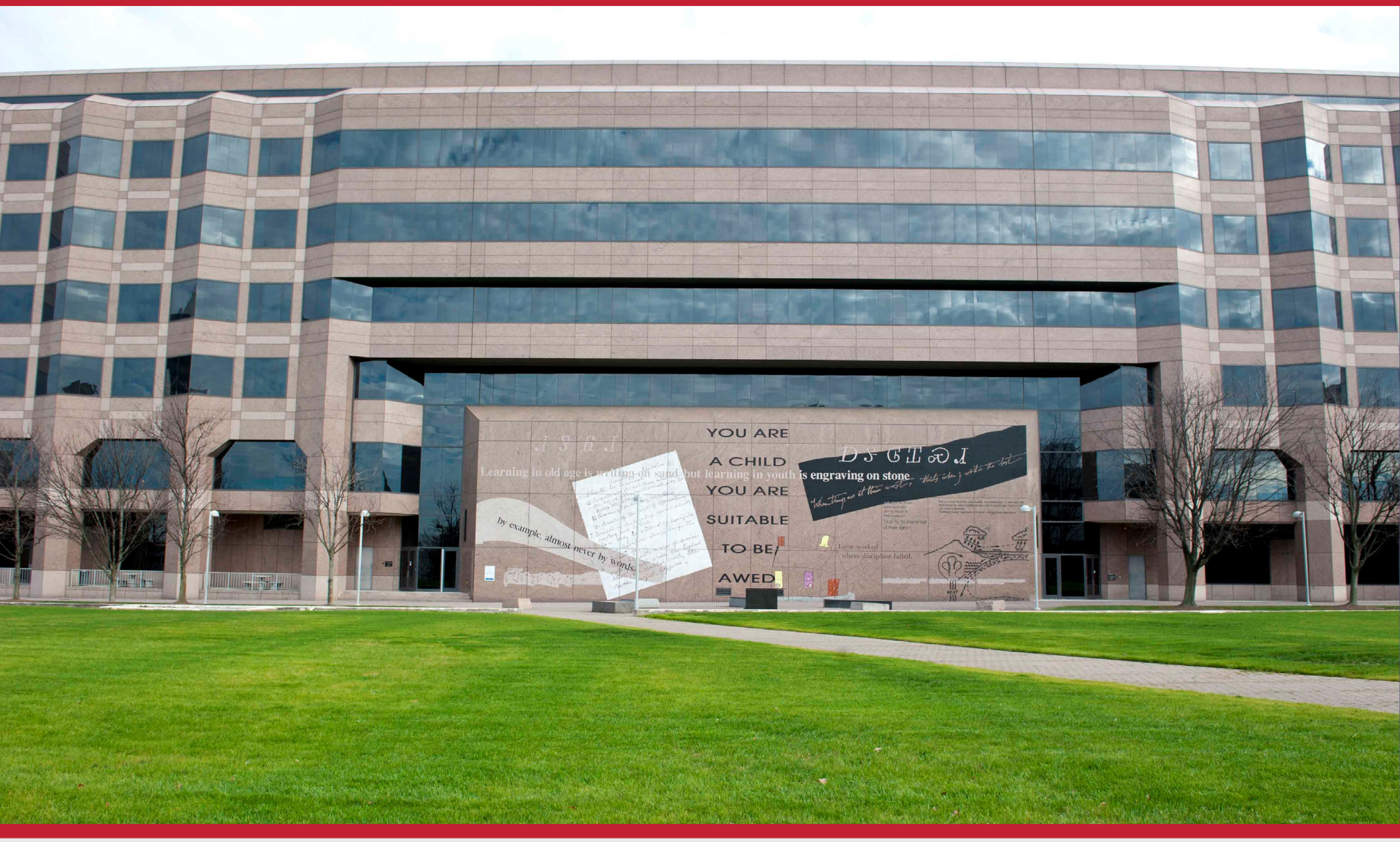
North Carolina
Department of Public Instruction
Raleigh, NC



Financial Statement Audit Report
For the Year Ended June 30, 2024

State Auditor
Dave Boliek

A Constitutional Office of the
State of North Carolina

North Carolina Office of the State Auditor
Dave Boliek, State Auditor

Auditor's Transmittal

The Honorable Josh Stein, Governor
The Honorable Phil Berger, President Pro Tempore
The Honorable Destin Hall, Speaker of the House
Honorable Members of the North Carolina General Assembly
The Honorable Maurice Green, State Superintendent
The State Board of Education

The North Carolina Department of Public Instruction is one of the largest spenders of tax dollars in our state. For fiscal year 2024, the Department reported $16.1 billion in expenditures – an increase of $672.2 million from the prior fiscal year. As such, the Department is supported by $11.4 billion in state appropriations and another $5.1 billion in revenue from federal funds and other sources like the North Carolina Education Lottery.

Students, parents, and staff depend on the Department to conduct its business without having errors in financial statement reporting.

Through financial audits of North Carolina entities and organizations, the North Carolina Office of the State Auditor assesses whether the records prepared by these entities and organizations are materially correct. Our audit of the Department of Public Instruction's financial records shows no material errors for the year ended June 30, 2024. The audited statements make for a clean opinion and can be relied upon by management.

Our audit team and I had the opportunity to meet with Superintendent Green and the leadership of his financial team at the conclusion of this audit.

I'd like to thank Department of Public Instruction staff and leadership for working with our team as we conducted this financial statement audit and wish them the best of luck ahead of the fall semester.

Respectfully submitted,

Dave Boliek
State Auditor

An Overview of How to Use this Report

This report provides audited financial information on the North Carolina Department of Public Instruction (Department) and is designed to provide the information at a summarized level in the beginning, with more details of the information further into the report. This report is made up of various components as listed in the Table of Contents.

The Department reports financial activities in one major general fund and one nonmajor governmental fund. The general fund is used to report most of the activity of the Department.

The financial information in the report is presented at a summarized, departmental level initially. Where some numbers need further explanation, additional detail is provided in the "Notes to the Financial Statements". The Notes will be referenced next to the line item caption.

Required Information: (Information required to be reported per Governmental Accounting Standards Board and *Government Auditing Standards*).

The **Independent Auditor's Report** presents the auditor's opinion on the financial statements, which is that the financial statements, as presented, are materially correct.

The **Management's Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years. The Management's Discussion and Analysis is prepared by the Department and has not been subjected to the same auditing procedures performed on the financial statements.

"A" Exhibits present the Balance Sheet as of June 30, 2024 and the Statement of Revenues, Expenditures, and Changes in Fund Balance for fiscal year ended June 30, 2024 for the Department's **governmental funds as a whole.**

Notes to the Financial Statements are designed to give the reader additional information concerning the Department and further support the financial statements.

Required Supplementary Information:

"B" Schedule presents the Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP) comparison for the General Fund (for the fiscal year ended June 30, 2024).

Required Information:

The Independent Auditor's **Report on Internal Control and Compliance** - this report is not an opinion on internal control or compliance but rather a report on the matters related to internal control and compliance that were noted as a part of the audit of the financial statements.

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

Independent Auditor's Report

North Carolina Office of the State Auditor
Dave Boliek, State Auditor

Independent Auditor's Report

The State Board of Education
and Management of the North Carolina Department of Public Instruction
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental funds of the North Carolina Department of Public Instruction (Department), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental funds of the Department, as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position and changes in financial position that are only attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2024, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2025 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Dave Boliek
State Auditor

Raleigh, North Carolina

June 12, 2025

Management's Discussion and Analysis

The Management's Discussion and Analysis section of the North Carolina Department of Public Instruction's (Department) financial report is provided as an overview of the financial performance of the governmental funds for the fiscal year ended June 30, 2024. This discussion and analysis should be read in conjunction with the financial statements and related notes to the financial statements which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of the governmental funds including the General Fund and Capital Projects Fund. The Governmental Funds' basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

Governmental Funds:

- The Balance Sheet presents the governmental funds' assets, deferred outflows, liabilities, and deferred inflows that are considered relevant to an assessment of near-term liquidity. The difference between assets (plus deferred outflows) and liabilities (plus deferred inflows) is reported as fund balance.
- The Statement of Revenues, Expenditures, and Changes in Fund Balance reports the resource flows (revenues and expenditures) of the governmental funds.

Notes to the financial statements are designed to give the reader additional information concerning the Department and further supports the statements noted above.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes the General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Governmental Funds

Condensed Balance Sheets

The following Condensed Balance Sheets show the Governmental Funds' financial position at June 30, 2024 and 2023. The June 30, 2023 amounts below are shown as restated and reflect the correction of prior period accounting errors. See Note 13 to the financial statements for further details.

	2024	2023 (As Restated)
Assets	$ 1,915,881,629	$ 1,692,464,618
Deferred Outflows of Resources		
Total Assets and Deferred Outflows	$ 1,915,881,629	$ 1,692,464,618
Liabilities	$ 116,865,335	$ 176,271,423
Deferred Inflows of Resources	4,496,197	4,856,396
Fund Balances		
Nonspendable	346,362	267,436
Restricted	28,759,453	4,748,073
Committed	1,751,138,173	1,494,731,863
Unassigned	14,276,109	11,589,427
Total Fund Balance	1,794,520,097	1,511,336,799
Total Liabilities, Deferred Inflows, and Fund Balance	$ 1,915,881,629	$ 1,692,464,618

Total assets for fiscal year 2024 increased by $223.4 million compared to fiscal year 2023. The major change is primarily attributed to the $267.8 million increase in the pooled cash balance. Lottery receipts are transferred to the general fund for public school building capital outlay projects. Lottery revenues continue to exceed the actual spending for school building projects based on allocation requests resulting in growth in the cash balance.

Additionally, intergovernmental receivables decreased by $77.3 million compared to the prior year. Of this amount, $66.5 million was due to the Department's year-end reconciliation of school district federal reimbursements to actual reported spending which resulted in decreased receivables from various federal programs and school districts. Due from other state agencies increased for State Fiscal Recovery Funds of $7.0 million and a Volkswagen settlement of $7.2 million due to the Department, both related to student transportation programs.

Total liabilities decreased by $59.4 million from fiscal year 2023 to 2024, mainly due to the decrease of $66.5 million in liabilities to the public schools and the Federal government as determined in the Department's year-end reconciliation of school district federal reimbursements to actual reported spending.

Overall fund balance increased by $283.2 million in 2024 compared to 2023. The Committed fund balance increased by $256.4 million, mainly due to the cash increase of $267.8 million for public school building construction noted above.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance

The following Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance show the Governmental Funds' resource flows at June 30, 2024 and 2023.

	2024	2023 (As Restated)
REVENUES		
Federal Funds	$ 3,514,096,275	$ 3,451,707,826
Other Revenues	1,566,316,997	1,550,991,188
Total Revenues	5,080,413,272	5,002,699,014
EXPENDITURES		
Grants, State, and Federal Aid	15,642,294,709	14,969,933,491
Contracted Personal Services	124,273,862	137,058,384
Salaries and Benefits	191,745,570	178,794,153
Other Expenditures	169,549,095	169,859,104
Total Expenditures	16,127,863,236	15,455,645,132
Excess of Revenues Under Expenditures	(11,047,449,964)	(10,452,946,118)
OTHER FINANCING SOURCES (USES)		
State Appropriations	11,368,225,871	10,916,556,717
Subscription-Based IT Arrangements (SBITAs) Issued		11,112,717
Sale of Capital Assets	1,863,350	1,749,244
Insurance Recoveries	367,743	426,673
Transfers from State Reserve Fund	64,732,479	79,422,570
Transfers to State Reserve Fund	(104,556,181)	(67,250,809)
Total Other Financing Sources	11,330,633,262	10,942,017,112
Net Change in Fund Balance	283,183,298	489,070,994
Fund Balance - July 1, as Restated	1,511,336,799	1,022,265,805
Fund Balance - June 30	$ 1,794,520,097	$ 1,511,336,799

The Department recognized increased revenues of $77.7 million in fiscal year 2024 compared to fiscal year 2023. The increase was primarily due to $62.4 million in increased Federal revenues for various federal programs.

Total expenditures for fiscal year 2024 increased by $672.2 million compared to fiscal year 2023. This is primarily due to increased expenditures of $672.4 million within grants, state, and federal aid expenditures attributable to three primary causes. First, there was increased expenditures of $406.2 million in state funded teachers and school administration salaries and benefits. Second, while North Carolina Education Lottery revenues for public school building capital needs exceeded the expenditures, overall expenditures increased by $131.9 million from the prior year due to timing differences from capital projects spanning multiple years and increases in the availability of funding. Third, there was an increase of $117.9 million in the Federal expenditures resulting from new grant awards, increases in grant awards, and increases in reimbursements for school meals.

Total other financing sources (uses) increased by $388.6 million from 2023 to 2024. This increase was largely caused by the $451.7 million increase in State Appropriations to support the increases in salaries and benefits for teachers and school administration expenditures of $406.2 million as discussed above.

Budget Variation

General Fund

Data for the General Fund budget variances is presented in Schedule B-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis - Non-GAAP) of this report.

Variances - Original and Final Budget:

For fiscal year 2024, the original budgeted revenues and expenditures were lower than the final budgeted amounts by $1.38 billion and $1.39 billion, respectively. Generally, the variances between the 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 2024 were prepared approximately 18 months prior to the final budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, significant variances in comparing the original and final budgets are expected.

In FY 2021 the Child Nutrition Grant revenues and expenditures were removed from the base budget. A budget revision was done in FY 2024 to add the Child Nutrition Grant revenues and expenditures of $706.5 million back to the base budget. This change was in the final budget, but not the original. Grants, revenues and expenditures, are budgeted based on the authority to spend and are later adjusted for the amounts allotted with adjustments for carry forwards from prior years. This can result in large difference between the original and final budget. In FY 2024, this resulted in variances between the original and final budgets of $187.5 million for Title I – Administration and $167.8 million for Individuals with Disabilities Education Act – Handicapped. Additionally, there was a $126.4 million budget adjustment for changes to the amount transferred from the Education Lottery Fund proceeds to the Needs Based Public School Fund.

Variances - Final Budget and Actual Results:

In comparing actual results for the year to the final budget for fiscal year 2024, total actual revenues were $663.7 million less than final budgeted and total actual expenditures were $1.2 billion less than final budgeted. The American Rescue Plan Act (ARP), which was first budgeted in 2021, spanned multiple years with $456.8 million remaining unspent as of June 30, 2024.

Final budgets for grants, revenues and expenditures, are based on allotments and carryforwards. However, some of the larger grants have periods of performance that cross fiscal years resulting in a timing difference between the budgeting and actual revenue / expenditure. In FY 2024, this resulted in a revenue variance, which is approximate to the expenditure variance, of $93.7 million for Title I – Admin and $71.3 million for IDEA – Handicapped. Additionally, state appropriations can be carried over into the next fiscal year with prior approval from the Office of the State Controller.

An additional variance impacting grants, state, and federal aid expenditures relates to public school capital projects being over budgeted by $205.9 million caused by the timing difference from the increase of amounts appropriated to the Department and the difficulty in predicting expenditures for construction contracts that span multiple years.

The state appropriation variance is because funds appropriated to the Department are based on estimates and are not always fully expended by year end. In FY 2024 $206.2 million were unused and reverted to the General Fund. These funds were largely related to reserves for the average daily membership at the public school units.

Future Outlook

In November 2024, North Carolinians elected a new State Superintendent of Public Instruction, Maurice "Mo" Green. After his term began on January 1, 2025, Superintendent Green worked with the State Board of Education (SBE) to jointly submit expansion item budget requests to be considered by the General Assembly during its legislative session for the 2025-27 biennium. Superintendent Green and the SBE will be working on a new strategic plan during 2025. In the meantime, these requests support the advancement of important education matters.

Office of State Budget and Management released State revenue projections taking into account the anticipated personal and corporate tax cuts. Approximately 40% of the State's General Fund is appropriated to the State Public School Fund and any negative impact on these general fund revenues could have a significant negative impact on the appropriations to the public school units and to the Department. More than 90% of the State Public School Fund is expended on personnel costs, so any reduction will lead to a reduction in personnel, both educators and support staff, in the North Carolina public schools.

Approximately, 10% of the public school units and 50% of the Department are funded with federal funds. In January 2025, Donald Trump was sworn into office as the President of the United States and has signed several Executive Orders that may impact the future of federal grants to public school units and the Department. In addition, the budget was adjusted due to the expiration of the $6 billion that North Carolina public schools received since 2020 in grants related to the COVID-19 pandemic. Many public school units used these funds to supplement instructional personnel and compensate for inflationary factors on goods and services. Adjusting to the expiration of these funds as well as many local education agencies experiencing a decrease in student membership may put a stress on many of their budgets.

Hurricane Helene hit the western counties of the state in September of 2024 and has had devastating impact on this region. Several districts experienced total loss of school buildings and infrastructure, resulting in students being displaced to other counties. The General Assembly appropriated $60 million in initial funding to the impacted counties, but the long term impact on the hardest hit counties is yet to be known.

Since 2019, the State, the Department and the public schools have been focused on replacing antiquated systems with modern student information, business operations, and resource planning enterprise systems. This work is critical in providing the tools necessary to manage the public school state appropriations, special revenues, federal grants and the increasingly complex K-12 laws and policies. The transition to these systems requires dedicated time and personnel on top of the work required to continue regular operations.

Financial Statements

North Carolina Department of Public Instruction
Balance Sheet
Governmental Funds
June 30, 2024 ***Exhibit A-1***

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents (Note 2)	$ 1,777,834,365	$ 15,838,450	$ 1,793,672,815
Receivables:			
Accounts Receivable	552,432		552,432
Intergovernmental Receivables (Note 4)	102,577,076		102,577,076
Interest Receivable	3,223		3,223
Leases Receivable	4,496,197		4,496,197
Due from Other State Agencies	14,233,524		14,233,524
Inventories	346,362		346,362
Total Assets	1,900,043,179	15,838,450	1,915,881,629
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
Total Assets and Deferred Outflows	$ 1,900,043,179	$ 15,838,450	$ 1,915,881,629
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	$ 16,307,003	$ 498,455	$ 16,805,458
Accrued Payroll	702,998		702,998
Intergovernmental Payables (Note 5)	93,824,667		93,824,667
Due to Other State Agencies	3,869,428		3,869,428
Funds Held for Others	1,324,408		1,324,408
Unearned Revenue	338,376		338,376
Total Liabilities	116,366,880	498,455	116,865,335
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow for Lease Agreements	4,496,197		4,496,197
FUND BALANCES (Note 6)			
Nonspendable	346,362		346,362
Restricted	28,759,453		28,759,453
Committed	1,735,769,878	15,368,295	1,751,138,173
Unassigned (Deficit)	14,304,409	(28,300)	14,276,109
Total Fund Balances	1,779,180,102	15,339,995	1,794,520,097
Total Liabilities, Deferred Inflows, and Fund Balances	$ 1,900,043,179	$ 15,838,450	$ 1,915,881,629

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

North Carolina Department of Public Instruction
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2024

Exhibit A-2

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Federal Funds	$ 1,997,639,529	$ 0	$ 1,997,639,529
Federal COVID-19 Funds	1,516,456,746		1,516,456,746
Revenues from Other State Agencies (Note 7)	1,175,638,483	4,620,900	1,180,259,383
Contributions, Gifts, and Grants	31,855,401		31,855,401
E Rate Telecommunication/Internet Access Program Funds	7,677,310		7,677,310
Sales and Services	751,715		751,715
Fees, Licenses, and Fines	277,392,524		277,392,524
Property and Equipment Rental	1,677,803		1,677,803
Investment Earnings	63,300,811		63,300,811
Student Tuition and Fees	927,449		927,449
Miscellaneous Income	2,474,601		2,474,601
Total Revenues	5,075,792,372	4,620,900	5,080,413,272
EXPENDITURES			
Current:			
Grants, State, and Federal Aid	15,642,294,709		15,642,294,709
Contracted Personal Services	124,273,862		124,273,862
Salaries and Benefits	191,745,570		191,745,570
Supplies and Materials	3,878,621		3,878,621
Purchases for Resale	22,302		22,302
Travel	4,340,789		4,340,789
Communication	406,123		406,123
Utilities	1,155,756		1,155,756
Data Processing Services	28,606,413		28,606,413
Claims and Benefits	1,232,264		1,232,264
Other Services	1,866,926		1,866,926
Other Fixed Charges	8,309,054		8,309,054
Expenditures to Other State Agencies (Note 7)	19,270,107		19,270,107
Insurance	2,426,502		2,426,502
Other Expenditures	1,207,665		1,207,665
Capital Outlay	76,782,281	2,327,193	79,109,474
Lease/Subscription:			
Principal Retirement	16,505,149		16,505,149
Interest and Fees	1,211,950		1,211,950
Total Expenditures	16,125,536,043	2,327,193	16,127,863,236
Excess of Revenues Over (Under) Expenditures	(11,049,743,671)	2,293,707	(11,047,449,964)
OTHER FINANCING SOURCES (USES)			
State Appropriations	11,368,225,871		11,368,225,871
Sale of Capital Assets	1,863,350		1,863,350
Insurance Recoveries	367,743		367,743
Transfers from State Reserve Fund	64,732,479		64,732,479
Transfers to State Reserve Fund	(104,556,181)		(104,556,181.00)
Total Other Financing Sources	11,330,633,262		11,330,633,262
Net Change in Fund Balance	280,889,591	2,293,707	283,183,298
Fund Balances - July 1, as Restated (Note 13)	1,498,290,511	13,046,288	1,511,336,799
Fund Balances - June 30	$ 1,779,180,102	$ 15,339,995	$ 1,794,520,097

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

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

A. Organization - The North Carolina Department of Public Instruction (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department is charged with implementing the State's public-school laws for pre-kindergarten through 12th grade public education at the direction of the State Board of Education and the Superintendent of Public Instruction.

The Department provides leadership and service to 115 local public-school districts, including 2,500+ individual public schools; 200+ charter schools; and three residential schools for students with hearing and visual impairments. The areas of support include curriculum and instruction, accountability, finance, teacher and administrator preparation and licensing, professional development, and school business support and operations.

The Department develops the Standard Course of Study, which describes the subjects and course content that is taught in North Carolina public schools, and the assessments and accountability model used to evaluate student, school, and district success.

The Department licenses approximately 120,000 teachers and administrators who serve public schools. The Department's primary offices are in Raleigh, with four regional alternative licensing centers in Concord, Fayetteville, Elm City and Catawba. The Department's work extends to the NC Center for the Advancement of Teaching with locations in Cullowhee and Ocracoke, and the NC Virtual Public School. The Department also works closely with eight Regional Education Service Alliances/Consortia and five regional accountability offices.

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

The accompanying financial statements present all funds belonging to the Department. The Department's accounts and transactions are included in the State's *Annual Comprehensive Financial Report* as part of the State's governmental funds.

C. Basis of Presentation - The Department's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP for government entities. The financial statements are prepared according to GAAP as follows:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 84, *Fiduciary Activities* require the presentation of government-wide and fund level financial statements. See below for a description of each fund. The financial statements presented are governmental fund financial statements of the Department. Because the Department is not a separate legal or reporting entity, government-wide financial statements are not prepared.

The fund financial statements provide information about the Department's funds. The emphasis of fund financial statements is on governmental funds, each displayed in separate columns within the fund's financial statements. Throughout the report, the term Department is used to refer to the governmental funds unless otherwise specifically noted.

The Department's financial statements consist of the following governmental funds:

General Fund - This fund is the Department's only major fund and serves as the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund - This fund is a nonmajor governmental fund. It accounts for financial resources to be used for capital outlays, including the acquisition or construction of major capital facilities, and is primarily funded by state appropriations and the State's issuance of debt. Specific projects are identified in the State's budget and approved by the legislature.

D. Measurement Focus and Basis of Accounting

Governmental Funds - Governmental fund financial statements have been prepared 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.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, except for compensated absences, workers' compensation, and financing agreements, which are recognized as expenditures when payment is due. Pension and other postemployment benefit (OPEB) contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates even if the payment is not due until the subsequent period.

Nonexchange transactions, in which the Department receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations and certain grants and similar assistance.

Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

E. Cash and Cash Equivalents - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The Department's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

G. **Receivables** - Receivables consist of amounts that have arisen in the ordinary course of business.

Accounts receivables primarily include amounts due for mental health educational programming, behavioral health training, funding for surveys, and supplies. Receivables are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Intergovernmental receivables include amounts due from the federal government for various federal program purposes and amounts due from local education agencies for overdrawn federal funding. Receivables are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

H. **Due From/To Other State Agencies** - Activities between the Department and other state agencies. All amounts are considered collectible; accordingly, no allowance for doubtful accounts has been recorded.

I. **Inventories** - Inventories, consisting of expendable supplies and materials, are valued at cost using the first-in, first-out method. Inventories are recorded as expenditures when consumed rather than when purchased.

J. **Payables** - Accounts payable include amounts due to vendors/suppliers, staff in connection with payment for supplies, travel reimbursements, and payment of sales and use taxes withheld from sale of textbooks and publications.

Intergovernmental payables mainly represent amounts due to the schools in connection with various federal programs and amounts due back to the federal government for overdrawn federal revenues.

K. **Unearned Revenue** - Unearned revenue represents the cumulative excess of cash received from the federal government over expenditures paid in connection with reimbursement of allowable expenditures made pursuant to contracts and grants.

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

Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

M. Fund Balance

Fund balance is reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

Nonspendable Fund Balance - These amounts cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually-required to be maintained intact.

Restricted Fund Balance - These amounts 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 Balance - These amounts 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.

Unassigned Fund Balance - This 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.

Expenditures are considered 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.

N. Revenues and Expenditures from/to Other State Agencies - Revenues and expenditures from/to other state agencies for the governmental funds represent amounts that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures represent nonexchange transactions and are eliminated at the statewide reporting level in the State's *Annual Comprehensive Financial Report*.

O. Transfers from/to State Reserve Fund - These transfers are for funds obligated in the current year, but not spent at year-end, that will be carried forward to the next fiscal year. The Department must obtain authorization from the Office of State Budget and Management (OSBM) to carryforward funds. At year-end, these funds are transferred to the State Reserve Fund and held by the North Carolina Office of the State Controller until approval is granted from OSBM to return the funds to the Department in the next fiscal year.

Note 2 - Deposits

Unless specifically exempt, the Department is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in the following: 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.

At June 30, 2024, the Balance Sheet reported cash and cash equivalents of $1,793,672,815, which represents the Department's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal oversight other than that of the legislative body) had a weighted average maturity of 1.4 years as of June 30, 2024. Assets and shares of the STIF are valued at fair value.

Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

Note 3 - Fair Value Measurements

To the extent available, the Department's investments are recorded at fair value as of June 30, 2024. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

Short-Term Investment Fund - At year-end, the Department's cash and cash equivalents, valued at $1,793,672,815, were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Department's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

Note 4 - Intergovernmental Receivables

Intergovernmental receivables for the General Fund at June 30, 2024 were as follows:

Intergovernmental Receivables:	Amount
Elementary and Secondary Schools Emergency Relief (ESSER) Program	$ 21,306,478
Child Nutrition Program	17,669,670
Other Federal	29,718,288
Local School Districts	33,882,640
Total Intergovernmental Receivables	$ 102,577,076

Note 5 - Intergovernmental Payables

Intergovernmental payables for the General Fund at June 30, 2024 were as follows:

Intergovernmental Payables:	Amount
Child Nutrition Program	$ 16,893,670
Other Federal Programs	39,021,127
Other School District Payables	37,855,585
Other	54,285
Total Intergovernmental Payables	$ 93,824,667

Note 6 - Fund Balance

The details of the fund balance classifications for the governmental funds at June 30, 2024 are as follows:

	General Fund	Capital Projects Fund	Total
Nonspendable:			
Inventory	$ 346,362	$ 0	$ 346,362
Restricted for:			
Primary an Secondary Education	28,759,453		28,759,453
Committed to:			
Primary and Secondary Education	288,093,137		288,093,137
Public School Capital Projects	1,447,676,741		1,447,676,741
Repairs and Renovations		15,368,295	15,368,295
Unassigned (Deficit)	14,304,409	(28,300)	14,276,109
Total Fund Balance	$ 1,779,180,102	$ 15,339,995	$ 1,794,520,097

Note 7 - Revenues and Expenditures From/To Other State Agencies

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2024 were as follows:

Revenues from Other State Agencies:

	Purpose	Amount
General Fund:		
Office of State Budget and Management		
Lottery	General Education Support/Public School Capital Fund	$ 937,975,818
NC Pandemic Recovery Office	State Fiscal Recovery	7,543,764
Governor's Emergency Education Relief Fund	Instructional Support for COVID-19 Responses	1,292,551
Governor's Office	Education Assistance for Non-public Schools	14,839,920
Department of Revenue	General Educational Support	105,654,436
Department of Health and Human Services		
ARPA Temporary Savings	Health Personnel and Career Promotion	11,000,000
ARPA Temporary Savings	Educational Software for STEM and CTE	3,000,000
NC Office of State Controller	State Fiscal Recovery Reserve	10,000,000
NC Office of State Controller	Retiree Supplement Reserve	84,061,994
Department of Information Technology	Government Data Analytics Center (GDAC)	270,000
Total General Fund Revenues from Other State Agencies		1,175,638,483
Capital Projects Fund:		
Office of State Budget and Management	State Capital Infrastructure Fund	4,620,900
Total Capital Projects Fund Revenues from Other State Agencies		4,620,900
Total Governmental Funds' Revenues from Other State Agencies		$ 1,180,259,383

Expenditures to Other State Agencies:

	Purpose	Amount
General Fund:		
Community College System Office	Perkins V	$ 15,744,788
Department of Health and Human Services	Psychiatric Residential Treatment Facility Services	3,200,000
Department of Health and Human Services	Project AWARE	3,296
Office of State Budget and Management	Return GEER funding	322,023
Total General Fund Expenditures to Other State Agencies		19,270,107
Total Governmental Funds' Expenditures to Other State Agencies		$ 19,270,107

Note 8 - Retirement Plans

Cost-Sharing, Multiple-Employer, Defined Benefit Plan

Pension 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. Consequently, the net pension liability is not reported on the face of the governmental funds' financial statements.

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

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

TSERS plan members who are LEOs are eligible to retire with unreduced retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEO's who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially-determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Department's contractually-required contribution rate for the year ended June 30, 2024 was 17.64% of covered payroll. Plan members' contributions to the pension plan were $4,933,653, and the Department's contributions were $14,504,940 for the year ended June 30, 2024.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2023 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.ncosc.gov/ or by calling the State Controller's Financial Reporting Section at 919-707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2023 *Annual Comprehensive Financial Report*.

Net Pension Liability: At June 30, 2024, the Department reported a liability of $64,505,569 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total pension liability to June 30, 2023. The Department's proportion of the net pension liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the Department’s proportion was 0.38691%, which was an increase of 0.0108 from its proportion measured as of June 30, 2022, which was 0.37607%.

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

Valuation Date	12/31/2022
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

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

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

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2023 is 0.78%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2022 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually-required rates, actuarially-determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2023 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
$ 110,740,947	$ 64,505,569	$ 26,362,883

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2024, the Department recognized pension expense of $19,275,203. At June 30, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 5,258,730	$ 476,097
Changes of Assumptions	2,265,350	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	17,964,796	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,325,707	
Contributions Subsequent to the Measurement Date	14,504,940	
Total	$ 44,319,523	$ 476,097

The amount of $14,504,940 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized as pension expense as follows:

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

Year Ending June 30:	Amount
2025	$ 10,398,282
2026	6,037,473
2027	12,135,330
2028	767,401
Total	$ 29,338,486

Note 9 - Other Postemployment Benefits

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. Consequently, the net other postemployment benefits liability is not reported on the face of the governmental fund financial statements.

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2023 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.ncosc.gov/ or by calling the State Controller's Financial Reporting Section at 919-707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2023 *Annual Comprehensive Financial Report*.

B. Plan Descriptions

1. Health Benefits

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

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 10. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Act. The Department's contractually-required contribution rate for the year ended June 30, 2024 was 7.14% of covered payroll. The Department's contributions to the RHBF were $5,871,047 for the year ended June 30, 2024.

In fiscal year 2022, the Plan transferred $180.51 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2024, the Department recognized noncapital contributions for RHBF of $126,315.

2. Disability Income

Plan Administration: As discussed in Note 10, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, and LEAs which are not part of the State's reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to becoming disabled or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. A general employee is eligible to receive an unreduced retirement benefit from TSERS after: (1) reaching the age of 65 and completing five years of membership service; (2) reaching the age of 60 and completing 25 years of creditable service; or (3) completing 30 years of creditable service, at any age.

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

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security benefits.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially-determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2024 was 0.11% of covered payroll. The Department's contributions to DIPNC were $90,450 for the year ended June 30, 2024.

C. Net OPEB Liability

Retiree Health Benefit Fund: At June 30, 2024, the Department reported a liability of $96,151,908 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. The Department's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the Department's proportion was 0.36083%, which was an increase of 0.02705 from its proportion measured as of June 30, 2022, which was 0.33378%.

Disability Income Plan of North Carolina: At June 30, 2024, the Department reported a liability of $87,115 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. The Department's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the Department's proportion was 0.32755%, which was an increase of 0.00845 from its proportion measured as of June 30, 2022, which was 0.31910%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2022, 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, 2023 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2022	12/31/2022
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.0%
Healthcare Cost Trend Rate - Medical***	6.5% grading down to 5% by 2029	N/A
Healthcare Cost Trend Rate - Prescription Drug***	10% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Prescription Drug Rebates***	7% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	0% through 2025, 5% thereafter	N/A
Healthcare Cost Trend Rate - Administrative***	3%	N/A

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return is net of OPEB plan investment expense, including inflation.
*** Disability Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.
N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2023.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2023 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2023 is 0.78%.

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

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

The actuarial assumptions used in the December 31, 2022 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.65% at June 30, 2023 compared to 3.54% at June 30, 2022. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.65% was used as the discount rate used to measure the total OPEB liability. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2023 compared to 3.08% at June 30, 2022. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially-determined. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.00%, 3.00% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.65% was used during the period that the plan was projected to have no fiduciary net position. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

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

Net OPEB Liability

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
RHBF	$ 113,429,472	$ 96,151,908	$ 82,080,479
	1% Decrease (2.00%)	**Current Discount Rate (3.00%)**	**1% Increase (4.00%)**
DIPNC	$ 104,724	$ 87,115	$ 69,185

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Net OPEB Liability

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 9%, Pharmacy Rebate - 4% - 6%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebate - 5% - 7%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebate - 6% - 8%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF Net OPEB Liability:	$ 79,382,019	$ 96,151,908	$ 117,776,326

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

OPEB Expense: For the fiscal year ended June 30, 2024, the Department recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	$ 1,092,254
DIPNC	133,644
Total OPEB Expense	$ 1,225,898

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2024, the Department's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,058,824	$ 76,345	$ 1,135,169
Changes of Assumptions	10,416,214	6,348	10,422,562
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	768,113	113,784	881,897
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	18,587,294	33,942	18,621,236
Contributions Subsequent to the Measurement Date	5,871,047	90,450	5,961,497
Total	$ 36,701,492	$ 320,869	$ 37,022,361

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 94,210	$ 48,251	$ 142,461
Changes of Assumptions	25,652,641	14,871	25,667,512
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,022,221	1,911	2,024,132
Total	$ 27,769,072	$ 65,033	$ 27,834,105

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities related to RHBF and DIPNC in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

Year Ending June 30:	RHBF	DIPNC
2025	$ (1,861,474)	$ 54,917
2026	(880,283)	34,350
2027	2,388,800	44,827
2028	3,414,332	19,457
2029	(2)	7,212
Thereafter		4,623
Total	$ 3,061,373	$ 165,386

Note 10 - Risk Management

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

A. Employee Benefit Plans

1. State Health Plan

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 9, Other Postemployment Benefits, for additional information regarding retiree health benefits.

2. Death Benefit Plan of North Carolina

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

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Department employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Department for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 9, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Department is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Department for operations supported by the State's General Fund.

Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Workers' Compensation Program

On behalf of the State Board of Education, and in accordance with Chapter 115C-337, Article 23; and Chapter 115, Article 2, the Department administers a workers' compensation program for all Department employees and all public school employees whose salaries are paid in whole or in part from state funds. The program provides benefits to workers injured on the job, in accordance with the North Carolina Workers' Compensation Act, Chapter 97. When an employee is injured, the Department's primary responsibility is to provide the arrangements necessary to carry out the provisions of the Workers' Compensation Act. The Department retains the risk for workers' compensation, though portions of the year-end liability are split-funded between the Department and local public school districts.

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

Note 11 - Commitments and Contingencies

A. **Federal Grants -** The Department 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 Department. As of June 30, 2024, the Department is unable to estimate what liabilities may result from such audits.

B. **Construction & Other Commitments -** As of June 30, 2024, the Department had outstanding commitments of $1,044,977,930 for Needs-Based Public School building Capital Fund cost-reimbursement grants awarded annually to Local Education Agencies (LEAs) for school capital projects.

   Other capital projects commitments as of June 30, 2024 were $5,238,133 for Construction Commitments and $5,562,894 for Other Public School Capital Fund Commitments.

Note 12 - Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2024, the Department implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62

GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error corrections, and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information.

Note 13 - Fund Balance Restatement

Correction of Errors in Previously Issued Financial Statements - Reimbursements were not requested or accrued related to certain incurred federal grant expenditures. As a result, fiscal year 2023 intergovernmental receivables and federal revenues were understated by $17.9 million. This increased fiscal year 2024 beginning fund balance by $17.9 million. In addition, beginning balances in the Intergovernmental Receivable, Intergovernmental Payables, and Funds Held for Others contained prior year accruals that were not properly reversed. As a result, intergovernmental receivables, intergovernmental payables, and funds held for others were overstated by $2.5 million, $55 thousand, and $1.2 million, respectively. This decreased fiscal year 2024 beginning fund balance by $1.2 million.

As of July 1, 2023, fund balance of the General Fund as previously reported was restated as follows:

	Amount
July 1, 2023 Fund Balance as Previously Reported	$ 1,481,591,898
Restatement:	
Correct Prior Year Accounting Errors	16,698,613
July 1, 2023 Fund Balance as Restated	$ 1,498,290,511

Required Supplementary Information

North Carolina Department of Public Instruction
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2024 ***Schedule B-1***

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Funds	$ 2,996,949,751	$ 4,236,826,843	$ 3,556,078,100	$ (680,748,743)
Revenues from Other State Agencies	1,087,560,160	1,215,409,464	1,168,228,810	(47,180,654)
Contributions, Gifts, and Grants	11,852,971	18,057,579	21,945,422	3,887,843
E Rate Telecommunication/Internet Program Funds		7,677,316	7,677,316	
Sales and Services	969,256	473,736	749,913	276,177
Fees, Licenses and Fines	278,241,517	278,654,891	277,385,458	(1,269,433)
Property and Equipment Rental	1,600,000	1,600,000	1,317,604	(282,396)
Investment Earnings	5,597,164	5,597,164	67,263,869	61,666,705
Student Tuition and Fees	505,000	1,012,024	927,449	(84,575)
Miscellaneous Income	1,309,875	2,121,182	2,159,242	38,060
Total Revenues	4,384,585,694	5,767,430,199	5,103,733,183	(663,697,016)
EXPENDITURES				
Grants, State, and Federal Aid	15,285,257,893	16,665,929,666	15,677,280,443	988,649,223
Contracted Personal Services	154,131,377	262,902,961	135,961,555	126,941,406
Salaries and Benefits	199,367,969	207,790,481	191,020,574	16,769,907
Supplies and Materials	8,860,865	6,466,888	3,971,299	2,495,589
Purchase Services	105,857	113,865	58,196	55,669
Other Expenditures	188,731,039	137,294,819	119,258,047	18,036,772
Reserves	69,991,774	67,139,149		67,139,149
Expenditures to Other State Agencies	70,721,507	16,652,748	19,270,107	(2,617,359)
Total Expenditures	15,977,168,281	17,364,290,577	16,146,820,221	1,217,470,356
Excess of Revenues Under Expenditures	(11,592,582,587)	(11,596,860,378)	(11,043,087,038)	553,773,340
OTHER FINANCING SOURCES (USES)				
State Appropriations	11,576,520,538	11,576,520,538	11,368,225,871	(208,294,667)
Sale of Capital Assets	1,509,000	1,509,000	1,863,350	354,350
Insurance Recoveries			367,743	367,743
Transfers from State Reserve Fund	52,272,650	64,732,485	64,732,479	(6)
Transfers to State Reserve Fund	(96,841,376)	(104,556,190)	(104,556,180)	10
Total Other Financing Sources	11,533,460,812	11,538,205,833	11,330,633,263	(207,572,570)
Net Change in Fund Balance	(59,121,775)	(58,654,545)	287,546,225	346,200,770
Fund Balance - July 1	1,490,288,140	1,490,288,140	1,490,288,140	
Fund Balance - June 30	$ 3,896,917,359	$ 2,843,621,906	$ 1,777,834,365	$ 346,200,770

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2024 to the fund balance on a modified accrual basis (GAAP).

	General Fund
Fund Balance (Budgetary Basis) June 30, 2024	$ 1,777,834,365
Reconciling Adjustments:	
Basis Differences:	
Receivables	121,862,452
Payables	(116,028,504)
Unearned Revenue	(338,376)
Deferred Inflow for Lease Agreements	(4,496,197)
Total Basis Differences	999,375
Other Adjustments:	
Inventories	346,362
Fund Balance (GAAP Basis) June 30, 2024	$ 1,779,180,102

The accompanying notes to the required supplementary information are an integral part of this schedule.

North Carolina Department of Public Instruction
Notes to Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis - Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2024

A. Budgetary Process

The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the original budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was originally certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the final authorized budget amounts.

B. 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 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 fund balance is accounted for on the cash basis of accounting, while GAAP fund balance for governmental funds is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Independent Auditor's Report

North Carolina Office of the State Auditor
Dave Boliek, State Auditor

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The State Board of Education
and Management of the North Carolina Department of Public Instruction
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental funds of the North Carolina Department of Public Instruction (Department), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated June 12, 2025.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position that are only attributable to the transaction of the Department. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2024, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dave Boliek
State Auditor

Raleigh, North Carolina

June 12, 2025

Ordering Information

Copies of this report may be obtained by contacting:

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This audit required 1,492 hours at an approximate cost of $231,260.