NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2025, was as follows (dollars in thousands):

	Balance July 1, 2024 (as restated)	Increases	Decreases	Balance June 30, 2025	Due Within One Year
Governmental Activities					
Bonds and similar debt payable:					
General obligation bonds	$ 1,645,060	$ -	$ (232,420)	$ 1,412,640	$ 173,320
Special indebtedness:					
Limited obligation bonds	1,887,790	300,000	(208,845)	1,978,945	219,235
GARVEE bonds	845,715	441,515	(242,650)	1,044,580	97,165
Issuance premium	427,772	51,074	(83,177)	395,669	-
Total bonds and similar debt payable	4,806,337	792,589	(767,092)	4,831,834	489,720
Notes from direct borrowings	70,263	-	(7,839)	62,424	5,366
Lease liability	367,900	66,425	(49,085)	385,240	43,985
Subscription liability	189,469	181,054	(105,704)	264,819	73,184
Compensated absences	670,616	446,419	(374,821)	742,214	89,377
Pension liability (Note 12)	4,152,974	11,181	(364,813)	3,799,342	27,825
Net OPEB liability (Note 14)	5,222,206	1,526,557	(5,005)	6,743,758	-
Workers' compensation	608,119	172,647	(172,128)	608,638	112,387
Arbitrage rebate payable	-	2,586	-	2,586	306
Death benefit payable	37	-	-	37	-
Pollution remediation payable	6,735	-	(278)	6,457	304
Claims and judgments payable	731,703	-	-	731,703	-
Governmental activity long-term liabilities	$ 16,826,359	$ 3,199,458	$ (1,846,765)	$ 18,179,052	$ 842,454
Business-type Activities					
Bonds payable:					
Revenue bonds	$ 2,060,470	$ -	$ (41,806)	$ 2,018,664	$ 45,609
Issuance premium	149,045	-	(10,171)	138,874	-
Total bonds payable	2,209,515	-	(51,977)	2,157,538	45,609
Notes from direct borrowings	683,118	-	(1,937)	681,181	2,351
Lease liability	6,694	5,761	(1,828)	10,627	1,324
Subscription liability	2,176	9,373	(280)	11,269	8,313
Annuity and life income payable	74,747	21,342	(9,599)	86,490	8,746
Compensated absences	14,540	7,007	(5,877)	15,670	2,498
Net pension liability (Note 12)	58,063	-	(4,232)	53,831	-
Net OPEB liability (Note 14)	83,422	25,589	(110)	108,901	-
Workers' compensation	72	70	(19)	123	94
Business-type activity long-term liabilities	$ 3,132,347	$ 69,142	$ (75,859)	$ 3,125,630	$ 68,935

For governmental activities, the compensated absences, pension liability, net OPEB liability, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences, the pension liability, the net OPEB liability, and workers' compensation liabilities is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of $23.359 million, net pension liability of $80.633 million, net OPEB liability of $170.507 million, workers' compensation liability of $1.302 million, lease liability of $753 thousand, and subscription liability of $33.964 million. The claims and judgments liability of $731.7 million is paid from State appropriations as approved by the N.C. General Assembly. Funds were not appropriated in the current fiscal year nor the next fiscal year.

Governmental Activities

The Master Trust Indenture of the State's outstanding limited obligation bonds of $1.979 billion contain a provision that in an event of default, all outstanding limited obligation bond amounts may become immediately due if the State fails to pay any outstanding limited obligation bond amount by its due date, or if the State fails to budget and appropriate moneys sufficient to make payment on such bonds coming due in any fiscal year.

The outstanding notes from direct borrowings of $23.786 million contain provisions that in the event of default, (1) outstanding amounts become immediately due and payable, (2) the project can be sold and the proceeds applied to outstanding amounts due, (3) the custodian could be directed to apply all acquisition fund amounts to the outstanding amounts due, or (4) proceed by appropriate court action to enforce performance of the applicable covenants in the agreement.

Business-type Activities

The outstanding notes from direct borrowings of $665.035 million contain provisions that in the event of default, the lender may terminate its obligations to disburse any remaining undisbursed loan proceeds immediately.

The occupational licensing boards have pledged buildings and land as collateral for its outstanding notes from direct borrowings of $7.872 million.

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2025, was as follows (dollars in thousands):

	Balance July 1, 2024 (as restated)	Increases	Decreases	Balance June 30, 2025	Due Within One Year
University of North Carolina System					
Bonds payable:					
Revenue bonds	$ 4,271,080	$ 92,840	$ (173,182)	$ 4,190,738	$ 167,405
Direct placements	257,259	15,160	(22,164)	250,255	82,047
Certificates of participation	2,447	-	(378)	2,069	390
Limited obligation bonds	165,575	-	(9,290)	156,285	9,700
Issuance premium	262,822	3,713	(15,097)	251,438	-
Issuance discount	(2,570)	(580)	130	(3,020)	-
Total bonds payable	4,956,613	111,133	(219,981)	4,847,765	259,542
Notes from direct borrowings	282,253	128,114	(27,843)	382,524	23,428
Lease liability	562,027	112,330	(122,981)	551,376	112,991
Subscription liability	202,208	152,091	(138,035)	216,264	99,516
APA liability	-	53,208	-	53,208	1,851
Annuity and life income payable	55,366	10,813	(6,532)	59,647	1,216
Compensated absences	564,297	370,249	(354,037)	580,509	98,800
Net pension liability (Note 12)	2,699,270	502	(242,087)	2,457,685	-
Net OPEB liability (Note 14)	6,763,990	1,876,196	(3,995)	8,636,191	-
Workers' compensation	40,147	13,841	(10,393)	43,595	13,108
Arbitrage rebate payable	-	1,479	-	1,479	886
Pollution remediation payable	3,867	15,030	(145)	18,752	5,310
Asset retirement obligation	16,173	826	-	16,999	-
Liability insurance trust fund payable	31,607	8,759	-	40,366	13,317
Total long-term liabilities	$ 16,177,818	$ 2,854,571	$ (1,126,029)	$ 17,906,360	$ 629,965

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At year-end, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $335.765 million, of which $7.888 million was due within one year and $327.877 million was due in more than one year.

The University of North Carolina at Chapel Hill has unused line of credit in the amount of $10 million.

Revenue Bonds

Various universities within the University of North Carolina System (UNC System) have outstanding revenue bonds totaling $2.114 billion that contain provisions that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

Various universities within the UNC System have outstanding revenue bonds totaling $1.563 billion that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

The University of North Carolina Hospitals has pledged future revenues as collateral for the revenue bonds payable of $364.845 million, and certain funds held have been reserved as restricted equal to 7.5% of gross patient revenues as stipulated by the bond covenants. As of June 30, 2025, the amount pledged as collateral is $602.461 million. In the event of default, the bonds will become immediately due and payable. At such time, the Board of Governors may require a sum sufficient to pay all matured installments of principal and interest due, be deposited with the Hospitals' Trustee. Additionally, the bonds can be replaced with a replacement indenture. The owners of the outstanding bonds may be required to accept the replacement bonds in lieu of the bonds held by them. Any such replacement may result in a reduction or material alteration in the covenants and other provisions provided to secure payment of the outstanding bonds.

Rex Healthcare has outstanding revenue bonds of $149.4 million secured by a lien on substantially all of Rex's real and personal property and by a security interest in Rex's unrestricted revenues.

Fayetteville State University has pledged all buildings and other improvements and additions for its outstanding revenue bonds of $6.265 million.

Direct Placement Bonds

Various universities within the UNC System have outstanding direct placement bonds totaling $181.441 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to pay any outstanding bond debt service.

Various universities within the UNC System have outstanding direct placement bonds totaling $68.815 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice ($63.37 million) or a period of 60 days after written notice ($5.445 million).

Special Indebtedness

The University of North Carolina at Wilmington has outstanding limited obligation bonds (LOBs) of $86.655 million secured by revenues which include rentals payable by the University under leases and use agreements on the facilities financed and refinanced with the LOBs. The LOBs are further secured by a deed of trust on the property financed and refinanced with the LOBs. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. Additionally, the bonds become immediately due and payable if an event of default occurs under the leases or use agreements or under the deed of trust. The Trustee may also take property secured under the deed of trust held as security, including foreclosure on the property held as security.

Western Carolina University has outstanding limited obligation bonds of $37.595 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable.

The University of North Carolina at Pembroke has outstanding limited obligation bonds of $18.86 million. These bonds are secured by revenues which include rentals payable by the University under leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property. The LOBs contain provisions that in the event of default, the bonds become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice.

NOTES TO THE FINANCIAL STATEMENTS

Fayetteville State University has outstanding limited obligation bonds totaling $13.175 million and the University of North Carolina School of the Arts has outstanding certificates of participation totaling $2.069 million that contain a provision that in an event of default, the bonds may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 30 days after written notice. The University of North Carolina School of the Arts has pledged an apartment complex as collateral for its outstanding certificates of participation of $2.069 million.

Notes from Direct Borrowings

Various universities within the UNC System have outstanding notes from direct borrowings totaling $67.942 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to pay any outstanding debt service.

The UNC System has pledged the energy savings improvements installed in its buildings and other structures as collateral for Guaranteed Energy Savings Installment Financing Agreements in relation to the outstanding notes from direct borrowings of $51.616 million. These agreements contain provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the University fails to pay an installment payment when due, (2) an event of nonappropriation from the State occurs, (3) insurance coverage on the asset is not maintained, or (4) the University fails to perform any warranty, covenant, condition, or agreement within 30 days of receiving written notice by the lender or fails to diligently pursue corrective action for matters that cannot be reasonably corrected within 30 days. Upon the occurrence of any event of default, the lender may declare the outstanding amount due and payable immediately. The lender may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

Appalachian State University has outstanding notes from direct borrowings of $192.13 million to finance construction of a residence hall, student housing facilities, and to make associated site improvements. The University assigned to the financial institution the right, title, and interest in lease and use agreements and upon default, the base rentals, which includes all rental revenue from the facility, and payments received or receivable under these agreements, and a continuing security interest in the base rentals as well as the lease and use agreements after commencement of any proceeding under the bankruptcy code. The financial institution has the right, power, and authority to: (1) settle, compromise, release, extend the time of payment of, and make allowances, adjustments, and discounts of any base rentals or other obligations; (2) enforce payment of base rentals; (3) enter on, take possession of and operate the residence hall if a default occurs; and (4) perform any and all obligations of the university.

Elizabeth City State University has outstanding notes from direct borrowings of $18.191 million that contain: (1) a provision that in an event of default, the direct borrowings may become immediately due if pledged revenues during the year are less than 100 percent of debt service coverage due in the following year and (2) a provision that if the University is unable to make payment, outstanding amounts are due immediately. These notes contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs. These notes are secured by student housing facilities.

Various universities within the UNC System have outstanding notes from direct borrowings totaling $22.438 million that contain a provision that in an event of default, the notes may become immediately due and payable if the University fails to make any payment when due or fails to perform any covenant, condition, agreement, or provision for a period of 15 days after written notice ($12.958 million) or a period of 30 days after written notice ($9.48 million). Appalachian State University has pledged land for its outstanding notes from direct borrowings of $12 million. The University of North Carolina at Pembroke has pledged machinery and equipment as security for its outstanding notes from direct borrowings of $1.744 million.

Gateway Research Park has outstanding notes from direct borrowings of $15.828 million secured with collateral of real estate.

B. Bonds, Special Indebtedness, Direct Placements, and Notes from Direct Borrowings

Bonds, special indebtedness, direct placements and notes from direct borrowings at June 30, 2025 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Fiscal Year	Original Borrowing	Outstanding Balance
Primary Government				
Governmental activities				
General obligation bonds	1.50% - 5.00%	2039	$3,071,158	$1,412,640
Special indebtedness:				
Limited obligation bonds	2.00% - 5.00%	2040	3,099,030	1,978,945
GARVEE bonds	2.00% - 5.00%	2040	1,294,110	1,044,580
Notes from direct borrowings	2.10% - 4.02%	2045	93,445	62,424
Business-type activities				
Revenue bonds	1.83% - 7.10%	2058	$2,169,889	$2,018,664
Notes from direct borrowings	1.83% - 6.25%	2058	689,320	681,181
Component Units				
University of North Carolina System				
Revenue bonds**	0.63% - 6.52%*	2055	$5,098,140	$4,190,738
Direct Placements	1.29% - 5.43%*	2051	356,088	250,255
Certificates of participation	2.00% - 2.00%	2030	5,400	2,069
Limited obligation bonds	2.50% - 6.23%	2043	201,690	156,285
Notes from direct borrowings**	0.00% - 7.50%*	2057	533,797	382,524

* For variable rate debt, interest rates in effect at June 30, 2025 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The issuer has elected to treat a portion of these obligations as federally taxable "Build America Bonds" for purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury for a specified percentage of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was $27.4 million for component units.
For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness, which include certificates of participation (COPs) and limited obligation bonds, are subject to appropriation by the N.C. General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Debt Authorized but Unissued

At June 30, 2025, the State had no authorized but unissued general obligation bonds. At June 30, 2025, the State had no authorized but unissued special indebtedness supported by the General Fund. At June 30, 2025, the State had $1.4 billion in authorized but unissued special indebtedness supported by the Highway Trust Fund.

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

General Statute 143-64.17 as amended allows state agencies and universities to utilize Guaranteed Energy Savings Contracts to implement and finance major facility upgrades which save energy and reduce utility expenditures. The State and universities currently are authorized to finance up to $500 million for such projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. A total of $310 million of such contracts have been entered into by the State and universities. At June 30, 2025, some of the projects have been completed and only $246 million of such contracts are currently active.

D. Demand Bonds

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer’s remarketing or paying agents.

<u>Component Unit</u>

University of North Carolina System

The University of North Carolina at Chapel Hill

With regard to the following direct placement demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue Bonds, Series 2012D

On December 14, 2012, the University issued a direct placement bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence."

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina’s (the “Board”) obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. “Adjusted SOFR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate Published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2025, no accrued interest payable remained for the 2012D direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements. On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to $30 million and extending the maturity to June 1, 2042. All other terms remained the same.

General Revenue Bonds, Series 2021A

On March 24, 2021, the University issued a direct placement bond in the amount of $30 million with a maturity date of March 1, 2051, to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Indoor Practice Facility and Fetzer Field), Series 2021A" (the "2021A Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to the Indoor Practice Facility and Fetzer Field on the University's campus.

Interest will be payable on the 2021A Bond on each July 1st, commencing July 1, 2021, and on the prepayment date of the 2021A Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2021A Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2021A Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the 2021A Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal of and interest on the 2021A Bond made directly by the University to the Owner of the 2021A Bond will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2021A Bond to the Debt Service Fund under the General Indenture.

The 2021A Bond may be tendered by the Owner of the 2021A Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2021A Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2021A Bond outstanding from time to time will bear interest at the Adjusted SOFR Rate. "Adjusted SOFR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) 30-Day Average SOFR Rate published by the New York Federal Reserve (calculated and published in arrears and applied forward) plus (2) the spread adjustment of 11 basis points (0.11%) and (3) 1% per annum, which shall be adjusted monthly on the first day of each SOFR interest period; provided, however, for any particular SOFR interest period, the Adjusted SOFR Rate will not be less than 1.4% per annum. As of June 30, 2025, no accrued interest payable remained for the 2021A direct placement bond.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements.

The University of North Carolina Hospitals

With regards to the following demand bonds, UNC Hospitals have entered into take-out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, UNC Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55 million (2001A) and $55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse UNC Hospitals for $75 million spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

On September 11, 2020, UNC Hospitals exercised its prerogative under Section 9.4 of the Series Indenture to remove Wells Fargo Bank, N.A., as the remarketing agent for both series. On that date, TD Securities (USA) LLC agreed to act as the exclusive agent in connection with the remarketing and sale of both series. While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. UNC Hospitals' Remarketing Agent, TD Securities (USA) LLC has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears, on the first business day of each February, May, August, and November, commencing November 1, 2020, and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between UNC Hospitals and TD Bank, N.A., a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November, thereafter until the expiration date or the termination date of the Agreements. On September 11, 2020, UNC Hospitals entered into a new multiple year agreement with TD

Bank, N.A. to provide liquidity service at a fee of 0.32%, effective September 11, 2020. The applicable percentage will be determined based upon the long-term ratings of the Bonds (without regard to any credit enhancement) as follows:

S&P	Moody's	Commitment Rate
A+	A1	0.32%
A	A2	0.57%
A-	A3	0.89%

In the event that there is a disparity between Moody's and S&P's ratings on the bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur or the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.50% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5% or 3%) until 180 days after the initial purchase date and thereafter bear interest at the Base Rate plus 1% per annum and thereafter. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2025, there were no Bank Bonds held by the 2001 Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow UNC Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take-out agreement were to be exercised because the entire outstanding $66.2 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay $21.15 million, $20.08 million, $18.69 million, and $17.3 million in years one, two, three, and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 7.5% (Prime Rate) for the first 180 days and a rate of 8.5% (Base Rate plus 1.00%) thereafter. The expiration date of the Agreements is September 10, 2027.

Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, UNC Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63.77 million (2003A) and $34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

On July 24, 2020, UNC Hospitals entered into a Standby Bond Purchase Agreement with TD Bank, N.A. replacing Wells Fargo Bank, N.A. Also, on July 24, 2020, UNC Hospitals exercised its prerogative under Section 9.4 of the Series Indenture and signed a new remarketing agent agreement with TD Securities (USA) LLC (Series 2003B) removing Wells Fargo Bank, N.A. as remarketing agent.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, U.S. Bank, National Association. UNC Hospitals' Remarketing Agents, Bank of America Securities, LLC (Series 2003A) and TD Securities (USA) LLC (Series 2003B), have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.05% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B. Bank of America Securities, LLC agreed to reduce their remarketing fee to 0.05% effective June 16, 2021 for the Series 2003A.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between UNC Hospitals, Bank of America, N.A. (Series 2003A) and TD Securities (USA) LLC (Series 2003B), Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, N.A. required a Commitment Fee of 0.35% for fiscal year 2025. Payments are made quarterly in arrears, on the first business day of each November, February, May, and August, thereafter until the expiration date or termination date of the Agreement. The Commitment Rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A+	A1	0.35%
A	A2	0.53%
A- or lower	A3 or lower	0.73%

Provided, however, that the Commitment Rate shall be increased (A) by 150 basis points (1.5%) upon the occurrence and during the continuance of an Event of Default, and (B) by 150 basis points (1.5%) if either Moody's or S&P withdraws or suspends its rating for any reason (other than for the payment in full or defeasance of the Bonds). Any such increase in the Commitment Rate shall take effect as of the date of any such event described in the preceding sentence. All such increases in the Commitment Rate contemplated above shall be cumulative.

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate (equal to the greater of the Prime Rate plus 1% or the Federal Funds Rate plus 3% and 7.5%), the Base Rate, for the first 90 days and then the Base Rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2025, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows UNC Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take-out agreement were to be exercised because the entire outstanding $20.29 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay $8.4 million, $7.9 million, and $7.2 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a Base Rate of 8.5% (Prime plus 1%). The current expiration date of the Agreement is July 1, 2027.

The 2003B Agreement with TD Bank, N.A. required a Commitment Fee of 0.32% for fiscal year 2024. Payments are to be made quarterly in arrears, on the first business day of each February, May, August, and November, commencing August 3, 2020. The Commitment Rate remains in effect over the life of the Agreement, so long as the rating assigned to Parity Debt by Moody's and S&P is A+/A1 or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A+ or A1, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A1 or higher	A+	0.32%
A2	A	0.57%
A3	A-	0.89%

In the event that there is a disparity between Moody's and S&P's ratings on the Bonds, the lower rating will prevail for the purpose of calculating the Commitment Fee. In addition, should any Event of Default occur on the long-term unenhanced ratings on the bonds or any Parity Debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the Fee Rate shall automatically increase to 1.5% per annum. All such increases in the Commitment Rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (equal to the greater of the Prime Rate, the Federal Funds Rate plus 0.5%, or 3%), until 180 days after the initial date of purchase, and thereafter at the Base Rate plus 1% per annum. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. As of June 30, 2025, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, UNC Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows UNC Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take out agreement were to be exercised because the entire outstanding $10.9 million of demand bonds was "put" and not resold, UNC Hospitals would be required to pay $3.49 million, $3.31 million, $3.08 million, and $2.85 million in years one, two, three, and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 7.5% (Prime Rate) for the first 180 days and a rate of 8.5% (Base Rate plus 1%) thereafter. The expiration date of the agreement is July 8, 2027.

E. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component unit (University of North Carolina System). The debt service requirements of variable rate debt are based on rates as of June 30, 2025 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, direct placements and notes from direct borrowings are as follows (dollars in thousands).

Primary Government

	Governmental Activities			
	General Obligation Bonds		Limited Obligation Bonds	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2026	$ 173,320	$ 53,202	$ 219,235	$ 90,531
2027	156,620	44,536	220,300	80,156
2028	129,230	36,936	223,780	69,141
2029	112,900	30,677	217,355	58,839
2030	112,745	25,334	183,895	48,279
2031-2035	457,825	73,930	736,010	124,205
2036-2040	270,000	16,763	178,370	21,457
Total	$ 1,412,640	$ 281,378	$ 1,978,945	$ 492,608

	Governmental Activities			
	GARVEE Bonds		Notes from Direct Borrowings	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2026	$ 97,165	$ 46,175	$ 5,366	$ 2,026
2027	97,065	46,283	5,710	1,876
2028	101,915	41,430	4,732	1,732
2029	107,005	36,334	3,870	1,618
2030	112,360	30,984	9,465	6,393
2031-2035	391,115	84,380	16,034	4,719
2036-2040	137,955	18,364	13,585	2,196
2041-2045	-	-	3,662	92
2046-2050	-	-	-	-
Total	$ 1,044,580	$ 303,950	$ 62,424	$ 20,652

	Business-type Activities			
	Revenue Bonds		Notes from Direct Borrowings	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest
2026	$ 45,609	$ 83,881	$ 2,351	$ 8,554
2027	49,788	82,182	2,237	10,907
2028	53,690	80,141	2,418	12,498
2029	54,635	78,036	2,799	15,035
2030	57,985	79,174	3,363	15,711
2031-2035	318,833	426,711	24,933	76,763
2036-2040	427,779	369,199	29,814	73,693
2041-2045	265,714	256,899	182,073	74,558
2046-2050	265,125	220,683	234,881	53,916
2051-2055	263,626	167,951	135,561	24,628
2056-2060	215,880	22,120	60,751	6,226
Total	$ 2,018,664	$ 1,866,977	$ 681,181	$ 372,489

Component Unit

University of North Carolina System

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Interest Rate Swaps, Net	Direct Placements Principal	Direct Placements Interest	Certificates of Participation Principal	Certificates of Participation Interest
2026	$ 167,405	$ 156,528	$ 2,619	$ 22,047	$ 9,941	$ 390	$ 41
2027	173,576	151,634	2,557	18,517	9,353	401	34
2028	177,263	145,689	2,518	18,812	8,811	413	26
2029	189,447	139,476	2,476	14,581	8,250	426	17
2030	196,348	132,589	2,451	15,106	7,750	439	9
2031-2035	1,151,574	543,134	12,155	58,857	31,482	-	-
2036-2040	818,645	341,265	10,608	37,495	21,216	-	-
2041-2045	821,865	180,024	2,985	32,475	11,188	-	-
2046-2050	432,205	58,285	-	2,365	8,343	-	-
2051-2055	62,410	5,749	-	30,000	679	-	-
Total	$ 4,190,738	$ 1,854,373	$ 38,369	$ 250,255	$ 117,013	$ 2,069	$ 127

Fiscal Year Ending June 30	Limited Obligation Bonds Principal	Limited Obligation Bonds Interest	Notes from Direct Borrowings Principal	Notes from Direct Borrowings Interest
2026	$ 9,700	$ 6,319	$ 23,428	$ 12,000
2027	10,110	5,909	40,732	10,782
2028	10,525	5,488	33,784	9,452
2029	10,995	5,019	16,359	8,553
2030	11,485	4,527	131,151	7,780
2031-2035	61,255	15,537	89,857	11,248
2036-2040	38,160	4,249	36,272	3,341
2041-2045	4,055	343	3,008	1,099
2046-2050	-	-	3,363	745
2051-2055	-	-	3,759	349
2056-2060	-	-	811	18
Total	$ 156,285	$ 47,391	$ 382,524	$ 65,367

For revenue bonds and direct placements of the University of North Carolina System, the fiscal year 2025 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

F. Bond Defeasances

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net position.

Primary Government

Governmental Activities

On May 22, 2025, the North Carolina Department of Transportation issued $161.125 million in Series 2025 Grant Anticipation Revenue Vehicle (GARVEE) refunding bonds with an average interest rate of 5%. The bonds were issued for a current refunding of $165.765 million of outstanding Series 2015 GARVEE refunding bonds with an average interest rate of 5%. The refunding was undertaken to reduce the outstanding principal amount of the Series 2015 GARVEE bonds, to pay the cost of issuance for the Series 2025 GARVEE bonds, and to finance the construction of qualified federally supported transportation projects. The refunding is estimated to result in total savings of $7.35 million over the next five years and resulted in an economic gain of $6.74 million.

Component Unit

University of North Carolina System

The University of North Carolina at Greensboro

On October 24, 2024, the University of North Carolina at Greensboro issued $15.16 million in direct placement General Revenue Refunding Bonds, Series 2024B, with an average interest rate of 3.61%. The bonds were issued for a current refunding of $15 million of outstanding General Revenue Bonds, Series 2014, with an average interest rate of 4%. The refunding was undertaken to reduce total debt service payments by $594 thousand over the next 15 years and resulted in an economic gain of $464 thousand.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2025, the primary government had no outstanding balance of prior year defeased bonds. The outstanding balance of prior year defeased bonds was $40.33 million for the University of North Carolina System (component unit). The substitution of essentially risk-free securities with securities that are not essentially risk-free is not allowed for $40.33 million of the prior year defeased bonds for the University of North Carolina System (component unit).

G. Pollution Remediation Payable

Primary Government

Governmental Activities

The North Carolina Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environmental Quality (DEQ) assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. The Department is in process of cleaning up these sites for pollution remediation. There are currently 18 active sites with an average cost of $304 thousand per site.

At year-end, the State recognized a pollution remediation liability of $6.457 million for leaking underground fuel tanks at DOT. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Component Unit

University of North Carolina System

North Carolina State University recognized a pollution remediation liability of $3.692 million for remediation of a lot the University used as a burial site for hazardous chemical and low level radioactive waste generated in its laboratories. The University also recognized a hazardous material remediation liability of $15 million for Poe Hall to abate the hazardous materials and deconstruct the building. The amount of the liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Fayetteville State University recognized a pollution remediation liability of $60 thousand for underground storage tank removal at campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

H. Asset Retirement Obligation

Component Unit

University of North Carolina System

North Carolina State University has asset retirement obligations arising from federal regulations to perform certain decommissioning activities at the time of disposal of its PULSTAR reactor facility. These activities include removal of all activated reactor components, demolition of the reactor biological shield, and disposal costs for radioactive materials. The liability was estimated by analyzing the actual decommissioning costs of a representative university reactor facility and adjusting the costs to be consistent with the N.C. State PULSTAR facility. Costs were also adjusted for the effects of inflation and an updated decommissioning estimate. At year-end, the estimated remaining useful life of the PULSTAR reactor facility was 38 years. In accordance with 10 CFR 50.75(e)(1)(iv), the University has provided the following Statement of Intent regarding decommissioning funding. The decommissioning funding obligations are fully backed by the State of North Carolina. Decommissioning funds will be appropriated when necessary following the provisions of General Statute 116-11(9)(a).