

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS**

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). Additional information related to adjustments to beginning fund equity by reporting entity is provided in narratives following the summary table.

	July 1, 2024 Fund Equity as Previously Reported	GASB 101 Implementation	Other Adjustments	July 1, 2024 Fund Equity as Restated
<b>Primary Government</b>				
Major Governmental Funds:				
General Fund	\$ 20,891,192	\$ —	\$ 4,648	\$ 20,895,840
Highway Fund	1,169,261	—	—	1,169,261
Highway Trust Fund	844,463	—	—	844,463
Other Governmental Funds:				
Special Revenue Funds	2,523,929	—	—	2,523,929
Capital Projects Funds	1,986,318	—	1,110	1,987,428
Permanent Funds	219,002	—	—	219,002
Total Governmental Funds	<u>27,634,165</u>	<u>—</u>	<u>5,758</u>	<u>27,639,923</u>
Internal Service Funds	232,123	(1,216)	(26,760)	204,147
Government-wide adjustments:				
Equity interest in component unit	314,462	—	—	314,462
Capital assets	69,653,857	—	6,554	69,660,411
Deferred losses on refundings	18,165	—	—	18,165
Deferred gain on refundings	(4,421)	—	—	(4,421)
Deferred outflows for pensions	2,769,867	—	—	2,769,867
Deferred inflows for pensions	(433,396)	—	—	(433,396)
Deferred outflows for OPEB	2,554,224	—	—	2,554,224
Deferred inflows for OPEB	(2,772,107)	—	—	(2,772,107)
Unavailable revenue	205,383	—	(7,015)	198,368
Long-term liabilities	(16,512,799)	(35,687)	(453)	(16,548,939)
Accrued interest payable	(16,216)	—	(8,670)	(24,886)
Pension assets	32,015	—	—	32,015
Total Government-wide adjustments	<u>55,809,034</u>	<u>(35,687)</u>	<u>(9,584)</u>	<u>55,763,763</u>
Total Governmental Activities	<u>\$ 83,675,322</u>	<u>\$ (36,903)</u>	<u>\$ (30,586)</u>	<u>\$ 83,607,833</u>
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	5,239,935	—	—	5,239,935
EPA Revolving Loan Fund	2,372,681	(55)	28,470	2,401,096
N.C. State Lottery Fund	(44,697)	—	—	(44,697)
N.C. Turnpike Authority	588,300	(21)	—	588,279
Other enterprise funds	309,906	(624)	7,591	316,873
Total Business-type Activities - Enterprise Funds	<u>\$ 8,466,125</u>	<u>\$ (700)</u>	<u>\$ 36,061</u>	<u>\$ 8,501,486</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	July 1, 2024 Fund Equity as Previously Reported	GASB 101 Implementation	Other Adjustments	July 1, 2024 Fund Equity as Restated
<b>Fiduciary Funds</b>				
Pension and Other Employee Benefit Trust Funds	\$ 142,144,114	\$ —	\$ —	142,144,114
Investment Trust Funds	—	—	—	—
Private Purpose Trust Funds	1,194,889	—	—	1,194,889
<b>Custodial Funds</b>				
External Investment Pools and Accounts	1,919,859	—	—	1,919,859
Other Custodial Funds	1,591,517	—	(1,323,170)	268,347
<b>Total Fiduciary Funds</b>	<b>\$ 146,850,379</b>	<b>\$ —</b>	<b>\$ (1,323,170)</b>	<b>\$ 145,527,209</b>
<b>Total Primary Government</b>	<b>\$ 238,991,826</b>	<b>\$ (37,603)</b>	<b>\$ (1,317,695)</b>	<b>\$ 237,636,528</b>
<b>Component Units</b>				
University of North Carolina System	\$ 20,726,420	\$ (318)	\$ 78,416	20,804,518
Community Colleges	4,320,292	—	(1,745)	4,318,547
State Health Plan	360,266	(39)	—	360,227
Other component units	4,249,208	(6,021)	(11,882)	4,231,305
<b>Total Component Units</b>	<b>\$ 29,656,186</b>	<b>\$ (6,378)</b>	<b>\$ 64,789</b>	<b>\$ 29,714,597</b>

**GASB 101 Implementation**

Adjustments reported in the “GASB 101 Implementation” column are due to the State’s adoption of *GASB Statement No. 101, Compensated Absences*, (GASB 101) as discussed in Note 2. Reporting entities with adjustments in this column restated their compensated absence liabilities to include sick leave in the liability calculation as required by GASB 101. The beginning net position was also restated in the prior year’s statement of changes for the various reporting entities that restated the compensated absence liability according to the new standard.

**Other Adjustments**

Amounts in the “Other Adjustments” column are primarily due to the correction of errors related to prior periods.

*Governmental Activities*General Fund

The General Fund reported \$4.648 million as “Other Adjustments.” These error corrections were reported at four different state agencies. The Department of Public Safety (DPS) reported a restatement for \$1.009 million for notes receivable that were understated in the prior fiscal year related to loans to local governments. Because the loans were not issued in the prior year, only the beginning net position on the statement of changes would be impacted in the prior year. DPS also understated both their lease receivable and deferred inflows for leases in the amount of \$1.522 million, which had no impact on fund equity of the statement of changes in the prior year. The Department of Information Technology (DIT) understated their accounts receivable by \$1.152 million in the prior year related to billing errors in the new accounting system. Charges for services were also understated on the statement of changes in the prior year. The Department of Natural and Cultural Resources (DNCR) understated accounts receivable by \$1.923 million for security deposits held in reserve at the North Carolina Aquarium Society. The receivable for the security deposits has been understated for several prior periods, so only the beginning net position on the statement of changes would be impacted in the prior year. The Office of the State Controller (OSC) understated accounts receivable in the prior year by \$564 thousand related to amounts due from the Department of Revenue (DOR) for unauthorized substance taxes. The statement of changes understated other taxes by \$564 thousand in the prior year.

Capital Projects Funds

Capital projects funds reported \$1.11 million as “Other Adjustments” related to understated notes receivable in the prior year at the Department of Environmental Quality (DEQ). Expenses related to loans to local governments, functionalized as environment and natural resource expenses, were overstated by the same amount on the prior year’s statement of changes.

---

**NOTES TO THE FINANCIAL STATEMENTS**Internal Service Funds

Internal Service Funds reported (\$26.76) million as “Other Adjustments. Capital assets were overstated in the prior year by \$5.752 in various internal service funds. Included in the net capital assets overstatement, there was an understatement for subscription asset accumulated depreciation in the amount of \$6.001 million related to DIT’s subscription assets in their Computing Services and State Telecommunication Services funds. General government expenses related to depreciation were understated in the prior year’s statement of changes by \$6.446 million, and general government expenses related to capital outlay were overstated by \$694 thousand. DIT also reported a \$14.407 million overstatement for accounts receivable in the prior year in their Computing Services fund and a \$6.601 million overstatement in accounts receivable in their State Telecommunication Services fund due to billing errors. Charges for services were also overstated by \$21.008 million between the two DIT funds in the prior year’s statement of changes.

Government-wide

Capital assets reported \$6.554 million as “Other Adjustments” related to various capital asset error corrections in prior periods in the State’s governmental funds. The error corrections were related to adjusting asset values to the appropriate amounts in the new fixed asset system. As a result, nondepreciable capital assets were overstated in the prior year by \$117.56 million, and net depreciable capital assets were understated by \$124.114 million.

Unavailable revenues were overstated in the prior year by \$7.015 million related to various types of governmental fund revenues that were not available to pay for current period expenditures in the prior period. Charges for services were overstated by the same amount in the prior year’s statement of changes.

Long-term liabilities were understated by (\$453) thousand in the prior year. The lease liability was overstated in the prior year by \$26.928 million, mostly related to an overstatement at the Department of Transportation (DOT). Compensated absences were understated by \$8.675 million unrelated to the implementation of GASB Statement No. 101, and the subscription liability was understated in the prior year by \$18.706 million mostly due to an understatement of \$22.777 million at DOT and a \$3.741 million overstatement at the Department of Information Technology (DIT). The beginning net position was overstated by \$453 thousand in the prior year’s statement of changes.

Interest payable was understated in the prior year at the Department of State Treasury (DST) by \$8.67 million, and general government expenses related to bond interest expense were understated by the same amount in the prior year’s statement of changes.

*Business-type Activities*EPA Revolving Loan Fund

The EPA Revolving Loan Fund (EPA RLF) reported “Other Adjustments” in the amount of \$28.47 million related to understatements at the Department of Environmental Quality (DEQ). Notes receivable were understated by \$26.926 million in the prior year due to accrued loans not being recorded to notes receivable at the close of the prior fiscal year. Expenses made up of nonoperating grants, aid, and subsidies related to loans to local governments were overstated on the statement of changes in the prior year for the same amount. Pooled investments were understated by \$1.529 million in the prior year related to errors in year-end entries. Net capital assets were understated by \$15 thousand in the prior year for machinery and equipment and related accumulated depreciation. Expenses related to depreciation and capital outlay were also overstated on the statement of changes for the same amount.

Other enterprise funds

Other enterprise funds reported “Other Adjustments” in the amount of \$7.591 million, comprised of various restatements in the nonmajor enterprise funds. Net capital assets were understated in the prior year by \$3.041 in the nonmajor enterprise funds, comprised of various types of capital asset restatements in several funds. The most significant portion of the capital asset adjustment was reported in the Departmental Funds for a \$2.281 million adjustment for understated machinery and equipment at the Department of Agriculture and the Department of Commerce in the prior year. Beginning net position was restated in the statement of changes for the understated capital assets. Other enterprise funds also reported several different types of restatements with a consolidated total of \$4.55 million. The most significant adjustment was reported by the Department of Agriculture in their State Fair enterprise fund related to overstated unearned revenue in the amount of \$4.614 million related to several prior periods. The beginning net position in the statements of changes was also restated for the overstated unearned revenue in the prior period. The Department of Insurance (DOI) reported a \$1.004 million restatement related to overstated claims payable in the prior year. DOI uses a third-party administrator’s best estimate for calculating claims payable at fiscal year-end. The adjustment is based on actual claims payable information, which was not available at the time of the published financial statements. Insurance program expenses for claims were overstated in the prior year’s statement of changes for the same amount as the adjustment for claims

---

**NOTES TO THE FINANCIAL STATEMENTS**

payable. The USS North Carolina Battleship Commission reported a restatement in the amount of (\$248) thousand related to a cumulative overstatement for deferred outflows for pensions and OPEB related to periods earlier than the prior fiscal year. The beginning net position on the statement of changes for the prior year was overstated by \$248 thousand. The Occupational Licensing Boards (OLB) reported an aggregate adjustment of (\$806) thousand as other adjustments. Included in the OLB adjustment, the North Carolina Board of Physical Therapy Examiners reported a (\$975) thousand restatement, mostly due to a \$2.148 million adjustment for understated cash and a (\$3.373) million adjustment for understated accounts payable. The beginning net position in the prior year's statement of changes was adjusted by (\$975) thousand for the board's aggregate restatement. Other restatements in the occupational licensing boards are insignificant.

*Fiduciary Funds*

Other Custodial Funds, as described in Note 1, reported an aggregate adjustment of (\$1.323) billion. Departmental custodial funds reported a \$3.406 million adjustment and Insurers in Receivership at the Department of Insurance (DOI) reported a (\$1.327) billion adjustment to remove the prior year's net position with the determination that the receivership funds do not qualify under *GASB Statement No. 84, Fiduciary Activities* as custodial funds for inclusion in the State's ACFR.

During the 2025 fiscal year, the receivership insurance funds were re-evaluated and DOI legal counsel provided supporting legislation and case law, determining the State does not control the funds or have a fiduciary relationship with the beneficiaries of the funds. Receiverships are governed by state insurance laws and court orders. The Commissioner of Insurance is a court-appointed receiver and is a fiduciary on behalf of the court and not a fiduciary in his or her official capacity as the Commissioner of Insurance on behalf of the State. Therefore, the Insurance in Receivership funds have been removed from the State's ACFR as a custodial fund in fiscal year 2025.

The adjustment of \$3.406 million in the departmental fiduciary funds includes a \$1.422 million adjustment at the Department of Public Safety (DPS) and a \$1.984 million adjustment at the Department of Natural and Cultural Resources (DNCR). DPS did not record \$1.422 million in participant deposits in their Community Development Block Grant (CDBG) funds in the prior year, which understated cash and cash equivalents and participant deposits. DNCR understated \$1.984 million in Short-Term Investment Funds related to legislatively directed grants in the prior year, which understated cash and cash equivalents on the statement of net position and understated other contributions by \$2 million, investment earnings by \$13 thousand, and payments in accordance with custodial arrangements by \$29 thousand on the statement of changes.

*Component Units*University of North Carolina System

The University of North Carolina System (UNC System), which includes the various universities and entities identified in Note 1, along with the university foundations, reported an aggregate adjustment of \$78.416 million as "Other Adjustments" related to various error corrections and audit adjustments. The most significant restatement reported in the UNC System related to overstating the compensated absence liabilities at several of the major universities. The vacation leave liability as of July 1, 2024, was restated to remove salary-related payments for the employer share of contributions to the State's Pension and OPEB Defined Benefit Plans. These adjustments to the compensated absence liabilities at the universities are error corrections and do not relate to the implementation of GASB Statement No. 101. The aggregate restatement for the current portion of the compensated absence liability is a (\$5.581) million adjustment to the current portion of the liability and a (\$57.115) million adjustment to the noncurrent portion. In addition to the compensated absence adjustments, the universities also reported a (\$3.084) million adjustment due to overstating their noncurrent bonds and similar debt, a \$1.4 million adjustment due to understating noncurrent notes from direct borrowing, a \$987 thousand adjustment related to understating current and noncurrent lease liabilities, and a \$902 thousand adjustment due to understating current and noncurrent subscription liability. In addition, the universities reported a \$10.105 million reclassification from revenue bonds to direct placements for the beginning debt balance at July 1, 2024. In summary, long-term liabilities due within one year were overstated by \$5.261 million in the prior year, and the noncurrent portion of the long-term liabilities were overstated by \$57.239 million.

Other adjustments in the university statement of net position include, a \$8.538 million increase due to understating nondepreciable capital assets, a \$4.005 million adjustment due to understating depreciable capital assets, net of depreciation, a (\$1.813) million adjustment to overstating other current and noncurrent assets, a \$350 thousand adjustment due to overstating other current and noncurrent liabilities, a \$3.548 million adjustment due to understating deferred outflows, and a \$1.287 adjustment due to overstating deferred inflows.

---

**NOTES TO THE FINANCIAL STATEMENTS**

Revenues were understated in the prior year by \$2.234 million, which included understatements for various noncapital gifts, grants and contributions of \$9.057 million, program state aid of \$750 thousand, and contributions to endowments of \$616 thousand. There were also overstated revenues in the prior year for unrestricted investment earnings of \$461 thousand, charges for services of \$1.462 million, and miscellaneous general revenue of \$6.266 million. Expenses were overstated in the prior year by \$9.19 million. The understatement of revenues and the overstatement of expenses in the prior year, resulted in a \$11.424 million increase in the change in net position on the statement of changes. The beginning net position in the prior year was also understated by \$66.992 million.

Community Colleges

Community Colleges, which includes 58 community colleges as described in Note 1, along with the college foundations, reported an aggregate adjustment of (\$1.745) million as “Other Adjustments” related to various corrections and audit adjustments. Community Colleges overstated the following summary captions on the statement of net position in the prior year: other current and noncurrent assets by \$5.303 million; capital assets-depreciable, net of accumulated depreciation, by \$4.266 million; deferred outflows for pension and OPEB by \$803 thousand; long-term liabilities due within one year by \$326 thousand; and long-term liabilities due in more than one year by \$11.067 million. Community Colleges understated the following summary captions on the statement of net position in the prior year: capital assets-nondepreciable by \$2.634 million and other current and noncurrent liabilities by \$5.4 million.

Like the universities, the community colleges also reported significant adjustments to the compensated absence liabilities due to removing salary-related payments for the employer share of contributions to the State’s Pension and OPEB Defined Benefit Plans. As a result, the community colleges reported an aggregate adjustment for the compensated absence liability due within one year of \$326 thousand and a \$10.158 million adjustment for the noncurrent portion of the liability.

Included in the \$5.303 million overstatement for other current and noncurrent assets was a \$6.395 million overstatement for investments. Durham Technical Community College Foundation reported a (\$5.604) million adjustment due to overstating investments when they changed investment advisors and some of the investments were duplicated in the prior year.

Revenues were overstated in the prior year by \$4.135 million, which included overstatements of \$3.565 million for noncapital grants and contributions, \$554 thousand for charges for services, and \$583 thousand for miscellaneous general revenues. In addition, the following revenue captions were understated in the prior year including unrestricted investment earnings by \$416 thousand, capital grants and contributions by \$141 thousand, and contributions to endowments by \$10 thousand. The beginning net position on the prior year’s statement of changes was also overstated by \$2.51 million.

Other component units

Other component units, which make up other discretely presented component units as described in Note 1, reported an aggregate adjustment of (\$11.882) million as “Other Adjustments” related to various error corrections and audit adjustments. The North Carolina Global TransPark Authority reported a restatement in the amount of (\$16.118) million, mostly related to a \$10 million overstatement for amounts due from components units and a \$6.404 million overstatement for construction in progress. Other capital grants and contributions were overstated by \$10 million, and the beginning net position was overstated by \$6.404 million on the statement of changes in the prior year. The N.C. Partnership for Children, Inc. reported a \$399 thousand adjustment related to understated capital assets, which included a \$397 million understatement for nondepreciable capital assets related to software in development. Expenses were overstated by \$399 related to contracted services on the prior year’s statement of changes. The Golden LEAF, Inc., reported an adjustment of \$3.837 million related to understated investments in the prior year related to fair market value adjustments in their investment portfolio following the submission of their financial statements. Unrestricted investment earnings were also understated on the prior year’s statement of changes.