

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, 2023 Fund Equity as Previously Reported	IG 2021-1 Section 5.1 Implementation	Other Changes in Accounting Principles	Other Adjustments	July 1, 2023 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	\$ 22,365,600	\$ —	\$ —	\$ 34,141	\$ 22,399,741
Highway Fund	1,196,955	—	—	—	1,196,955
Highway Trust Fund	1,075,170	—	—	—	1,075,170
Other Governmental Funds:					
Special Revenue Funds	2,350,546	—	—	—	2,350,546
Capital Projects Funds	970,217	—	—	—	970,217
Permanent Funds	188,444	—	—	—	188,444
Total Governmental Funds	<u>28,146,932</u>	<u>—</u>	<u>—</u>	<u>34,141</u>	<u>28,181,073</u>
Internal Service Funds	179,665	—	—	8,109	187,774
Government-wide adjustments:					
Equity interest in component unit	313,249	—	—	—	313,249
Capital assets	66,104,090	100,203	—	(35,178)	66,169,115
Deferred losses on refundings	25,974	—	—	—	25,974
Deferred gain on refundings	(5,428)	—	—	—	(5,428)
Deferred outflows for pensions	2,376,180	—	—	—	2,376,180
Deferred inflows for pensions	(162,742)	—	—	—	(162,742)
Deferred outflows for OPEB	1,192,295	—	—	—	1,192,295
Deferred inflows for OPEB	(2,400,362)	—	—	—	(2,400,362)
Unavailable revenue	278,799	—	—	(3,828)	274,971
Long-term liabilities	(16,290,014)	—	—	39,053	(16,250,961)
Accrued interest payable	(28,590)	—	—	—	(28,590)
Pension assets	15,327	—	—	—	15,327
Total Government-wide adjustments	<u>51,418,778</u>	<u>100,203</u>	<u>—</u>	<u>47</u>	<u>51,519,028</u>
Total Governmental Activities	<u>\$ 79,745,375</u>	<u>\$ 100,203</u>	<u>\$ —</u>	<u>\$ 42,297</u>	<u>\$ 79,887,875</u>
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	4,434,540	—	—	124,164	4,558,704
EPA Revolving Loan Fund	2,191,099	—	—	29,847	2,220,946
N.C. State Lottery Fund	(44,697)	—	—	—	(44,697)
N.C. Turnpike Authority	325,437	—	—	—	325,437
Other enterprise funds	301,483	—	—	(296)	301,187
Total Business-type Activities - Enterprise Funds	<u>\$ 7,207,862</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 153,715</u>	<u>\$ 7,361,577</u>
Total Primary Government	<u>\$ 86,953,237</u>	<u>\$ 100,203</u>	<u>\$ —</u>	<u>\$ 196,012</u>	<u>\$ 87,249,452</u>

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	July 1, 2023 Fund Equity as Previously Reported	IG 2021-1 Section 5.1 Implementation	Other Changes in Accounting Principles	Other Adjustments	July 1, 2023 Fund Equity as Restated
Component Units					
University of North Carolina System	18,230,690	97,601	3,191	26,964	18,358,446
Community Colleges	3,793,172	51,389	—	(544)	3,844,017
State Health Plan	379,775	—	—	—	379,775
Other component units	3,783,339	—	—	3,550	3,786,889
Total Component Units	<u>\$ 26,186,976</u>	<u>\$ 148,990</u>	<u>\$ 3,191</u>	<u>\$ 29,970</u>	<u>\$ 26,369,127</u>

GASB Implementation Guide 2021-1, Section 5.1

Adjustments reported in the “IG 2021-1 Section 5.1 Implementation” column are due to the State’s adoption of *GASB Implementation Guide 2021-1 Section 5.1*, as discussed in Note 2. Reporting entities with adjustments in this column restated groups of similar assets, whose individual costs were less than the established capitalization threshold, but in aggregate were significant. Capital assets, net of depreciation, were understated in the prior year by the adjustment amount. Expenses related to depreciation were understated and expenses related to capital outlay were overstated in prior periods based on the years impacted by restated grouped assets.

Other Changes in Accounting Principles

The University of North Carolina System was the only reporting entity that reported a change in accounting principle unrelated to the implementation of a GASB pronouncement. Effective June 30, 2024, the University of North Carolina – Greensboro (UNCG), implemented a preferred accounting principle for calculating bond premiums. UNCG’s change to the effective interest rate to maturity method will improve the accuracy of the financial reporting under *GASB Statement No. 62*. Previously, UNCG used the proportionate-to-stated interest method. Long-term liabilities, related to bonds payable, were restated and reduced by \$3.191 million due to this change, and expenses related to interest expense were overstated in the prior year by the same amount.

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 \$34.141 million as “Other Adjustments.” These error corrections were reported at three different state agencies. The Department of Public Instruction reported a restatement in the amount of \$17.934 million for understated revenues in the prior fiscal year related to various federal education grants. The federal revenues were earned but not recorded, resulting in federal intergovernmental receivables being understated in the prior year by \$17.934 million and primary and secondary education operating grants and contributions being understated for the same amount on the statement of changes. The Department of Public Safety understated notes receivable in the prior year by \$10.565 million related to local government loans issued in 2020. Because the loans were not issued in the prior year, only the beginning net position on the statements of changes would be impacted in the prior year. The Office of the State Controller understated accounts receivable by \$5.642 million in the prior year related to the N.C. Flex program, which is a state-sponsored benefit program. As a result of the receivables being understated, general government expenses were overstated by the same amount on the statement of changes.

Internal Service Funds

Internal Service Funds reported a restatement of \$8.109 million related to overstated claims payable in the State Property Fire Insurance Fund for hurricane insurance claims to universities. General government expenses, representing claims expense, were overstated by the same amount in the prior year on the statement of changes.

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Capital assets reported (\$35.178) million as “Other Adjustments” related to various capital asset error corrections in prior periods in the State’s governmental funds. This adjustment is predominantly related to the Department of Transportation (DOT) overstating subscription assets in the prior year by \$46.496 million and the associated accumulated depreciation by \$10.266 million, with a net impact of (\$36.23) million. Capital outlay expense was understated by \$46.496 million and depreciation expense was overstated by \$10.266 million in the prior year’s statement of changes related to DOT overstating subscription assets. In addition to DOT’s capital asset overstatement, other State agencies reported various adjustments to capital assets in their governmental funds that had a net impact of understating capital assets in the amount of \$1.052 million.

Unavailable revenues were overstated in the prior year by \$3.828 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 on the statement of changes in the prior year by the same amount.

Long-term liabilities were overstated by \$39.053 million mostly due to DOT overstating the subscription liability by \$39.919 million, which is consistent with DOT’s overstated subscription asset discussed in the paragraph above. Beginning net position was understated by \$39.053 in the prior year’s statement of changes. In addition to DOT’s overstatement, other State agencies reported various adjustments to long-term liabilities in their governmental funds that had a net impact of understating long-term liabilities in the amount of \$866 thousand.

*Business-type Activities*Unemployment Compensation Fund

The Unemployment Compensation Fund (UCF) reported a restatement in the amount of \$124.164 million related to unrecorded 2009 ARRA Modernization grant funds held at the United States Treasury. The UCF had not previously recorded these funds, believing in error that the unused funds would revert to the federal government. Cash was understated in the prior year by \$124.164 million and the beginning net position on the statement of changes in the prior year was understated by the same amount.

EPA Revolving Loan Fund

The EPA Revolving Loan Fund (EPA RLF) reported a restatement in the amount of \$29.847 million related to understated notes receivable in the prior year due to accrued loans not being recorded to notes receivable at the close of the fiscal year. EPA RLF 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.

Other enterprise funds

Other enterprise funds reported restatements in the amount of (\$296) thousand, comprised of various restatements in the nonmajor enterprise funds. In the Workers’ Compensation Fund, claims payable were understated by \$293 thousand, a (\$293) thousand restatement, in the prior year, and insurance program expenses were understated by the same amount on the statement of changes. In the Departmental Funds, capital assets, net of depreciation, were understated by \$67 thousand in the prior year, a \$67 thousand restatement of net position, and other business-type expenses, comprised of an overstatement of capital outlay and an understatement of depreciation, were overstated by the same amount on the statement of changes. The USS North Carolina Battleship Commission reported a restatement in the amount of \$190 thousand related to a cumulative understatement 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 understated by \$190. The State’s Occupational Licensing Boards reported an aggregate restatement of (\$260) thousand related to a combination of insignificant restatements reported in several of the occupational licensing boards.

*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 \$26.964 million as “Other Adjustments” related to various error corrections and audit adjustments. The UNC System understated the following summary captions on the statement of net position in the prior year: capital assets-nondepreciable by \$14.7 million; capital assets-depreciable, net of accumulated depreciation, by \$14.42 million; and long-term liabilities-due in more than one year by \$1.314 million. The UNC System overstated the following net position captions in the prior year: other current and noncurrent assets by \$4.68 million; other current and noncurrent liabilities by \$3.825 million; and long-term liabilities-due within one year by \$13 thousand. Revenues were understated by \$4.477 million in the prior year, which included understatements for unrestricted investment earnings of \$2.746 million and various noncapital and capital gifts, grants and contributions of \$5.522 million. There were also overstated revenues in

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the prior year for charges for services of \$1.149 million and \$2.642 million for miscellaneous general revenue. In addition, expenses were understated in the prior year by \$1.586 million, resulting in a net \$2.891 million increase in the statement of changes in the prior year. The beginning net position was also understated by \$24.073 million for corrections related to periods earlier than the prior year fiscal year.

Community Colleges

Community Colleges, which includes 58 community colleges as described in Note 1, along with the college foundations, reported an aggregate adjustment of (\$544) thousand as “Other Adjustments” related to various corrections and audit adjustments. Community Colleges understated the following summary captions on the statement of net position in the prior year: capital assets-nondepreciable by \$126 thousand; capital assets-depreciable, net of accumulated depreciation, by \$2.631 million; deferred outflows for pension and OPEB by \$1.13 million; other current and noncurrent liabilities by \$3.018 million; and long-term liabilities – due within one year by \$823 thousand. Community Colleges overstated the following summary captions on the statement of net position in the prior year: other current and noncurrent assets by \$1.162 million; long-term liabilities – due in more than one year by \$549 thousand; and deferred inflows for lease agreements by \$23 thousand. Revenues were understated by \$213 thousand in the prior year, which included understatements of unrestricted investment earnings by \$3.186 million and various noncapital and capital gifts, grants and contributions by \$364 thousand. There was also an overstatement in revenue of \$3.337 million for charges for services and miscellaneous revenue. The beginning net position on the prior year’s statement of changes was also overstated by \$757 thousand.

Other component units

Other component units, which make up other discretely presented component units as described in Note 1, reported an aggregate adjustment of \$3.55 million as “Other Adjustments” related to various error corrections and audit adjustment. The North Carolina Global TransPark Authority reported a restatement in the amount of (\$1.777) million related to various understated liabilities in the prior year, and expenses were understated by the same amount. The State Education Assistance Authority reported a restatement of (\$500) thousand related to understating payables and therefore expenses by the same amount in the prior year. The North Carolina Partnership for Children, Inc. reported a (\$3) thousand restatement related to overstating a subscription asset and understating expenses. The Golden LEAF Foundation reported a restatement in the amount of \$5.83 million related to understating investments in the prior year due to an adjustment in their investment portfolio related to fair market valuations. Unrestricted investment earnings were also understated for the same amount.