>Effective <u>July 1, 2011</u>, additional 1% State general sales and use tax rate expired. This also has the effect of reducing the State combined general rate from 8% to 7%.</p> <p>Effective <u>June 20, 2012</u>, refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to taxpayers engaged in analytical services (the greater of 50% of eligible amount of tax paid on tangible personal property consumed or transformed in analytical services or 50% of the amount of tax paid on medical reagents) was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to certain industrial facilities for tax paid on building materials, building supplies, fixtures, and equipment installed in the construction of the facility was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).</p>
Fiscal Year 2013-14	<p>Effective <u>January 1, 2014</u>, the sale of a modular home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2.5% preferential rate with 20% of the proceeds shared with local governments). The sale of a manufactured home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2% preferential rate (maximum tax \$300 per article)). Service contracts (warranty agreements, maintenance agreements, repair contracts, or similar agreements or contracts by which the seller agrees to maintain or repair tangible personal property) are subject to the State general rate of 4.75% (applicable local rates apply). Previously, combined State/local use tax rates assessed on parts applied for certain transactions.</p>

Source: North Carolina Department of Revenue

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>Fiscal Year 2013-14 continued</p>	<p>Admission charges to the following entertainment activities are subject to the State general rate of 4.75% plus applicable local rates: a live performance or live event, a motion picture or film, a museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions. The following events are exempted from this tax: school sponsored events held at an elementary or secondary school, certain commercial agricultural fairs, certain nonprofit-sponsored festivals or other recreational/entertainment activity, certain youth athletic contests, and certain State attractions. Previously, motion picture show admission charges were subject to a 1% gross receipts privilege tax and certain other amusements were subject to a 3% gross receipts privilege tax. Newspaper street vendors and sales by newspaper vending machines, nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment, and food and prepared meals sold by institutions of higher education (private and public) are subject to the State general rate of 4.75% plus applicable local rates (previously exempt). Effective <u>June 1, 2014</u>, gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent where a person occupies or has the right to occupy such on or after June 1, 2014, are subject to the 4.75% general State and applicable local and transit rates of sales and use tax and any local occupancy tax imposed by a city or county. Previously, the taxation of gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent for fewer than 15 days was deemed exempt under provisions of the Important Notice: Tax on Accommodations (Revised June 14, 2002).</p>
<p>Fiscal Year 2014-15</p>	<p>Effective <u>July 1, 2014</u>, gross receipts derived from sales of electricity billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, electricity sold for residential purposes was subject to the State 3% preferential rate and electricity sold to laundry and dry cleaning establishments for business use was subject to the State 2.83% preferential rate. The legislation concurrently repeals the utility franchise tax rate of 3.22% applicable to gross receipts from sales of electricity, electric lights, current, or power (local governments shared proceeds). [Gross receipts derived from sales of electricity to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption.] Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, the piped natural gas excise tax was based on monthly therm volumes of gas received by the end-user (local governments shared proceeds). Special phase-in provision for gas cities: Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 and before July 1, 2015, received by gas cities and delivered by a gas city to a sales customer or transportation customer of the gas city are subject to a 3.5% rate. [Gross receipts derived from sales of piped natural gas to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption; additionally, sales of piped natural gas to commercial laundry and pressing or dry cleaning establishments and sales to and purchases by State agencies may qualify for exemption.] Bakery thrift store sales are subject to the State general rate of 4.75% plus applicable local rates (previously exempt). Annual sales tax holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates. Annual energy star holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates. <i>Nonprofit refund limit provision:</i> The aggregate annual refund amount allowed a nonprofit entity for a fiscal year may not exceed \$45 million (\$31.7 million State tax and \$13.3 million local tax). Effective <u>September 1, 2014</u>, effective for transactions on or after September 1, 2014, fifty percent (50%) of the sales of a modular home or a manufactured home, including all accessories attached when delivered to the purchaser is exempt from taxation. Effective <u>October 1, 2014</u>, effective for transactions on or after October 1, 2014, the exemption is repealed for sales from vending machines where price is 1¢ per sale. Effective for transactions on or after October 1, 2014, newspapers sold through a coin-operated vending machine no longer qualify for an exemption of 50% of the sales price (taxed on 100% gross receipts). Effective <u>January 1, 2015</u>, gross receipts derived from admission charges to certain commercial agricultural fairs and to State attractions supported by State funds that offer cultural, educational, historical, or recreational opportunities are subject to the 4.75% general State and applicable local and transit rates of sales and use tax.</p>

Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Recent Significant Sales Tax Rate and Base Changes

<p>Fiscal Year 2014-15 continued</p>	<p><i>New application for real property contracts (designates the real property contractor as the consumer):</i> Effective for sales made (and contracts entered into) on or after January 1, 2015, the sales price of tangible personal property sold to a real property contractor for use by the real property contractor in erecting structures, building on, or otherwise improving, altering, or repairing real property is subject to the general 4.75% State and applicable local and transit rates of sales and use tax.</p>
<p>Fiscal Year 2015-16</p>	<p>Effective <u>July 1, 2015</u>, gross receipts derived from sales of piped natural gas by gas cities (Bessemer City, Greenville, Kings Mountain, Lexington, Monroe, Rocky Mount, Shelby and Wilson) and gross receipts derived from sales of electricity by Cape Hatteras Electric Membership Corporation (CHEMC) billed on or after July 1, 2015, are subject to the 7% combined general rate of sales and use tax (local governments to share proceeds). The 7% combined general rate of sales and use tax generally applied to gross receipts of piped natural gas and electricity sold at retail in the State and billed on or after July 1, 2014 except that gross receipts of gas cities and CHEMC were subject to a reduced 3.5% rate applicable for the July 1, 2014 through June 30, 2015 billing period prior to being subject to the 7% rate effective for billing periods on or after July 1, 2015.</p> <p><i>Refunds authorized for certain governmental entities:</i> A joint agency created by interlocal agreement pursuant to General Statute 160A-462 to provide fire protection, emergency services, or police protection is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015. A soil and water conservation district organized under Chapter 139 of the General Statutes is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015. A district confinement facility created pursuant to General Statute 153A-219 is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015.</p> <p>Purchases or sales of datacenter machinery and equipment by or to an owner of a datacenter, or a contractor or subcontractor of an owner of a datacenter, are subject to the general 4.75% State and applicable local and transit rates of sales and use tax (the privilege tax imposed on machinery and equipment transactions purchased by a qualifying datacenter pursuant to General Statute 105 Article 5F expires for sales made on or after July 1, 2015).</p> <p>Effective <u>September 24, 2015</u>, the sales price of spirituous liquor sold at retail by a distillery permit holder and sales of antique spirituous liquor are subject to the 7% combined general rate of sales and use tax. A distillery, as authorized by legislation enacted during the 2015 General Assembly session is permitted to sell spirituous liquor distilled on the premises to visitors of the distillery with certain restrictions for consumption off the premises.</p> <p>Effective <u>September 30, 2015</u>, the sale, lease, or rental of an engine to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series is exempt from sales and use tax; an engine or a part to rebuild an engine for the purpose of providing an engine under an agreement to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series is exempt from sales and use tax (exemptions expire for transactions made on or after January 1, 2020).</p> <p><i>Refund provisions for economic incentive funds:</i> The refund provision for interstate passenger air carriers was modified to allow a refund of the sales and use taxes paid on fuel in excess of \$1.25 million for the six-month period July 1, 2015 through December 31, 2015. The sunset for repeal of the refund provision for aviation fuel for a professional motorsports racing team, sanctioning body, or a related member of such a team or body is extended for purchases made on or after January 1, 2020 (previously scheduled to sunset for purchases made on or after January 1, 2016). The sunset for repeal of the refund provision for professional motorsports racing teams or related member of a team of 50% of tax on property that comprises any part of a professional motor racing vehicle is extended for purchases made on or after January 1, 2020 (previously scheduled to sunset for purchases made on or after January 1, 2016).</p> <p>Effective <u>October 1, 2015</u>, the sales price of an aircraft sold at retail is subject to the 4.75% general State rate of tax (previously 3% State rate) with a maximum tax per article of \$2,500 (previously \$1,500); the sales price of an aircraft includes all accessories attached to the aircraft when it is delivered to the purchaser. The sale of an aircraft is not subject to the local and transit rates of sales and use tax. Each qualified jet engine sold at retail or purchased for storage, use, or consumption in this State is subject to the 4.75% general State rate of sales or use tax. The maximum use tax on a qualified jet engine purchased under a direct pay permit is \$2,500; otherwise, no maximum tax applies. The sale of a qualified jet engine is not subject to the local and transit rates of sales and use tax.</p>

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>Fiscal Year 2015-16 continued</p>	<p>Parts and accessories for use in the repair or maintenance of a qualified aircraft (or a qualified jet engine) are specifically exempt from the tax imposed on the sale at retail and the use, storage, or consumption in this State. A qualified aircraft is aircraft with a maximum take-off weight of more than 9,000 pounds but not in excess of 15,000 pounds. The sales price of (or the gross receipts) derived from a service contract applicable to a qualified aircraft (or a qualified jet engine) is exempt from taxation.</p> <p>Effective <u>January 1, 2016</u>, the gross receipts derived from the retail sale of aviation gasoline and jet fuel are subject to the 7% combined general rate of sales and use tax (previously 4.75% general State and local and transit rates applied) except that sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft to include aviation gasoline and jet fuel purchased for use in a commercial aircraft in foreign commerce by a person whose primary business is scheduled passenger air transportation are exempt (exemption expires January 1, 2020). [The net proceeds of the tax collected on aviation gasoline and jet fuel are transferred within 75 days after the end of each fiscal year to the Highway Fund; this amount is annually appropriated from the Highway Fund to the Division of Aviation of the Department of Transportation for prioritized capital improvements to public airports and time-sensitive aviation capital improvement projects for economic development purposes (initial transfer in September 2016 for sales and use taxes collected during FY15-16).]</p> <p>The sale at retail or the storage, use, or consumption in this State of electricity for use at a qualifying datacenter and datacenter support equipment to be located and used at the qualifying datacenter are exempt from sales and use tax. In this application, datacenter support equipment is property that is capitalized for tax purposes under the Code and is used within the provision of a service or function included in the business of an owner, user, or tenant of the datacenter.</p> <p>Effective <u>March 1, 2016</u>, the 4.75% general State and applicable local and transit rates of sales and use tax apply to the sales price of (or the gross receipts derived from) certain repair, maintenance, and installation services transacted by a retailer and sourced to the State effective for sales occurring on or after March 1, 2016. Effective for transactions on or after <u>March 1, 2016</u>, the sales and use tax base is extended to include installation charges, repair, maintenance, and installation services for taxable tangible property; the 4.75% general State and local and transit rates of sales and use tax are imposed provided the transaction is made by a person engaged in retail trade.</p> <p>Motor vehicle repair, maintenance, and installation services transacted by a retailer are subject to the 4.75% general State and applicable local and transit rates of sales and use tax except for services (includes replacement items and repair parts) covered under a manufacturer's warranty or dealer's warranty; the sales price of (or the gross receipts derived from) a service contract sold at retail that covers the entire motor vehicle is exempt from tax.</p> <p>Shoe repair services, watch, clock, and jewelry repair services, and tire recapping or retreading sales and services transacted by a retailer are subject to the 4.75% general State and applicable local and transit rates of sales and use tax (sales or receipts prior to March 1, 2016 by administrative rule were permitted to be taxed at certain percentages where charges for labor and materials were not separately stated). The definition of service contract is amended to include a contract to maintain or repair tangible personal property regardless of whether the property becomes a part of or is applied to real property; additionally, a renewal of a service contract for tangible personal property where the tangible personal property becomes a part of or applied to real property to the effective date of the renewal is subject to sales and use tax. Installation charges made by a retailer as part of the retail sale of tangible personal property, certain digital property, and taxable services, sold at retail, are subject to the applicable rate of tax for the product, irrespective that installation charges may be separately stated by the retailer. Installation charges that are part of the gross receipts from the lease or rental of tangible personal property are subject to the applicable rate of sales and use tax, and maximum tax if applicable.</p>
<p>Fiscal Year 2016-17</p>	<p>Effective <u>July 1, 2016</u>, a use tax exemption is granted to a direct pay permit holder for certain boat, aircraft, and qualified jet engine charges and services; the allowable amount of use tax exemption is the amount of the separately stated installation charges that are part of the sales price of the tangible personal property or digital property that exceed \$25,000 and the sales price of or gross receipts derived from the repair, maintenance, and installation services that exceed \$25,000.</p>

Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Recent Significant Sales Tax Rate and Base Changes

<p>Fiscal Year 2016-17 continued</p>	<p>Effective <u>January 1, 2017</u> (for transactions occurring on or after such date) The General Assembly repealed an exemption for sales of items by a nonprofit civic, charitable, educational, scientific, or literary organization when the net proceeds of the sales will be given, contributed, or ultimately flow to the State of North Carolina or to one or more of its agencies or instrumentalities. The General Assembly enacted an exemption for sales of food, prepared food, soft drinks, candy, and other items of tangible personal property sold not for profit for or at an event that is sponsored by an elementary or secondary school when the net proceeds of the sales will be given, contributed, or ultimately flow to the school. The 2016 General Assembly enacted various provisions affecting the sales and use tax base expansion items related to repair, maintenance, and installation (RMI) services, and service contracts: the newly enacted provisions repeal provisions for retail trade; expand the application of sales and use tax to RMI services of certain transactions for real property and certain digital property; identify specific RMI-related exemptions; clarify the application of sales and use tax to real property contracts with respect to capital improvements; grant an exemption for installation labor related to real property contracts; and expand the exemption applicable to motor vehicle service contracts. The definition of retail trade is repealed; the definition of retailer is amended to provide that the term does not include a real property contractor, but does include a person whose <i>only</i> business activity is providing RMI services. (The 2015 legislated provisions applied sales and use tax to RMI services for transactions made by a person engaged in retail trade as statutorily defined). The definition of RMI services is expanded to include such services rendered with respect to digital property and real property, except for tangible personal property or digital property installed or applied by a real property contractor pursuant to a real property contract. RMI-related services transactions performed pursuant to a real property contract that constitute construction, reconstruction, or remodeling with respect to a capital improvement to real property are not subject to the sales and use tax. RMI-related services transactions performed on real property that do not meet the statutory definition of capital improvement such as the replacement or repair of a fixture in or on a building or structure, or a single repair, maintenance, or installation service may be subject to the sales and use tax. The definition of RMI services, as amended, clarifies that such service include cleaning, refinishing, inspection, and monitoring services for property or a motor vehicle (excludes security or similar monitoring services for real property).</p>
<p>Fiscal Year 2017-18</p>	<p><i>Effective July 1, 2017 (for transactions occurring on or after such date)</i> An exemption from sales and use tax is allowed for sales of investment coins, investment metal bullion, and non-coin currency. An exemption from sales and use tax is allowed for sales of wastewater dispersal products that have been approved by the Department of Health and Human Services for dispersing wastewater effluent within the subsurface dispersal field in a ground absorption system. An exemption from sales and use tax is allowed for sales of equipment, or an accessory, an attachment, or a repair part for equipment that is sold to a large fulfillment facility and is used at the facility in the distribution process (excludes electricity). To qualify for the exemption, a large fulfillment facility must achieve required investment and employment levels within five years and maintain the minimum level of employment throughout its operation. If the level of investment or employment is not timely made, achieved, or maintained, the exemption is forfeited. A sales and use tax refund is provided for a transformative project for sales and use tax paid on building materials, building supplies, fixtures, and equipment that become a part of the real property of the facility. A qualifying transformative project must be approved for a grant under the Job Development Investment Grant (JDIG) Program by the North Carolina Department of Commerce on or before June 30, 2019 and achieve legislated investment and employment levels. <i>Special Provisions (Effective August 11, 2017)</i> Sales Tax Base Expansion Protection Act - The 2017 General Assembly provides the Department of Revenue shall take no action to assess any tax due for a filing period beginning on or after March 1, 2016 and ending before January 1, 2018 if certain conditions set forth in the statute apply and the retailer did not receive specific written advice from the Secretary of Revenue for the transactions at issue for the laws in effect for the applicable periods.</p>

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>Fiscal Year 2017-18 continued</p>	<p>The 2017 General Assembly enacted provisions relative to the determination of taxability of a mixed transaction contract (a contract that includes both a real property contract for a capital improvement and a repair, maintenance, and installation (RMI) service that is not related to the capital improvement). If the allocated sales price of the taxable RMI services included in the mixed transaction contract is greater than 25% of the contract price, then the 4.75% general State sales and use tax rate applies to the sales price of or the gross receipts derived from the taxable RMI service portion of the contract. If the allocated sales price of the taxable RMI services included in the contract is less than or equal to 25% of the contract price, then the RMI service portion of the contract and the taxable personal property, digital property, or service used to perform those services are taxable as real property contract and not subject to the 4.75% general State sales and use tax rate. The 2017 legislation increased the percentage for determining taxability of a mixed transaction contract from 10% to 25%. (Effective retroactively for sales and purchases made on or after January 1, 2017)</p>
<p>Fiscal Year 2018-19</p>	<p><i>Special Provision (Effective June 12, 2018)</i> Sales Tax Base Expansion Protection Act - The 2018 General Assembly amended the Act to provide certain additional and extended relief from sales and use taxes due to the expansion of the sales tax base: the grace period is extended to January 1, 2019 (previously January 1, 2018). Effective <u>November 1, 2018</u>, as a result of the US Supreme Court decision rendered on June 21, 2018 in <i>South Dakota v. Wayfair, Inc.</i>, the NC Department of Revenue requires certain remote sellers that do not have a physical presence in the State and are not registered to collect and remit NC sales and use taxes to register, collect, and remit sales and use taxes to this State effective November 1, 2018, or 60 days after a remote seller meets the threshold, whichever is later. The threshold applies for remote sellers having gross sales in excess of \$100,000 sourced to the State or 200 or more separate transactions sourced to the State in the previous or current calendar year.</p>
<p>Fiscal Year 2019-20</p>	<p><i>Effective July 26, 2019</i> An exemption from sales and use tax is allowed for certain RMI services provided by a real property management contract. <i>Effective October 1, 2019 Exemptions from sales and use tax:</i> -sales of equipment, attachments, and repair parts of equipment used in cutting, shaping, polishing, and finishing granite, marble, and engineered stone, and for similar stone-like products sold to a company primarily engaged in the business of providing made-to-order countertops, walls, and tubs. -sales of self-service car washes or vacuums and limited-service vehicle washes. -certain prescription sales of diapers and incontinence underpads purchased by an enrolled State Medicaid/Health Choice provided for use by beneficiaries of the State Medicaid program. <i>Effective November 1, 2019</i> <i>The sunset of the following provisions was extended to January 1, 2024 (from January 1, 2020)</i> -exemption for sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft to include aviation gasoline and jet fuel purchased for use in a commercial aircraft in foreign commerce by a person whose primary business is scheduled passenger air transportation. -exemptions for engine-related transactions to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series. -refund provision for aviation fuel for a professional motorsports racing team, sanctioning body, or a related member of such a team or body. -refund provision for a professional motorsports racing teams or related member of a team of 50% of tax on property that comprises any part of a professional motor racing vehicle. <i>Effective February 1, 2020</i> A marketplace facilitator is required to collect sales taxes from its remote sales (including all marketplace-facilitated sales for all marketplace sellers) sourced to this State if the facilitator meets either of the following conditions for sales sourced to this State in the previous or current calendar year: (1) gross sales in excess of \$100,000, or (2) 200 or more separate transactions.</p>

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	2020	2019	2018	2017	2016
Governmental Activities					
General obligation bonds.....	\$ 2,605,380	\$ 2,424,075	\$ 2,441,685	\$ 2,851,695	\$ 3,038,665
Lease-purchase revenue bonds.....	—	—	—	—	—
Certificates of participation.....	—	—	—	102,405	124,820
Limited obligation bonds.....	1,774,945	1,946,915	1,783,975	1,888,370	1,997,070
GARVEE bonds.....	959,525	1,046,580	516,820	607,685	529,755
Issuance premium.....	553,093	581,316	468,508	434,721	505,737
Notes payable.....	—	—	50,623	22,089	27,196
Notes from direct borrowings (3).....	43,937	47,676	—	—	—
Capital leases payable.....	10,656	13,347	16,080	20,118	24,037
Total Governmental Activities.....	<u>5,947,536</u>	<u>6,059,909</u>	<u>5,277,691</u>	<u>5,927,083</u>	<u>6,247,280</u>
Business-type Activities					
Revenue bonds.....	1,917,358	1,456,614	1,077,275	1,096,395	1,011,388
GARVEE bonds.....	—	—	—	—	145,535
Issuance discount.....	—	—	(410)	(498)	(1,548)
Issuance premium.....	122,565	72,420	48,620	45,254	20,753
Notes payable.....	—	—	385,960	387,146	388,827
Notes from direct borrowings (3).....	177,925	132,087	—	—	—
Capital leases payable.....	94	106	38	—	—
Total Business-type Activities.....	<u>2,217,942</u>	<u>1,661,227</u>	<u>1,511,483</u>	<u>1,528,297</u>	<u>1,564,955</u>
Total Primary Government.....	<u>\$ 8,165,478</u>	<u>\$ 7,721,136</u>	<u>\$ 6,789,174</u>	<u>\$ 7,455,380</u>	<u>\$ 7,812,235</u>
Debt as a Percentage of Personal Income (1).....	1.61%	1.52%	1.43%	1.64%	1.82%
Amount of Debt Per Capita (1), (2).....	\$ 771	\$ 736	\$ 653	\$ 726	\$ 770

Table 10

2015	2014	2013	2012	2011
\$ 3,469,220	\$ 3,607,100	\$ 3,999,580	\$ 4,470,500	\$ 4,846,205
2,000	4,125	20,915	30,915	205,045
151,745	247,615	508,500	557,895	824,860
2,095,550	2,132,085	1,993,740	1,795,090	1,060,745
598,165	395,275	454,820	512,085	373,080
550,393	558,928	623,105	485,615	441,218
34,095	39,738	39,312	35,691	25,038
—	—	—	—	—
20,712	17,869	19,375	21,282	22,669
<u>6,921,880</u>	<u>7,002,735</u>	<u>7,659,347</u>	<u>7,909,073</u>	<u>7,798,860</u>
1,019,588	1,039,308	1,058,458	1,081,183	856,678
145,535	145,535	145,535	145,535	—
(1,664)	(1,780)	(1,896)	(2,012)	(2,128)
23,326	25,932	28,661	31,507	—
390,818	376,869	377,466	286,818	269,030
—	—	—	—	—
—	—	—	—	—
<u>1,577,603</u>	<u>1,585,864</u>	<u>1,608,224</u>	<u>1,543,031</u>	<u>1,123,580</u>
<u>\$ 8,499,483</u>	<u>\$ 8,588,599</u>	<u>\$ 9,267,571</u>	<u>\$ 9,452,104</u>	<u>\$ 8,922,440</u>
2.08%	2.19%	2.49%	2.51%	2.53%
\$ 846	\$ 864	\$ 941	\$ 970	\$ 925

(1) North Carolina personal income and population obtained from Table 15 for calculations.

(2) Figures for amount of debt per capita are presented in whole dollars.

(3) For fiscal year ended June 30, 2019, GASB Statement 88, Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements was implemented. This statement requires additional information be disclosed for direct borrowings and direct placements separately from other debt.

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2011-2020

(Dollars in Thousands)

Fiscal Year Ended June 30	General Obligation Bonds	Lease- Purchase Revenue Bonds	Certificates of Participation	Limited Obligation Bonds	GARVEE Bonds	Issuance Premium
2020	\$ 2,605,380	\$ —	\$ —	\$ 1,774,945	\$ 959,525	\$ 553,093
2019	2,424,075	—	—	1,946,915	1,046,580	581,316
2018	2,441,685	—	—	1,783,975	516,820	468,508
2017	2,851,695	—	102,405	1,888,370	607,685	434,721
2016	3,038,665	—	124,820	1,997,070	529,755	505,737
2015	3,469,220	2,000	151,745	2,095,550	598,165	550,393
2014	3,607,100	4,125	247,615	2,132,085	395,275	558,928
2013	3,999,580	20,915	508,500	1,993,740	454,820	623,105
2012	4,470,500	30,915	557,895	1,795,090	512,085	485,615
2011	4,846,205	205,045	824,860	1,060,745	373,080	441,218

Table 11

<u>Total</u>	<u>Per Capita</u> (1), (2)
\$ 5,892,943	\$ 556
5,998,886	572
5,210,988	502
5,884,876	573
6,196,047	610
6,867,073	685
6,945,128	699
7,600,660	772
7,852,100	805
7,751,153	803

(1) North Carolina population obtained from Table 15 for calculations.

(2) Figures for amount of debt per capita are presented in whole dollars.

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2020

(Dollars in Thousands)

	<i>Payable from General Fund Revenues</i>					
	Total General Obligation Bonds	<i>Total General Fund</i>	Refunding Series 2010C 10-12-10 5%	Refunding Series 2013B 2-20-13 5%	Refunding Series 2013C 2-28-13 3.5%-5%	Refunding Series 2013D 2-28-13 3%-4%
Bonds Authorized and Issued:						
2004 session law.....	\$ 2,463,138	\$ 2,463,138	\$ 236,095	\$ 271,373	\$ 351,970	\$ 349,955
2015 session law.....	1,200,000	1,200,000	—	—	—	—
Total bonds authorized and issued.....	3,663,138	3,663,138	236,095	271,373	351,970	349,955
Bonds retired.....	1,057,758	1,057,758	92,205	59,313	169,590	153,610
Bonds outstanding— June 30, 2020.....	<u>\$ 2,605,380</u>	<u>\$ 2,605,380</u>	<u>\$ 143,890</u>	<u>\$ 212,060</u>	<u>\$ 182,380</u>	<u>\$ 196,345</u>
Bond Maturity as Follows:						
2020-21.....	\$ 336,995	\$ 336,995	\$ 72,030	\$ 450	\$ 47,160	\$ 65,850
2021-22.....	318,595	318,595	71,860	400	46,870	65,560
2022-23.....	313,850	313,850	—	13,595	39,470	64,935
2023-24.....	290,880	290,880	—	143,180	16,225	—
2024-25.....	212,420	212,420	—	54,435	16,290	—
2025-26.....	153,320	153,320	—	—	16,365	—
2026-27.....	136,620	136,620	—	—	—	—
2027-28.....	109,230	109,230	—	—	—	—
2028-29.....	92,900	92,900	—	—	—	—
2029-30.....	92,745	92,745	—	—	—	—
2030-31.....	71,565	71,565	—	—	—	—
2031-32.....	71,565	71,565	—	—	—	—
2032-33.....	71,565	71,565	—	—	—	—
2033-34.....	71,565	71,565	—	—	—	—
2034-35.....	71,565	71,565	—	—	—	—
2035-36.....	60,000	60,000	—	—	—	—
2036-37.....	50,000	50,000	—	—	—	—
2037-38.....	50,000	50,000	—	—	—	—
2038-39.....	30,000	30,000	—	—	—	—
Total Bonds Outstanding....	<u>\$ 2,605,380</u>	<u>\$ 2,605,380</u>	<u>\$ 143,890</u>	<u>\$ 212,060</u>	<u>\$ 182,380</u>	<u>\$ 196,345</u>

Source: Compiled by North Carolina Department of State Treasurer

Table 12

Payable from General Fund Revenues

Refunding Series 2013E 3-21-13 5%	Refunding Series 2014A 4-30-14 5%	General Obligation Series 2015A 4-22-15 3%-5%	Refunding Series 2016A 3-9-16 3%-5%	General Obligation Series 2016B 8-10-16 2%-5%	Refunding Series 2017A 7-27-17 5%	General Obligation Series 2018A 8-1-18 3%-5%	General Obligation Series 2019B 9-19-19 3%-5%
\$ 299,785	\$ 287,095	\$ 231,360	\$ 329,360	\$ —	\$ 106,145	\$ —	\$ —
—	—	—	—	200,000	—	400,000	600,000
299,785	287,095	231,360	329,360	200,000	106,145	400,000	600,000
282,320	127,795	57,850	1,045	40,000	4,030	40,000	30,000
<u>\$ 17,465</u>	<u>\$ 159,300</u>	<u>\$ 173,510</u>	<u>\$ 328,315</u>	<u>\$ 160,000</u>	<u>\$ 102,115</u>	<u>\$ 360,000</u>	<u>\$ 570,000</u>
\$ 17,465	\$ 40,165	\$ 11,570	\$ 520	\$ 10,000	\$ 21,785	\$ 20,000	\$ 30,000
—	40,310	11,570	18,825	10,000	3,200	20,000	30,000
—	22,540	11,570	24,610	10,000	77,130	20,000	30,000
—	35,450	11,570	24,455	10,000	—	20,000	30,000
—	20,835	11,570	49,290	10,000	—	20,000	30,000
—	—	11,570	65,385	10,000	—	20,000	30,000
—	—	11,570	65,050	10,000	—	20,000	30,000
—	—	11,565	37,665	10,000	—	20,000	30,000
—	—	11,565	21,335	10,000	—	20,000	30,000
—	—	11,565	21,180	10,000	—	20,000	30,000
—	—	11,565	—	10,000	—	20,000	30,000
—	—	11,565	—	10,000	—	20,000	30,000
—	—	11,565	—	10,000	—	20,000	30,000
—	—	11,565	—	10,000	—	20,000	30,000
—	—	11,565	—	10,000	—	20,000	30,000
—	—	—	—	10,000	—	20,000	30,000
—	—	—	—	—	—	20,000	30,000
—	—	—	—	—	—	20,000	30,000
—	—	—	—	—	—	—	30,000
<u>\$ 17,465</u>	<u>\$ 159,300</u>	<u>\$ 173,510</u>	<u>\$ 328,315</u>	<u>\$ 160,000</u>	<u>\$ 102,115</u>	<u>\$ 360,000</u>	<u>\$ 570,000</u>

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2020

(Dollars in Thousands)

	<i>Limited Obligation Bonds</i>				
	Total Special Indebtedness Debt	<i>Total Limited Obligation Bonds</i>	Capital Improvements Series 2011A 2-16-11 4%-5.25%	Capital Improvements Refunding Series 2011B 10-26-11 4%-5%	Capital Improvements Series 2011C 11-29-11 3%-5%
Bonds Authorized and Issued:					
Ch. 284, 2003 session law.....	\$ 2,634,355	\$ 2,634,355	\$ 500,000	\$ 367,350	\$ 400,000
Ch. 142, 2018 session law.....	300,000	300,000	—	—	—
Total bonds authorized and issued.....	2,934,355	2,934,355	500,000	367,350	400,000
Bonds retired.....	652,355	652,355	170,320	192,645	117,965
Partial defeasances.....	507,055	507,055	306,285	—	186,535
Bonds outstanding— June 30, 2020.....	<u>\$ 1,774,945</u>	<u>\$ 1,774,945</u>	<u>\$ 23,395</u>	<u>\$ 174,705</u>	<u>\$ 95,500</u>
Bond Maturity as Follows:					
2020-21.....	\$ 172,955	\$ 172,955	\$ 23,395	\$ 48,480	\$ 18,250
2021-22.....	174,120	174,120	—	48,480	19,165
2022-23.....	179,085	179,085	—	48,510	—
2023-24.....	183,345	183,345	—	29,235	—
2024-25.....	153,545	153,545	—	—	—
2025-26.....	147,080	147,080	—	—	—
2026-27.....	144,745	144,745	—	—	—
2027-28.....	144,445	144,445	—	—	—
2028-29.....	134,055	134,055	—	—	—
2029-30.....	96,430	96,430	—	—	—
2030-31.....	103,430	103,430	—	—	28,475
2031-32.....	71,240	71,240	—	—	29,610
2032-33.....	43,375	43,375	—	—	—
2033-34.....	27,095	27,095	—	—	—
Total Bonds Outstanding.....	<u>\$ 1,774,945</u>	<u>\$ 1,774,945</u>	<u>\$ 23,395</u>	<u>\$ 174,705</u>	<u>\$ 95,500</u>

Source: Compiled by the North Carolina Department of State Treasurer and the North Carolina Department of Transportation

Table 13

Limited Obligation Bonds

Capital Improvements Series 2013A 1-30-13 2.25%-5%	Capital Improvements Refunding Series 2014B 5-21-14 5%	Limited Obligation Refunding Series 2014C 11-19-14 3%-5%	Limited Obligation Refunding Series 2017B 8-3-17 3%-5%	Limited Obligation Series 2019A 6-27-19 4%-5%
\$ 250,000	\$ 199,570	\$ 299,020	\$ 618,415	\$ —
—	—	—	—	300,000
250,000	199,570	299,020	618,415	300,000
64,030	16,005	50,745	24,685	15,960
14,235	—	—	—	—
<u>\$ 171,735</u>	<u>\$ 183,565</u>	<u>\$ 248,275</u>	<u>\$ 593,730</u>	<u>\$ 284,040</u>
\$ 11,065	\$ 24,245	\$ 29,805	\$ 3,210	\$ 14,505
11,620	24,810	27,615	27,200	15,230
12,200	25,425	32,925	44,030	15,995
12,810	43,800	34,655	46,050	16,795
13,450	37,785	36,480	48,200	17,630
13,920	27,500	27,230	59,915	18,515
—	—	30,165	95,140	19,440
14,945	—	29,400	79,690	20,410
15,395	—	—	97,230	21,430
15,855	—	—	58,070	22,505
16,330	—	—	34,995	23,630
16,820	—	—	—	24,810
17,325	—	—	—	26,050
—	—	—	—	27,095
<u>\$ 171,735</u>	<u>\$ 183,565</u>	<u>\$ 248,275</u>	<u>\$ 593,730</u>	<u>\$ 284,040</u>

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged revenue:					
Federal transportation revenues.....	\$ 1,459,841	\$ 1,456,615	\$ 1,147,920	\$ 1,142,699	\$ 1,031,454
Net available revenue.....	<u>\$ 1,459,841</u>	<u>\$ 1,456,615</u>	<u>\$ 1,147,920</u>	<u>\$ 1,142,699</u>	<u>\$ 1,031,454</u>
Debt service:					
Principal.....	\$ 87,055	\$ 70,240	\$ 71,940	\$ 67,605	\$ 68,410
Interest.....	44,579	25,697	23,996	31,783	25,816
Coverage ratio.....	11.09	15.18	11.97	11.50	10.95
North Carolina Turnpike Authority					
Revenue Bonds					
Pledged revenue:					
Toll revenues (1).....	\$ 66,576	\$ 57,937	\$ 43,940	\$ 39,199	\$ 33,999
Fees, licenses and fines (2).....	10,615	6,038	5,055	5,505	4,460
Federal transportation revenues.....	—	—	—	—	14,807
Federal interest subsidy on debt.....	4,324	6,177	10,834	11,348	11,387
Interest on investments.....	9,053	4,084	2,654	2,735	2,143
Net available revenue.....	<u>\$ 90,568</u>	<u>\$ 74,236</u>	<u>\$ 62,483</u>	<u>\$ 58,787</u>	<u>\$ 66,796</u>
Debt service:					
Principal.....	\$ 26,210	\$ 22,060	\$ 18,395	\$ 11,960	\$ 8,200
Interest.....	65,048	50,150	54,400	55,178	61,328
Coverage ratio (3).....	0.99	1.03	0.86	0.88	0.96

Table 14

2015	2014	2013	2012	2011
\$ 1,064,575	\$ 1,311,264	\$ 1,137,807	\$ 1,139,303	\$ 1,296,856
<u>\$ 1,064,575</u>	<u>\$ 1,311,264</u>	<u>\$ 1,137,807</u>	<u>\$ 1,139,303</u>	<u>\$ 1,296,856</u>
\$ 62,040	\$ 59,545	\$ 57,265	\$ 40,535	\$ 61,745
18,574	21,006	23,288	18,298	20,082
13.21	16.28	14.12	19.37	15.85
\$ 26,265	\$ 18,980	\$ 10,416	\$ 398	\$ —
3,922	5,203	2,557	97	—
9,733	11,677	12,365	12,400	—
11,375	11,338	11,686	12,218	10,843
1,768	1,272	2,372	2,911	5,235
<u>\$ 53,063</u>	<u>\$ 48,470</u>	<u>\$ 39,396</u>	<u>\$ 28,024</u>	<u>\$ 16,078</u>
\$ 19,720	\$ 19,150	\$ 22,725	\$ —	\$ —
61,912	62,585	63,076	49,753	37,869
0.65	0.59	0.46	0.56	0.42

(1) In fiscal year 2012, the N.C. Turnpike Authority began collecting tolls; 2012 and 2013 are restated to include the tolls.

(2) In fiscal year 2012, the N.C. Turnpike Authority began charging fees in connection with the tolls; 2012 and 2013 are restated to include the fees.

(3) For fiscal years 2011 through 2013, the N.C. Turnpike Authority reported state appropriations as a pledged revenue. Starting with 2014, the state appropriations are no longer included as a pledged revenue and the coverage ratios are recalculated.

Continued

PLEDGED REVENUE COVERAGE (Continued)

For the Fiscal Years 2011-2020

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University of North Carolina System					
Revenue Bonds					
Pledged revenue:					
Sales and services.....	\$ 189,752	\$ 193,640	\$ 207,349	\$ 193,570	\$ 199,685
Student tuition and fees.....	4,579	3,468	4,014	4,344	4,552
Patient services.....	1,116,673	1,105,697	1,060,817	1,017,713	934,687
State appropriations.....	—	—	—	—	—
Fees, licenses and fines.....	—	—	—	—	—
Rental lease earnings.....	—	123	2,002	1,815	3,098
Investment income.....	566	1,013	1,194	1,018	326
Federal interest subsidy on debt.....	—	—	—	—	371
Other operating revenues.....	33,941	185,703	2,403	2,548	32,859
Net increase in fair value of investments.....	—	—	—	—	—
Non-operating revenues.....	—	—	42	1	—
Less: Operating expenses.....	<u>(1,228,550)</u>	<u>(1,233,620)</u>	<u>(1,177,224)</u>	<u>(1,110,601)</u>	<u>(1,038,199)</u>
Net available revenue.....	<u>\$ 116,961</u>	<u>\$ 256,024</u>	<u>\$ 100,597</u>	<u>\$ 110,408</u>	<u>\$ 137,379</u>
Debt service:					
Principal.....	\$ 14,695	\$ 15,675	\$ 16,415	\$ 16,915	\$ 17,025
Interest.....	14,125	10,456	9,779	10,700	12,084
Coverage ratio.....	4.06	9.80	3.84	4.00	4.72
Direct Placements (1)					
Pledged revenue:					
Sales and services.....	\$ 20,319	\$ 19,481	\$ —	\$ —	\$ —
Rental lease earnings.....	25	23	—	—	—
Investment income.....	105	348	—	—	—
Non-operating revenues.....	18	3	—	—	—
Less: Operating expenses.....	<u>(17,971)</u>	<u>(18,669)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net available revenue.....	<u>\$ 2,496</u>	<u>\$ 1,186</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Debt service:					
Principal.....	\$ 1,183	\$ 635	—	—	—
Interest.....	735	93	—	—	—
Coverage ratio.....	1.30	1.63	—	—	—
Special Indebtedness					
Pledged revenue:					
Sales and services.....	\$ 9,369	\$ 11,217	\$ 8,859	\$ 8,914	\$ 8,144
Student tuition and fees.....	—	—	—	—	—
Rental lease earnings.....	—	—	1,986	2,206	849
Investment income (loss).....	74	64	37	23	16
Other operating revenues.....	29	45	48	53	240
Less: Operating expenses.....	<u>(2,229)</u>	<u>(2,336)</u>	<u>(2,389)</u>	<u>(2,410)</u>	<u>(2,375)</u>
Net available revenue.....	<u>\$ 7,243</u>	<u>\$ 8,990</u>	<u>\$ 8,541</u>	<u>\$ 8,786</u>	<u>\$ 6,874</u>
Debt service:					
Principal.....	\$ 3,082	\$ 3,447	\$ 3,268	\$ 3,099	\$ 2,535
Interest.....	3,784	3,838	3,956	4,304	3,591
Coverage ratio.....	1.05	1.23	1.18	1.19	1.12

Table 14

2015	2014	2013	2012	2011
\$ 231,306	\$ 239,267	\$ 237,607	\$ 279,287	\$ 321,229
5,214	6,673	6,624	6,903	13,859
842,845	737,984	666,238	635,434	592,061
—	—	—	—	3
—	—	—	270	565
3,998	3,866	73	258	6,787
820	522	533	612	944
362	368	400	436	1,559
—	3	—	1,072	563
—	571	362	74	—
18	9,619	92	66	—
<u>(1,035,252)</u>	<u>(915,827)</u>	<u>(797,205)</u>	<u>(744,162)</u>	<u>(773,796)</u>
<u>\$ 49,311</u>	<u>\$ 83,046</u>	<u>\$ 114,724</u>	<u>\$ 180,250</u>	<u>\$ 163,774</u>
\$ 16,720	\$ 16,645	\$ 17,110	\$ 21,035	\$ 10,305
8,298	8,668	9,137	13,226	12,245
1.97	3.28	4.37	5.26	7.26
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ 1,007	\$ 3,695	\$ 6,283	\$ 5,998	\$ 5,896
—	—	1,350	1,307	1,294
3,129	3,035	—	62	31
(1)	9	—	4	2
—	—	—	17	33
<u>(2,021)</u>	<u>(2,560)</u>	<u>(2,127)</u>	<u>(2,144)</u>	<u>(2,026)</u>
<u>\$ 2,114</u>	<u>\$ 4,179</u>	<u>\$ 5,506</u>	<u>\$ 5,244</u>	<u>\$ 5,230</u>
\$ 730	\$ 1,110	\$ 1,788	\$ 1,728	\$ 1,630
1,107	1,824	1,923	1,997	2,052
1.15	1.42	1.48	1.41	1.42

(1) For fiscal year ended June 30, 2019, GASB Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, was implemented. Direct Placements for years prior to 2019 are included in Revenue Bonds.

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 2011-2020

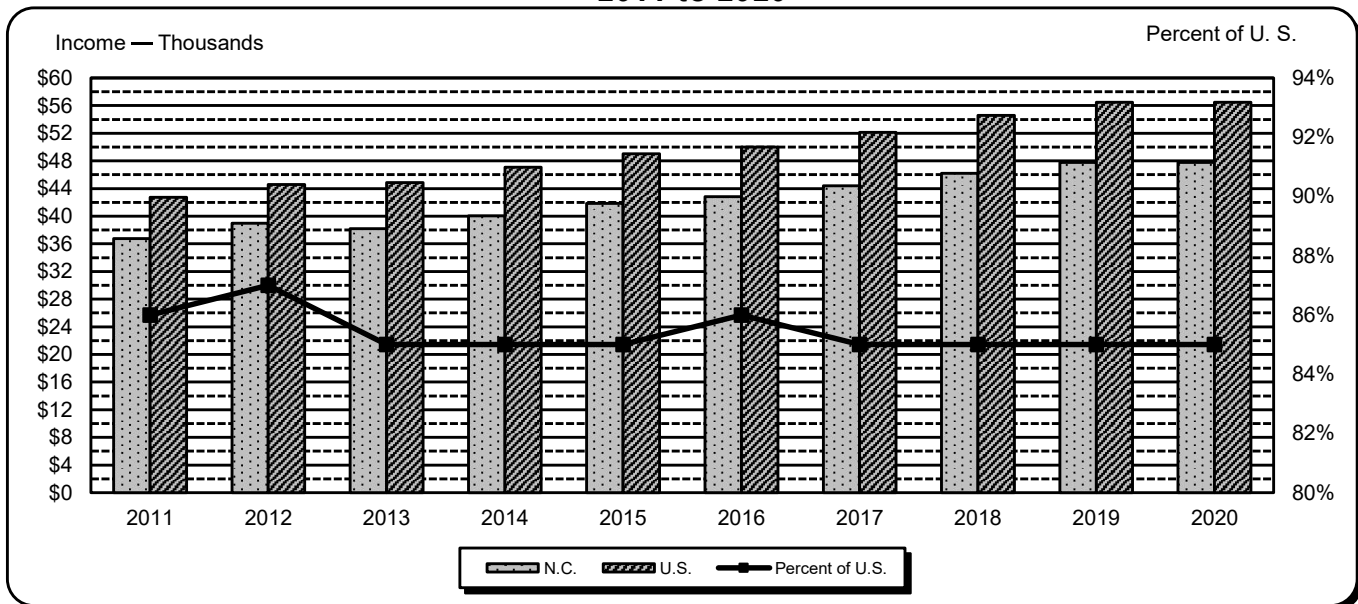
Year	Population				Per Capita Income			Personal Income (millions)	
	(1) United States Population	U.S. Increase from Prior Period	(1) North Carolina Population	(3) N.C. Increase from Prior Period	(2) United States	(2) North Carolina	(4) N.C. as a Percentage of U.S.	(2) United States	(2) North Carolina
2020	329,798,917	0.48%	10,595,645	1.03%	\$56,491	\$ 47,767	84.56%	\$18,630,671	\$ 506,122
2019	328,239,523	0.48%	10,488,084	1.03%	56,490	47,766	84.56%	18,542,262	500,974
2018	326,687,501	0.52%	10,381,615	1.10%	54,606	46,216	84.64%	17,839,255	479,792
2017	324,985,539	0.63%	10,268,233	1.12%	52,118	44,409	85.21%	16,937,582	455,997
2016	322,941,311	0.72%	10,154,788	1.23%	50,015	42,816	85.61%	16,151,881	434,789
2015	320,635,163	0.73%	10,031,646	0.99%	49,019	41,839	85.35%	15,717,140	419,717
2014	318,301,008	0.73%	9,932,887	0.91%	47,071	40,069	85.12%	14,982,715	397,996
2013	315,993,715	0.69%	9,843,336	0.96%	44,860	38,201	85.16%	14,175,503	376,024
2012	313,830,990	0.73%	9,749,476	0.95%	44,605	38,969	87.36%	13,998,383	379,925
2011	311,556,874	0.92%	9,657,592	1.27%	42,739	36,764	86.02%	13,315,478	355,052

Sources:

(1) Census estimates based on 2010 census (July 1) for years 2011 - 2019; and year 2020 is an Office of the State Controller estimate.

(2) U.S. Department of Commerce Bureau of Economic Analysis used for years 2011 - 2019. Since the 2020 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 2020 U.S. Per Capita Income, and the previous year N.C. as a Percentage of U.S. was used to project the 2020 Per Capita Income for North Carolina. U.S. and N.C. Personal Income was not available, so year 2020 is calculated from sources 3 and 4.

**Per Capita Income
North Carolina Compared to United States
2011 to 2020**



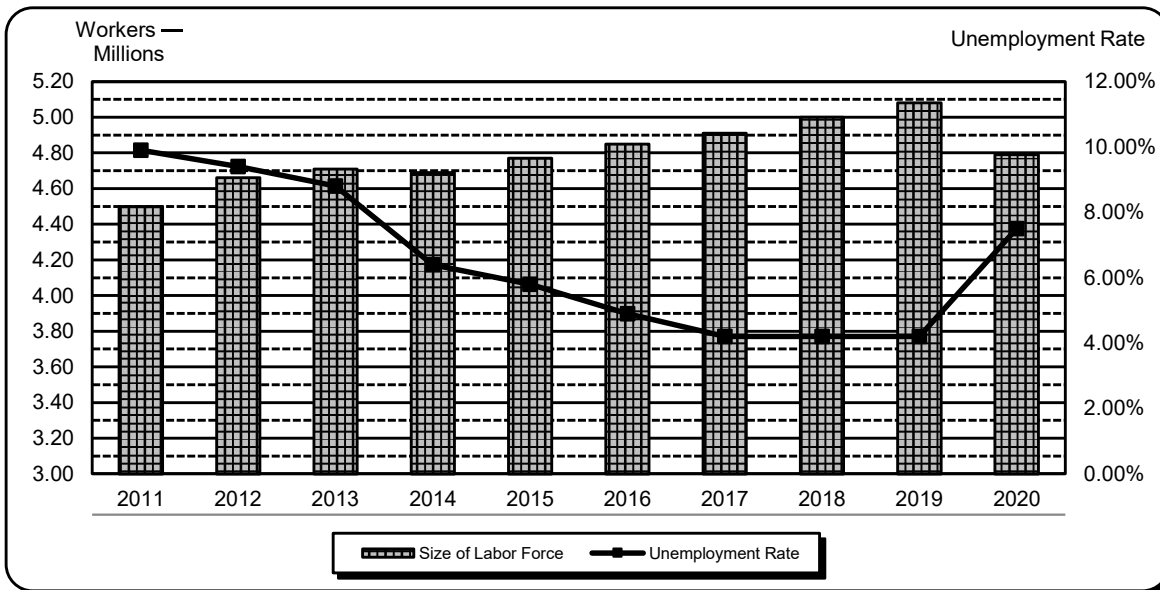
Sources: (3) Population
(4) Per Capita Income

U.S. Department of Commerce, Bureau of the Census
U.S. Department of Commerce, Bureau of Economic Analysis

Table 15

Year	North Carolina Civilian Labor Force Data ⁽⁵⁾				North Carolina - Other Data	
	Total	Employed	Unemployed	Unemployed Percentage Rate	Motor Vehicles Registered ⁽⁶⁾	Residential Construction Authorized ⁽⁷⁾
2020	4,787,234	4,430,134	357,100	7.50%	9,876,946	36,244
2019	5,078,853	4,868,076	210,777	4.20%	9,548,341	34,313
2018	4,997,161	4,787,584	209,577	4.20%	9,403,076	36,166
2017	4,908,517	4,700,760	207,757	4.20%	9,513,210	30,055
2016	4,853,581	4,614,694	238,887	4.90%	9,328,899	27,230
2015	4,770,538	4,493,898	276,640	5.80%	9,076,874	26,293
2014	4,688,666	4,389,480	299,186	6.40%	8,843,938	23,528
2013	4,708,565	4,292,251	416,314	8.80%	8,811,236	25,065
2012	4,655,387	4,216,014	439,373	9.40%	8,740,382	23,894
2011	4,503,162	4,055,793	447,369	9.90%	8,342,983	16,536

**Civilian Labor Force Trends
With Unemployment Percentages
2011 to 2020**



Sources: (5) Seasonally Adjusted Labor Force Data - As of June 30 N.C. Division of Employment Security
 (6) Motor Vehicle Registrations - For the Fiscal Year Ended June 30 N.C. Division of Motor Vehicles
 (7) Residential Housing Permits U.S. Department of Commerce, Bureau of the Census

PRINCIPAL EMPLOYERS

For the Fiscal Years 2011 & 2020

Table 16

	2020			2011		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	180,000-184,999	1	4.12%	180,000-184,999	1	4.50%
Federal Government.....	75,000-79,999	2	1.75%	65,000-69,999	2	1.66%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.19%	50,000-54,999	3	1.29%
Duke University.....	40,000-44,999	4	0.96%	25,000-29,999	4	0.68%
Food Lion LLC.....	35,000-39,999	5	0.85%	20,000-24,999	6	0.55%
Charlotte-Mecklenburg Hospital Auth.....	35,000-39,999	6	0.85%	25,000-29,999	5	0.68%
Wells Fargo Bank NA.....	30,000-34,999	7	0.73%	20,000-24,999	7	0.55%
Lowes Home Centers, Inc.....	20,000-24,999	8	0.51%	15,000-19,999	10	0.43%
Wake County Public Schools.....	20,000-24,999	9	0.51%	15,000-19,999	9	0.43%
Bank of America NA.....	20,000-24,999	10	0.51%	-	-	-
Charlotte-Mecklenburg Board of Education...	-		-	15,000-19,999	8	0.43%
Total.....	<u>500,000-559,990</u>		<u>11.98%</u>	<u>430,000-479,990</u>		<u>11.20%</u>

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: North Carolina Department of Commerce – Labor and Economic Analysis Division

THIS PAGE INTENTIONALLY LEFT BLANK.

TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2011-2020

	<u>2020</u> (4)	<u>2019</u> (4)	<u>2018</u> (4)	<u>2017</u>	<u>2016</u>
General government (3).....	5,631	5,501	4,983	5,160	4,857
Primary and secondary education.....	156,693	155,755	151,263	153,236	154,079
Higher education:					
Universities.....	67,166	65,697	64,028	63,345	62,194
Community colleges.....	17,761	18,095	18,028	18,021	18,129
Health and human services (1).....	18,270	18,098	18,038	17,970	17,552
Economic development.....	2,554	2,141	2,136	2,340	3,365
Environment and natural resources (2), (3).....	4,157	4,140	4,128	4,112	4,148
Public safety, corrections and regulation (1).....	34,963	34,034	34,089	34,009	33,966
Transportation.....	11,669	11,666	12,141	12,578	12,591
Agriculture (2).....	2,159	2,088	2,082	2,077	2,066
Total.....	<u>321,023</u>	<u>317,215</u>	<u>310,916</u>	<u>312,848</u>	<u>312,947</u>

Source: North Carolina Office of State Budget and Management

Table 17

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
5,270	5,357	5,450	5,425	5,835
153,165	157,205	165,167	162,124	157,380
62,152	61,720	60,665	61,317	62,716
18,471	18,588	19,518	19,702	19,958
17,620	17,801	17,786	17,958	20,382
2,893	3,003	2,722	2,415	2,767
3,471	3,566	3,549	3,561	4,582
33,558	33,635	34,668	34,650	34,045
12,758	13,309	13,170	13,175	13,550
2,080	2,081	2,110	2,064	1,349
<u>311,438</u>	<u>316,265</u>	<u>324,805</u>	<u>322,391</u>	<u>322,564</u>

(1) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.

(2) Starting in fiscal year 2012, the Division of North Carolina Forest Service and Division of Soil and Water Conservation are included in the agriculture function; whereas in prior years the divisions were included with the environment and natural resources function.

(3) Starting in fiscal year 2016, the Department of Natural and Cultural Resources is included in the environment and natural resources function; whereas in prior years it was included with the general government function.

(4) Counts for fiscal year end 2018, 2019 and 2020 are projected from prior year data.

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2011-2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Government					
Department of Revenue					
Number of tax returns filed electronically.....	9,292,526	9,163,552	8,837,553	8,418,279	7,941,295
Number of tax returns processed.....	11,102,781	11,323,904	11,217,334	11,150,416	10,946,995
Number of individual refunds direct deposited.....	1,850,823	1,875,194	1,806,510	1,825,815	1,453,984
Number of individual refunds processed.....	2,539,044	2,717,162	2,683,039	2,753,655	2,308,133
Number of pieces of incoming mail.....	3,608,395	4,186,563	4,160,827	4,580,005	5,219,418
Number of pieces of outgoing mail.....	6,355,203	8,814,460	8,934,110	9,050,706	9,083,964
Department of Administration					
Construction projects administered.....	3	3	1	2	8
Construction value excluding design fee (thousands).....	\$ 4,935	\$ 139	\$ -	\$ 33,309	\$ 72,824
USS North Carolina Battleship Commission					
Visitation to USS North Carolina Battleship.....	173,919	187,570	211,596	218,479	212,369
Primary and Secondary Education					
Public School (K-12)					
Public school enrollment.....	1,580,754	1,579,332	1,582,118	1,545,614	1,538,310
Total high school graduates.....	109,518	107,095	103,261	101,991	99,183
Graduate intention to pursue further education.....	78.8%	81%	82.0%	85.9%	83.8%
Higher Education					
Community Colleges					
Number of students (annualized FTE).....	239,554	230,140	219,176	222,461	220,312
Number of certificates and degrees awarded.....	63,438	65,305	63,226	62,131	58,960
Universities					
Number of regular term students (FTE).....	219,021	216,959	213,218	209,401	205,119
Number of certificates and degrees awarded.....	57,939	55,874	54,838	53,236	51,799
Health and Human Services (3)					
Department of Health and Human Services					
Medicaid recipients.....	2,097,451	2,073,052	2,247,663	2,200,011	2,198,496
Food stamp recipients.....	1,739,775	1,797,272	1,345,157	1,436,586	1,609,669
Clients served by mental health facilities.....	2,167	3,017	3,062	3,110	3,146
Clients served by developmental disabilities facilities.....	954	985	1,136	1,156	1,161
Clients served by substance abuse facilities.....	3,883	3,374	3,466	3,496	3,512
Clients served by neuro-meds facilities.....	502	515	612	644	683
Children served through subsidized child care.....	119,550	120,017	122,924	105,755	112,545
Participation in Special Supplemental Nutrition Program.....	220,455	221,206	230,071	240,691	244,652
Clients served through Work First.....	34,022	38,576	27,436	26,415	31,015
NC Health Choice annual enrollment.....	120,729	109,644	94,698	90,589	81,897

Source: Financial reporting entities listed in the table.

Table 18

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
7,263,173	7,022,822	6,669,752	4,801,446	4,078,310
10,363,073	10,366,001	10,143,464	10,888,330	10,596,928
1,412,624	1,934,344	1,821,767	1,702,620	1,556,340
2,311,764	3,127,317	3,123,326	3,083,401	3,026,035
5,090,535	5,129,271	5,514,005	5,827,530	6,012,977
9,219,001	8,417,904	8,172,888	8,525,983	8,972,129
8	7	7	6	6
\$ 63,552	\$ 63,460	\$ 62,729	\$ 54,378	\$ 35,403
202,447	210,969	216,438	193,150	208,994
1,520,985	1,510,664	1,493,474	1,481,671	1,476,348
96,477	95,580	94,869	92,031	89,027
83.8%	84.5%	85%	100%	86.12%
225,135	229,924	238,092	240,338	249,934
49,592	45,392	40,224	56,140	39,255
202,447	200,716	201,251	200,386	201,147
51,850	51,086	49,791	48,045	45,821
2,054,975	2,073,166	1,781,096	1,872,279	1,670,912
1,649,754	1,620,115	1,670,428	2,113,648	1,567,572
3,301	3,593	3,463	4,102	4,423
1,199	1,212	1,289	1,283	1,334
3,698	4,047	4,181	3,901	4,200
721	744	567	830	827
120,471	121,112	121,303	129,752	136,564
248,575	257,582	265,616	268,872	272,806
33,598	37,256	45,201	102,367	47,166
78,407	98,537	192,044	154,927	208,563

Continued

OPERATING INDICATORS BY FUNCTION (Continued)

For the Fiscal Years 2011-2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Economic Development</u>					
Economic Development Partnership of North Carolina					
Jobs generated company recruitment/expansion.....	18,304	22,061	20,794	15,748	14,806
Capital investment (thousands).....	\$ 5,630,000	\$ 3,325,257	\$ 3,580,000	\$ 3,831,981	\$ 4,245,981
Department of Commerce					
Total employed.....	4,430,134	4,868,076	4,787,584	4,700,760	4,614,694
Percentage of unemployment.....	7.5%	4.2%	4.2%	4.2%	4.9%
<u>Environment and Natural Resources</u>					
Department of Environmental Quality					
Public drinking water systems in compliance.....	98%	98%	98%	99%	97%
Department of Natural and Cultural Resources					
Visitation to state parks.....	17,391,643	17,866,517	19,153,780	19,038,513	18,053,654
Visitation to historical sites and museums.....	2,451,425	4,506,115	4,014,046	5,488,204	5,480,871
Visitation to state aquariums	801,738	690,809	1,376,820	1,347,641	1,233,070
Visitation to N.C. Zoo.....	490,829	864,138	839,963	870,882	755,567
Wildlife Resources Commission					
Hunting licenses sold.....	186,284	176,847	144,380	141,448	145,029
Fishing licenses sold (inland and coastal).....	790,572	742,253	743,316	779,184	789,049
Combination hunting/fishing licenses sold.....	162,681	139,878	146,772	152,801	161,847
Vessels registered.....	186,594	173,732	173,740	176,585	179,485
<u>Public Safety, Corrections and Regulation (3)</u>					
Department of Public Safety					
Incarcerated adult offenders.....	31,506	36,053	37,104	37,487	37,440
Supervised adult offenders.....	94,937	100,348	97,798	99,313	100,881
Juvenile offenders.....	4,632	5,349	6,075	6,613	7,170
Administrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court.....	100%	100%	100%	100%	100%
Cases disposed as a % of cases filed-District Court.....	100%	100%	100%	100%	100%
<u>Agriculture</u>					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (1).....	81,907	117,459	116,709	106,614	91,525
Rejection rate.....	6.10%	33.06%	27.70%	11.49%	12.5%
Retail scales tested (2).....	23,028	27,110	33,630	31,994	33,270
Rejection rate.....	8.3%	7.6%	7.7%	8.7%	9.4%

Table 18

2015	2014	2013	2012	2011
14,812	14,094	16,939	15,634	22,409
\$ 2,388,677	\$ 2,787,447	\$ 2,139,346	\$ 3,600,000	\$ 4,151,293
4,493,898	4,389,480	4,292,251	4,216,014	4,055,793
5.8%	6.4%	8.8%	9.4%	9.9%
96%	96%	96%	95%	96%
16,293,380	14,751,051	13,918,725	14,247,295	14,660,154
4,627,997	4,161,452	4,243,249	3,880,172	3,641,960
1,268,467	1,123,756	1,193,252	1,104,200	1,083,967
721,432	728,531	732,310	738,072	741,119
145,729	126,524	117,473	115,420	119,347
795,878	823,712	772,197	791,044	797,897
191,244	204,179	199,280	198,689	198,102
146,305	144,316	149,311	143,535	147,964
37,793	37,529	37,619	38,385	41,030
102,790	103,399	105,763	103,163	109,326
8,037	8,141	8,625	9,090	9,332
100%	100%	100%	100%	100%
100%	100%	100%	100%	100%
95,811	96,880	110,730	104,666	99,273
16%	16.36%	12.84%	9.2%	9.93%
26,091	30,220	27,995	28,074	28,925
8.80%	8.96%	9.65%	8.14%	7.63%

(1) Governed by Gasoline and Oil Inspection Law (General Statute 119)

(2) Governed by North Carolina Weights and Measures Act (General Statute 81A)

(3) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included in the health and human services function.

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2011-2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Primary Government					
General Government					
Department of Administration					
Buildings.....	67	71	74	82	87
Parking lots.....	24	24	24	24	25
Parking spaces.....	8,425	8,391	8,434	8,434	8,423
Motor Fleet vehicles	7,806	7,538	7,657	7,591	7,465
Health and Human Services (4)					
Mental Health Institutions.....	13	13	13	12	13
Number of certified beds.....	3,964	4,008	3,916	4,041	4,087
Environment and Natural Resources					
Department of Natural and Cultural Resources					
Number of state park lands.....	34	34	34	35	35
Acres of state park lands.....	165,168	165,168	163,159	162,294	160,891
Number of state recreation areas.....	4	4	4	4	4
Acres of state recreation areas.....	13,256	13,256	13,256	13,256	13,256
Number of state natural areas.....	24	24	28	24	24
Acres of state natural areas.....	29,830	28,328	28,024	26,114	26,000
Number of state lakes.....	7	7	7	7	7
Acres of state lakes.....	29,135	29,135	29,135	29,135	29,135
Zoo animals.....	1,326	1,672	1,393	1,533	1,341
Vehicles (6).....	880	868	853	850	863
Boats/trailers (6).....	336	351	352	341	316
Scientific equipment (6).....	106	165	50	53	49
Department of Environmental Quality					
Vehicles (5),(7).....	158	173	179	181	178
Boats/trailers (5),(7).....	433	434	416	430	443
Aircraft (5).....	2	2	4	2	3
Scientific equipment (7).....	1,233	1,049	734	716	743
Wildlife Resources Commission					
Number of game lands.....	71	70	70	69	66
Acres of game lands.....	532,733	509,600	501,617	492,950	488,589
Vehicles	568	575	571	570	563
Boats/trailers	1,033	913	898	906	870
Aircraft	2	2	3	3	3
Public Safety, Corrections and Regulation (4)					
Department of Public Safety					
Close security prisons.....	19	15	14	14	15
Medium security prisons.....	17	19	19	18	17
Minimum security prisons.....	25	21	22	23	26
Youth facilities.....	11	10	10	10	10
Adult Correction Vehicles:					
Passenger/cargo vans.....	183	239	180	183	129
Inmate transfer vans/buses.....	555	616	347	536	497
Inmate work crew vans/buses (8).....	—	—	148	191	208
Pickup trucks.....	124	348	425	450	361
Roving patrol pickups.....	105	109	106	123	100
One ton maintenance trucks.....	334	104	184	190	104
Specialty/other trucks (1).....	358	71	152	160	114

Source: Financial reporting entities listed in the table.

Table 19

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
107	105	127	120	117
25	25	25	25	25
8,526	8,528	8,597	7,877	8,314
7,602	8,136	7,620	7,538	8,145
13	13	12	11	11
4,111	4,245	4,402	4,314	4,331
35	35	35	35	35
157,856	155,556	153,959	152,578	150,807
4	4	4	4	4
13,256	13,256	12,240	12,240	12,240
20	20	20	20	20
24,662	23,896	22,519	22,254	22,145
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,767	1,816	1,622	1,593	1,355
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
889	883	896	856	1,889
519	508	489	468	633
3	3	3	3	26
749	774	689	663	789
64	64	57	62	62
481,665	496,134	492,440	480,257	480,257
463	463	458	422	370
796	779	793	825	814
3	3	4	4	4
14	13	13	14	14
18	22	23	23	23
26	24	29	29	33
10	10	13	15	16
127	122	120	152	106
490	486	492	506	493
218	223	222	239	243
376	348	338	381	349
95	97	98	91	92
106	106	107	123	95
108	108	113	105	129

Continued

CAPITAL ASSET STATISTICS BY FUNCTION (Continued)

For the Fiscal Years 2011-2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Department of Public Safety					
Enterprise Vehicles:					
Passenger/cargo vans.....	18	16	16	17	16
Inmate workcrew buses.....	16	18	18	18	19
Pickup trucks.....	42	56	55	52	53
One ton maintenance trucks.....	64	20	20	20	19
Specialty/other trucks.....	95	112	116	113	114
Alcohol Law Enforcement Vehicles					
Cars/SUV's.....	171	175	156	175	178
State Highway Patrol Vehicles					
Cars.....	1,693	1,699	1,649	1,672	1,738
Trucks/vans.....	403	362	372	407	418
Motorcycles.....	35	38	37	38	41
State Bureau of Investigation Vehicles					
Cars/SUV's.....	266	292	275	284	257
Trucks/vans.....	141	115	90	93	74
State Highway Patrol Aircraft					
Helicopters.....	2	4	6	6	6
Transportation					
Department of Transportation					
Pavement in lane-miles:					
Primary subsystem (2).....	—	15,164	15,142	15,125	15,125
Secondary subsystem (2).....	—	64,995	64,901	64,830	64,544
Bridges:					
Number of bridges (2).....	—	13,476	13,413	13,522	13,494
Number of culverts (2).....	—	4,739	4,653	4,654	4,592
Vehicles.....	7,763	8,007	8,779	8,276	8,720
Heavy equipment.....	15,287	15,636	15,948	14,840	14,799
Component Units					
Higher Education					
Community Colleges					
Buildings.....	1,277	1,275	1,271	1,238	1,234
Universities					
Academic/administrative buildings.....	1,050	1,045	1,053	1,052	1,044
Dormitories/auxiliary buildings.....	792	790	789	786	744
Medical (3).....	25	25	35	35	36
University System Hospitals					
Administration.....	11	12	16	16	16
Clinical.....	35	32	47	61	52
Facility services.....	9	9	10	10	10
Hospital.....	10	9	9	9	9

Table 19

2015	2014	2013	2012	2011
16	16	14	14	17
18	19	15	20	23
52	52	44	49	49
21	21	24	24	21
117	106	126	110	103
225	162	172	202	174
1,805	1,925	1,766	2,214	2,422
525	506	486	124	126
46	40	28	26	25
308	349	333	356	344
78	74	78	75	75
6	6	9	9	7
15,062	15,062	15,064	15,052	15,002
64,522	64,522	64,514	64,440	64,413
13,519	13,552	13,557	13,583	13,531
4,520	4,496	4,547	4,710	4,730
9,191	9,463	9,484	8,997	8,337
15,237	14,808	14,221	13,827	12,703
1,199	1,182	1,178	1,174	1,161
1,070	1,010	1,003	1,011	993
721	684	692	680	654
49	39	36	34	31
18	18	18	11	4
51	52	52	14	12
10	10	9	6	6
8	7	8	6	6

(1) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.

(2) Recent data from the source was not available, as of the date of publication.

(3) East Carolina Teaching Hospital

(4) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.

(5) Starting in fiscal year 2012, vehicles, boats/trailers, and aircraft decreased because the Division of North Carolina Forest Service and Division of Soil and Water Conservation are now included in Department of Agriculture; whereas in prior years the divisions were included with Department of Environmental Quality, formerly Department of Environment and Natural Resources.

(6) Data reported with Department of Environmental Quality for years prior to 2016.

(7) Starting in fiscal year 2016, vehicles, boats/trailers, and scientific equipment decreased because five divisions are now included in the Department of Natural and Cultural Resources; whereas in prior years the divisions were included with the Department of Environmental Quality, formerly Department of Environment and Natural Resources.

(8) In fiscal year 2019, vehicle statistics were changed by vehicle type as vehicles were repurposed.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years 2011-2020

The following table illustrates how earned revenues (net of reinsurance) and investment income of the Public School Insurance Fund (the Fund) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund for the last ten fiscal years ended June 30. The rows of the table are defined as follows:

- (1) Total of each fiscal year's earned contribution revenues, investment revenues, contribution revenues ceded to excess insurers or reinsurers, and amount of reported revenues net of excess insurance or reinsurance.
- (2) Each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.
- (3) The Fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (before the effect of loss assumed by excess insurers or reinsurers), the loss assumed by excess insurers or reinsurers, and total net amount of incurred claims and allocated claim adjustment expenses.
- (4) Cumulative amounts paid as of the end of successive years for each policy year.
- (5) The most current reestimated amount of losses assumed by reinsurers for each accident year. The amount can and will be changed as claims and expenses are reevaluated.
- (6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) Comparison of the latest reestimated net incurred claims amount to the amount originally established (line 3) and indication of whether this latest estimate of claims cost is greater or less than originally thought.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years 2011-2020

Table 20

As data for individual policy years mature, the correlation between original estimated and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns in the table present data for successive policy years. Amounts are expressed in thousands.

	2011	2012	2013	2014	2015	2016	2017 As Restated	2018 As Restated	2019 As Restated	2020
1) Required contribution and investment revenue:										
Earned.....	\$ 16,257	\$ 20,699	\$ 16,380	\$ 17,583	\$ 14,563	\$ 19,099	\$ 12,518	\$ 12,585	\$ 19,931	\$ 16,541
Ceded.....	3,576	3,717	4,502	4,313	3,545	3,665	3,386	3,298	3,952	17,229
Net earned.....	12,681	16,982	11,878	13,270	11,018	15,434	9,132	9,287	15,979	(688)
2) Unallocated expenses	666	701	714	695	635	600	659	583	564	619
3) Estimated claims and expenses, end of policy year:										
Incurred.....	20,340	19,304	4,366	6,492	10,524	943	16,149	1,271	62,387	2,867
Ceded.....	(6,761)	—	—	—	—	—	—	—	(45,500)	—
Net incurred.....	13,579	19,304	4,366	6,492	10,524	943	16,149	1,271	16,887	2,867
4) Paid (cumulative) as of:										
End of policy year.....	5,505	6,992	1,975	1,845	1,448	872	4,188	1,015	10,969	2,861
One year later.....	13,090	9,389	3,465	4,053	5,389	1,078	10,169	1,735	40,580	
Two years later.....	13,090	9,389	3,465	4,053	5,389	1,078	12,381	1,735		
Three years later.....	13,090	9,389	3,465	4,053	5,389	1,078	12,381			
Four years later.....	13,090	9,389	3,465	4,053	5,389	1,078				
Five years later.....	13,090	9,389	3,465	4,053	5,389					
Six years later.....	13,090	9,389	3,465	4,053						
Seven years later.....	13,090	9,389	3,465							
Eight years later.....	13,090	9,389								
Nine years later.....	13,090									
5) Reestimated ceded claims and expenses.....	—	—	—	—	—	—	2,834	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	13,579	19,304	4,366	6,492	10,524	943	16,149	1,271	16,887	2,867
One year later.....	20,481	13,159	2,965	5,189	10,669	917	18,622	1,800	55,177	
Two years later.....	20,481	13,159	2,965	5,189	10,669	917	12,547	1,800		
Three years later.....	20,481	13,159	2,965	5,189	10,669	917	12,547			
Four years later.....	20,481	13,159	2,965	5,189	10,669	917				
Five years later.....	20,481	13,159	2,965	5,189	10,669					
Six years later.....	20,481	13,159	2,965	5,189						
Seven years later.....	20,481	13,159	2,965							
Eight years later.....	20,481	13,159								
Nine years later.....	20,481									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	6,902	(6,145)	(1,401)	(1,303)	145	(26)	(3,602)	529	38,290	—

A limited number of copies of this document may be obtained from:

**Accounting and Financial Reporting Section
North Carolina Office of the State Controller
1410 MAIL SERVICE CENTER
Raleigh, North Carolina 27699-1410**

Phone requests can be made at **(919) 707-0500**

This report is also available online at **<https://www.osc.nc.gov>**.

As required for disclosure by G.S. 143-170.1, 90 copies of this public document were printed at a cost of \$1,524.14 or \$16.93 per copy.