North Carolina Office of the State Auditor

Raleigh, NC

Audited Financial Statements

For the Year Ended June 30, 2025

State Auditor
Dave Boliek

A Constitutional Office of the State of North Carolina

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.

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SHARPE PATEL CPA

INDEPENDENT AUDITORS' REPORT

To the North Carolina
Office of the State Auditor
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Carolina Office of the State Auditor (Office) as of and for the year then ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Office as of June 30, 2025, 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 (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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 (GAAP) 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 Office's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently know information that may raise substantial doubt shortly thereafter.

Auditors' 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 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, the auditor's responsibilities are to:

- 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 Office'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 Office'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 the required supplementary information as listed in the table of content be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considered 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 25, 2026 on our consideration of the Office’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 the report is to describe the scope of our testing of internal controls 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 *Governmental Auditing Standards* in considering the Office’s internal control over financial reporting and compliance.

Sincerely,

Sharpe Patel PLLC

Sharpe Patel PLLC
June 25, 2026

Management's Discussion and Analysis

Management's Discussion and Analysis

The Management's Discussion and Analysis section of the North Carolina Office of the State Auditor's (Office) financial report is provided as an overview of the financial performance of the governmental fund for the fiscal year ended June 30, 2025, with comparative information 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 Office is a part of the State of North Carolina (State) and is not a separate legal or reporting entity. The Office's accounts and transactions are included in the State of North Carolina's Annual Comprehensive Financial Report as a part of the State's General Fund.

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 requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the Office. Because the Office is not a separate entity, government-wide financial statements are not prepared.

The Office's financial statements are comprised of the governmental fund and include the General Fund. The Governmental Funds' basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

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 Office and further support 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 fund financial statements are reported using the current financial resources measurement focus and 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 State considers revenues to be available if they are collected or collectible within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Cash and cash equivalents presented on the face of the financial statements represent Federal funds received in the amount of $1,082,916 for Coronavirus Relief Funds (CRF) Continuing Operations (COOP) funds. See Note 1 for more information on cash and cash equivalents.

Since capital asset and long-term liability accounts relating to governmental funds are reported only in the governmental activities’ column of the government-wide financial statements, these amounts are not included in the financial statements of the Office. However, amounts are reported in the notes to the financial statements.

Government Funds

Condensed Balance Sheets

The following Condensed Balance Sheets show the Governmental Funds’ financial position on June 30, 2025 and 2024.

Condensed Balance Sheet
Governmental Funds
For Fiscal Years Ended June 30, 2025 & June 30, 2024

	Total Governmental Funds 2025	Total Governmental Funds 2024	Change
ASSETS	$ 1,870,695	$ 3,394,599	$ (1,523,904)
DEFERRED OUTFLOWS OF RESOURCES	$ -	$ -	$ -
Total Assets and Deferred Outflows of Resources	$ 1,870,695	$ 3,394,599	$ (1,523,904)
LIABILITIES	$ 154,203	$ 209,836	$ (55,633)
DEFERRED INFLOWS OF RESOURCES	$ 758,105	$ 1,285,871	$ (527,766)
FUND BALANCES			
Nonspendable:	$ 20,684	$ 19,636	$ 1,048
Unassigned	$ 937,703	$ 1,879,256	$ (941,553)
Total Fund Balances	$ 958,387	$ 1,898,892	$ (940,505)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,870,695	$ 3,394,599	$ (1,523,904)

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances

The following condensed Statements of Revenues, Expenditures, and Changes in Fund Balance show the Governmental Funds' resource flows for the periods ended June 30, 2025 and 2024.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Years Ended June 30, 2025 & June 30, 2024

	Total Governmental Funds 2025	Total Governmental Funds 2024	Change
OPERATING REVENUES			
Services - Audit Fees to Component Units	$ 4,037,701	$ 3,936,752	$ 100,949
Services - Audit Fees to Agencies	3,575,870	3,360,524	215,346
Other Revenue	2,217	928	1,289
Total Operating Revenues	7,615,788	7,298,204	317,584
OPERATING EXPENSES			
Salaries and Benefits	20,341,873	18,263,813	2,078,060
Contracted Audits and Contracted Personal Services	2,255,994	1,450,524	805,470
Supplies and Materials	49,417	43,919	5,498
Travel	186,749	122,561	64,188
Communication	69,158	103,728	(34,570)
Utilities	6,358	6,235	123
Data Processing Services	273,612	285,920	(12,308)
IT Software Subscriptions	2,065,388	-	2,065,388
Other Services	84,177	66,494	17,683
Right-to-Use Lease Amortization	123,157	98,629	24,528
Right-to-Use Lease Interest	17,154	6,118	11,036
Rent/Lease of Property and Equipment	3,619	1,910	1,709
Service and Maintenance	25,728	341,596	(315,868)
Capital Outlay	629,227	909,297	(280,070)
Insurance and Bonding	7,963	1,429	6,534
Other Expenditures	68,748	176,183	(107,435)
Total Expenditures	26,208,321	21,878,356	4,329,965
Excess of Revenues (Under) Expenditures	(18,592,533)	(14,580,152)	(4,012,381)
OTHER FINANCING SOURCES			
Transfers In:	551,288	697,481	(146,193)
Transfers Out:	(2,041,103)	(551,288)	(1,489,815)
State Appropriations	19,141,843	15,130,950	4,010,893
Total Other Financing Sources	17,652,028	15,277,143	2,374,885
Net Change in Fund Balance	(940,505)	696,991	(1,637,496)
Fund Balance - At July 1	1,898,892	1,201,901	696,991
Fund Balance - At June 30	$ 958,387	$ 1,898,892	$ (940,505)

Overall Financial Position and Results of Operations

The Office continues to align spending with strategic goals to enhance efficiency and responsiveness and expects to continue effectively managing resources to optimize output. The Office recognized a net increase in revenues of $317,584 during the period. Total Assets and Deferred Outflows of Resources decreased by $1,523,904, driven primarily by decreases of $1,009,439 in Due from Agencies and $514,514 in Due from Component Units, reflecting improved collection processes.

Liabilities and Deferred Inflows of Resources decreased by $583,399 from the prior year, primarily due to a $527,766 decrease in Unavailable Revenue. This decrease reflects lower fourth-quarter audit billings compared to the prior year, resulting in fewer audit costs remaining unpaid at year-end. The reduction was driven by decreased late-stage single audit activity and differences in the timing of audit billings. The remaining decrease of $55,633 is attributable to a lower Accounts Payable balance.

Total expenditures increased by $4,329,965 from the prior year, due mainly to increases in Salaries and Benefits, Contracted Audits and Contracted Personal Services, and IT Software Subscriptions.

The increase of $2,078,060 in Salaries and Benefits expenditures is primarily attributable to a 3% legislative salary increase for all state-funded employees effective July 1, 2024, the State's employer contribution rates for retirement and related benefits increasing from the prior fiscal year, one-time retention bonuses for staff, sign-on bonuses for recruiting new staff, and severance payouts.

Contracted Audits and Contracted Personal Services increased by $805,470 from the prior year, primarily due to higher expenditures for Other Information Technology Services and Legal Services. The increase in Other Information Technology Services is related to the Office's migration to a cloud-based IT environment. The increase in Legal Services reflects costs associated with litigation involving State Board of Elections.

IT Software Subscriptions increased by $2,065,388 from the prior year. In the prior fiscal year, these costs were reported within Capital Outlay. The increase reflects increased investment in software subscriptions to support the Office's process modernization efforts, including the renewal of key enterprise software during the year. Certain subscriptions renewed near fiscal year-end represent interim solutions supporting continuity of operations as the Office prepares to transition to updated systems in the subsequent fiscal year, consistent with the Office's accounting policies and expenditure recognition practices.

Total Other Financing Sources increased by $2,374,885 from the prior fiscal year. The increase was primarily attributable to a $4,010,893 increase in State Appropriations. This increase resulted from a 3% legislatively approved salary increase and a lower reversion of funds to the State's General Fund, with the Office reverting $88,537 in fiscal year 2025 compared to $3,508,118 in fiscal year 2024. This increase was partially offset by a higher encumbrance carryforward of $2,041,103 to the subsequent fiscal year related to outstanding obligations as of June 30, 2025, compared to $551,288 as of June 30, 2024.

Net Change in Fund Balance decreased by $1,637,496. This decrease is primarily due to the increases and decreases as described above.

Budget Variations

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

Variances – Original and Final Budget:

The General Fund final budget decreased from the original by $1,489,817 due to the carryforward process, reflecting changes in funds carried forward to the 2026 fiscal year relative to amounts carried into fiscal year 2025 from fiscal year 2024.

Budgeted amounts from Contracted Personal Services not expended were shifted to cover additional IT Software Subscriptions incurred.

Variances – Final Budget and Actual Results:

Total cash-basis revenues from services to agencies and component units were $8,609,756, compared to a final budget of $8,609,755. Actual total expenditures were $86,722 less than the final budgeted amount. The variance was primarily attributable to lower-than-budgeted Salaries and Benefits resulting from vacant positions during the fiscal year. These savings were partially offset by higher expenditures in information technology-related costs and capital outlay.

Economic Outlook

Revenue from receipts and appropriations allocated to the Office are expected to remain generally consistent with prior years. The Office continues to strategically manage available resources to meet its statutory responsibilities, including expanding its physical presence through the establishment of an additional office in Charlotte. Effective July 1, 2025, the Office organized new functional divisions, including the Division of Accountability, Value, and Efficiency (DAVE) Act and External Relations, and expanded the Rapid Response Division, to enhance accountability, operational responsiveness, stakeholder engagement, and service delivery.

Legislative changes effective July 1, 2025, also provided for the administrative transfer of the North Carolina State Board of Elections to the Office. Under this transfer, the State Board of Elections continues to exercise its prescribed statutory powers independently, while certain administrative and budgeting functions are performed under the direction and supervision of the State Auditor. The financial activities associated with this transfer are anticipated to be reflected in the Office's governmental fund financial statements in subsequent reporting periods.

The Office continues to modernize its information technology environment by progressing the migration of core infrastructure from an on-premises model to a cloud-based environment. These efforts are intended to support scalability, security, and long-term operational efficiency while aligning resources with evolving organizational and technological needs.

Financial Statements

A-1 Balance Sheet – Governmental

North Carolina Office of the State Auditor
Balance Sheet
Governmental Funds
June 30, 2025 (With Comparative Totals as of June 30, 2024) ***Exhibit A-1***

	Total Governmental Funds 2025	Total Governmental Funds 2024	Change
ASSETS			
Cash and Cash Equivalents	$ 1,082,916	$ 1,082,916	$ -
Due from Agencies	384,090	1,393,529	(1,009,439)
Due from Component Units	383,005	897,519	(514,514)
Misc A/R	-	999	(999)
Inventories	20,684	19,636	1,048
Total Assets	1,870,695	3,394,599	(1,523,904)
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
Total Assets and Deferred Outflows of Resources	1,870,695	$ 3,394,599	$ (1,523,904)
LIABILITIES			
Accounts Payable and Accrued Laibilities:			
Accounts Payable	154,203	$ 209,836	$ (55,633)
Total Liabilities	154,203	209,836	(55,633)
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	758,105	1,285,871	(527,766)
Total Deferred Inflows of Resources	758,105	1,285,871	(527,766)
FUND BALANCES			
Nonspendable:			
Inventories	20,684	19,636	1,048
Unassigned	937,703	1,879,256	(941,553)
Total Fund Balances	958,387	1,898,892	(940,505)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	1,870,695	$ 3,394,599	$ (1,523,904)

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

A-2 Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund

North Carolina Office of State Auditor
Statement of Revenues, Expenditures and Changes in Funds Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2025
(With Comparative Totals for the Fiscal Year Ended June 30, 2024) **Exhibit A-2**

	Total Governmental Funds 2025	Total Governmental Funds 2024	Change
OPERATING REVENUES			
Services - Audit Fees to Component Units	$ 4,037,701	$ 3,936,752	$ 100,949
Services - Audit Fees to Agencies	3,575,870	3,360,524	215,346
Other Revenue	2,217	928	1,289
Total Operating Revenues	7,615,788	7,298,204	317,584
OPERATING EXPENSES			
Salaries and Benefits	20,341,873	18,263,813	2,078,060
Contracted Audits and Contracted Personal Services	2,255,994	1,450,524	805,470
Supplies and Materials	49,417	43,919	5,498
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Communication	69,158	103,728	(34,570)
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Data Processing Services	273,612	285,920	(12,308)
IT Software Subscriptions	2,065,388	-	2,065,388
Other Services	84,177	66,494	17,683
Right-to-Use Lease Amortization	123,157	98,629	24,528
Right-to-Use Lease Interest	17,154	6,118	11,036
Rent/Lease of Property and Equipment	3,619	1,910	1,709
Service and Maintenance	25,728	341,596	(315,868)
Capital Outlay	629,227	909,297	(280,070)
Insurance and Bonding	7,963	1,429	6,534
Other Expenditures	68,748	176,183	(107,435)
Total Expenditures	26,208,321	21,878,356	4,329,965
Excess of Revenues (Under) Expenditures	(18,592,533)	(14,580,152)	(4,012,381)
OTHER FINANCING SOURCES			
Transfers In:			
Office of State Budget and Management - Prior Year Carryforward	551,288	567,120	(15,832)
Retiree Supplement Reserve	-	130,361	(130,361)
Transfers Out:			
Office of State Budget and Management - Current Year Carryforward	(2,041,103)	(551,288)	(1,489,815)
State Appropriations	19,141,843	15,130,950	4,010,893
Total Other Financing Sources	17,652,028	15,277,143	2,374,885
Net Change in Fund Balance	(940,505)	696,991	(1,637,496)
Fund Balance - At July 1	1,898,892	1,201,901	696,991
Fund Balance - At June 30	$ 958,387	$ 1,898,892	(940,505)

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

Notes to the Financial Statement

Note 1 - Significant Accounting Policies

A. Organization - The North Carolina Office of the State Auditor (Office) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Office performs an array of work, including financial statement audits, performance audits, information technology audits, and special investigations. The operations of the Office are led by the State Auditor, a member of the Governor's cabinet.

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 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 Office 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 or under the stewardship of the Office. The Office'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 Office'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*, as amended by GASB Statement 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 Office. Because the Office is not a separate entity, government-wide financial statements are not prepared.

The Office's financial statements consist of the following major governmental fund:

General Fund - This fund is the Office's primary operating fund. It accounts for all sources of the general government, except those required to be accounted for in another fund.

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 Office considers revenues to be available if they are collected or collectible within 31 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, except for compensated absences, 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.

Since capital asset and long-term liability accounts relating to the governmental funds are reported only at the statewide level, these amounts are not included in the Office's governmental fund financial statements. However, these amounts are reported in the Office's Notes to the Financial Statements.

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.

F. **Due from Agencies and Component Units -** These classifications are composed of amounts due from other agencies or component units of the State of North Carolina for audit fees. All amounts are considered collectible; accordingly, no allowance for doubtful accounts has been recorded.

Due from Agencies and Due from Component Units for the governmental funds at June 30, 2025 were $384,090 and $383,005.

G. **Inventories** - Inventories, consisting of expendable supplies and materials, are valued at cost using the last invoice cost method. Inventories are recorded as expenditures using the consumption method. In the fund financial statements, inventories are offset in a non-spendable fund balance account to indicate that they are not available for appropriation and are not expendable available financial resources.

H. **Deferred Inflows of Resources** - 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.

I. **Fund Balance** - Fund balance for the governmental funds is reported in the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent.

Non-spendable 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.

Unassigned Fund Balance - This is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report if expenditures incurred for specific purposes exceeded the amounts restricted or committed to those purposes.

Expenditures are considered to be made from the most restrictive resource when more than one fund balance classification is available for use.

J. **Services – Audit Fees to Agencies** - these amounts represent revenue that the Office obtains from other agencies within the State of North Carolina. These transfers are not considered other financing sources per GAAP, nor are they considered interfund transfers. These revenues represent nonexchange transactions and are eliminated at the statewide reporting level in the State's Annual Comprehensive Financial Report.

K. **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 Office must obtain authorization from the Office of State Budget and Management (OSBM) to carry forward 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 Office in the next fiscal year.

L. **Compensated Absences** - The Office accrues a liability for earned leave that carries over to future periods and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. When determining the liability, leave is considered taken on a last in, first out (LIFO) basis.

Vacation Leave – Leave policies vary by employee group. For employees exempt from the State Human Resource Act, vacation is earned through the annual or personal leave programs established by the University of North Carolina Board of Governors. Leave is earned monthly and is subject to a maximum accumulated unused amount as of the end of each calendar year. The maximum amounts and the ability to convert amounts over the maximum to sick leave vary based on the program.

Bonus Leave – Bonus leave includes the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred to the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

Sick Leave – Sick leave is earned monthly by eligible employees. The policy provides for the accumulation of unused sick leave to be carried forward until used. When employment is terminated, unused leave is forfeited or used to increase a member's creditable service for employees participating in the North Carolina Teachers' and State Employees' Retirement System (TSERS). Based on a historical analysis of sick leave taken compared to sick leave earned, the liability for unused sick leave using the LIFO method was determined to be insignificant. Therefore, no sick leave liability is recognized on the financial statements.

Note 2 - Deposits and Investments

At June 30, 2025, the Balance Sheet reported cash and cash equivalents of $1,082,916, which represents the Office's equity position in the State Treasurer's Short-Term investment Pool (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 2.1 years as of June 30, 2025. Assets and share of the STIF are valued at fair value.

Deposits 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.gov in the Audited Financial Statements section.

Note 3 - Fair Value Measurements

To the extent available, the Office's investments are recorded at fair value as of June 30, 2025. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Short-Term Investment Fund - At year-end, the Office's cash and cash equivalents, valued at $1,082,916, 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 Office'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 - Capital Assets

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2025 is presented as follows:

	Balance July 1, 2024 (As Restated)	Increases	Decreases	Balance June 30, 2025
Capital Assets, Nondepreciable:				
Equipment	$ 2,074,649	$ 139,993	$ 188,032	$ 2,026,610
Total Capital Assets, Depreciable	$ 2,074,649	$ 139,993	$ 188,032	$ 2,026,610
Less Accumulated Depreciation for:				
Equipment	$ 455,847	$ 87,890	$ 93,968	$ 449,769
Total Accumulated Depreciation	$ 455,847	$ 87,890	$ 93,968	$ 449,769
Total Capital Assets, Depreciable, Net	$ 1,618,802	$ 52,103	$ 94,064	$ 1,576,841
Capital Assets, Amortizable:				
Right-to-Use Leased Buildings	$ 195,288	$ 145,841	$ 50,492	$ 290,637
Right-to-Use Leased Equipment	$ 77,499	$ -	$ 77,499	$ -
Total Capital Assets, Amortizable	$ 272,787	$ 145,841	$ 127,991	$ 290,637
Less Accumulated Amortization for:				
Right-to-Use Leased Buildings	$ 63,975	$ 110,680	$ 50,493	$ 124,162
Right-to-Use Leased Machinery and Equipment	$ 45,477	$ 12,477	$ 57,954	$ -
Total Accumulated Amortization	$ 109,452	$ 123,157	$ 108,447	$ 124,162
Total Capital Assets, Amortizable, Net	$ 163,335	$ 22,684	$ 19,544	$ 166,475
Capital Assets, Net	$ 1,782,137	$ 74,787	$ 113,608	$ 1,743,316

As of June 30, 2025, the total amount of right-to-use leased assets was $290,637 and the related accumulated amortization was $108,447, respectively.

Note 5 - Changes in Long-Term Liabilities

General long-term liabilities are not recognized in governmental funds until they become due. Consequently, general long-term liabilities not yet due are not reported on the face of the financial statements.

The general long-term liabilities are composed of unused vacation and bonus leave, matching benefits for retirement and social security, net pension liability, net other postemployment benefits (OPEB) liability, and lease liability that will not be paid within the next year.

The compensated absences liability represents payments due for accumulated but unused vacation pay benefits upon the occurrence of relevant events such as employee resignations and retirements. In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year.

The net pension liability represents the Office's proportionate share of the collective net pension liability reported in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*. This liability represents the Office's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 8 for further information regarding the Office's liabilities, expenditures, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Office's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*. This liability represents the Office's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 9 for further information regarding the Office's policies for recognizing liabilities, expenditures, deferred outflows of resources, and deferred inflows of resources related to OPEB.

The lease liability represents the present value of payments expected to be made during the lease term for the Office's right-to-use assets. See notes 4 and 6 for additional information.

A summary of changes in the long-term liabilities for the year ended June 30, 2025, is presented as follows:

	Balance July 1, 2024 (As Restated)	Additions	Reductions	Balance June 30, 2025	Current Portion
Compensated Absences	1,584,116	1,151,711	1,120,182	1,615,645	131,029
Net Pension Liability	12,619,024	-	1,226,480	11,392,544	-
Net Other Postemployment Benefits Liabi	17,458,013	3,946,474	-	21,404,487	-
Lease Liability	163,335	22,684	19,544	166,475	88,975
Total Long-Term Liabilities, Net	31,824,488	5,120,869	2,366,206	34,579,151	220,004

Note 6 - Leases

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

The Office's lessee arrangements at June 30, 2025, are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2025	Current Portion	Lease Terms (1)	Interest Rate Ranges
Lessee:					
Right-to-Use Buildings	4	$ 166,475	$ 88,975	3 years	7.20 - 8.50%
Total	4	$ 166,475	$ 88,975		

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

Annual Requirements - The annual requirements to pay principal and interest on leases at June 30, 2025, are as follows:

Fiscal Year	Principal	Interest
2026	$ 88,975	$ 10,696
2027	$ 74,047	$ 3,884
2028	$ 3,453	$ 58
Total Requirements	166,475	14,638

Note 7 - Service Revenues – Audit Fees

The Office performs federal compliance audits as specified in the Uniform Guidance. State agencies, universities, and community colleges are billed for the federal compliance audit work performed on a cost reimbursement basis. Additionally, the Office performs financial statement audits for colleges, universities, and agencies. The Office bills colleges and universities for the cost of financial statement audits performed. The Office performs certain other audits on a cost reimbursement basis as required by law. Amounts Due from Agencies and Due from Component Units represent audit fees billed to state agencies, universities, and community colleges.

Note 8 - Retirement Plans

A. 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, discussed in Note 5 to the financial statements, 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.

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 Office's contractually-required contribution rate for the year ended June 30, 2025 was 16.79%

of covered payroll. Plan members' contributions to the pension plan were $860,996 the Office's contributions were $2,409,355 for the year ended June 30, 2025.

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 2024 *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 2024 Annual Comprehensive Financial Report.

Net Pension Liability: At June 30, 2025, the Office reported a liability of $11,392,544 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total pension liability to June 30, 2024. The Office's proportion of the net pension liability was based on a projection of the present value of future salaries for the Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Office's proportion was 0.07689%, which was an increase of 0.0012% from its proportion measured as of June 30, 2023, which was 0.07569%.

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	12/31/2023
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, 2023 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, 2024 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.4%
Global Equity	6.9%
Real Estate	6.0%
Alternatives	8.6%
Opportunistic Fixed Income	5.3%
Inflation Sensitive	4.3%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2023 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.

Net Pension Liability

1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
$ 20,898,358	$ 11,392,544	$ 3,553,607

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2025, the Office recognized pension expense of $3,157,659. At June 30, 2025, the Office reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 1,026,666	$ 33,678
Changes of Assumptions	$ -	$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	$ 1,878,576	$ -
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	$ 62,746	$ 318,551
Contributions Subsequent to the Measurement Date	$ 2,391,093	$ -
Total	$ 5,359,081	$ 352,229

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026. 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
2026	$ 763,163
2027	$ 2,102,269
2028	$ (48,584)
2029	$ (201,089)
2030	$ -
Total	$ 2,615,759

B. Defined Contribution Plan

Internal Revenue Code Section 457 Plan - All permanent employees are eligible to participate in the deferred compensation plan offered by the State of North Carolina in accordance with Internal Revenue Code Section 457. The plan permits each participant to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation of service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. All costs of administering the plan are the responsibility of the plan’s participants. Voluntary contributions by employees amounted to $178,571 during the year ended June 30, 2025.

Internal Revenue Code Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section

401(k). All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of the plan may receive their benefits upon retirement, disability, termination, hardship, or death. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to $208,281 during the year ended June 30, 2025.

Note 9 - Other Postemployment Benefits

Other postemployment benefit (OPEB) 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, discussed in Note 5 to the financial statements, is not reported on the face of the governmental fund financial statements.

The Office 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 2024 *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. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2024 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 8. 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 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 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 Office's contractually-required contribution rate for the year ended June 30, 2025 was 6.99% of covered payroll. The Office's contributions to the RHBF were $995,458 for the year ended June 30, 2025.

In fiscal year 2023, the Plan transferred $35 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, 2025, the Office recognized noncapital contributions for RHBF of $6,512.

2. Disability Income

Plan Administration: As discussed in Note 8, 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 disability 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: 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 Office's contractually-required contribution rate for the year ended June 30, 2025 was 0.13% of covered payroll. The Office's contributions to DIPNC were $18,514 for the year ended June 30, 2025.

C. Net OPEB Liability (Asset)

Retiree Health Benefit Fund: At June 30, 2025, the Office reported a liability of $21,404,487 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2024. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The Office's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Office's proportion was 0.06293%, which was a decrease of 0.00243% from its proportion measured as of June 30, 2023, which was 0.06536%.

Disability Income Plan of North Carolina: At June 30, 2025, the Office reported an asset of $(22,567) for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2024. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The Office's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the Office relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Office's proportion was 0.06854%, which was an increase of 0.00075% from its proportion measured as of June 30, 2023, which was 0.06779%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2024 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2023	12/31/2023
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 2030	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% through 2030 grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	Premium adjustments for IRA impact through 2027, 6.17% in 2028 down to 5% by 2034	N/A
Healthcare Cost Trend Rate - Administrative***	3.0%	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, 2024.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2024 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.4%
Global Equity	6.9%
Real Estate	6.0%
Alternatives	8.6%
Opportunistic Fixed Income	5.3%
Inflation Sensitive	4.3%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

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

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

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

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

The actuarial assumptions used in the December 31, 2023 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.93% at June 30, 2024 compared to 3.65% at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.93% was used as the discount rate used to measure the total OPEB liability. The 3.93% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2024.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2024 and at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members.

Net OPEB Liability (Asset)

	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
RHBF	$ 25,465,366	$ 2,140,123	$ 18,143,299

	1% Decrease (2.00%)	Current Discount Rate (3.00%)	1% Increase (4.00%)
DIPNC	$ (20,123)	$ (22,567)	$ (25,137)

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 health care 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 - 4% - 5.17%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebate - 5% - 7%, Med. Advantage - 5% - 6.17%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebate - 6% - 8%, Med. Advantage - 6% - 7.17%, Administrative - 4%)
RHBF	$ 17,667,567	$ 21,404,487	$ 26,242,235

The sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

OPEB Expense: For the fiscal year ended June 30, 2025, the Office recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	$ 299,120
DIPNC	$ 11,329
Total OPEB Expense	$ 310,449

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2025, the Office 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	$ 174,459	$ 9,098	$ 183,557
Changes of Assumptions	$ 5,155,074	$ 337	$ 5,155,411
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	$ 91,722	$ 17,717	$ 109,439
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	$ 504,102	$ 1,482	$ 505,584
Contributions Subsequent to the Measurement Date	$ 995,458	$ 18,514	$ 1,013,972
Total	$ 6,920,815	$ 47,148	$ 6,967,963

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ -	$ 25,957	$ 25,957
Changes of Assumptions	2,790,708	10,514	2,801,222
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,564,556	4,807	1,569,363
Total	$ 4,355,264	$ 41,278	$ 4,396,542

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2026. 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
2026	$ (297,908)	$ (9,506)
2027	$ 190,435	$ (7,300)
2028	$ 819,988	$ 2,371
2029	$ 857,579	$ 1,172
2030	$ (1)	$ 618
Thereafter	$ -	$ 1
Total	$ 1,570,093	$ (12,644)

Note 10 - Risk Management

The Office 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 Benefits Plans

1. State Health Plan

The Office's 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 the Office's 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 Office's 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 Office 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 Office 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 Office 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 Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonest and Computer Fraud

The Office 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 Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

Required Supplementary Information

B-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – (Budgetary Basis – Non-GAAP) General Fund

North Carolina Office of the State Auditor
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, 2025 ***Schedule B-1***

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Variance
REVENUES				
Services - Audit Fees to Agencies and Component Units	$ 7,365,464	$ 8,609,755	$ 8,609,756	$ 1
Other Revenue	405	405	2,217	1,812
Total Revenues	7,365,869	8,610,160	8,611,973	1,813
EXPENDITURES				
Salaries and Benefits	22,930,248	20,355,669	20,349,727	(5,942)
Contracted Personal Services	1,906,139	1,735,939	2,224,541	488,602
Supplies and Materials	38,037	49,611	47,127	(2,484)
Travel	292,038	177,047	177,000	(47)
Communication	65,513	74,313	74,311	(2)
Utilities	8,653	6,098	6,096	(2)
Data Processing Services	200,934	279,232	279,232	-
IT Software Subscriptions	-	2,559,683	2,065,388	(494,295)
Other Services	163,051	70,602	70,599	(3)
Right-to-Use Lease Amortization	-	-	123,157	123,157
Right-to-Use Lease Interest	-	-	17,154	17,154
Rent/Lease of Property and Equipment	79,960	148,654	8,342	(140,312)
Service and Maintenance	198,936	30,680	30,678	(2)
Capital Outlay	676,030	726,258	709,488	(16,770)
Insurance and Bonding	1,925	7,963	7,963	-
Other Expenditures	34,785	128,974	73,198	(55,776)
Total Expenditures	26,596,249	26,350,723	26,264,001	(86,722)
Excess Revenues Over (Under) Expenditures	(19,230,380)	(17,740,563)	(17,652,028)	88,535
OTHER FINANCING SOURCES (USES)				
Transfers In				
Encumbrance Carryforward - FY2024	-	551,288	551,288	-
Transfers Out				
Encumbrance Carryforward - FY2025	-	(2,041,105)	(2,041,103)	2
State Appropriations	19,230,380	19,230,380	19,141,843	(88,537)
Total Other Financing Sources (Uses)	19,230,380	17,740,563	17,652,028	(88,535)
Net Change in Fund Balance	-	-	-	
Fund Balance - July 1	1,082,916	1,082,916	1,082,916	-
Fund Balance - June 30	$ 1,082,916	$ 1,082,916	1,082,916	$ -

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

Notes to the Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Information

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. BUDGETARY (CASH) BASIS VS. GAAP (MODIFIED ACCRUAL)

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - Governmental 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.

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2025 to the fund balance on a modified accrual basis (GAAP).

		Total Governmental Funds
Fund Balance (Budgetary Basis) June 30, 2024	$	1,082,916
Reconciling Adjustments:		
Basis Differences:		
Accrued Revenues:		
Receivables		767,095
Less: Unavailable Revenue		(758,105)
Total Accrued Revenues		8,990
Accrued Expenditures		
Payables		(154,203)
Total Basis Differences		(145,213)
Other Adjustments:		
Inventory		20,684
Fund Balance (GAAP Basis) June 30, 2025	$	958,387

Authoritative Guidance
NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, ¶ 76, 139, 155
NCGA Interpretation 10, State and Local Governmental Budgetary Reporting, ¶ 14
2018 GAAFR Blue Book, Chp. 34 - Supplementary Budgetary Reporting

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