
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially and term to calendar year 2052, the outstanding principal of such bonds and notes as of June 30, 2020, was \$5.69 billion with interest rates varying from .75% to 6.25%.

The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industrial (in connection with manufacturing) or pollution control facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds issued by the Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The outstanding principal of such bonds and notes as of June 30, 2020, was \$2.2 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

The North Carolina Department of Transportation (NCDOT) is authorized by General Statute 136-18(39) and General Statute 136-18(39a) to enter into private partnership agreements to finance by tolls and other financing methods the cost of constructing transportation infrastructures. Such an agreement was entered into on June 26, 2014 with I-77 Mobility Partners LLC to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. The NCDOT, as a conduit issuer, issued \$100 million of senior private activity bonds (PABs) on behalf of I-77 Mobility Partners LLC and will provide additional direct funds of \$116.4 million. The PABs are not an obligation of the Department or the State. The NCDOT has a contingent obligation up to a maximum of \$75 million over the life of the project in the event of certain revenue shortfalls.

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

B. Litigation

Hoke County et al. v. State of North Carolina and State Board of Education — Right to a Sound Basic Education (formerly Leandro) — In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State Constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the Constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The

NOTES TO THE FINANCIAL STATEMENTS

State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of State resources which may ultimately be required cannot be determined at this time, however, the total cost could exceed \$100 million.

On June 15, 2011, the General Assembly enacted legislation which placed certain restrictions on the North Carolina Pre-Kindergarten program (NC Pre-K) which had been established by the General Assembly in 2001. Following a hearing requested by the plaintiffs, the trial court entered an order prohibiting the enforcement of legislation having the effect of restricting participation in the NC Pre-K program. On appeal, the North Carolina Court of Appeals affirmed the trial court's order prohibiting the state from denying any eligible "at risk" children admission to the NC Pre-K program. The State has appealed this decision and in November, 2013, the North Carolina Supreme Court held that amendments to the 2011 legislation had rendered the appeal moot. The case was remanded to the Superior Court for further proceedings.

On March 13, 2018, the Court issued an Order appointing WestEd to serve as the Court's independent, non-party consultant to make recommendations for specific actions necessary to achieve sustained compliance with the constitutional mandates of Leandro. On October 4, 2019, WestEd submitted its final report and recommendations to the Court. The WestEd report estimated that over the eight-year period beginning in the 2019-20 fiscal year it could take as much as \$6.86 billion in additional funding beyond 2018-2019 appropriations for the State to meet its Leandro obligations. On January 21, 2020, the Court entered a Consent Order Regarding the Need for Immediate, Systemic Action for the Achievement of Leandro Compliance. In that Order, the Court found that many children across North Carolina are still not receiving the constitutionally-required opportunity for a sound basic education and that systemic changes and investments were required for the State to fulfill its obligations. To that end, the Court ordered the parties to work toward the development of a comprehensive, remedial Plan to provide all children with the opportunity for a sound basic education. Court has not ordered the State to appropriate any funds but has ordered the State to remedy the deficiencies identified in its Order of January 21, 2020.

Lake v. State Health Plan — The main issue is whether the State wrongfully charged a monthly premium to retired State employees for the State's 80/20 coinsurance health plan. The general theme of the Complaint is that the State established vesting requirements under which if the employee fulfilled the requirements, the State contracted with each employee to provide 80/20 insurance coverage at no monthly premium to the retiree for the duration of each retiree's retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 health plan to which they allegedly had vested rights. Plaintiffs claim (1) breach of contract; (2) unconstitutional impairment of contract; (3) unconstitutional denial of equal protection; and (4) unconstitutional denial of due process. The plaintiffs also allege a variety of equitable claims (e.g., specific performance, common fund) that piggy-back on the legal claims.

The State moved to dismiss and, after a hearing, the trial court denied the motion. The State appealed to the North Carolina Court of Appeals regarding only the defense of sovereign immunity, and the case was sent back to Superior Court. On May 19, 2017, the trial court issued an order granting plaintiffs' motion for partial summary judgment and denying defendants' motion for summary judgment as to liability. The trial court held that plaintiffs, and all class members, are entitled to the version of the 80/20 plan in existence in September 2011, or its equivalent, with no premium for their lifetimes. The trial court's order would provide damages for retirees who remained on the 80/20 coinsurance plan at the amount of premiums they actually paid. Any method for determining damages for retirees who switched to the zero-premium 70/30 plan is yet to be determined.

The State appealed. On March 5, 2019, a panel of the Court of Appeals unanimously reversed the order of the superior court and remanded for entry of summary judgment in favor of the State. The plaintiffs have petitioned to the North Carolina Supreme Court for discretionary review of the decision of the Court of Appeals. The case is now being briefed in the North Carolina Supreme Court.

The State Treasurer has stated that if the trial court's ruling stands – which would require reversal of the Court of Appeals – the costs to the State could exceed \$100 million, not including the cost to the State Health Plan of complying with the plaintiffs' demands going forward.

Kirby v. North Carolina Department of Transportation — The Transportation Corridor Official Map Act (Map Act) was enacted in 1987 to provide the North Carolina Department of Transportation (NCDOT) with the authority to record corridor maps that impose restrictions on a landowner's rights to improve, develop and subdivide property within the corridor, which may remain indefinitely. The Map Act did not require NCDOT to purchase the property at the time of the filing of a future corridor map. Starting in 1989, NCDOT filed 27 separate maps that affected approximately 8,500 parcels of land. In June of 2016, the North Carolina Supreme Court ruled that the filing of a transportation corridor map pursuant to the Map Act resulted in a taking of the property owners' rights to improve, develop, and subdivide their property. Under State law, whether a property owner should be paid for the property, and how much, are determined

NOTES TO THE FINANCIAL STATEMENTS

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

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

Buffkin v. Hooks — The American Civil Liberties Union (ACLU) of North Carolina and North Carolina Prisoner Legal Services, Inc., filed this class action on June 15, 2018, on behalf of three named individual offenders infected with hepatitis-C (HCV) against the North Carolina Department of Public Safety (DPS) and four individual state employees, including the Secretary of the North Carolina Department of Public Safety. The suit seeks class certification for “all current and future prisoners in DPS custody who have or will have chronic hepatitis-C virus and have not been treated with direct-acting antiviral drugs.” The plaintiffs seek relief in the form of a declaratory judgment that DPS’ policy for treating inmates infected with HCV violates the Eighth Amendment, and that failure to screen all persons in DPS for the virus violates the Eighth Amendment and the Americans with Disabilities Act. To that end, plaintiffs are requesting injunctive relief from the court ordering DPS to (1) formulate and implement an HCV treatment policy that meets the current standard of medical care, including identifying and monitoring persons with HCV; (2) treat the class members with appropriate direct-acting antiviral drugs; and (3) provide named plaintiffs and class members with an appropriate and accurate assessment of their level of fibrosis or cirrhosis, counseling on drug interactions, and ongoing medical care for complications and symptoms of HCV. The three individual plaintiffs are seeking compensatory and punitive damages. If plaintiffs are successful in their suit, defendants may be responsible for costs and attorneys’ fees.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State.

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

An audit conducted by the United States Department of Health and Human Services Office of Inspector General concluded that the State did not comply with Federal and State requirements when making Medicaid claims for school-based Medicaid administrative costs. Based on the audit, the Office of Inspector General recommended that the State refund \$53.8 million to the Federal Government for non-compliant claims. The State disagrees with the findings and recommendation. Once a final determination of liability is made, the amount will be paid to CMS. As of June 30, 2020, the State has not received a demand for recovery from CMS.

For the fiscal years 2011-2013, the State received more than \$34.8 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The overpayments were the result of the overstatement of the enrollment numbers in its request. CMS has issued a disallowance and a demand for recovery. The State disagrees with the findings and has appealed. Once a final determination of liability is made, the amount will be paid to CMS.

As of June 30, 2020, the State is unable to estimate what liabilities may result from additional audits of Federal grants and entitlements.

The State refunds federal shares of drug rebate collections to CMS. As of June 30, 2020, the amount due to CMS was \$149.23 million.

D. Highway Construction

The State has placed on deposit in court \$189.39 million for a potential liability to property owners for contested rights-of-way acquisition costs in condemnation proceedings. The State may also be liable for an additional \$52.37 million in these proceedings.

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

E. Construction and Other Commitments

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

The 911 Board (Board), part of the Department of Information Technology Services, sets aside a portion of its fund balance annually to support local Public Safety Answering Points (PSAPs). The PSAPs apply to the Board for the funds with improvement project proposals that the Board evaluates and either approves or denies. At June 30, 2020, the 911 Fund (special revenue fund) had outstanding commitments on these cost-reimbursement grants and contracts to the PSAPs totaling \$18.37 million.

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

The State Treasurer has entered into contracts with external fund managers of several investment portfolios within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool), where the State Treasurer agrees to commit capital to these investments. More detailed information about the External Investment Pool is available in a separate report (See Note 3A).

The UNC Investment Fund, LLC (UNC Investment Fund) at the University of North Carolina at Chapel Hill has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2020, the UNC Investment Fund had approximately \$1.34 billion unfunded committed capital.

F. Tobacco Settlement

In 1998, North Carolina, along with 45 other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the State will receive approximately \$4.74 billion from the inception of the agreement through the year 2025. Since the inception, the State has received approximately \$3.5 billion in MSA payments. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue in the government-wide statements for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

G. Other Contingencies

The Civil Rights Division of the U.S. Department of Justice investigated the state's mental health system and found the State to be in violation of Title II of the Americans with Disabilities Act of 1990 (ADA), 42 U.S.C. Sec 12131, and the following, as interpreted by the U.S. Supreme Court in *Olmstead v. L.C.*, 527 U.S. 581 (1999), and Section 504 of the Rehabilitation Act of 1973 (Rehab Act), 29 U.S.C. Sec 794(a). On August 23, 2012, the Civil Rights Division and the State entered into an agreement that addresses the corrective measures that will ensure that the State will willingly meet the requirements of the ADA, Section 504 of the Rehab Act, and the *Olmstead* decision. Through the agreement, it is intended that the goals of community integration and self-determination will be achieved. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which will be phased in over eight years (2013-2020). The settlement agreement was extended for an additional year to July 1, 2021 in order to give the State more time to meet the requirements. In House Bill 950 [Session Law 2012-142 Section 10.23A.(e)], \$10.3 million was appropriated

NOTES TO THE FINANCIAL STATEMENTS

as recurring funds to support the Department of Health and Human Services in the implementation of its plan for transitioning individuals with severe mental illness to community living arrangements, including establishing a rental assistance program. In Senate Bill 402 [Session Law 2013-360], additional money was appropriated in the expansion budget for \$3.83 million for 2013-14 and \$9.39 million for 2014-15. Both parties of the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer will have full authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential liability to the State cannot be reasonably estimated. If the State fails to comply with this agreement, the United States can seek an appropriate judicial remedy. To date, the State has demonstrated good faith effort by providing sufficient funding essential to meeting the settlement requirements.

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

The State is liable for an ongoing worker's compensation claim for a former employee who was severely injured and will require care for life. As of June 30, 2020, the total amount of the liability cannot be reasonably estimated.