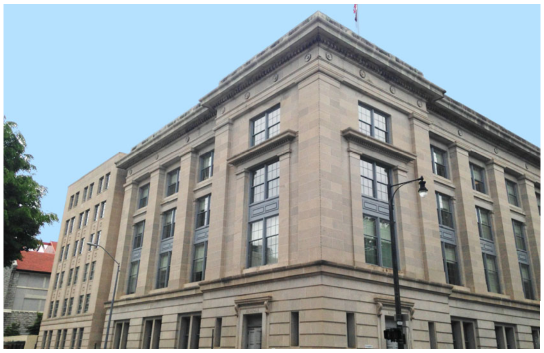
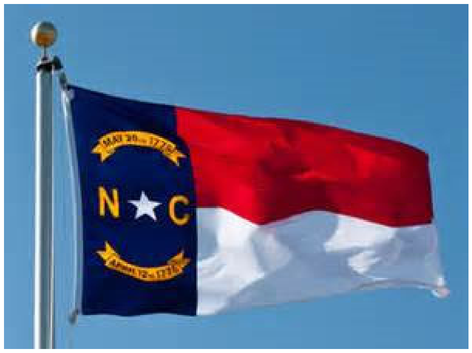
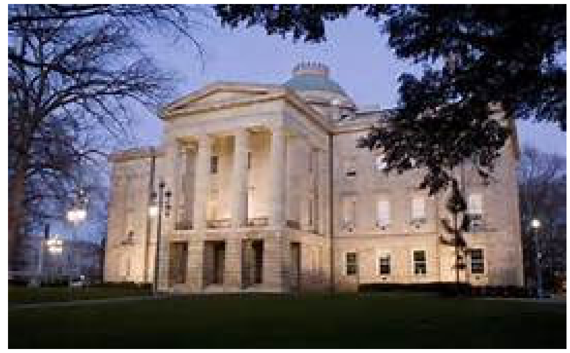
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA







NORTH CAROLINA DEPARTMENT OF STATE TREASURER

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2022

A DEPARTMENT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Dale R. Folwell, State Treasurer
Department of State Treasurer

We have completed a financial statement audit of the North Carolina Department of State Treasurer for the year ended June 30, 2022, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

An Overview of How to Use this Report

This report provides audited financial information on the Department of State Treasurer (Department) and is designed to provide the information at a summarized level in the beginning and in more detail further into the report. This report is made up of various components as listed in the Table of Contents.

The Department of State Treasurer reports financial activities in three major governmental funds, 17 fiduciary funds, and one component unit. The governmental funds are used to report most of the activity of the Department including external investment pool operations, banking activity, and the State's debt service activity. The Department provides administrative services for bond issuance and bond payments, such as payment of debt services, issuing debt, recording initial bond issuance premiums and discounts as well as payments to debt escrow agents. The fiduciary funds include Pension and Other Employee Benefit Trust Funds and Custodial Funds. The component unit is the North Carolina State Health Plan.

The financial information in the report is presented at a summarized, departmental, and component unit level initially. Where some numbers need further explanation, additional detail is provided in supplementary schedules or "Notes to the Financial Statements" which are referenced next to the line item caption.

Required Information: (Information required to be reported per the Governmental Accounting Standards Board and Government Auditing Standards)

The **Independent Auditor's Report** presents the auditor's opinions on the financial statements, which is whether the basic financial statements, as presented, are materially correct.

The **Management's Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years. The Management's Discussion and Analysis is prepared by the Department and has not been subjected to the same auditing procedures performed on the financial statements.

"A" Exhibits present the Balance Sheet as of June 30, 2022, and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2022 for the Department's **governmental funds**.

"B" Exhibits present the Statement of Fiduciary Net Position as of June 30, 2022, and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2022 for the Department's **fiduciary funds**.

"C" Exhibits present the Statement of Net Position as of June 30, 2022, the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2022, and the Statement of Cash Flows for the fiscal year ended June 30, 2022 for the **component unit**, the State Health Plan.

Notes to the Financial Statements are designed to give the reader additional information concerning the Department and the component unit, and further support for the financial statements.

<u>**Required Supplementary Information:**</u> **(This information is tabbed by topic in the report.** These exhibits have not been subjected to the same auditing procedures performed on the financial statements.)

"D" Exhibits present the Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Budgetary Basis-Non-GAAP) comparisons for the **general fund** and **escheat fund** for the fiscal year ended June 30, 2022, and related notes.

"E" Exhibits present the pension information on the Schedule of the Changes in the Net Pension Liability and Related Ratios for the last nine fiscal years, the Schedule of Employer and Nonemployer Contributions for the last ten fiscal years, and the Schedule of Investment Returns for the last nine fiscal years, and the related notes for each of the **defined benefit pension plans**.

"F" Exhibits present the Schedule of the Proportionate Net Pension Liability for the last nine fiscal years and Schedule of Component Unit Contributions for the last nine fiscal years for the **component unit**.

"G" Exhibits present the Schedule of the Changes in the Net Other Postemployment Benefits (OPEB) Liability or Asset and Related Ratios for the last six fiscal years, the Schedule of Employer Contributions for the last ten fiscal years, the Schedule of Investment Returns for the last five six years, and related notes for each of the **defined benefit OPEB plans**.

"H" Exhibits present the Schedule of the Component Unit Net OPEB Liability or Asset and the Schedule of the Component Unit Contributions for the **component unit**.

Supplementary Information: (This information is tabbed by topic in the report. These exhibits have not been subjected to the same auditing procedures performed on the financial statements.)

"I" Exhibits present the Combining Balance Sheet as of June 30, 2022, and the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2022 for the Department's **other governmental funds**.

"J" Exhibits present the Combining Statement of Fiduciary Net Position as of June 30, 2022, and the Combining Statements of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2022 for the **fiduciary funds**.

For the purposes of these schedules, the Department is reporting governmental fund information by division in the following manner:

- **Exhibit K-1** presents the Combining Statement of Revenues and Expenditures **Governmental Funds** for the year ended June 30, 2022.

- **Exhibit K-2** presents a further breakdown of the Statement of Revenues and Expenditures **Governmental Funds - General Operations** for the fiscal year ended June 30, 2022.

- **Exhibits K-3** presents the **Retirement Plans Operations** expenses that were reimbursed from the fiduciary funds for the fiscal year ended June 30, 2022.

"L" Exhibits present the Schedules of Allocated Net Position for the **State Treasurer Investment Programs** as of June 30, 2022.

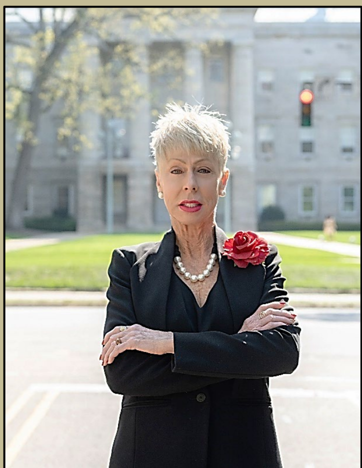
"M" Exhibit presents the Schedules of Deductions by Investment Portfolio for the **External Investment Pool** for the fiscal year ended June 30, 2022.

"N" Exhibit presents the Investment Performance Schedules for the **External Investment Pool** as of June 30, 2022.

"O" Exhibits present the Investment Pool Fee Schedules in Total Fees by Basis Point and Asset Class and Total Fees by Contract Fee Type and Asset Class for the **External Investment Pool** as of June 30, 2022, and related notes.

Required Information:

The **Independent Auditor's Report on Internal Control and Compliance -** this report is not an opinion on internal control or compliance but rather a report on the matters related to internal control and compliance that were noted as a part of the audit of the financial statements.



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT

The Honorable Dale R. Folwell, State Treasurer
and Management of the North Carolina Department of State Treasurer
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the North Carolina Department of State Treasurer (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information for the Department, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the following:

- The Supplemental Retirement Income Plan of North Carolina, which represents 11 percent and 30 percent, respectively, of the assets and revenues of the aggregate remaining fund information as of June 30, 2022.

- The North Carolina Public Employee Deferred Compensation Plan, which represents 1 percent and 4 percent, respectively, of the assets and revenues of the aggregate remaining fund information as of June 30, 2022.

- The North Carolina Department of State Treasurer Investment Programs, which represents 87 percent and 90 percent, respectively, of the assets and revenues of the aggregate remaining fund information as of June 30, 2022.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts are based solely on the reports of the other auditors.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the North Carolina Department of State Treasurer are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the North Carolina Department of State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Department's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2023 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 4, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Management's Discussion and Analysis section of the North Carolina Department of State Treasurer's (Department) financial report is provided as an overview of the financial performance of the governmental funds, fiduciary funds, and component unit for the fiscal year ended June 30, 2022. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of the governmental funds (General Fund, Special Revenue, and Debt Proceeds and Interest Fund), the fiduciary funds (Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Retiree Health Benefit Fund, and others) and the Component Unit (North Carolina State Health Plan). The governmental funds' basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance whereas the fiduciary funds' financial statements consist of the Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows are presented for the component unit of the State of North Carolina.

Governmental Funds:

- The Balance Sheet presents the governmental funds' assets and liabilities that are considered relevant to an assessment of near-term liquidity. The differences between assets (plus deferred outflows) and liabilities (plus deferred inflows) are reported as fund balances.
- The Statement of Revenues, Expenditures, and Changes in Fund Balance reports the resource flows (revenues and expenditures) of the governmental funds.

Fiduciary Funds:

- The Statement of Fiduciary Net Position shows the amount of assets and liabilities held for the benefit of parties outside of the Department.
- The Statement of Changes in Fiduciary Net Position reflects the additions and deductions of funds held to and from parties outside of the Department.

Discretely Presented Component Unit:

- A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. A description of the component unit can be found in Note 1 in the notes to the financial statements.

Notes to the financial statements are designed to give the reader additional information concerning the Department and further support the statements noted above.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes the General Fund and Escheat Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end, and pension and other postemployment benefit (OPEB) related disclosures pursuant to GASB Statements 67, 68, 74, and 75 for the Department, which include the governmental funds and fiduciary funds.

Other supplementary information includes the combining statements for Other Governmental Funds, Pension and Other Employee Benefit Trust Funds, Custodial Funds, Statement of Revenues and Expenditures for the Governmental Funds, Schedule of Allocated Net Position, Investment Performance Schedule, and Investment Pool Fee Schedules.

Governmental Funds

Condensed Balance Sheet

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2022 and 2021 (Dollars in thousands).

		2022		2021		Change
Assets	$	1,351,674	$	1,316,709	$	34,965
Deferred Outflows of Resources		37,287		37,287		0
Total Assets and Deferred Outflows of Resources	$	1,388,961	$	1,353,996	$	34,965
Liabilities	$	129,217	$	101,291	$	27,926
Deferred Inflows of Resources		0		0		0
Fund Balances						
Nonspendable		99		88		11
Restricted		1,252,141		1,243,005		9,136
Committed		7,742		8,361		(619)
Unassigned		(238)		1,251		(1,489)
Total Fund Balances		1,259,744		1,252,705		7,039
Total Liabilities, Deferred Inflows and Fund Balances	$	1,388,961	$	1,353,996	$	34,965

Analysis of Governmental Funds Condensed Balance Sheet

Total assets increased by $35 million compared to fiscal year 2021. The increase was primarily due to increases of $87.4 million in cash and cash equivalents and securities lending collateral of $28.4 million, offset by a decrease in investments of $81.4 million. The increase in cash and cash equivalents is primarily due to Escheat Fund cash and cash equivalents increasing by $89.9 million primarily due to funds escheated of $137.8 million, offset by scholarships funded and expenses paid of $68.6 million. The decrease in investments is primarily due to decreases of $23.8 million in the Escheat Fund and $57.5 million in the Debt Proceeds and Interest Fund. The Escheat Fund investment decrease was driven by a decrease in investment earnings of $20 million. The $57.5 million investments decrease in the Debt Proceeds and Interest Fund was primarily due to continued spend down of the Connect Bond proceeds and no new debt issues during fiscal year 2022.The increase in securities lending collateral and corresponding obligations under securities lending is due to a function of demand in the market.

The deferred outflows of resources amount represent the Escheat Fund's forward funded state aid. Each year's balance represents amounts owed per North Carolina General Statute 116B. This general statute requires the Department to distribute a portion of the income derived from the investments or deposits of the Escheat Fund to the State Education Assistance Authority (SEAA), North Carolina Community College System, and the Department of Military Veterans Affairs.

Total liabilities increased by $27.9 million compared to fiscal year 2021. The increase was primarily due to a $28.4 million increase in obligations under securities lending.

Total fund balance increased $7.0 million compared to fiscal year 2021. This increase was primarily due to an increase in restricted fund balance of $9.1 million, consisting of an increase in Escheat Fund restricted fund balance of $66.6 million offset by a decrease in Debt Proceeds and Interest Fund restricted fund balance of $57.5 million. The increase in the restricted fund balances was attributable to the overall current year activity. See further details on the following - Statement of Revenues, Expenditures, and Changes in Fund Balance below.

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

The following condensed statement shows the governmental funds' resource flows at June 30, 2022 and 2021 (Dollars in thousands).

	2022	2021	Change
Revenues:			
Funds Escheated	$ 137,760	$ 151,474	$ (13,714)
Fees	8,968	9,229	(261)
Services	9,621	8,935	686
Administrative Cost Reimbursements	7,827	7,701	126
Investment Earnings (Loss)	(1,364)	18,679	(20,043)
Revenues from Other State Agencies and Funds	654,803	4,171	650,632
Loan Collection of Principal	458	498	(40)
Other	10,157	10,838	(681)
Total Revenues	828,230	211,525	616,705
Expenditures:			
State Aid	67,671	67,321	350
Contracted Services	3,476	4,776	(1,300)
Personal Services	20,812	17,464	3,348
Employee Benefits	7,080	6,302	778
Debt Service	823,535	708,768	114,767
Other Fixed Charges	2,644	2,076	568
Capital Outlay	541	2,587	(2,046)
Other	4,559	4,724	(165)
Expenditures to Other State Agencies and Funds	86,100	445,001	(358,901)
Total Expenditures	1,016,418	1,259,019	(242,601)
Excess Revenues Under Expenditures	(188,188)	(1,047,494)	859,306
Other Financing Sources (Uses)			
State Appropriations	36,984	728,741	(691,757)
General Obligation Bonds Issued		400,000	(400,000)
Refunding on Bonds Issued	132,025		132,025
Premiums on Bonds Issued	26,218	50,349	(24,131)
Transfers In	10,913	11,316	(403)
Transfers Out	(10,913)	(11,316)	403
Total Other Financing Sources	195,227	1,179,090	(983,863)
Net Change in Fund Balance	7,039	131,596	(124,557)
Fund Balance - July 1	1,252,705	1,121,109	131,596
Fund Balance - June 30	$ 1,259,744	$ 1,252,705	$ 7,039

Analysis of Governmental Funds Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance

The $616.7 million increase in revenues was primarily due to a $650.6 million increase in revenues from other state agencies, offset by decreases in funds escheated of $13.7 million and in investment earnings of $20.0 million. The $650.6 increase in revenues from other state agencies in the general fund is due to the inflow of funds from the Office of State Budget and Management (OSBM) from the State Construction and Infrastructure Fund (SCIF) to pay debt service rather than from direct General Fund appropriations per G.S. 143C-4-3.1. The funds escheated line item in the Escheat Fund represents the net of cash escheated from holders, cash claims paid out, and accounting entries at year end for accruals to be in accordance with generally accepted accounting principles. The $13.7 million decrease in funds escheated is due to a $6.2 million net decrease of escheated claims into the fund as compared to claims paid out and an increase of $2 million of scholarships paid by the fund during the current fiscal year. The $20.0 million decrease in investment earnings was due to Escheat Fund investment losses in the current fiscal year.

Total expenditures decreased by $242.6 million compared to fiscal year 2021. This decrease was primarily due to a decrease in expenditures to other state agencies of $358.9 million offset by an increase in debt service of $114.8 million. The decrease of expenditures to other state agencies consisted primarily of $363.3 million in the Debt Proceeds and Interest Fund due to the issuance of general obligation bonds in the prior fiscal year and none in the current fiscal year. The increase of $114.8 million in debt service primarily consists of $158 million paid for a current refunding bond issue 2021A offset by a reduction in interest payments related to the final redemptions of the 2011B Limited Obligation Bonds and the 2011C Limited Obligation Bonds in fiscal year 2022 and to general decreases in General Obligation Bonds outstanding.

Total other financing sources (uses) decreased by $983.9 million compared to fiscal year 2021. This was primarily due to decreases in bonds issued of $268 million compared to fiscal year 2021, the $650.6 million in SCIF payments mentioned above replacing the State Appropriations and the difference in the premiums on the current year bonds issued of $24 million.

Budget Variations

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

Variances – Original and Final Budget:

The final budgeted revenues decreased by $3.1 million from the original budget. The decrease was primarily due to the decrease in the final budget for revenues from other state agencies of $5.4 million offset by an increase in administrative cost reimbursements of $1.3 million. The final budgeted expenditures increased by $40.1 million from the original budget due primarily to $35.7 million in debt services and other minimal changes in line items. The final budgeted other financing sources (uses) decreased $43.3 million from the original budget, primarily due to a decrease of $42.1 million in transfers in during the current year.

Generally, the variances between the original and final budget are attributable to the timing and length of the budget preparation process. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final budget, it is expected that significant variances can occur.

Variances – Final Budget and Actual Results:

Actual total revenue was $8.6 million below final budgeted revenue amounts. This occurred due to less revenues than budgeted for administrative cost reimbursements, revenues from other state agencies, reimbursement of expenditures from investment pool, and offset by unbudgeted fees. See description of budget process below for details regarding final budget and actual variances.

Actual total expenditures were $456.4 million less than final budgeted expenditures. Final budgeted expenditures were unrealized primarily because $453.4 million less was spent on debt service, including principal retirement, interest and fees, and debt issuance costs.

The proposed original budget for the debt service (both principal and interest payments) codes are submitted during the Worksheet I budget process at the beginning of each biennium. However, these codes have not been adjusted by the Department to reflect anticipated activity for the upcoming biennium based on approved debt activity, as debt payments are primarily tracked through a separate appropriated budget code. The practice has been to adjust the special debt service budget codes primarily used for accounting, to match actual or projected activity using budget revisions if needed at fiscal year-end (changes in the final budget). Thus, in these accounts, there could be a mismatch between original and final budgets given the changes over time to debt service requirements. If the actual amounts do not exceed the final budget for debt payments, it has not been the Department's practice to work with the Office of State Budget and Management to adjust the final down to the actual amount, as payments vary each year depending upon actual payments needed. As with the above, the actual amount of proceeds from refunded debt and premium on this debt was unknown at the beginning of each year. If such amount in the accounting budget codes does not exceed the final budget, no change to the final budget via budget revision is done. If the final budget is too high, then the budget is simply overstated based on expected activity. This applies as well to the investment income in debt related budget codes. If there are no earnings, it has not been Department's practice to adjust or decrease the final budget to reduce it to zero.

The budget codes used for new debt issuance activities are used to track amounts for accounting purposes. The amount and timing of new debt issuances is not known; therefore, original budgets are not set up at the beginning of a biennium. For the pay to refunded debt escrow agent account, there would need to be budget revisions to the final budget to match actual activity in a particular budget code. While no further adjustment may be made to another budget code not used for a debt issuance in that year, there could be mismatches between the original, final, and actual amounts.

The Department of State Treasurer and the Office of State Budget and Management work together to manage debt service payments. There is no formal budget process for debt service budget codes. The State Capital and Infrastructure Fund budget code is used for this purpose.

Actual deficiency of revenues over expenditures was $447.8 million less than the final budget because of the $453.4 million for debt services as discussed above.

Actual total other financing sources (uses) were $447.8 million below budgeted amounts due to less than expected transfers in, offset by higher than expected state appropriations and transfers out. Regarding the variance in transfers in, see discussion above about debt service.

Fiduciary Funds

Condensed Statement of Fiduciary Net Position

The following condensed statement of fiduciary net position shows the fiduciary funds' financial position at June 30, 2022 and 2021 (Dollars in thousands).

	2022	2021	Change
Assets			
Cash and Cash Equivalents	$ 1,566,260	$ 1,415,827	$ 150,433
Investments	129,793,853	138,301,914	(8,508,061)
Securities Lending Collateral	1,185,311	813,836	371,475
Other Assets	648,732	684,357	(35,625)
Total Assets	133,194,156	141,215,934	(8,021,778)
Liabilities			
Accounts Payable and Accrued Liabilities	9,567	17,951	(8,384)
Obligations Under Securities Lending	1,185,311	813,836	371,475
Funds Held For Others	6,085	5,992	93
Total Liabilities	1,200,963	837,779	363,184
Net Position			
Restricted for:			
Pension Benefits	124,718,029	133,653,786	(8,935,757)
Postemployment Benefits	3,088,485	2,916,348	172,137
Pool Participants	1,232,438	1,070,133	162,305
Individuals, Organizations, and Other Governments	516,501	441,230	75,271
Other Employment Benefits	2,437,740	2,296,658	141,082
Total Net Position	$ 131,993,193	$ 140,378,155	$ (8,384,962)

Analysis of Fiduciary Funds Condensed Statement of Net Position

Total assets decreased by $8.0 billion compared to fiscal year 2021. The decrease was primarily due to a decrease in investments of $8.5 billion, offset by an increase in cash and cash equivalents of $150.4 million and securities lending collateral of $371.5 million. The state treasurer investment pool decreased by $10.3 billion over fiscal year 2021 due to negative investment earnings from the investments that support the pension plans. The total portfolio of investments that support the pension plans lost 7.25% for the fiscal year compared to nearly 19% returns in fiscal year 2021. The non-state treasurer pooled investments increased by $1.8 billion over fiscal year 2021 which was due to a net investment gain reflecting strong returns in the financial markets for both the Supplemental Retirement Income Plan of North Carolina ("401(k)") and the North Carolina Public Employee Deferred Compensation Plan ("457(b)") investments in the Pooled account and stable value fund. The $150.4 million increase in cash and cash equivalents was primarily due to an increase in the Retiree Health Benefit Fund of $143.9 million, due to $172 million of nonoperating contributions from the State Health Plan, and an increase in the Local Governmental Employees' Retirement System ("LGERS") of $13.8 million, offset by a decrease in cash of $7.8 million in the Teachers' and

State Employees' Retirement System ("TSERS"). The increase in securities lending collateral and corresponding obligations under securities lending is due to a function of demand in the market. The North Carolina pension fund is appropriately diversified and invested with a conservative strategy. The pension fund investments are allocated according to the Investment Policy Statement ("IPS"), which was reviewed and modified during fiscal year 2021-2022 and became effective July 1, 2022. Over the fiscal year, the Investment Management Division engaged with an external consultant to conduct an asset liability study utilizing updated capital markets and liability projection assumptions. The objective of the study was to identify a long-term asset allocation mix that most efficiently meets the goals and objectives of the pension plan investments. The results and recommendations of the analysis were presented to the Treasurer and the Investment Advisory Committee over the fiscal year. The most notable change in the asset allocation policy was a 4% increase to Pension Cash with a corresponding decrease of 4% to Public Equity.

Overall net position decreased by $8.4 billion as of fiscal year end 2022 with most of the decrease in restricted pension benefits attributable to the overall current year activity. See further details on the following Condensed Statement of Changes in Fiduciary Net Position.

Condensed Statement of Changes in Fiduciary Net Position

The following condensed statement shows the fiduciary funds' resource flows at June 30, 2022 and 2021 (Dollars in thousands).

	2022	2021	Change
Additions			
Contributions	$ 7,458,618	$ 6,810,211	$ 648,407
Net Investment Income (Loss)	(6,978,717)	21,656,089	(28,634,806)
Other Additions	260,249	(64,309)	324,558
Total Additions	740,150	28,401,991	(27,661,841)
Deductions			
Claims and Benefits	7,939,528	7,613,297	326,231
Medical Insurance Premiums	1,044,104	1,100,802	(56,698)
Other Deductions	141,480	324,529	(183,049)
Total Deductions	9,125,112	9,038,628	86,484
Change in Net Position	(8,384,962)	19,363,363	(27,748,325)
Net Position - July 1	140,378,155	121,014,792	19,363,363
Net Position - June 30	$ 131,993,193	$ 140,378,155	$ (8,384,962)

Total additions decreased $27.7 billion from the prior year mostly due to the decrease of $28.6 billion in net investment earnings. The decrease in net investment earnings were due to the pension fund having faced headwinds from persistently high inflation and slowing economic growth, leading to a combined effect that pulled down returns on both stocks and bonds.

Total deductions increased by $86.5 million primarily due to increases of $326.2 million in claims and benefits paid offset by a decrease in other deductions of $183 million. The increase in claims and benefits paid is due to the expected pattern from the growth of the retiree population. During the fiscal year ended June 30, 2022, the North Carolina Retirement Systems paid out more than $7.1 billion in retirement and other benefits to more than 380,000 retirees and beneficiaries. The Retirement Systems Division administers seven defined benefit pension plans, three supplemental defined contribution retirement saving plans and several death, disability, and other benefit plans and programs. The largest of the defined benefit pension plans is the Teachers' and State Employees' Retirement System ("TSERS"). Funding the Retirement Systems is a shared responsibility among employees and employers through contributions and DST through investment earnings. TSERS held net assets equal to 84 percent of the Total Pension Liability on the financial reporting basis as of June 30, 2022. The decrease in other deductions was mostly attributed to the decrease in distributions paid and payable in the custodial funds.

Component Unit - State Health Plan

Condensed Statement of Net Position

The following condensed statement of net position shows the State Health Plan's financial position at June 30, 2022 and 2021 (Dollars in thousands).

	2022	2021	Change
Assets			
Current Assets	$ 1,022,934	$ 870,002	$ 152,932
Net OPEB Asset	3	10	(7)
Total Assets	1,022,937	870,012	152,925
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	1,180	1,269	(89)
Deferred Outflows Related to OPEB	2,551	2,960	(409)
Total Deferred Outflows of Resources	3,731	4,229	(498)
Liabilities			
Current Liabilities	510,571	362,954	147,617
Noncurrent Liabilities:			
Compensated Absences	512	524	(12)
Net OPEB Liability	1,018	2,815	(1,797)
Net Pension Liability	5,760	5,438	322
Total Liabilities	517,861	371,731	146,130
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	1,411	35	1,376
Deferred Inflows Related to OPEB	2,216	3,003	(787)
Total Deferred Inflows of Resources	3,627	3,038	589
Net Position			
Restricted-Expendable Health and Human Services		2	(2)
Unrestricted	505,180	499,470	5,710
Total Net Position	$ 505,180	$ 499,472	$ 5,708

Total assets increased by $152.9 million compared to fiscal year 2021 due to the change in current assets. The current assets increase of $152.9 million was primarily the result of increases of $84.2 million in cash and cash equivalents, $28.5 million in securities lending collateral, and $36.5 million in rebates receivable. The increase in cash and cash equivalents was primarily due to Coronavirus reimbursement funds of $215 million received from the State. The increase in securities lending collateral and corresponding obligations under securities lending is due to a function of demand in the market. The increase of $36.5 million in rebates receivable was due to an increase of the CVS pharmacy receivable from prior year. The increase is a function of both the formulary utilization and the fact that the State Health Plan performs an annual market check exercise with the Pharmacy Benefit Manager and actuary. The rebates are a function of rising drug costs, more patent protected drugs hitting the market (i.e. eligible for rebate by the manufacturers), and contract terms with CVS.

Liabilities totaled $517.9 million, an increase of $146.1 million over fiscal year 2021, primarily due to the change in current liabilities. Current liabilities totaled $510.6 million which was an increase of $147.6 million from fiscal year 2021, primarily due to medical claims payable increasing by $109.3 million and an increase of $28.5 million in obligations under securities lending. The increase in medical claims payable was due to a projected increase in the claims lag in Blue Cross Blue Shield processing delays and the actuarial determined annual trend increases.

Overall net position increased by $5.7 million as of fiscal year end 2022 with substantially all of the increase in unrestricted net position attributable to the overall current year activity. See further details on the following Statement of Revenues, Expenses, and Changes in Net Position below.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

The following condensed statement shows the State Health Plan's resource flows at June 30, 2022 and 2021 (Dollars in thousands).

	2022	2021	Change
Operating Revenues			
Insurance Premiums	$ 3,839,131	$ 3,752,449	$ 86,682
Medical Insurance Rebate	103,022		103,022
Total Operating Revenues	3,942,153	3,752,449	189,704
Operating Expenses			
Operating Expenses:			
Contracted Services	130,137	135,222	(5,085)
Affordable Care Act	1,630	1,554	76
Claims	3,842,672	3,637,393	205,279
Insurance	14,243	96,062	(81,819)
Other Expenses	6,100	6,577	(477)
Total Operating Expenses	3,994,782	3,876,808	117,974
Operating Loss	(52,629)	(124,359)	71,730
Nonoperating Revenues (Expenses)			
Pharmacy Subsidies and Rebates	13,340	10,950	2,390
Investment Earnings	1,929	4,858	(2,929)
Noncapital Contributions	35	93	(58)
Grants, Aid and Subsidies	43,033	(187,000)	230,033
Total Nonoperating Revenue (Expenses)	58,337	(171,099)	229,436
Increase (Decrease) in Net Position	5,708	(295,458)	301,166
Net Position - July 1	499,472	794,930	(295,458)
Net Position - June 30	$ 505,180	$ 499,472	$ 5,708

Operating revenues increased by $189.7 million. The increase is primarily the result of a contractual rebate of $103 million for a United Healthcare Medicare Advantage contract that closed in December of 2021 and $86.7 million of insurance premiums due to increased premium contributions from employing units.

Total operating expenses increased $118 million due to increases in claims of $205.3 million, offset by decreases in contracted services of $5 million and insurance of $81.8 million. Claims increased by $205.3 million as described above in the liabilities section. Contracted services decreased primarily due to a $4.6 million decrease in Blue Cross Blue Shield contracted administrative services. Insurance decreased due to the more favorable Humana contract along with the discontinuation of the United Healthcare Insurance Company contract for the Medicare Advantage product.

Nonoperating revenues increased by $229.4 million due to an increase in state aid and grants, aid and subsidies of $230 million. The State Health Plan received $215 million for the first time in Coronavirus Relief Funds and transferred $15 million less to the RHBF. The Coronavirus Relief Funds were utilized to reimburse the State Health Plan for costs incurred during from March 1, 2020 through January 31, 2022 related to COVID-19.

GS 135-48.5(a)(2) allows for a transfer of funds from the Public Employee Health Benefit Fund to the RHBF. The State Health Plan transferred $172 million to the RHBF in June 2022 as compared to $187 million in 2021.

Current Information

Unfunded Liability Solvency Reserve

As a result of Session Law 2018-30, the TSERS and the Retiree Health Benefit Fund ("RHBF") will receive annually a share of the balance, if any, of the Unfunded Liability Solvency Reserve ("Solvency Reserve") from the state's General Fund. The purpose of the Solvency Reserve is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce unfunded liabilities associated with TSERS and RHBF. During each fiscal year, the Solvency Reserve will receive any funds specifically designated by the North Carolina General Assembly for this purpose. To the extent that the Savings Reserve balance has reached its statutory maximum, the Solvency Reserve will also receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability. Distributions from the Solvency Reserve may not be used to supplant other funding for the plans, nor can they be used as funding for enhanced plan benefits. During the last fiscal year, $50.4 million was transferred into the Solvency Reserve. Of that amount, $2.0 million was transferred to TSERS and $8.4 million was transferred to RHBF.

Governmental Funds

Achieving a Better Life Experience (ABLE) Program Trust

Session Law 2015-203 established the North Carolina Achieving a Better Life Experience ("ABLE") Program Trust in response to the passage of federal legislation, known as the ABLE Act, which authorizes the creation of tax-advantaged, state-administered savings programs offering economic advantages to individuals with qualified disabilities. Contributions to an ABLE account are generally limited to the amount of the federal gift tax exclusion plus earned income up to a maximum of the prior year's federal poverty limit for one person. Distributions from an ABLE account for qualified disability expenses ("QDEs"), such as educational needs and medical costs not covered by Medicaid, are not included in gross income for federal or state tax purposes. In general, contributions (up to the federal maximum), account balances (up to $100,000 for Supplemental Security Income), earnings on account balances, and distributions for QDEs are not counted as income or resources for federal or state means-tested programs, such as SSI and Medicaid. As of June 30, 2022, the ABLE Program had 1,692 funded accounts with $15.9 million in assets. As a result of the Final Regulations passed in November 2020, the NC ABLE program will expand the hierarchy of who can open an NC ABLE account on behalf of an account owner to include conservator, spouse, grandparent, and Representative Payee appointed by the Social Security Administration starting in November of 2022.

The Department of State Treasurer is responsible for the administration and outreach efforts of this program, which was launched in January 2017. The NC ABLE Board of Trustees determined that joining a consortium of other states was an effective means for leveraging resources and attaining economies of scale with the goal of offering a low cost, high-quality program. The Department coordinates state-wide communications and outreach efforts, actively conferring with staff for other states' ABLE programs, and collaborates with national organization leaders in the nonprofit community who provide services and advocacy for individuals with disabilities.

North Carolina's AAA Rating

In February 2022, the State of North Carolina Debt Affordability Advisory Committee (the "Committee" or "DAAC") presented its annual Debt Affordability Study to the Governor and the General Assembly. For the sixth time, the primary recommendation of this year's report suggested that significant additional money be put toward North Carolina's pension and OPEB obligations that represent retired employees' health benefits. At the time of the report, the State currently had unfunded pension liabilities of $4.7 billion and OPEB obligations totaling $30.9 billion for a total of $35.6 billion.

Under the 2022 proposal, the Committee recommended that the targeted debt limit ratio be limited to 4 percent of general tax revenues, allowing for debt capacity in the General Fund, after placing $100 million per year in trust for the purpose of funding the pension and OPEB liabilities. The result is General Fund debt capacity of approximately $4.35 billion in the current fiscal year or just over $1.42 billion a year for the next 10 years.

Legislation was passed by the North Carolina House of Representatives in 2017 to implement the Committee's recommendations but was not reconsidered in the 2018 short session or the 2019 regular session. However, in the North Carolina General Assembly's 2020 short session legislation was signed into law that allocates approximately (formula based) $32 million per year to the State's Retiree Health Benefit Fund, effective beginning July 1, 2020. As a result, in Fiscal Year 2021, the General Assembly funded an additional $36 million into the RHBF. In Fiscal Year 2022, the General Assembly funded an additional $39 million into the RHBF. During Fiscal Year 2022, the RHBF was augmented by other sources besides General Assembly Appropriations, totaling $180.5 million with a significant portion transferred from the Public Employees Health Benefit Fund. As discussed above in the Retirement Systems section, new State employees and teachers with start dates on or after January 1, 2021, are not eligible to receive the retiree medical benefit.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of the twelve other states rated "triple-A" by all three rating agencies. The calculation of the State's general fund debt capacity is based on the Debt Affordability Advisory Committee's recommendation that debt service should be targeted at no more than 4.0 percent of general fund tax revenues and should not exceed 4.75 percent.

In 2018, the Build NC Bond Act of 2018 was passed by the General Assembly and signed by the Governor. The legislation authorizes the issuance of up to $300 million per year of special indebtedness for transportation projects to be repaid from appropriations from the Highway Trust Fund (not to exceed $3 billion in total over the following ten years). The 2021 Debt Affordability Study found that, after incorporating the Build NC Bonds projected to be issued over the next ten years into the debt capacity model, the Highway Fund and Highway Trust Fund had no additional debt capacity available for the next ten years. The calculation of the State's Highway Fund and Highway Trust Fund debt capacity is based on the Committee's recommendation that debt service should be targeted at no more than 6 percent of those funds' state tax revenues. The issuance of Build NC Bonds is subject to certain cash triggers, must not cause the DAAC recommendations to be exceeded, and is also subject to provisions contained in Article 9 of Chapter 142 of the General Statutes. The maturity of the bonds is limited to 15 years and the issuance is contingent upon the State Treasurer's recommendation.

In June 2019, the State issued $300 million of Build NC Limited Obligation Bonds. These Bonds were the first in a series of bonds authorized under the Build NC Bond Act of 2018. The 2019 Build NC Limited Obligation bonds have a 15-year final maturity and received a rating of Aa1 from Moody's Investor Services, AA+ from S&P Global Ratings, and AA+ from Fitch Ratings. No new Build NC Limited Obligation Bonds were issued in fiscal year 2020, but legislation (Session Law 2020-91) was signed into law that allowed for a maximum of $700 million of Build NC Limited Obligation Bonds to be issued in fiscal year 2021. This legislation did not change the original (2018) total authorization of $3 billion. In November 2020, the State issued $700 million of Build NC Limited Obligation Bonds. The 2020 Build NC Limited Obligation bonds have a 15-year final maturity and received a rating of Aa1 from Moody's Investor Services, AA+ from S&P Global Ratings, and AA+ from Fitch Ratings. Following the passage of Session Law 2021-189 (Section 7.1), which granted a one-time exemption of the maximum cash balance test for Build NC Bond issuances occurring before June 30, 2022, the State issued the third series of Build NC Limited Obligation Bonds in the amount of $300 million on May 19, 2022. The proceeds of the Build NC Bond program are expected to be used to accelerate Regional and Divisional transportation projects authorized pursuant to the State's Strategic Transportation Investments Act, build a debt service reserve fund, and pay the costs incurred in connection with the issuance of the bonds.

In September 2021, the State issued $252.6 million of Grant Anticipation Revenue Vehicle Bonds (GARVEE). The 2021 GARVEE bond will finance several eligible highway projects across the state. GARVEE bonds are authorized under the 2005 GARVEE Act, which specifically provides for the issuance of revenue bonds payable from federal revenues consisting primarily of Federal Transportation funds with the proceeds to finance federal aid highway projects.

General Obligation ("GO") Bonds were authorized under the Connect NC Bond Act of 2015 and approved by voter referendum in March of 2016. This Act authorized the issuance of $2 billion of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. A total of four tranches of Connect NC GO Bonds were issued beginning in August of 2016 and later in August of 2018, September of 2019 and October of 2020 for a total of $1.6 billion. The proceeds of the bonds will be used to fund the construction and furnishing of new facilities and the renovation and rehabilitation of existing facilities for the University of North Carolina System, the North Carolina Community College System, water and sewer systems, the State's National Guard, the Department of Agriculture and Consumer Services, certain attractions and parks, and the Department of Public Safety. In November of 2021, the General Assembly passed Session Law 2021-180 (Section 40.9), which limits the issuance of the Connect NC GO Bonds to the amount previously issued of $1.6 billion. Under this law, the $400 million of Connect NC GO Bonds authorized but unissued is to be funded to completion by a State budget allocation and from any available premium from the prior issuances of Connect NC GO Bonds.

In August 2021, the State issued $132.0 million of Limited Obligation Refunding Bonds. The Limited Obligation Refunding Bonds refunded certain maturities of the 2011B Limited Obligation Bonds and 2011C Limited Obligation Bonds. The State issued the 2021 Refunding Bonds pursuant to the provisions of the State Capital Facilities Finance Act, Article 9 of Chapter 142 of the General Statutes as amended (the State Capital Facilities Finance Act), a resolution of the North Carolina Council of State, and the approval of the State Treasurer. The refunding bonds achieved a net present value savings to the State of approximately $23.6 million.

The Role of the Local Government Commission

The Local Government Commission ("LGC") has an ongoing program of providing fiscal and debt management assistance to local governments and other units in the State. Prior to approval, sale, and delivery of all North Carolina local government general obligation bonds and other debt instruments, counseling and assistance is given to local units to determine the size of the issue, the most expedient form of financing, and the feasibility of servicing the debt. The LGC approved the issuance of approximately $4.0 billion in bonds and notes of local government units to finance capital needs during the fiscal year ended June 30, 2022.

The LGC has the authority to step in and take control of a unit of local government's finances if the government is in danger of defaulting on debt or is repeatedly violating the requirements of the Local Government Budget and Fiscal Control Act (Chapter 159, Article 3) after repeated notice from the Commission. In the 2022 fiscal year, the LGC was in control of the finances of seven municipalities and one sanitary district: East Laurinburg, Eureka, Kingstown, Pikeville, Robersonville, Spencer Mountain, Spring Lake, and Cliffside Sanitary District. This unprecedented number of units under LGC control was a necessary step that placed additional work on LGC staff and the LGC itself. One of the municipalities, East Laurinburg, has since had its charter dissolved (discussed further below).

The staff members of the LGC (employees of the State and Local Government Finance Division or "SLGFD") annually examine the audited financial statements of over 1,100 local governments and public authorities across North Carolina to detect signs of fiscal distress. We provide illustrative financial statements for units of local government to guide them in preparation of their annual statements as well as more in-depth guidance on newly issued accounting standards. In response to the COVID-19 pandemic, there is now available to local governments substantial amounts of funding from the state and Federal governments to help with the costs of certain infrastructure, including water and wastewater, backfill certain lost revenue, address public health needs, and provide premium pay for certain local government employees who worked throughout the pandemic.

Due to the unequal and lingering impacts of the "Great Recession," as well as the devastation caused in some areas by natural disasters, including Hurricanes Florence and Matthew, there are ongoing fiscal challenges for local governments and public authorities in the affected areas of the State. In response to the challenges faced by these units, a local government intervention unit, the "COACH team," was created in 2016 to provide special assistance to those governmental units identified as failing to meet fiscal standards or best practices. The COACH team made 17 in-person unit visits in the 2022 fiscal year. The COVID pandemic and the significant number of local governments whose finances were under the control of the LGC impacted the number of COACH team visits in 2022. Two of the three team members were serving as finance officers in the towns of East Laurinburg, Spring Lake, and Kingstown, as well as the Cliffside Sanitary District. As an alternative to visits, staff contacted each unit on the Unit Assistance List, requesting copies of draft 2023 budgets. These budgets were reviewed by COACH team members and others; reviewers were able to assist units by correcting budgeting errors before their adoption by local boards. To address another concern, also found more frequently in smaller rural units, staff created a continuing education class to be provided through the North Carolina Community College ("NCCC") system to help provide basic local government finance training for unit finance staff and others without formal governmental accounting training or backgrounds. The class is available to all 58 colleges in the NCCC system. Staff also saw the need for fiscal training for local elected leaders and created a multi-module training program to meet that need. Staff provided 14 in-person sessions around the state, and all modules are available on the SLGFD's website for on-demand training. The program is offered at no charge to participants.

In 2021, the LGC gained another legislative tool to address local government entities that likely are financially nonviable in the long term. Session Law 2021-124 (Senate Bill 314) authorizes the LGC to dissolve the charters of North Carolina municipalities that meet specific criteria and that the LGC finds do not have sufficiently stable financial affairs to continue operations. This authority has previously resided only with the General Assembly, which can still override an LGC decision to dissolve a municipal charter. The LGC exercised its authority for the first time as of June 30, 2022, when it dissolved the charter of the Town of East Laurinburg. East Laurinburg provided no essential services to its residents. The town's physical and financial assets were turned over to Scotland County.

Banking Operations

As the State's banker, the Department manages the deposits and disbursements for the State. Deposits are kept at banks in communities across the State. At the end of the 2022 fiscal year, total deposits of $285.4 million were held in 27 banks across the State. During the fiscal year ended June 30, 2022, more than 3 million warrants were processed, representing approximately $23.1 billion in payments. In addition, Banking Operations initiated approximately 27,100 wires in the amount of $224 billion on behalf of the State. Banking Operations also monitors the Collateralization of Public Deposits program, which requires that public funds have securities pledged against them to ensure that public funds on deposit across the State, that belong to the State and local governments, are made whole in the event of a bank failure. As of June 30, 2022, Banking Operations oversaw $13.5 billion in pledged securities and collateral for $12.3 billion in deposits not otherwise covered by the Federal Deposit Insurance Corporation insurance.

Escheat Fund

The Department of State Treasurer oversees and maintains unclaimed property for the citizens of North Carolina. Under state law, unclaimed property is escheated, or turned over, to the Department for safekeeping. The Unclaimed Property Division ("UPD") is responsible for recovering and returning such property to its rightful owners.

Unclaimed property is property that was previously held by financial institutions, insurance companies, other businesses, and government agencies, which are referred to as "holders." Unclaimed property can be in the form of bank accounts, wages, utility deposits, insurance policy proceeds, stocks, bonds, other sources of funds, or the contents of safe deposit boxes. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period called the dormancy period, typically from one to five years. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds they are holding are escheated to UPD and maintained in the Escheat Fund by directive of a 1971 state law. Upon receipt of property and owner information, UPD works to locate the owners by various means, including listing names on the NCCash.com website, proactive owner outreach, earning media coverage through print, broadcast, and online news outlets, participating in community events such as the North Carolina State Fair, utilizing DST's digital and social media platforms, and making various other efforts to reunite owners with their money and promote public awareness about the program.

The interest earned on these funds pays for the operating costs of the Unclaimed Property Division, and all remaining interest is sent to the State Education Assistance Authority to provide grants, loans and scholarships for North Carolina students attending public universities. In addition, since 2003, the State has used a significant amount of the Escheat Fund's principal to fund student financial aid.

For the 2021–2022 fiscal year, a total of $64.5 million was appropriated from the Escheat Fund to the Board of Governors of the University of North Carolina, the State Board of Community Colleges, and the Department of Military and Veterans Affairs. Because the interest income generated from the Escheat Fund was less than the total amount appropriated in the applicable session law, the difference was taken from the Escheat Fund principal. This funding provided more than $37 million in educational assistance to those in the university system, $16 million to those in the community college system, and $10.9 million to the Veterans Scholarship Program in the 2021–2022 fiscal year. As of the fiscal year ended, June 30, 2022, the Escheat Fund carried an investment balance of $1 billion and a fund balance of $1 billion. As the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to the Department.

Pending Award of Major Contract

In June 2022, the UPD received approval to solicit proposals from qualified Vendors to perform in-state and/or out-of-state audits of business entities potentially holding past due unclaimed property. Such audits shall be done in accordance with North Carolina General Statutes Chapter 116B and pertinent case law and shall not commence without prior authorization and approval. Per the terms of the solicitation, the contract period of award will be for a period of ten consecutive years. The total contract cost for the ten-year period is anticipated to be about $40 million.

Fiduciary Funds

North Carolina Retirement Systems

Effective July 1, 2021, through section 39.22.(b) of Session Law 2021-180 enacted November 18, 2021, the state established an employer contribution rate of 16.38 percent of compensation to fund pension benefits for TSERS. This contribution rate reconciles to the rate recommended by the TSERS Board of Trustees ("TSERS Board") under the TSERS Board's Employer Contribution Rate Stabilization Policy ("ECRSP") as described in the section below entitled "TSERS Funding Policy." Maintaining a pattern of setting the contribution rate at least equal to the TSERS Board's recommendation is the most significant action the North Carolina General Assembly can take to ensure the long-term fiscal health of the pension plans.

Until the contribution rates of Session Law 2021-180 could be implemented, for the months of July through December 2021, the prior fiscal year's employer contribution rate of 14.78 percent of compensation remained in effect pursuant to G.S. 143C-5-4(b)(7). With the increase in employer contribution rates enacted through Session Law 2021-180, G.S. 143C-5-4(b)(7) provided for rates charged to participating employers for the remainder of the fiscal year to be adjusted so that the total amount collected by TSERS during the fiscal year was equivalent to the whole-year contribution rate enacted in law. Therefore, for the months of January through June 2022, the contribution rates actually collected from employers were adjusted to 17.98 percent of compensation, so that the total amount collected for the fiscal year (14.78 percent for July through December 2021, and 17.98 percent for January through June 2022) was equivalent to the whole-year contribution rate of 16.38 percent enacted in law.

Effective July 1, 2022, through section 39.19 of Session Law 2022-74 enacted July 11, 2022, the state established an employer contribution rate of 17.38 percent of compensation to fund pension benefits for TSERS. This contribution rate reconciles to the rate recommended by the TSERS Board under the ECRSP as described in the section below entitled "TSERS Funding Policy."

Legislative changes to administrative and funding provisions since June 30, 2021, that may be considered significant from a financial reporting perspective include the following:

- Retirees of TSERS, the Consolidated Judicial Retirement System ("CJRS"), and the Legislative Retirement System ("LRS") received a one-time cost of living supplement in December 2021 equal to two percent (2%) of their annual retirement allowance (Session Law 2021-180, Sections 39.23.(a) through 39.23.(c)).
- Retirees of TSERS, CJRS, and LRS will receive a one-time cost of living supplement in October 2022 equal to four percent (4%) of their annual retirement allowance (Session Law 2021-180, Sections 39.23(a) through 39.23.(c), as amended by Session Law 2022-74, Sections 39.20.(a) through 39.20.(c)). The anticipated cost of this supplement is included in the Total Pension Liability for each relevant retirement system determined under Governmental Accounting Standards Board ("GASB") Statement No. 67 as of June 30, 2022.
- Retirees of the Local Governmental Employees' Retirement System ("LGERS") will receive a one-time cost of living supplement in October 2022 equal to two percent (2%) of their annual retirement allowance. Section 3 of Session Law 2021-178 provided the LGERS Board of Trustees ("LGERS Board") with the authority to approve such one-time supplement payments under certain conditions, and the LGERS Board approved the October 2022 payment at their meeting on January 27, 2022. The anticipated cost of the supplement is included in the Total Pension Liability for LGERS determined under GASB Statement No. 67 as of June 30, 2022.
- The Unfunded Liability Solvency Reserve established under G.S. 143C-4-10 received its first direct appropriations from the General Fund, totaling $40 million for fiscal year ending 2022 and $10 million for fiscal year ending 2023 (Session Law 2021-180, Section 2.1). These funds are then to be contributed to the Retiree Health Benefit Fund and TSERS pursuant to Session Law 2021-180, Section 39.24.
- Required employer contributions established July 2022 or later under the contribution-based benefit cap (anti-pension spiking) provisions will be recovered via a 12-year adjustment to the employer's contribution rate unless the employer elects to pay the amount as a lump sum or over a shorter installment period (Session Law 2021-72, Section 1).

There have been no significant actuarial assumption changes since June 30, 2021. The material assumptions and methods are described in Note 12 ("Retirement Plans") to the State's *Annual Comprehensive Financial Report*.

Phasing Out Retiree Medical Benefit

Members first hired on or after January 1, 2021, are not eligible to receive retiree medical benefits paid out of the Retiree Health Benefit Fund. Retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn that service, to be eligible for retiree medical benefits.

Funding Policy: Employer Contribution Rate Stabilization Policies – TSERS

The TSERS Board adopted the Employer Contribution Rate Stabilization Policy ("ECRSP") on January 21, 2016. The TSERS Board adopted a new version of the ECRSP on April 29, 2021, extending the essential provisions of the ECRSP and adding clarifications. This policy establishes a procedure for the staff and actuary to use in determining the employer contribution rates for TSERS that the TSERS Board of Trustees will recommend to the North Carolina General Assembly for the fiscal years ending through June 30, 2027.

Under this policy, the contribution rate recommended to the North Carolina General Assembly is no less than 0.35 percent of payroll greater than the recommended appropriated contribution rate from the prior fiscal year, within the following bounds: (1) contributions may not be less than the Actuarially Determined Contribution ("ADC") prior to applying the ECRSP; and (2) the "0.35 percent" increase may not cause contributions to be greater than the ADC determined using the assumptions adopted but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

For the fiscal year ended June 30, 2022, the ECRSP resulted in a recommended contribution rate of 15.74 percent of compensation, prior to the effect of any legislative benefit improvements or cost-of-living increases or supplements. This contribution rate was equal to the ADC prior to applying the ECRSP, from the actuarial valuation as of December 31, 2019. The ADC exceeded the policy's lower bound (15.13 percent of payroll, equal to the prior year's appropriation of 14.78 percent of payroll plus 0.35 percent of payroll) and was less than the policy's upper bound (75.68 percent of payroll, based on a discount rate equal to the yield on 30-year United States Treasury securities). Accordingly, the TSERS Board elected to recommend the ADC equal to 15.74 percent of payroll. The enacted contribution rate of 16.38 percent of compensation for the year included an additional 0.64 percent, which was the cost determined by the consulting actuary for the one-time cost of living supplement for retirees enacted through section 39.23.(a) of Session Law 2021-180 and paid in December 2021.

For the fiscal year ending June 30, 2023, the ECRSP resulted in a recommended contribution rate of 16.09 percent of compensation, prior to the effect of any legislative benefit improvements or cost-of-living increases or supplements. This was the ADC after application of the ECRSP from the actuarial valuation as of December 31, 2020, determined pursuant to the ECRSP as the prior year's recommended appropriation of 15.74 percent of payroll plus 0.35 of payroll. The ECRSP contribution rate of 16.09 percent exceeded the ADC prior to application of the ECRSP (15.13 percent of payroll) and was less than the policy's upper bound (92.34 percent of payroll, based on a discount rate equal to the yield on 30-year United States Treasury securities). The TSERS Board made its recommendation of an employer contribution to the General Assembly on January 27, 2022.

By that time, Session Law 2021-180 had been enacted with the following pertinent provisions. Section 39.24.(a) amended G.S. 143C-4-10(e) to provide for an additional required contribution related to the Unfunded Liability Solvency Reserve. That additional contribution rate was determined by the legislature to be 0.05 percent of compensation. Section 39.23.(a) provided for monthly payees of TSERS to receive a one-time supplement payable in October 2022 equal to three percent (3%) of annual retirement allowances, at a cost estimated by the Retirement System's consulting actuary to be 0.93 percent of compensation. Accordingly, the TSERS Board elected to recommend the ADC as adjusted for the ECRSP and the effects of Sections 39.23.(a) and 39.24.(a) of Session Law 2021-180, or the sum of 16.09, 0.93, and 0.05 percent, for a total of 17.07 percent of payroll. The enacted contribution rate of

17.38 percent of compensation for the year included an additional 0.31 percent, matching the cost determined by the consulting actuary for the additional one percent (1%) one-time supplement that resulted in the four percent (4%) total one-time supplement payable under Section 39.20.(a) of Session Law 2022-74.

Funding Policy: Employer Contribution Rate Stabilization Policies – Local Governmental Employees' Retirement System ("LGERS")

The LGERS Board adopted an Employer Contribution Rate Stabilization Policy ("ECRSP") on January 21, 2016. Following adoption of that policy, the Board set LGERS employer contribution rates for the fiscal years ending in 2018–2022 in accordance with the policy. On January 31, 2019, the Board revised the ECRSP to increase the employer contribution rates to be required for the fiscal years ending in 2020–2022. On April 29, 2021, the LGERS Board adopted a new version of the ECRSP, defining how the LGERS Board expects to establish employer contribution rates for the fiscal years ending in 2023-2027. On January 27, 2022, the LGERS Board amended the April 2021 ECRSP to provide for a one-time supplemental payment to monthly beneficiaries in October 2022 without increasing the employer contribution rate.

For the fiscal year ended June 30, 2022, the LGERS ECRSP adopted January 21, 2016, and amended January 31, 2019, applied to the setting of employer contribution rates. This policy required that the employer contribution rates increase by 1.20 percent of compensation from the prior year's rates to 11.35 percent of compensation for general employees and 12.10 percent of compensation for LEOs. The employer contribution rate of 11.35 percent of compensation for general employees was greater than the ADC of 11.27 percent of compensation for general employees, as determined using the core funding policy prior to application of the ECRSP. The employer contribution rate of 12.10 percent of compensation for LEOs was less than the ADC of 12.94 percent of compensation for LEOs, as determined using the core funding policy prior to application of the ECRSP.

For the fiscal year ending June 30, 2023, the LGERS ECRSP adopted April 29, 2021, and amended January 27, 2022, applied to the setting of employer contribution rates. This policy required that the employer contribution rate for general employees increase by 0.75 percent of compensation from the prior year's rate to 12.10 percent of payroll for general employees. The 12.10 percent employer contribution rate for general employees is greater than the ADC of 11.22 percent of compensation using the core funding policy prior to application of the ECRSP. The policy required that the employer contribution for LEOs be 1.00 percent of compensation greater than the rate for general employees, or 13.10 percent of compensation. The 13.10 percent employer contribution rate for LEOs is greater than the ADC of 13.00 percent of compensation using the core funding policy prior to application of the ECRSP.

Under the LGERS ECRSP revised April 29, 2021, and amended January 27, 2022, through the fiscal year ending 2027, the employer contribution rate for general employees will increase by an additional 0.75 percent of compensation each year, subject to the following adjustments: (1) if the underlying Actuarially Determined Contribution ("ADC") for a given fiscal year is more than 1.00 percent of compensation greater than the scheduled compensation rate, the schedule will be adjusted halfway toward the ADC; (2) the same type of adjustment will be made if the ADC is less than the scheduled rate by at least 1.00 of compensation, but only in fiscal years ending 2025 through 2027; and (3) the rate will be adjusted for the effect of changes in actuarial assumptions, methods, or enacted plan provisions (with the exception of the one-time supplement to be paid in October 2022) that were not yet incorporated in the schedule. The employer contribution rate for LEOs is to be greater than the rate for general employees by 1.00 of compensation in fiscal year ending 2023, 1.25 of compensation in fiscal year 2024, and so forth until reaching 2.00 of compensation in fiscal year ending 2027 and will be further adjusted for the effect of changes in actuarial assumptions, methods, or enacted plan provisions that were not considered when determining the contribution rate for general employees. The LGERS Board has authority to grant COLAs or one-time supplemental payments in amounts limited by statute when there are sufficient investment gains to cover the resulting increase in actuarial liabilities. Based on investment experience, the LGERS Board was not permitted to grant a COLA for the fiscal years ending June 30, 2021, or June 30, 2022, under the authority allowed by statute. For the fiscal year ending June 30, 2023, the LGERS Board granted a one-time supplemental payment in the amount of two percent (2%) of annual retirement allowances, to be paid in October 2022.

Effect of December 2021 Census Data for North Carolina National Guard Pension Fund ("NCNGPF")

For each retirement system, the Total Pension Liability measured under GASB Statement No. 67 as of June 30 is based on information about employees, former employees, and monthly payees ("census data") collected as of the prior December. For the NCNGPF, retiree census data is prepared by RSD, and census data for service members who have not retired is provided by the North Carolina National Guard ("NCNG") as of each December. In April 2022, the NCNG informed RSD that the system previously used for extracting Army National Guard data was no longer available. This required NCNG to access information from other sources for current and former service members who had not yet retired. In doing so, NCNG found that (a) some service members who should have been reported in previous years had not been reported, and (b) the amount of creditable military service reported in previous years for many non-retired service members had been inaccurate, in many cases such that they were no longer projected to meet the threshold of 20 years of total military service for eligibility for a pension benefit from the NCNGPF. The consulting actuary has estimated that the net effect of these unexpected changes in census data (both increases and decreases) was a decrease in the Total Pension Liability as of June 30, 2022, for the NCNGPF, in the amount of approximately $27 million.

Risks Inherent in Actuarial Assumptions and Methods

The Retirement Systems' Boards of Trustees select actuarial assumptions and methods based on the advice of RSD's consulting actuary. The assumptions are selected according to state law and guidelines promulgated by the Actuarial Standards Board. The Boards of Trustees review each significant assumption or method at least once every five years and update it if necessary.

Actuarial methods include the actuarial cost method, amortization policy, and asset valuation method. These methods are meant to recognize pension costs in an orderly fashion through contributions to the plans over a period of years. In some cases, the methods have the effect of deferring increases or decreases in contributions to later years. If assumptions are not met over a long period of time, the use of these methods will lead to deferred gains or losses.

Similarly, the use of actuarial assumptions, while necessary in actuarial valuations, carries a risk that facts will deviate from the assumptions. Such deviation may result in greater or lesser costs in later years than would have been anticipated by the actuarial valuation. To illustrate the significance of the assumed rate of investment return, the Retirement Systems' consulting actuaries have calculated that as of December 31, 2020, if the Boards had assumed long-term future investment returns equal to the yield on 30-year United States Treasury securities

(1.65% per year) rather than the Boards' assumption of 6.50% per year, and held all other assumptions the same as in the actuarial valuation, the actuarial accrued liability would have been greater by $78.9 billion (88%) for TSERS, by $31.1 billion (93%) for LGERS, and by $588 million (74%) for the Consolidated Judicial Retirement System, as of December 31, 2020.

With regard to the potential risk inherent in other actuarial assumptions, contributions will tend to increase if members and their surviving beneficiaries live longer than expected; if current employees' future salary increases are greater than expected; if more employees work until reaching full retirement eligibility than expected; if more employees (once reaching full retirement eligibility) retire at earlier ages than expected; or if any legislative benefit enhancements or cost-of-living increases or supplements are granted in the future. To illustrate the potential significance of legislative changes, the Retirement Systems' consulting actuaries have estimated that a permanent 1% cost-of-living benefit increase for retirees as of July 1, 2023, would increase the actuarial value of benefits by approximately $555 million for TSERS and by approximately $183 million for LGERS (less than one percent of the estimated liability for each retirement system) as of that date.

North Carolina Defined Contribution Plans

The Supplemental Retirement Income Plan of North Carolina ("401(k)") and the North Carolina Public Employee Deferred Compensation Plan ("457(b)") also support the retirement of state and local public employees that elect to participate. The 401(k) and 457(b) plans are voluntary, and members can choose to begin or discontinue contributions at any time. Events that permit members of these plans to receive their benefits include retirement, termination, hardship, death, or attaining a specified age (59½). As of December 31, 2021, the 401(k) had approximately 274,400 members and $14.7 billion in assets, while the 457(b) had approximately 56,730 members and $2.0 billion in assets. Member participation had increased to approximately 276,790 for the 401(k) and had decreased to approximately 56,690 for the 457(b), by June 30, 2022.

The Supplemental Retirement Plans awarded a contract extension to Empower, recordkeeper for the plans, beginning January 1, 2024 through December 31, 2028 and to The Bank of New York Mellon, custodian for the plans, through June 30, 2025.

Supplemental Retirement Plan for Teachers and Educational Staff

The North Carolina 403(b) Program ("403(b)") was launched early second quarter 2014. The 403(b) allowed teachers and other employees of school districts and community colleges to invest in an institutional 403(b) supplemental retirement program with pricing that will help them achieve retirement security. Events that permit members of this program to receive their benefits may include retirement, termination, hardship, death, or attaining a specified age (59½). As of June 30, 2022, assets under management were $30.5 million.

At the Board's December 2, 2021, meeting, the Board approved a plan to discontinue the 403(b). Under this plan, the 403(b) discontinued the collection of administrative fees from participants effective June 30, 2022. Full discontinuation of the 403(b) is expected to be effective
December 31, 2022. At June 30, 2022, there were 92 school districts enrolled in the 403(b) with 1,419 employees participating.

Future Outlook

Governmental Funds

The Department will continue to accomplish its mission to preserve, protect, and sustain the State's pension and healthcare plans, reduce investment fees while maximizing returns, and properly account for and report on all funds that are deposited, invested, and disbursed through the North Carolina Department of State Treasurer. With the Local Government Commission and Debt Affordability study, it will continue to assure the financially sound issuance of debt for state and local governments and maintain the State's "AAA" bond rating.

In 2022, S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the "triple-A" bond rating for the State. A "triple-A" bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices.

Escheat Fund

Venture Capital Multiplier Fund ("VCMF")

Pursuant to G.S. 147-69.2A and G.S. 147-69.2(b)(12)(c), the State Treasurer is required to invest 10 percent of the Escheat Fund through the VCMF. The VCMF is administered by a third-party professional investment management firm selected, following a public procurement process, by designees from the Governor's Office, the Department of State Treasurer, the North Carolina Speaker of the House of Representatives, and the President Pro Tempore of the North Carolina Senate. In late 2016, Hatteras Venture Partners was selected to act as the third-party investment manager for the VCMF. To date, $60 million has been committed to the VCMF with approximately $51 million of that amount being invested. The Department expects that the remaining $9 million will be called over the next few years.

Fiduciary Funds

North Carolina Retirement Systems

Funding Policy: Employer Contribution Rate Stabilization Policies

The TSERS Board adopted a State Contribution Rate Stabilization Policy ("SCRSP") on April 25, 2019, for the North Carolina National Guard Pension Fund ("NGPF"). The TSERS Board adopted a new version of the SCRSP on April 29, 2021, extending the essential provisions of the SCRSP and adding clarifications. The SCRSP establishes how the TSERS Board will develop an annual appropriation amount to recommend to the General Assembly to fund the NGPF through the fiscal year ending in 2027. It further describes when benefit increases, and member contribution increases will be considered and recommended. As a result of this policy, the TSERS Board's recommendation for the annual General Fund contribution to the NGPF will be at least equal to the ADC plus $2 million in each year through the fiscal year ending in 2027, or until the NGPF reaches 100% funding on an actuarial basis if earlier.

Additionally, the LGERS Board adopted a State Contribution Rate Stabilization Policy ("SCRSP") on January 26, 2017, for the Firefighter's and Rescue Squad Worker's Pension

Fund ("FRSWPF"). The LGERS Board adopted a new version of the SCRSP on April 29, 2021, extending the essential provisions of the SCRSP and adding clarifications. The SCRSP establishes how the LGERS Board will develop an annual appropriation amount to recommend to the General Assembly to fund the FRSWPF through the fiscal year ending in 2027. It further describes when benefit increases, and member contribution increases will be considered and recommended. As a result of this policy, the Board's recommendation for the annual General Fund contribution to the FRSWPF will increase each year by a minimum of $350,000.

Component Unit

The State Health Plan for Teachers and State Employees (the "State Health Plan,", the "Plan," or "SHP")

2022 Benefit Plan Options

In 2022, active employees and pre-65 retirees can choose between two self-insured plans: the 80/20 PPO Plan ("80/20 Plan") or the 70/30 PPO Plan ("70/30 Plan"). There have been minor benefit design changes that are not expected to have a measurable cost impact to the Plan.

Active members and non-Medicare retirees enrolled in both the 80/20 and 70/30 Plans will still be asked to attest to being a non-tobacco user or to participate in a tobacco cessation program. The 70/30 Plan remains premium-free for non-Medicare retirees, and those members are not required to complete the smoking attestation. Members who do not complete the attestation or who use tobacco and are unwilling to participate in a cessation program will pay an additional $60 per month. The tobacco cessation program will be administered through medical claims and members can receive these services from any medical provider. The tobacco cessation attestation can be verified prior to the beginning of 2022 so members do not pay the additional contribution.

For Medicare retirees, the State Health Plan will continue to offer two fully insured Medicare Advantage products with integrated prescription drug plans ("MA-PDPs") and a self-insured 70/30 PPO Plan. Effective 2021, the MA-PDP will be administered through an agreement with Humana, Inc. ("Humana").

Humana offers a standard "base" MA-PDP and an "enhanced" MA-PDP that members may select for an additional monthly premium charge. The benefit design for the 2023 base MA-PDP and enhanced MA-PDP offerings have not changed from 2022. The 2021 premium negotiated during the "Request for Proposal" Process resulted in a $0 premium to be charged for members and significant reductions for dependents to enroll in the base plan. This equates to significant savings to the State Health Plan as well as a savings to retirees with covered dependents.

2022 Employee Premiums

Under the Treasurer's leadership, the Board of Trustees of the State Health Plan approved employee and retiree premium rates to remain at their current levels effective January 1, 2022. This decision was made after a significant increase in 2022 contributions and an expected savings from the upcoming PBM contract effective January 1, 2023. The General Assembly passed legislation in November 2021 regarding contributions to be paid by employers and the Retiree Health Benefit Fund for fiscal year 2022 and 2023. Within that legislation, the structure of contributions was changed so that employing units had one rate and retirees had a different rate (compared to the previous structure of separate rates for non-Medicare and Medicare members). The fiscal year 2023 rates passed by the General Assembly caused a decrease of 9.7% in 2023 contributions for active employees paid by employers but an increase in contributions for retirees of 23.9%. The contributions for the High Deductible Health Plan, which is available to nonpermanent full-time employees to comply with the ACA, will also decrease at the same percentage as active rates in 2023. MA-PDP dependent rates will remain at $4 PMPM ("per member per month"), and MA-PDP enhanced plan rates will remain at current levels for members and their dependents.

The Clear Pricing Project ("CPP") was established in 2018. Phase I of CPP was implemented for the 2020 Plan year and is complete. Phase I was a large-scale effort to migrate all providers serving SHP members to Reference-Based Pricing. Phase II of CPP is in process and consists of working with the current State Health Plan Network providers that signed on for CPP. These are capable independent providers that are working with the Plan to develop payment reform through alternative payment models. These models will provide opportunities to improve quality, ensure better health outcomes, and control costs for the Plan and its Members. Phase III of CPP will occur in the future and will be based on the successes and findings of the independent pilots in Phase II. The Plan also expects to work with hospitals to develop DRG ("Diagnostic Related Groups")/Episode payments based on Reference-Based Pricing in Phase III.

Recently Enacted Legislation

State law establishes the maximum allowable premium allowed to be charged to employers. North Carolina Session Law 2021-180 appropriated the maximum allowable premium charged to employers and the RHBF for the year ending 2023 in the amounts of $7,397 per employee and $5,118 per retiree. There was a significant increase in these rates to make up for the previous reduction from Session Law 2020-41 and Session Law 2020-45. Because the Plan sets rates on a calendar year basis instead of a fiscal year, there was a significant increase in the rates charged to employing units for their active employees in 2022 but a reduction in 2023. Conversely, retiree premiums decreased in 2022 but will increase in 2023.

On December 20, 2019, the President of the United States signed into law the federal bill titled H.R. 1865, the "Further Consolidated Appropriations Act, 2020" (Public Law No. 1116-94). H.R. 1865 was the year-end omnibus bill for 2019, and it dealt with far-ranging matters from funding the federal government to reauthorizing Medicare extenders and other political priorities. Of note to the State Health Plan, H.R. 1865 also changed certain federal requirements created by the Affordable Care Act. Specifically, H.R. 1865 repealed the excise tax on high-cost employer-sponsored health coverage that was going to take effect in 2022, and it also repealed the Health Insurance Provider Fee, which otherwise would have been effective in 2021.

Again, as noted above, North Carolina Session Law 2017-57, Section 35.21.(c), limited retirement health benefits to members who have earned contributory retirement service (and did not withdraw that service) prior to January 1, 2021.

Major Contracts

In March 2020, the SHP Board of Trustees approved a contract with Blue Cross Blue Shield of North Carolina ("BCBSNC") to provide Third Party Administrator ("TPA") Services beginning January 1, 2022. The TPA contract, which is currently held by BCBSNC, is SHP's largest and one of its most important contracts. Implementation with BCBSNC began on January 1, 2022, immediately after approval of the contract and will go through December 2024. After a

"Request for Proposal" process for TPA services commencing on January 1, 2025, concluded in late 2022, the Board of Trustees awarded the contract to Aetna. Implementation activities have begun and are ongoing until the January 1, 2025 go-live date.

The State Health Plan began a new contract with CVS Caremark to provide Pharmacy Benefit Manager ("PBM") services effective January 1, 2023. CVS Caremark was also the previous PBM provider to the State Health Plan. This new contract is expected to provide a significant savings for the Plan over the current contract with greater guaranteed discounts on prescription costs and increased guaranteed rebates. The upcoming contract is guaranteed through December 31, 2025, with two more optional years after the initial period.

As noted above, in March 2020, the SHP Board of Trustees approved a contract with Humana to provide fully insured Medicare Advantage with Prescription Drug coverage to retirees effective January 2021. The contract provides eligible Medicare subscribers a $0 premium as well as significant reductions in dependent premiums.

Another major contract is with Benefitfocus, which is SHP's vendor for eligibility and enrollment services. A new contract was entered into with Benefitfocus in September 2020 for the 2021-2023 calendar years with two separate one-year extensions available to the Plan.

FINANCIAL STATEMENTS

North Carolina Department of State Treasurer
Balance Sheet
Governmental Funds
As of June 30, 2022 ***Exhibit A-1***

(Dollars in Thousands)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds[1]	Total
ASSETS					
Cash and Cash Equivalents (Note 2)	$ 7,144	$ 828,268	$ 0	$ 561	$ 835,973
Investments		321,305	162,132	2,880	486,317
Securities Lending Collateral	75	28,356		10	28,441
Receivables:					
Accounts Receivable	2				2
Intergovernmental Receivables	222				222
Interest Receivable	1	429	69	2	501
Contributions Receivable	77				77
Inventories	99				99
Due from Other Funds	32				32
Due from Component Unit	10				10
Total Assets	7,662	1,178,358	162,201	3,453	1,351,674
DEFERRED OUTFLOWS OF RESOURCES					
Forward Funded State Aid		37,287			37,287
Total Assets and Deferred Outflows of Resources	$ 7,662	$ 1,215,645	$ 162,201	$ 3,453	$ 1,388,961
LIABILITIES					
Accounts Payable	$ 545	$ 200	$ 29	$ 2	$ 776
Obligations under Securities Lending	75	28,356		10	28,441
Escheat Claims Payable		100,000			100,000
Total Liabilities	620	128,556	29	12	129,217
DEFERRED INFLOWS OF RESOURCES	0	0	0	0	0
FUND BALANCES (Note 8)					
Nonspendable	99				99
Restricted		1,087,089	162,172	2,880	1,252,141
Committed	7,181			561	7,742
Unassigned	(238)				(238)
Total Fund Balances	7,042	1,087,089	162,172	3,441	1,259,744
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 7,662	$ 1,215,645	$ 162,201	$ 3,453	$ 1,388,961

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

[1]See supplementary Exhibit I-1 for detailed information of each fund within Other Governmental Funds

North Carolina Department of State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2022 ***Exhibit A-2***

(Dollars in Thousands)

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds[(1)]	Total
REVENUES					
Funds Escheated	$ 0	$ 137,760	$ 0	$ 0	$ 137,760
Fees	8,968				8,968
Services	9,621				9,621
Administrative Cost Reimbursements	7,827				7,827
Contributions	2,685				2,685
Investment Earnings (Loss)	5	(1,632)	256	7	(1,364)
Interest Earnings on Loans	48				48
Revenues from Other State Agencies (Note 9)	654,770	33			654,803
Loan Collection of Principal	458				458
Reimbursement of Expenditures from Investment Pool	7,404				7,404
Miscellaneous Revenue	20				20
Total Revenues	691,806	136,161	256	7	828,230
EXPENDITURES					
State Aid	30,384	37,287			67,671
Contracted Services	1,128	2,195	149	4	3,476
Personal Services	19,746	1,066			20,812
Employee Benefits	6,568	512			7,080
Supplies and Materials	91	36			127
Travel	43	3			46
Communication	182	27			209
Utilities	198				198
Data Processing Services	414	15			429
Other Services	103	166			269
Claims and Benefits	3,200				3,200
Debt Service:					
Principal Retirement	648,711				648,711
Interest and Fees	174,367		18		174,385
Debt Issuance Costs	439				439
Other Fixed Charges	2,641	3			2,644
Capital Outlay	500	41			541
Insurance	39	25			64
Other Expenditures	5	12			17
Expenditures to Other State Agencies (Note 9)	11,285	27,256	47,559		86,100
Total Expenditures	900,044	68,644	47,726	4	1,016,418
Excess Revenues Over (Under) Expenditures	(208,238)	67,517	(47,470)	3	(188,188)
OTHER FINANCING SOURCES (USES)					
State Appropriations	36,984				36,984
Refunding Bonds Issued	132,025				132,025
Premiums on Bonds Issued	26,218				26,218
Transfers In (Note 10)	10,913				10,913
Transfers Out (Note 10)		(913)	(10,000)		(10,913)
Total Other Financing Sources (Uses)	206,140	(913)	(10,000)	0	195,227
Net Change in Fund Balances	(2,098)	66,604	(57,470)	3	7,039
Fund Balances - July 1	9,140	1,020,485	219,642	3,438	1,252,705
Fund Balances - June 30	$ 7,042	$ 1,087,089	$ 162,172	$ 3,441	$ 1,259,744

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

[(1)]See supplementary Exhibit I-2 for detailed information of each fund within Other Governmental Funds

North Carolina Department of State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2022

Exhibit B-1

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds[1]	Custodial Funds[2]	Total
ASSETS			
Cash and Cash Equivalents	$ 1,507,864	$ 58,396	$ 1,566,260
Investments:			
Collective Investment Funds	42,720		42,720
Unallocated Insurance Contracts	248,085		248,085
Synthetic Guaranteed Investment Contracts	2,094,529		2,094,529
State Treasurer Investment Pool	111,735,263	1,690,835	113,426,098
Non-State Treasurer Pooled Investments	13,982,421		13,982,421
Securities Lending Collateral	1,149,726	35,585	1,185,311
Receivables:			
Accounts Receivable, Net (Note 4)	32,020		32,020
Interest Receivable	883	704	1,587
Contributions Receivable	201,416		201,416
Due from Other Funds	100,208		100,208
Due from Component Units	34,549		34,549
Notes Receivable	278,952		278,952
Total Assets	131,408,636	1,785,520	133,194,156
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable	2,123	996	3,119
Benefits Payable	6,448		6,448
Obligations under Securities Lending	1,149,726	35,585	1,185,311
Funds Held for Others	6,085		6,085
Total Liabilities	1,164,382	36,581	1,200,963
NET POSITION			
Restricted for:			
Pension Benefits	124,718,029		124,718,029
Postemployment Benefits	3,088,485		3,088,485
Pool Participants		1,232,439	1,232,439
Individuals, Organizations, and Other Governments		516,500	516,500
Other Employment Benefits	2,437,740		2,437,740
Total Net Position	$ 130,244,254	$ 1,748,939	$ 131,993,193

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

[1] See supplementary Exhibit J-1 for detailed information of each Pension and Other Employee Benefit Trust Fund

[2] See supplementary Exhibit J-3 for detailed information of each Custodial Fund

North Carolina Department of State Treasurer
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2022 — *Exhibit B-2*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds[1]	Custodial Funds[2]	Total
ADDITIONS			
Contributions:			
Employer	$ 5,169,112	$ 0	$ 5,169,112
Members	2,048,002		2,048,002
Other Contributions	241,504		241,504
Total Contributions	7,458,618	0	7,458,618
Investment Income (Loss):			
Investment Income (Loss)	(6,288,098)	(92,577)	(6,380,675)
Less Investment Expenses	(597,881)	(161)	(598,042)
Net Investment Income (Loss)	(6,885,979)	(92,738)	(6,978,717)
Pool Share Transactions:			
Reinvestment of Dividends		(92,854)	(92,854)
Net Share Purchases (Redemptions)		330,310	330,310
Net Pool Share Transactions	0	237,456	237,456
Other Additions:			
Fees and Fines	2,476		2,476
Interest Earnings on Loans	15,119		15,119
Miscellaneous	5,194	4	5,198
Total Other Additions	22,789	4	22,793
Total Additions	595,428	144,722	740,150
DEDUCTIONS			
Claims and Benefits	7,939,528		7,939,528
Medical Insurance Premiums	1,044,104		1,044,104
Refund of Contributions	199,597		199,597
Distributions Paid and Payable		(92,854)	(92,854)
Administrative Expenses	34,119		34,119
Other Deductions	618		618
Total Deductions	9,217,966	(92,854)	9,125,112
Change in Net Position	(8,622,538)	237,576	(8,384,962)
Net Position - July 1	138,866,792	1,511,363	140,378,155
Net Position - June 30	$ 130,244,254	$ 1,748,939	$ 131,993,193

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

(1) See supplementary Exhibit J-2 for detailed information of each Pension and Other Employee Benefit Trust Fund
(2) See supplementary Exhibit J-4 for detailed information of each Custodial Fund

North Carolina Department of State Treasurer
Statement of Net Position
Component Unit - State Health Plan
As of June 30, 2022 *Exhibit C-1*

(Dollars in Thousands)

ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$	850,101
Securities Lending Collateral		28,465
Receivables:		
Rebates Receivable		131,294
Accounts Receivable		8,110
Intergovernmental Receivables		3,209
Interest Receivable		520
Premiums Receivable		80
Other Receivables		1,155
Total Current Assets		1,022,934
Noncurrent Assets		
Net Other Postemployment Benefits Asset (Note 15)		3
Total Assets		1,022,937
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions (Note 12)		1,180
Deferred Outflows Related to Other Postemployment Benefits (Note 15)		2,551
Total Deferred Outflows of Resources		3,731
LIABILITIES		
Current Liabilities		
Accounts Payable		23,156
Intergovernmental Payables		1,630
Obligations Under Securities Lending		28,465
Medical Claims Payable		409,058
Compensated Absences (Note 6)		63
Unearned Revenue		48,199
Total Current Liabilities		510,571
Noncurrent Liabilities		
Compensated Absences (Note 6)		512
Net Pension Liability (Note 6)		1,018
Net Other Postemployment Benefits Liability (Note 6)		5,760
Total Noncurrent Liabilities		7,290
Total Liabilities		517,861
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions (Note 12)		1,411
Deferred Inflows Related to Other Postemployment Benefits (Note 15)		2,216
Total Deferred Inflows of Resources		3,627
NET POSITION		
Unrestricted		505,180
Total Net Position	$	505,180

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

North Carolina Department of State Treasurer
Statement of Revenues, Expenses, and Changes in Net Position
Component Unit - State Health Plan
For the Fiscal Year Ended June 30, 2022 *Exhibit C-2*

(Dollars in Thousands)

REVENUES	
Operating Revenues	
Insurance Premiums	$ 3,839,131
Medical Insurance Rebate	103,022
Total Operating Revenues	3,942,153
EXPENSES	
Operating Expenses	
Personal Services	3,889
Employee Benefits	1,274
Supplies and Materials	16
Contracted Services	130,137
Travel	9
Communication	33
Data Processing Services	59
Affordable Care Act Expenses	1,630
Other Services	766
Claims	3,842,672
Insurance	14,243
Other Fixed Charges	54
Total Operating Expenses	3,994,782
Operating Loss	(52,629)
NONOPERATING REVENUES (EXPENSES)	
Pharmacy Subsidies	13,340
State Aid - Coronavirus	215,056
Investment Earnings	1,929
Noncapital Contributions	35
Grants, Aid and Subsidies	(172,023)
Total Nonoperating Revenues	58,337
Increase in Net Position	5,708
Net Position - July 1	499,472
Net Position - June 30	$ 505,180

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

North Carolina Department of State Treasurer
Statement of Cash Flows
Component Unit - State Health Plan
For the Fiscal Year Ended June 30, 2022 — *Exhibit C-3*

(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	3,820,397
Payments to Suppliers		(154,469)
Payments to Employees		(5,500)
Payments for Claims		(3,736,884)
Payments from Rebates		103,022
Net Cash Provided by Operating Activities		26,566
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Receipts		12,996
Grants, Aid and Subsidies		(172,023)
State Aid - Coronavirus		215,056
Net Cash Provided by Noncapital Financing Activities		56,029
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings		1,600
Net Increase in Cash and Cash Equivalents		84,195
Cash and Cash Equivalents at July 1		765,906
Cash and Cash Equivalents at June 30	$	850,101
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$	(52,629)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Change in Assets and Deferred Outflows of Resources:		
Receivables		(39,608)
Net Other Postemployment Asset		7
Deferred Outflows Related to Pensions		89
Deferred Outflows Related to Other Postemployment Benefits		409
Change in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(7,522)
Compensated Absences		8
Unearned Revenue		17,389
Medical Claims Payable		109,274
Net Pension Liability		(1,797)
Net OPEB Liability		357
Deferred Inflows Related to Other Postemployment Benefits		(787)
Deferred Inflows Related to Pensions		1,376
Net Cash Provided by Operating Activities	$	26,566
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	$	673
Changes in Securities Lending Collateral		28,456
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions		(35)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Organization** - The North Carolina Department of State Treasurer (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department serves the people of North Carolina through a variety of functions related to the financial health of the State and its citizenry. The State Treasurer serves as the State's banker and chief investment officer. The Department administers the public employee retirement systems, as well as the 401(k) and 457 plans for public employees. The Department provides financial assistance and expertise to local government units by assisting them in the sale of local government debt obligations and in maintaining good budgeting, accounting, reporting, and other fiscal procedures. The Department oversees the State Health Plan, which provides health care coverage to teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, and their dependents. It also administers NC Cash, the unclaimed property database. The Department issues conduit debt for qualified entities through the North Carolina Capital Facilities Finance Agency.

B. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report.*

   The accompanying financial statements present all funds belonging to or under the stewardship of the Department, in addition to the State's component unit under the stewardship of the Department. The Department's accounts and transactions are included in the State's *Annual Comprehensive Financial Report* as part of the State's governmental funds, fiduciary funds, and component units.

   Fiduciary Component Units - The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans are reported as fiduciary component units in the fiduciary fund financial statements (Exhibits J-1 through J-4). These plans operate under the stewardship of the department. See notes 11 (Pension Plans), 13 (Deferred Compensation Plans) and 14 (Other Postemployment Benefit Plans) for detailed descriptions of the plans.

   Discretely Presented Component Unit - The State Health Plan is a legally separate entity under the stewardship of the Department and is reported as a discretely presented component unit based on the nature and significance of its relationship to the State.

   The State Health Plan is a legally separate organization established to provide medical and pharmacy benefits to employees and retirees of the State, most of the State's component units, and local boards of education. The State Health Plan is governed by a ten-member board of trustees including the State Treasurer, an ex officio member who serves as chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the General Assembly. Health benefit programs and premium rates are recommended by the State Treasurer and approved by the board of trustees.

The State Health Plan does not issue separate financial statements. The statement of net position, statement of changes in net position, and the statement of cash flows of the State Health Plan are included in these statements but shown separately as it is considered to be a legally separate entity.

C. **Basis of Presentation** - The Department's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP for government entities. The financial statements are prepared according to GAAP as follows:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 84, Fiduciary Activities, require the presentation of both government-wide and fund level financial statements. See below for a description of each fund. The financial statements presented are governmental funds of the Department, the State's component unit under the stewardship of the Department, and the fiduciary fund financial statements under the stewardship of the Department. Because the Department is not a separate entity, government-wide financial statements are not prepared.

The financial statements are presented as of and for the fiscal year ended June 30, 2022, except for the North Carolina Deferred Compensation Plan and the 401(k) Supplemental Retirement Income Plan whose statements are as of and for the year ended December 31, 2021.

The fund financial statements provide information about the Department's funds, including the State's fiduciary funds. Separate statements for each governmental and fiduciary fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The Department's financial statements consist of the following major governmental funds:

General Fund - This is the Department's primary operating fund. It accounts for all financial resources of the Department, except those required to be accounted for in another fund.

Escheats Fund - General Statute 116B established the escheats fund, a special revenue fund which accounts for all funds received by the Department as escheated or abandoned property and which were transferred to the State under a 1971 state law.

Debt Proceeds and Interest Fund - This fund accounts for funds received from debt transactions and any interest earned on those debt transactions prior to being expended.

Additionally, the Department's financial statements consist of the following fiduciary fund types:

Pension and Other Employee Benefits Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the defined benefit pension plans, defined contribution pension plans, Internal Revenue Code Section 457 plan, death benefit plan, disability income plan, and retiree health benefit fund.

Custodial Funds - These funds account for the external portion of the Investment Pool sponsored by the Department, the Equity Index Investment Account, the External Bond Index Investment Pool, and individual investment accounts held by the Department. Resources are also held in trust for other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

D. Measurement Focus and Basis of Accounting

Governmental Funds - Governmental fund financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, except for compensated absences, workers' compensation, and financing agreements, which are recognized as expenditures when payment is due. Pension and other postemployment benefits (OPEB) contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

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

Fiduciary Funds - Fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. These balances do not belong to the Department and are not considered to be assets or liabilities of the Department.

Component Unit - The State Health Plan financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the Department receives (or gives) value without directly giving (or receiving) equal value in exchange, includes investment earnings (or losses), state appropriations, and escheated property. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

The preparation of financial statements, in conformity with GAAP, requires management of the Department to make estimates and judgments that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and the disclosures and contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Actual results could differ from those estimates. Should actual results differ from those estimates, changes will flow through the financial statements during the year of change and will be disclosed, if material.

E. Cash and Cash Equivalents - This classification includes undeposited receipts and deposits held by the State Treasurer in the Short-term Investment Fund (STIF), a portfolio within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool); and demand and time deposits with private financial institutions, excluding certificates of deposit. The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

F. Investments - This classification includes deposits held by the State Treasurer in certain investment portfolios as well as investments held separately by a fiscal agent for the Escheats Fund. Investments are generally reported at fair value, with significant exceptions for repurchase agreements and certain money market mutual funds reported at cost. Fully benefit responsive synthetic guaranteed investment contracts and unallocated insurance contracts that are nonparticipating interest-earning investment contracts are reported at contract value.

The net increase (decrease) in the fair value of investments is recognized as a component of investment income. Additional information regarding investments is provided in Note 2.

G. Securities Lending - Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value with the exception of repurchase agreements, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement.

H. Receivables - Receivables consist of amounts that have arisen in the ordinary course of business.

Accounts receivable for the fiduciary funds primarily consist of amounts due from plan members in connection with overpayments of benefits, and are recorded net of estimated uncollectible amounts. Accounts receivable is reported net on the face of the fiduciary funds' financial statements.

Intergovernmental receivables include amounts due from the federal government and county and local governments with no provision for doubtful accounts.

Contributions receivable include amounts due to the fiduciary funds from both employers and employees related to June payrolls. Contributions receivable are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Notes receivable for the fiduciary funds include amounts due from Supplemental Retirement Plans participants in connection with loans from their individual accounts. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the respective Plan. Accordingly, no allowance for doubtful accounts has been recorded.

Rebates receivable for the State Health Plan include the drug manufacturer rebates earned from drug sales that occurred during the year. The State Health Plan contracts with a pharmacy benefit manager to collect the drug manufacturer rebates. Rebates are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

I. Inventories - Inventories, consisting of postage and general office supplies and materials, are valued at cost using the first-in, first-out (FIFO) method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

J. Payables

Escheat Claims Payable - For the governmental funds, escheat claims payable represent the amount of escheated property the Department expects to return to owners in the subsequent year. The Department's policy to estimate the escheat claims payable each year is based on payment trends for the past two to three years, anticipated changes in staffing, program outreach or other operational changes that would impact the number of claims presented for payment, and how quickly the Department can pay those claims.

Funds Held for Others - For fiduciary funds, funds held for others represent the amount of pension payments the Department expects to pay to eligible recipients.

Medical Claims Payable - The State Health Plan annually estimates medical and pharmacy claims payable representing medical services incurred by eligible participants in the current fiscal year but were not yet submitted for reimbursement by the provider and therefore still considered a payable to providers as of June 30. This liability is also known as Incurred But Not Reported (IBNR).

K. Long-Term Liabilities - General long-term liabilities for the governmental funds are not recognized in the governmental fund until they become due. Consequently, the general long-term liabilities not yet due are not reported on the face of the governmental funds' financial statements, but are disclosed in Note 6 of the Department's Notes to the

Financial Statements. For the State Health Plan, long-term liabilities are reported on the face of the State Health Plan's financial statements and disclosed in Note 6.

Noncurrent long-term liabilities include workers' compensation, death benefits payable, leases payable, net pension liability, net OPEB liability, and compensated absences that will not be paid within the next fiscal year.

Workers' Compensation - The workers' compensation liability represents the Department's obligation to pay for workers' compensation claims and are recognized when probable and reasonably estimated.

Death Benefits Payable - The death benefits payable represents the Department's obligation to pay for law-enforcement officers', firefighters', rescue squad workers', and civil air patrol members' line of duty death benefits to applicable beneficiaries.

Net Pension Liability - The net pension liability represents the Department's and State Health Plan's proportionate shares of the collective net pension liability reported in the State of North Carolina's 2021 *Annual Comprehensive Financial Report.* These liabilities represent the Department's and State Health Plan's portions of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Notes 11 and 12 for further information regarding the Department's and State Health Plan's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

Net OPEB Liability - The net OPEB liability represents the Department's and State Health Plan's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2021 *Annual Comprehensive Financial Report.* These liabilities represent the Department's and State Health Plan's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. See Notes 14 and 15 for further information regarding the Department's and State Health Plan's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

Compensated Absences - Employees of the Department and State Health Plan are permitted to accumulate earned but unused vacation pay benefits. In the proprietary funds, all vacation pay is accrued when incurred. When determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In the governmental fund, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. Consequently, compensated absence balances are not reported on the face of the governmental fund financial statements but are reported in the Notes to the Financial Statements.

The Department's and State Health Plan's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. In addition, accumulated vacation leave in excess of 30 days at calendar year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30. When determining the vacation pay liability due within one year, leave is considered taken on a last-in, first-out (LIFO) basis.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the 30-day limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Department and State Health Plan have no obligation to pay sick leave upon employee termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

Bonds - The Department provides administrative services for bond issuance and bond payments. The Department receives no direct benefit from the proceeds, which are distributed at the discretion of the Office of State Budget and Management, or through legislation for the benefit of the State and its component units. The administrative functions include payment of debt services, issuing debt, recording initial bond issuance premiums and discounts as well as payments to debt escrow agents.

L. Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet and statement of net position report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Department and State Health Plan have the following items that qualify for reporting in this category: forward funded state aid (i.e., state aid transmitted to the State Education Assistance Authority that cannot be spent until a future period, but all other eligibility requirements, if any, have been met), and deferred outflows for pensions and other postemployment benefits (i.e., difference between actual and expected experience, net difference between projected and actual earnings on plan investments, change in proportion, differences between employer's contributions and proportional share of contributions, and contributions subsequent to the measurement date).

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The State Health Plan has the following items that qualify for reporting in this category: deferred inflows related to other postemployment benefits and deferred inflows for pensions. These represent the difference between actual and expected experiences, changes of assumptions, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions.

M. Fund Balance/Net Position

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

Nonspendable Fund Balance - These amounts cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - These amounts have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Committed Fund Balance - These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

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

Expenditures are considered to be made from the most restrictive resource (i.e., restricted, committed, and unassigned in that order) when more than one fund balance classification is available for use.

Net Position - Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions. Constraints placed on net position use by enabling legislation are not reported as net position restrictions since such constraints are not legally enforceable. Legal enforceability means that the State Health Plan can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net position is presented as unrestricted.

Restricted and unrestricted resources are tracked separately. When both restricted and unrestricted funds are available for expenditure, the decision for funding is determined by management on a case-by-case basis.

Net position for the fiduciary funds represents the total amount restricted to pay retirement allowances and other postemployment benefits to retired teachers and State employees of the State of North Carolina.

Net position for the State Health Plan is classified as follows:

Unrestricted - This represents the funds received through premiums, fees, charges, rebates, refunds or any other receipts that will be used for the payment of hospital and medical benefits. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

N. Revenues and Expenditures from/to Other State Agencies - Revenues and expenditures from/to other state agencies for the governmental funds represent amounts that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures represent nonexchange transactions and are eliminated at the statewide reporting level in the State's *Annual Comprehensive Financial Report*. Additional information regarding revenues and expenditures from/to other state agencies is disclosed in Note 9.

O. Revenues and Expenses - The State Health Plan distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the State Health Plan's principal ongoing operations. Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. These revenues include insurance premiums. Nonoperating revenues, such as grants, aids and subsidies, pharmacy subsidies and rebates and investment earnings, result from nonexchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer - Unless specifically exempt, the Department is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the State's reporting entity are also allowed to invest money with the State Treasurer. Expenditures for the primary government and certain component units are made by wire transfers, ACH transactions, and warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these transactions each day. General Statute 147-69.1, authorizes the State Treasurer to invest all deposits in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

At June 30, 2022, the governmental funds' Balance Sheet reported cash and cash equivalents of $836 million. The fiduciary funds' Statement of Fiduciary Net Position reported cash and cash equivalents of $1.6 billion. The State Health Plan's Statement of

Net Position reported cash and cash equivalents of $850.1 million for the same date. These amounts represent the equity position in the State Treasurer's Short-Term Investment Fund (STIF). See below for STIF disclosures.

At June 30, 2022, the governmental funds' Balance Sheet reported pooled investments of $126.3 million, The fiduciary funds' Statement of Fiduciary Net Position reported pooled investments of $113.4 billion. These amounts represent the equity position in the State Treasurer's External Investment Pool, Bond Index External Investment Fund (BIF), and Equity Index Investment Account. See below for External Investment Pool, Bond Index Fund and Equity Index Investment Account disclosures.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund (collectively referred to as the pension and OPEB trust funds in this note), the Register of Deeds' Supplemental Pension Fund, the Disability Income Plan of N.C., the Escheat Fund, the State Public Education Property Insurance Fund, the Local Government Other Post-Employment Benefits (OPEB) Trust, public hospitals, local government Law Enforcement Officer Special Separation Allowance (LEOSSA) trusts, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension and OPEB trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool – To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for other investment programs, is maintained in the External Investment Pool (Pool). Other investment programs may include the public hospitals, certain investments of the Escheat Fund, certain investments of other funds and component units of the reporting entity, the Local Government OPEB Trust, local government LEOSSA trusts, and bond proceeds investment accounts. This pool, a governmental sponsored external investment pool, consists of the following individual investment portfolios:

Short-term Investment - This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the State's General Fund, Highway Fund, Highway Trust Fund, and the remaining portfolios listed below. Other participants include universities and various boards, commissions, community colleges, the Local Government OPEB Trust, and school administrative units that make voluntary deposits with the State Treasurer.

Long-term Investment - This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher yield than those held in the Short-term Investment portfolio. The State’s pension and OPEB trust funds are the sole participants in this portfolio.

Fixed Income Investment - This portfolio holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. The State's pension and OPEB trust funds are the sole participants in this portfolio.

Equity Investment - This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily holds an equity-based trust. The State's pension and OPEB trust funds are the sole participants in this portfolio.

Real Estate Investment - This portfolio holds investments in real estate-based trust funds, limited partnerships and other limited liability investment vehicles, and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Alternative Investment - This portfolio holds investments in various limited partnerships and limited liability companies, hedge funds, U.S. Treasuries, and equities, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Opportunistic Fixed Income Investment - This portfolio may hold investments in debt-related strategies made primarily through limited partnerships or other limited liability vehicles as defined by General Statute 147-69.2(b)(6c). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Inflation Sensitive Investment - This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation made primarily through limited partnerships, other limited liability vehicles, or fixed income securities managed pursuant to General Statute 147-69.2(b)(9a). The State's pension and OPEB trust funds are the sole participants in this portfolio.

All of the preceding investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed previously. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the External Investment Pool. The External Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

The External Investment Pool is included in the North Carolina Department of State Treasurer Investment Programs (State Treasurer Investments) separate report. This separately issued report can be obtained from the North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604, or can be accessed from the

Department of State Treasurer – Investment Management Division internet page at https://www.nctreasurer.com/investment-management-division/imd-reports in the Audited Financial Statements section.

At year-end, the condensed financial statements for the External Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Fiduciary Net Position *
As of June 30

Assets	
Cash and Cash Equivalents	$ 416,052
Securities Lending Collateral	2,465,317
Investments, at Fair Value	150,334,455
Receivables	411,524
Total Assets	153,627,348
Liabilities	
Other Payables	180,155
Obligations under Securities Lending	2,465,317
Total Liabilities	2,645,472
Net Position	
Net Position Held in Trust	$ 150,981,876

* The Condensed Financial Statements for the External Investment Pool contain deposits from internal and external participants, including the State's defined benefit pension plans maintained by the Department. For more information on the equity ownership of the External Investment Pool, see supplementary schedule L-1.

Statements of Changes in Fiduciary Net Position*
Fiscal Year Ended June 30

Additions	
Investment income	
Interest and dividend income	$ 1,802,776
Net appreciation (depreciation) in fair value of investments	(10,413,359)
Other investment income	661,130
Less: Investment management expenses	(557,904)
Total net investment income (loss)	(8,507,357)
Securities lending activity	
Securities lending income	10,618
Less: Securities lending expenses (rebates)	694
Net securities lending income	9,924
Reinvestment of distributions	(8,577,759)
Net share purchases	6,335,483
Net pool share transactions	(2,242,276)
Total additions	(10,739,709)
Deductions	
Distributions paid and payable	(8,553,889)
Administrative and other expenses	56,456
Total deductions	(8,497,433)
Distributions to participants	
Change in net position	(2,242,276)
Net position held in trust:	
Beginning of year	153,224,152
End of year	$ 150,981,876

* See Exhibit M-1

The external portion of the External Investment Pool is presented in Exhibits J-3 and J-4 as a custodial fund. Each fund and component unit's share of the internal equity in the External Investment Pool is reported as an asset of those funds or component units. Equity in the Short-term Investment portfolio (STIF) is reported as cash and cash equivalents while equity in the Long-term Investment (LTIF), Equity Investment, Real Estate Investment, Fixed Income Investment, Opportunistic Fixed Income Investment, Inflation Sensitive Investment, and Alternative Investment portfolios, is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions.

In the Pool, fair values are determined daily for the LTIF and Equity Investment portfolios, and quarterly for the Real Estate Investment and Alternative Investment portfolios. The Opportunistic Fixed Income Investment portfolio is valued quarterly except for hedge fund investments which are valued monthly. The Inflation Sensitive Investment portfolio consists primarily of limited partnerships which are valued quarterly. It also contains futures and fixed income securities which are valued daily or monthly. In the LTIF portfolio, the fair value of fixed income securities is calculated by a third-party pricing vendor based on future principal and interest payments discounted using market yields.

For the Alternative Investment portfolio (private equity investment partnerships and hedge funds), the Real Estate Investment portfolio (limited partnerships and other investments), the Opportunistic Fixed Income Investment and Inflation Sensitive Investment portfolios (limited partnerships, hedge funds, and other non-publicly traded investments), the methodology for determining an estimated fair value is established by the general partner, which may utilize a third-party pricing source or an independent real estate appraiser. Contracts with these partnerships, hedge funds, and other investments require an annual audit, except for certain older investments that are immaterial to the financial statements. The general partners' estimated fair values are based on the partnership's and fund's respective net asset values (NAV). The most significant input into the NAV of such an entity is the fair value of its holdings. These non-publicly traded assets are valued at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. The fair values of certain investments may require significant management judgment or estimation. Fair value is determined using the best information available for a hypothetical transaction at the measurement date, not using forced sale or fire sale pricing. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values. Additional investment valuation information is provided in Note 1.

Net investment income earned by the External Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the State's General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2022, $45.14 million of investment income associated with other funds was credited to the General Fund.

Deposits – *Custodial Credit Risk*. For deposits, custodial credit risk is the risk that in the event of a bank failure, deposits may not be recovered. As of June 30, 2022, the External Investment Pool's deposits had no exposure to custodial credit risk.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the *North Carolina Administrative Code* (Chapter 20 NCAC 7). Deposits to the External Investment Pool may be made in any bank, savings and loan association, or trust company in the State as approved by the State Treasurer. The *North Carolina General Statute* 147-79 requires depositories to collateralize all balances that are not insured by the Federal Deposit Insurance Corporation (FDIC). The depositories must maintain specified security types in a third-party escrow account established by the State Treasurer. The collateral securities must be governmental in origin (e.g. U.S. Treasury, U.S. agency, Federal Home Loan Bank letters of credit, or state and local government obligations) or the highest-grade commercial paper, surety bonds and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

All deposits are cash and cash equivalents. As of June 30, 2022, the balance of the Pool's deposits was $416.1 million, and the amount of restricted cash held by the Pool was $79.1 million.

Investments

The External Investment Pool maintained by the Department had the following investments and maturities in the STIF as of June 30, 2022 (dollars in thousands):

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 37,257,693	$ 30,421,218	$ 6,836,475	$ 0	$ 0
U.S. Agencies	13,150,000	500,000	12,650,000		
Securities Purchased with Cash Collateral under Securities Lending Program					
Repurchase Agreements	1,664,160	1,664,160			
Money Market Mutual Funds	149,729	149,729			
Repurchase Agreements	2,450,000	2,450,000			
Total Short-Term Investment Fund Assets	$ 54,671,582	$ 35,185,107	$ 19,486,475	$ 0	$ 0

The External Investment Pool maintained by the Department had the following investments and maturities in the LTIF as of June 30, 2022 (dollars in thousands):

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 6,008,878	$ 0	$ 1,925,942	$ 1,498,204	$ 2,584,732
U.S. Agencies	654,467			319,579	334,888
Mortgage Pass-Throughs	9,583,184	45	1,410	20,511	9,561,218
Domestic Corporate Bonds	9,090,871	19,430	1,284,501	3,489,713	4,297,227
Foreign Government Bonds	6,630			6,630	
Securities Purchased with Cash Collateral under Securities Lending Program					
Repurchase Agreements	392,904	392,904			
Money Market Mutual Funds	26,400	26,400			
Total Long-Term Investment Fund Assets	$ 25,763,334	$ 438,779	$ 3,211,853	$ 5,334,637	$ 16,778,065

The External Investment Pool maintained by the Department had the following investments and maturities separated by Other Investment Portfolios as of June 30, 2022 (dollars in thousands):

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 362,503	$ 297,635	$ 64,868	$ 0	$ 0
Asset-Backed Securities	29,460	27,418			2,042
Commercial Mortgage-Backed Securities	22,104				22,104
Collateralized Mortgage Obligations	96,005	60,579		9,579	25,847
Collective Investment Funds	6,129,168	6,129,168			
Domestic Corporate Bonds	562,090	246,661	68,065	107,128	140,236
Foreign Government Bonds	24,435		915	7,798	15,722
Securities Purchased with Cash Collateral under					
Securities Lending Program					
Asset-Backed Securities	17,633	17,633			
Repurchase Agreements	16,778	16,778			
Money Market Mutual Funds	197,712	197,712			
Total Other Investment Portfolios Assets	$ 7,457,888	$ 6,993,584	$ 133,848	$ 124,505	$ 205,951

The major investment classifications of the External Investment Pool had the following attributes as of June 30, 2022 (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
Short-Term Investment Fund		
U.S. Treasuries	$ 37,500,000	0.00% - 0.25%
U.S. Agencies	13,150,000	0.17% - 3.56%
Securities Purchased with Cash Collateral under		
Securities Lending Program		
Repurchase Agreements	1,664,145	1.50% - 1.62%
Money Market Mutual Funds	149,729	1.45% - 1.47%
Repurchase Agreements	2,450,000	1.40% - 1.49%
Long-Term Investment Fund		
U.S. Treasuries	5,845,944	0.75% - 7.63%
U.S. Agencies	530,786	4.65% - 7.13%
Mortgage Pass-Throughs	10,139,564	2.00% - 9.00%
Domestic Corporate Bonds	9,710,624	0.00% - 9.63%
Foreign Government Bonds	7,000	2.75% - 3.25%
Securities Purchased with Cash Collateral under		
Securities Lending Program		
Repurchase Agreements	392,879	1.55% - 1.62%
Money Market Mutual Funds	26,400	1.45% - 1.47%
Domestic Corporate Bonds		
Other Investment Portfolios		
U.S. Treasuries	361,722	0.00% - 3.27%
Asset-Backed Securities	73,260	1.76% - 5.79%
Commercial Mortgage-Backed Securities	148,666	0.67% - 5.10%
Collateralized Mortgage Obligations	390,543	0.19% - 6.50%
Collective Investment Funds	6,129,168	0.00% - 1.48%
Domestic Corporate Bonds	852,486	0.00% - 15.50%
Foreign Government Bonds	31,750	1.00% - 7.30%
Securities Purchased with Cash Collateral under		
Securities Lending Program		
Asset-Backed Securities	18,517	1.94%
Repurchase Agreements	16,778	1.45% - 1.47%
Money Market Mutual Funds	197,712	1.50% - 1.62%

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There is no formally adopted investment policy to manage interest rate risk. Fixed income assets of the STIF are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The STIF had a weighted average maturity of 0.9 years as of June 30, 2022. Most of the cash and cash equivalents of the State's major governmental and enterprise funds are invested in this portfolio.

The assets of the LTIF are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the North Carolina Retirement Systems' liabilities. The Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than the stated maturity. The LTIF had a weighted average maturity of 17.3 years as of June 30, 2022.

The LTIF holds investments in Government National Mortgage Association (GNMA) mortgage pass-through funds. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are sensitive to the potential of principal prepayments by mortgagees in periods of changing interest rates. Also, included within the LTIF are U.S. government agencies and domestic corporate bonds which may carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates than similar securities without call options.

In addition to the domestic corporate bonds with call options, there are domestic corporate bonds with variable coupon rates that reset on specific dates. Critical to the cash flows and pricing of these securities are the changes in interest rates.

Credit Risk. Credit risk is the risk an issuer or other counterparty to an investment will not fulfil its obligations such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

General Statute 147-69.1 limits credit risk by restricting the STIF's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

General Statute 147-69.2 specifies the cash investment options for the LTIF and limits credit risk by restricting the LTIF's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service when acquired. In the LTIF, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

The Iran Divestment Act, General Statutes 147-86.55 through 147-86.63 requires the State Treasurer to (i) develop and annually update a list of entities engaging in specific activities in Iran, (ii) refrain from contracting with or investing in such companies, and (iii) divest from the same within 180 days of their being listed. Indirect investments through structures such as index funds, commingled funds, limited partnerships, or derivative instruments are excepted from these two Acts under General Statutes 147-86.42(5a) and 147-86.57(3), respectively.

The Divestment from Companies Boycotting Israel Act, *North Carolina General Statutes* 147-86.80 through 147-86.84, functions similarly to the Iran Divestment Act. Specifically, pursuant to a policy adopted in compliance with the statute, the State Treasurer must not invest in companies on its list of those engaged in a "boycott of Israel," a statutorily-defined term. The State Treasurer is required to annually update the list and divest from such companies within 180 days of their being listed. In addition, listed companies are ineligible to contract with the State or any of its political subdivisions where the value of the contract is over $1,000.

In addition, the State Treasurer is required to comply with certain restrictions issued by the United States government, including Executive Order 14032, which restricts investment activity in certain Chinese entities as identified by the Secretary of Treasury (generally military-related companies), as well as restrictions issued by the Office of Foreign Assets Control.

The STIF had the following credit quality distribution for securities with credit exposure as of June 30, 2022 (dollars in thousands):

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 13,150,000	$ 0	$ 0	$ 0	$ 0
Securities Purchased with Cash Collateral under Securities Lending Program						
Repurchase Agreements		1,664,160				
Money Market Mutual Funds	149,729					
Repurchase Agreements		2,450,000				
Total Short-Term Investment Fund Assets	$ 149,729	$ 17,264,160	$ 0	$ 0	$ 0	$ 0

Excluded from this chart are securities exempt from credit risk such as U.S. Treasuries and GNMA mortgage pass-through investments.

The LTIF had the following credit quality distribution for securities with credit exposure as of June 30, 2022 (dollars in thousands):

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 654,467	$ 0	$ 0	$ 0	$ 0
Domestic Corporate Bonds	188,503	618,245	4,341,886	3,814,680	127,557	
Foreign Government Bonds			6,630			
Securities Purchased with Cash Collateral under Securities Lending Program						
Repurchase Agreements		392,904				
Money Market Mutual Funds	26,400					
Total Long-Term Investment Fund Assets	$ 214,903	$ 1,665,616	$ 4,348,516	$ 3,814,680	$ 127,557	$ 0

Excluded from this chart are securities exempt from credit risk such as U.S. Treasuries and GNMA mortgage pass-through investments.

The Other Investment Portfolios of the Pool had the following credit quality distribution for securities with credit exposure as of June 30, 2022 (dollars in thousands):

	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
Asset-Backed Securities	$ 0	$ 0	$ 0	$ 0	$ 29,460	$ 0
Commercial Mortgage-Backed Securities	1,121	4,240	7,209	6,578		2,956
Collateralized Mortgage Obligations	1,530	65,195			10,064	19,216
Collective Investment Funds						6,129,168
Domestic Corporate Bonds	11,541	35,575	27,409	138,387	202,005	147,173
Foreign Government Bonds		1,974	4,108	12,297	6,056	
Securities Purchased with Cash Collateral under Securities Lending Program						
Asset-Backed Securities		17,633				
Money Market Mutual Funds	16,778					
Repurchase Agreements		197,712				
Total Other Investment Portfolios Assets	$ 30,970	$ 322,329	$ 38,726	$ 157,262	$ 247,585	$ 6,298,513

Excluded from this chart are securities exempt from credit risk such as U.S. Treasuries and GNMA mortgage pass-through investments.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2022, the investments purchased with cash collateral under the securities lending programs of $2.5 billion were not exposed to custodial credit risk since the securities were held by the counterparty in separate accounts in the name of the Treasurer. All other investments of the Pool were not exposed to custodial credit risk at year-end. There is no formally adopted investment policy to manage custodial credit risk for these investment types.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. However, more than 5% of the Pool’s securities were invested in Federal Home Loan Mortgage Corporation. These investments totaled $9.1 billion and comprised 6.1% of the Pool’s total investments as of June 30, 2022. These investments are held primarily by the STIF and LTIF portfolios and are classified as U.S. Agencies. Effective June 30, 2022, there is no formal policy regarding concentration of credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There is no formally adopted investment policy to limit foreign currency exposure.

As of June 30, 2022, the External Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

	Carrying Value by Investment Type				
Currency	Equity Based Trust - International	Alternative Investment - Private Equity Partnerships	Real Estate Trust Funds	Opportunistic Fixed Income Investment Partnership	Total
Euro	$ 3,473,574	$ 257,154	50,452	$ 28,159	$ 3,809,339
Japanese Yen	2,213,642		73,613		2,287,255
British Pound Sterling	1,515,618	26,825	211,815		1,754,258
Hong Kong Dollar	1,254,839		60,385		1,315,224
Swiss Franc	799,273		7,488		806,761
Australian Dollar	439,932		26,009		465,941
Danish Krone	430,964				430,964
Canadian Dollar	276,868		21,051		297,919
New Taiwan Dollar	290,688		714		291,402
Swedish Krona	271,372		11,841		283,213
South Korean Won	143,355		346		143,701
Singapore Dollar	116,783		26,646		143,429
Chinese Yuan Renminbi	132,953		936		133,889
Indian Rupee	114,450		3,797		118,247
Brazil Real	72,671		2,226		74,897
Norwegian Krone	53,160		371		53,531
Indonesian Rupiah	33,134		732		33,866
New Zealand Dollar	21,661		2,632		24,293
Israeli Shekel	22,434		1,598		24,032
Thai Baht	21,117		2,893		24,010
Mexican Peso	14,748		3,265		18,013
South African Rand	12,904		3,260		16,164
Philippines Peso	7,734		5,615		13,349
Polish Zloty	9,691				9,691
Malaysian Ringgit	4,877		548		5,425
Other Currencies	6,810		4,469		11,279
Total Investments Subject to Foreign Currency Risk	$ 11,755,252	$ 283,979	$ 522,702	$ 28,159	$ 12,590,092

The External Investment Pool recognized aggregate foreign currency transaction losses of $106.2 million for the fiscal year ended June 30, 2022, as part of the Pool's net appreciation in fair value of investments. Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated.

Fair Value Measurement

The External Investment Pool categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The External Investment Pool had the following recurring fair value measurements as of June 30, 2022 (dollars in thousands):

Investments and Derivative Instruments at Fair Value		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-Term Investment Fund				
U.S. Treasuries	$ 37,257,693	$ 0	$ 37,257,693	$ 0
U.S. Agencies	13,150,000		13,150,000	
Subtotal	50,407,693	0	50,407,693	0
Long-Term Investment Fund				
U.S. Treasuries	6,008,878		6,008,878	
U.S. Agencies	654,467		654,467	
Mortgage Pass-Throughs	9,583,184		9,583,184	
Domestic Corporate Bonds	9,090,871		9,090,871	
Foreign Government Bonds	6,630		6,630	
Subtotal	25,344,030	0	25,344,030	0
Other Investment Portfolios				
U.S. Treasuries-Inflation	362,503		362,503	
Asset-Backed Securities	29,460		29,460	
Collateralized Mortgage Obligations	96,005		96,005	
Commercial Mortgage-Backed Securities	22,104		22,104	
Securities Purchased with Cash Collateral under				
Equity Securities Lending Program				
Asset-Backed Securities	17,633		17,633	
Equity Securities - Domestic	18,318,813	18,318,813		
Equity Securities - Foreign	13,004,868	13,004,868		
Equity Securities - Preferred Domestic	346	239		107
Equity Securities - Preferred Foreign	100,108	100,108		-
Domestic Corporate Bonds	562,090		490,610	71,480
Foreign Government Bonds	24,435		24,435	
Subtotal	32,538,365	31,424,028	1,042,750	71,587
Investment Derivative Instruments				
Futures Contracts	1,623	1,623		
Futures Contracts (Liability)	(35,627)	(35,627)		
Total Investment Derivative Instruments	(34,004)	(34,004)	0	0
Total Investments by Fair Value Level	$ 108,256,084	$ 31,390,024	$ 76,794,473	$ 71,587

Fair Value Measurement (Continued)

Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (Days)
Commingled International Equity Funds (1)	$ 3,416,603	$ 0	Daily	2
Core Real Estate Funds (2)	5,824,802	651,309	Quarterly, Illiquid	90 - Illiquid
Equity Rebalancing (3)	1,717,897		Daily	1 - 5
Hedge Funds				
Global Public Equity - Hedged (4)	2,036		Daily, Monthly Quarterly, Illiquid	3 - 180
Multi-Strategy Funds (5)	132,804		Weekly, Quarterly Illiquid	5 - Illiquid
Opportunistic Fixed Income - Distressed Credit (6)	142,029		Illiquid	Illiquid
Opportunistic Fixed Income - Hedged Fixed Income (7)	2,964,349		Monthly, Quarterly Annually	15 - 90
Inflation Protected Bonds (8)	445,431		Monthly	30
Long-Only Public Equity (9)	1,205,002		Illiquid	Illiquid
Non-Core Real Estate Funds (10)	2,521,553	1,285,475	Illiquid	Illiquid
Private Credit Funds (11)	3,853,315	949,482	Daily, Annually Illiquid	60 - Illiquid
Private Equity Funds (12)	7,117,883	2,261,790	Illiquid	Illiquid
Private Infrastructure Funds (13)	707,336	11,878	Illiquid	Illiquid
Private Multi-Strategy Funds (14)	330,221		Illiquid	Illiquid
Private Natural Resources Funds (15)	2,103,244	412,213	Illiquid	Illiquid
Private Real Asset Funds (16)	1,031,748	1,213,574	Illiquid	Illiquid
Collective Investment Funds (17)	6,129,168		Daily	
Total Investments at the NAV	39,645,421			
Subtotal	147,901,505			
Money Market Mutual Funds	192,907			
Repurchase Agreements	4,705,360			
Investments at Amortized Cost	4,898,267			
Total Investments and Securities Lending Collateral	$ 152,799,772			

(1) *Commingled International Equity Funds* (Six funds). Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(2) *Core Real Estate Funds* (17 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments include a mix of predominately U.S. domiciled equity and debt investments in core commercial real estate. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(3) *Equity Rebalancing* (Three funds). These investments are valued at NAV per share. These investments are options-based equity rebalancing program used as a tool to maintain asset exposures within plan policy portfolio tolerances.

(4) *Hedge Funds – Global Public Equity - Hedged* (One fund). This investment is valued at NAV per share. These investments may include various equity-based hedge fund strategies.

(5) *Hedge Funds - Multi-Strategy* (One fund). This investment is valued at NAV per share. These investments have the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, relative value, global macro, rebalancing, tail hedging and overlays.

(6) *Hedge Funds – Opportunistic Fixed Income - Distressed Credit* (One fund). This investment is valued at NAV per share. These investments may include strategies that trade distressed debt, but occasionally actively participate in restructuring and seek control post-reorganization of target issuers. These strategies may have equity exposure.

(7) *Hedge Funds – Opportunistic Fixed Income – Hedged Fixed Income* (Eight funds). These investments are valued at NAV per share. These investments include hedged implementations of market neutral strategies, relative value strategies, and multi-strategy (i.e. predominantly fixed income) utilizing non-investment grade instruments.

(8) *Inflation Protected Bonds* (One fund). This investment is valued at NAV per share. These strategies may invest in Treasury Inflation Protected Securities, non U.S. inflation linked bonds, or floating rate debt. Currently, the strategy represented in this category is one which invests primarily in publicly traded securities, but also has the ability to invest up to 15% in private investments.

(9) *Long Only Public Equity* (Two funds). These investments are valued at NAV per share. These investments may include publicly traded U.S. equity, non-U.S. equity, and global equity securities held in long-only vehicles. Currently, the strategies represented in this category have a North American focus, with an activist role in investing. As such, the portfolios will tend to be concentrated in its positioning. These *strategies have* long lock up periods with limited options for redemptions and may result in a penalty for redemptions during the lock up periods.

(10) *Non Core Real Estate Funds* (62 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments include a mix of global equity and debt investments in commercial and residential real estate, and each strategy falls into one of three major categories: Value (with a target allocation of 50%), Opportunistic (with a target allocation of 50%) and Special Situations (with a target allocation of 0%). These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(11) *Private Credit Funds* (27 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(12) *Private Equity Funds* (98 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments

include a mix of buyout, venture capital, growth equity, and private special situations vehicles. All investments fall into one of three major categories: Growth (with a target allocation of 20%), Buyout (with a target allocation of 50%) and Special Situations (with a target allocation of 30%). These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(13) *Private Infrastructure Funds* (Three funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These strategies invest in various infrastructure-related markets including but not limited to utilities, transportation, energy, and communication. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(14) *Private Multi-Strategy Funds* (One fund). This investment is valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments have the flexibility to invest across markets, asset classes, commodities, and currencies, including hedging. Strategies may include opportunistic, event-driven, relative value, global macro, rebalancing, tail hedging and overlays. Currently the strategy represented in this category is considered opportunistic and will tactically invest across a broad range of investible assets. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(15) *Private Natural Resources Funds* (23 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These strategies make non-public equity or debt investments in timberland, energy, agriculture, and other natural resources implementations. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(16) *Private Real Asset Funds* (19 funds). These investments are valued using net assets valued as of the previous quarter end, plus current quarter cash flows. These investments represent a mix of strategies including ships, airplanes, rail cars, mines, real estate, and other markets whose primary purpose is providing protection against risks associated with inflation. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

(17) *Collective Investment Trusts* (One fund). This investment is the BNY Mellon EB Temporary Investment Fund. This fund primarily invests in instruments issued by the U.S. Government and Federal agencies, short term corporate obligations, commercial paper, and certificates of deposit. The average weighted maturity of this fund does not exceed 60 days.

Valuation Methodologies and Inputs – Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Level 2 U.S. Treasuries are evaluated by using data from several live feeds which include active market makers and inter-dealer brokers. Sources are reviewed on the basis of their historical accuracy for individual issues and maturity ranges. For inflation securities which include Treasury Inflation Protection Securities tied to the Consumer Price Index, prices are evaluated continuously throughout the day using a variety of real-time sources from active market makers in Treasury securities and market makers.

Level 2 U.S. Agencies, which are primarily mortgage pass-through securities, use a dealer derived to-be-announced (TBA) security as a benchmark, plus a dollar (or pay up) adjustment which is based on market data for the underlying collateral. When the underlying TBA is not applicable or observable, a discounted cash flow is calculated using a spread to the treasury curve based on applicable market data and internally generated long-term speed.

Level 2 mortgage pass-through securities are evaluated on interest rate movements and other market data to derive spread, yield and/or price data as appropriate allowing data points to be extrapolated for application across a range of related securities.

Level 2 bonds are priced using both spread-based and priced-based evaluations. For spread-based evaluations, an option adjusted spread model is developed incorporating credit risk and based on the new issue market, secondary trading, and dealer quotes. For priced-based evaluations, evaluators use recently executed transactions of similar securities and dealer quotes to arrive at appropriate pricing. These methods also are used to value Canadian government bonds, which make up foreign government bonds classified as Level 2.

Level 2 asset-backed securities are priced using a model which considers days to final maturity to generate a yield based on the relevant curve for the security. Adjustments to the yield can be made as market conditions warrant. Days are counted from settlement to final maturity using the relevant settlement convention for each market. A bid evaluation is calculated from these inputs.

Level 2 collateralized mortgage obligations and commercial mortgage-backed securities are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, and prevailing market conditions.

Level 3 bonds are priced using broker quotes. Level 3 equity securities are priced using manager pricing.

External Investment Pool Securities Lending – Based on General Statute 147-69.3(e), the State Treasurer lends securities from its Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's custodian manages the securities lending program for the internally managed fixed income portfolios, the equity based trust and the Inflation Sensitive portfolio. During the year, the securities lending program lent U.S. government and agency securities, corporate bonds, equity securities and notes for collateral. The program is permitted to receive cash, U.S. government, and agency securities as collateral for the securities lent.

The collateral is initially pledged at 102% of the market value of the domestic securities lent in the fixed income and Inflation Sensitive portfolios as well as the equity based trust and 105% of the market value of foreign securities lent in the equity based trust program. Additional collateral is required if its value falls to less than 100% of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State

Treasurer or the borrower. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the lending provider and held in a separate account in the name of the State Treasurer. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the lending provider. The weighted average maturities of the cash collateral investments do not match the weighted average maturities of the securities loans as current securities lending guidelines require collateral to be invested in overnight investments and loan maturities are extended beyond overnight in an effort to stabilize loan balances. At June 30, 2022, the weighted average maturity of all securities loans was one day.

As of June 30, 2022, the State Treasurer had no credit risk exposure to borrowers because the amounts the Treasurer owed the borrowers exceeded the amounts the borrowers owed the Treasurer. The lending provider is contractually obligated to indemnify the Treasurer for certain conditions, the most important is default on the part of the borrowers.

As of September 15, 2016, securities purchased with cash collateral under the current securities lending guidelines are limited to repurchase agreements and shares in money market funds registered under the Investment Company Act of 1940 and that comply with Rule 2a-7. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies. All counterparties for repurchase agreements must have a short-term debt rating of at least A2, P2, or F2 by at least one of the nationally recognized statistical rating organizations.

Under prior securities lending contractual guidelines, additional flexibility was given with regards to acceptable assets purchased with cash collateral. As of June 30, 2022, a total of $17.6 million remained in securities approved under prior guidelines, consisting of asset-backed securities. These securities will remain in the account until maturity or until sold. The weighted average maturity of investments, including the securities purchased under prior guidelines, was one day.

As of June 30, 2022, the fair value of loaned securities was $7.9 billion; the fair value of the associated collateral was $8.1 billion of which $2.5 billion was cash.

Bond Index External Investment Pool – The North Carolina Department of State Treasurer operates a government sponsored bond index external investment pool (BIF) in which the State Treasurer is authorized to invest funds for governmental entities that are outside the State's pension and OPEB trust funds as defined in this note. The BIF invests in high quality debt securities eligible under General Statute 147-69.2(b) (1 through 6). The BIF consists of a separate account managed by a fund manager selected by the Department of State Treasurer.

Participants in the BIF may include public hospitals, Law Enforcement Officer Special Separation Allowance trusts (LEOSSAs), local government Other Post Employment Benefit trusts (OPEBs), the North Carolina Teachers' and State Employees' Benefit Trust (Death Benefit Plans of N.C.), the Disability Income Plan of N.C., the Register of Deeds' Supplemental Pension Fund, and other funds and component units of the state of North Carolina with investment authority under General Statue 147-69.2. Participation in the BIF is voluntary.

At June 30, 2022, there were twenty-five OPEBs, four LEOSSAs, and two hospitals participating in the BIF.

Statement of Fiduciary Net Position *
As of June 30

Assets		
Investments, at Fair Value	$	1,443,688
Receivables		29,360
Total Assets		1,473,048
Liabilities		
Other Payables		23,121
Total Liabilities		23,121
Net Position		
Net Position Held in Trust	$	1,449,927

* The Condensed Financial Statements for the Bond Index External Investment Pool contains deposits from internal and external participants, including the State's defined pension and other postemployment benefit plans maintained by the Department. For more information on the equity ownership of the Bond Index External Investment Pool, see supplementary Exhibit L-2.

At year end, the condensed financial statements for the Bond Index External Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2022

Additions		
Investment Income		
Interest And Dividend Income	$	39,973
Net Depreciation In Fair Value Of Investments		(202,182)
Other Investment Income		398
Less: Investment Management Expenses		(352)
Total Net Investment Loss		(162,163)
Pool Share Transactions		
Reinvestment Of Distributions		162,163
Net Share Purchases		5,657
Net Pool Share Transactions		167,820
Total Additions		5,657
Deductions		
Distributions Paid And Payable		162,163
Total Deductions		162,163
Change in net position		(156,506)
Net Position Held In Trust:		
Beginning of year		1,606,433
End of year	$	1,449,927

The deposits are commingled; and therefore, the State Treasurer considers all funds to be part of a single pool. The BIF contains deposits from funds and component units of the State of North Carolina reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the State of North Carolina reporting entity (external portion). The BIF is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body of the State of North Carolina.

The external portion of the BIF is presented in the State's financial statements as a custodial fund. Each fund and component unit's share of the internal equity in the BIF is reported in the State's financial statements as an investment asset of those funds or component units.

The BIF is included in the State Treasurer Investments separate report. This separately issued report can be obtained from the North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604, or can be accessed from the Department of State Treasurer – Investment Management Division internet page at https://nctreasurer.com/investment-management-division/imd-reports in the Audited Financial Statements section.

Net investment income earned by the BIF is distributed on a pro rata basis to all participants on a monthly basis net of fees.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. There is no formally adopted investment policy to manage interest rate risk. The BIF had a weighted average effective maturity of 8.75 years as of June 30, 2022.

The BIF maintained by the Treasurer had the following investments and maturities as of June 30, 2022 (dollars in thousands):

		Investment Maturities (in Years)			
Bond Index	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 589,664	$ 0	$ 340,872	$ 133,011	$ 115,781
U.S. Agencies	24,936	2,124	14,014	5,685	3,113
Commercial Mortgage-Backed Securities	18,780		787	-	17,993
Asset-Backed Securities	3,659		3,540	70	49
Mortgage Pass-Throughs	400,838		2,744	14,529	383,565
Collective Investment Funds	8,383	8,383		-	-
Municipal Bonds	9,468		79	1,353	8,036
Domestic Corporate Bonds	347,746	437	113,168	105,346	128,795
Foreign Government Bonds	40,214		19,219	14,160	6,835
Total Investment Fund Assets	$ 1,443,688	$ 10,944	$ 494,423	$ 274,154	$ 664,167

The major investment classifications had the following attributes as of June 30, 2022 (dollars in thousands):

Investment Classification		Principal Amount	Range Of Interest Rates
Bond Index			
U.S. Treasuries	$	623,854	0.25% - 6.88%
U.S. Agencies		25,024	0.13% - 7.25%
Commercial Mortgage-Backed Securities		19,849	2.57% - 4.12%
Asset-Backed Securities		3,675	0.44% - 4.48%
Mortgage Pass-Throughs		432,231	1.50% - 5.50%
Collective Investment Funds		8,383	0.94%
Municipal Bonds		8,390	2.15% - 7.55%
Domestic Corporate Bonds		375,928	9.25%
Foreign Government Bonds		42,950	0.25% - 6.05%

Credit Risk. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

General Statute 147-69.2 specifies the cash investment options for the BIF and limits credit risk by restricting the BIF's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service when acquired. In the BIF, all holdings were rated BBB (or equivalent) or higher at the time of purchase by at least one of the nationally recognized rating agencies.

The BIF had the following credit quality distribution for securities with credit exposure as of June 30, 2022 (dollars in thousands):

Bond Index	Aaa/AAA	Aa/AA	A	Baa/BBB	Less Than Investment Grade	Unrated
U.S. Agencies	$ 248	$ 24,688	$ 0	$ 0	$ 0	$ 0
Commercial Mortgage-Backed Securities	17,993	787				
Asset-Backed Securities	3,659					
Mortgage Pass-Throughs		319,665				
Collective Investment Funds	8,383					
Municipal Bonds	617	4,915	2,420	1,516		
Domestic Corporate Bonds	6,796	13,919	125,616	193,761	7,654	
Foreign Government Bonds	16,847	3,111	6,634	13,622		
Total Investment Fund Assets	$ 54,543	$ 367,085	$ 134,670	$ 208,899	$ 7,654	$ 0

Excluded from this chart are securities exempt from credit risk such as U.S. Treasuries and GNMA mortgage pass-through investments.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2022, the investments of the BIF were not exposed to custodial credit risk since the securities were held in separate accounts in the name of the Treasurer. There is no formally adopted investment policy to manage custodial credit risk for these investment types.

Concentration of *Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Mutual funds, money market funds, and external pooled accounts are excluded from this disclosure requirement. Obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. However, at June 30, 2022, more than 5% of the BIF's securities were invested in Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). FHLMC investments totaled $124 million and comprised 8.6% of BIF's total investments; FNMA investments totaled $222 million and comprised 15.4% of BIF's total investments. Both FHLMC and FNMA investments are classified as U.S. Agencies with the majority of the investments classified as mortgage pass-throughs. At June 30, 2022, there is no formal policy regarding concentration of credit risk.

The BIF categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The BIF had the following recurring fair value measurements as of June 30, 2022 (dollars in thousands):

Investments and Derivative Instruments at Fair Value		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured at Fair Value				
Bond Index Fund				
U.S. Treasuries	$ 589,664	$ 0	$ 589,664	$ 0
U.S. Agencies	24,936		24,936	
Asset-Backed Securities	3,659		3,659	
Commercial Mortgage-Backed Securities	18,780		18,780	
Mortgage Pass-Throughs	400,838		400,838	
Municipal Bonds	9,468		9,468	
Domestic Corporate Bonds	347,746		347,746	
Foreign Government Bonds	40,214		40,214	
Total Investments by Fair Value Level	$ 1,435,305	$ 0	$ 1,435,305	$ 0

Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency	Redemption Notice (Days)
Collective Investment Fund [(1)]	$ 8,383	0	Daily	1
Total Investments by Fair Value	$ 1,443,688			

(1) *Collective investment fund* (One fund). This fund invests in a diversified portfolio of U.S. government securities, U.S. government agency securities, and repurchase agreements. It is operated on an amortized cost basis and transacts at $1.00 per unit.

Valuation Methodologies and Inputs – Level 2 U.S. Treasuries are evaluated by using data from several live feeds which include active market makers and inter-dealer brokers. Sources are reviewed on the basis of their historical accuracy for individual issues and maturity ranges.

Level 2 U.S. Mortgage pass-through securities use a dealer derived to-be-announced (TBA) security as a benchmark, plus a dollar (or pay up) adjustment which is based on market data for the underlying collateral. When the underlying TBA is not applicable or observable, a discounted cash flow is calculated using a spread to the treasury curve based on applicable market data and internally generated long-term spread.

Level 2 domestic corporate bonds are priced using spread, yield-based and price-based evaluations. For spread and yield-based evaluations, an option adjusted spread model is developed incorporating credit risk and based on the new issue market, secondary trading, and dealer quotes. For price-based evaluations, evaluators use recently executed transactions of similar securities and dealer quotes to arrive at appropriate pricing. These methods are also used to value Canadian government bonds. For non-U.S./Canadian foreign government bonds, the majority of issues are evaluated using discounted cash flow models, incorporating option-adjusted features as appropriate.

Bond Proceeds Investment Accounts – The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. In the State's financial statements, each fund's equity in these accounts is reported as investments.

As of June 30, 2022, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Weighted Average Maturity *(Days)*
Debt Investments		
U.S. Treasuries	$ 182,319	31

U.S Treasuries are valued at fair value at June 30 ($182.32 million) and are classified as a Level 2 investment in the fair value hierarchy. The valuation technique for these securities is the market approach where the pricing vendor gathers real-time market data and uses direct observations to compute an independent price.

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1 and are invested in short-term maturities and/or securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

Custodial Credit Risk. Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial credit risk policy related to these investments.

Equity Index Investment Account – The State Treasurer has contracted with an external party (Trustee) to create the equity index investment account (EIF). The primary participants of this equity index investment account are public hospitals trusts, LEOSSAs, and the Local Government OPEB Trust (OPEB) funds. These funds are part of a commingled equity index investment trust (Trust). The Trustee manages the assets in the Trust, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records.

Pursuant to General Statute 159-30.1, the State Treasurer manages the OPEB trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2022, there were twenty-six OPEB trust participants in the EIF. Each participant is responsible for making its own investment decision.

The State Treasurer also manages the public hospitals' assets. As of June 30, 2022, there were three participants consisting of the Margaret R. Pardee Hospital, Columbus Regional Healthcare, and Watauga Medical Center. Two public hospitals also participate in the BIF. Each participant is responsible for making its own decisions.

The EIF is included in the State Treasurer Investments separate report. This separately issued report can be obtained from the North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604, or can be accessed from the Department of State Treasurer – Investment Management Division internet page at https://www.nctreasurer.com/ investment-management-division/imd-reports in the Audited Financial Statements section.

At year end, the condensed financial statements for the Equity Index External Investment Account maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Fiduciary Net Position *
As of June 30

Assets	
Investments, at Fair Value	$ 564,933
Total Assets	564,933
Net Position	
Net Position Held in Trust	$ 564,933

* The Condensed Financial Statements for the Equity Index Investment Account contains deposits from internal and external participants. For more information on the equity ownership of the Equity Index Investment Account, see supplementary Exhibit L-3.

Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2022

Additions	
Investment Income	
Interest And Dividend Income	$ 146
Net Depreciation In Fair Value Of Investments	(97,282)
Less: Investment Management Expenses	(115)
Total Net Investment Loss	(97,251)
Pool Share Transactions	
Reinvestment Of Distributions	(97,251)
Net Share Purchases	170,143
Net Pool Share Transactions	72,892
Total Additions	(24,359)
Deductions	
Distributions Paid And Payable	(97,251)
Total Deductions	(97,251)
Change in Net Position	72,892
Net Position Held In Trust:	
Beginning of year	492,041
End of year	$ 564,933

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2022, the investments of the EIF were not exposed to custodial credit risk. There is no formally adopted investment policy to manage custodial credit risk for these investment types.

Fair Value Measurement. EIF investments, a commingled global equity index fund, are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments. As of June 30, 2022, the EIF had a recurring fair value measurement of $565 million. The redemption frequency of the EIF is daily, with a two-day redemption notice.

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. As of June 30, 2022, the Escheat investment account maintained by the State Treasurer had the following investments and recurring fair value measurements (dollars in thousands):

Investments Measured at the NAV		Fair Value		Unfunded Commitments
Private Credit Limited Partnership	$	10,817	$	309
Private Equity Investment Partnerships		49,496		9,651
Total Investments Measured at the NAV	$	60,313		

Private Credit Limited Partnership. This type includes two private credit funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

Private Equity Investment Partnership. This type incudes four private equity funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of buyout, venture capital, growth equity, and private special situations vehicles. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

B. Investments Outside the State Treasurer

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan – As of June 30, 2022, 92% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan).

The Iran Divestment Act (*North Carolina General Statutes* Sections 147-86.55 through 147-86.63) places investment restrictions on the 401(k) Plan and the 457 Plan. Specifically, pursuant to the North Carolina Department of State Treasurer's "Iran Divestment Policy," adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in certain investment activities in Iran.

The Divestment from Companies Boycotting Israel Act (*North Carolina General Statutes* Sections 147-86.80 through 147-86.84) places investment restrictions on the 401(k) Plan and the 457 Plan. Specifically, pursuant to the North Carolina Department of State Treasurer's "Boycott Israel Divestment Policy," adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in certain boycotting activities against Israel.

In addition, for the fiscal year ended June 30, 2022, the State Treasurer is required to comply with certain restrictions issued by the United States government, including Executive Order 14032, which restricts investment activity in certain Chinese entities as identified by the Secretary of Treasury (generally military-related companies), as well as restrictions issued by the Office of Foreign Assets Control.

The form of governance over the investments is the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent and intelligent judgment and care.

At December 31, 2021, the 401(k) and 457 Plans had the following investments and maturities that were maintained outside the State Treasurer. Investments in the Pooled Account totaled $13.9 billion. The 401(k) and 457 Plans' investments are held in a group trust established as of January 4, 2016. Their board authorized the establishment of the North Carolina Supplemental Retirement Plans Group Trust (the "Group Trust") for the purpose of commingling the corpus of the separate trusts of the Plans; and the Board adopted the Declaration of Trust establishing the Group Trust. The Pooled Account offers six equity funds, an inflation responsive fund, an inflation protected securities fund and two fixed income funds. The actively managed separate account funds have multiple investment managers, and the passively managed separate accounts each have a single investment manager. The remainder of the investments is the Stable Value Fund, which consists of four synthetic guaranteed investment contracts, a separate account guaranteed investment contract, and a short-term investment fund.

At December 31, 2021, the 401(k) and 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less than 1	1 to 5	6 to 10	More than 10
Debt Investments					
U.S. Treasuries	$ 1,636,816	$ 202,008	$ 1,066,062	$ 277,321	$ 91,425
U.S. Agencies	74,876	804	46,672	17,350	10,050
Mortgage Pass-Throughs	670,238	229,082	21,361	24,594	395,201
Collateralized Mortgage Obligations	58,408	27,958	497		29,953
State and Local Government Bonds	96,777	12,835	36,235	32,745	14,962
Asset-Backed Securities	369,236	54,530	156,336	36,987	121,383
Collective Investment Funds	99,209			99,209	
Debt Mutual Funds	37,127		37,127		
Pooled Debt Funds	1,136,399			1,136,399	
Domestic Corporate Bonds	706,899	45,332	337,613	214,186	109,768
Foreign Corporate Bonds	179,541	12,892	109,703	39,091	17,855
Foreign Government Bonds	25,960	12,924	4,348	8,207	481
	$ 5,091,486	$ 598,365	$ 1,815,954	$ 1,886,089	$ 791,078
Other Investments					
Equity Collective Investment Trusts	5,059,653				
Unallocated Insurance Contracts	248,085				
Domestic Stocks	3,101,507				
Foreign Stocks	2,188,549				
Short-Term Investment Collective Trust	147,760				
Hedge/Commodity/Debt Mutual Fund	569,808				
Total Investments	$ 16,406,848				

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the combining statements of fiduciary net position (see Exhibit J-1), SGICs are reported at contract value. As of December 31, 2021, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded the contract value by $39.09 million.

Interest Rate Risk. The 401(k) and 457 Plans do not have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The managers within the

NC Fixed Income Fund and the NC TIPS Fund have duration targets relative to a specified benchmark. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investment funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

Credit Risk. The 401(k) and 457 Plans do not have a formal investment policy on credit risk. The investment guidelines applicable to the NC Fixed Income Fund places restrictions on the total risk exposure of the fund and specifically the concentration of the debt securities in which the fund invests. The investment guidelines for the NC TIPS Fund limit non-cash sweep investments to U.S. Treasury Inflation Protected Securities (TIPS) and TIPS futures.

At December 31, 2021, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. Agencies	$ 0	$ 74,876	$ 0	$ 0	$ 0	$ 0
Mortgage Pass-Throughs		602,850				
Collateralized Mortgage Obligations	13,960	13,104	71	1,787	24,901	4,585
State and Local Government	21,318	69,332	5,614	513		
Asset-Backed Securities	315,927	20,434	2,769		30,106	
Fixed Income Collective Investment Funds						99,209
Debt Mutual Funds						37,127
Pooled Debt Funds						1,136,399
Domestic Corporate Bonds	27,556	25,630	183,438	436,416	31,978	1,881
Foreign Corporate Bonds	4,590	11,984	75,628	77,062	10,229	48
Foreign Government Bonds		4,935	16,397	2,470	2,158	
Total Investments	$ 383,351	$ 823,145	$ 283,917	$ 518,248	$ 99,372	$ 1,279,249

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk. Investment Manager guidelines describe how and if foreign currency hedging can be utilized in the portfolio.

At December 31, 2021, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount Foreign Stocks
Euro	$ 519,605
Japanese Yen	389,421
Pound Sterling	321,663
Hong Kong Dollar	218,326
Swiss Franc	120,776
New Taiwan Dollar	115,240
Swedish Krona	83,974
Indian Rupee	71,194
South Korean Won	64,489
Canadian Dollar	59,298
Danish Krone	58,324
Australian Dollar	42,089
Singapore Dollar	29,586
Chinese Yuan Renminbi	20,279
Brazilian Real	18,875
South African Rand	18,447
Norwegian Krone	13,401
Indonesian Rupiah	9,274
Polish Zloty	4,044
Mexican Peso	3,793
Israeli Shekel	2,543
Malaysian Ringgit	1,431
Thai Baht	1,406
UAE Dirham	526
Turkish Lira	443
Egyptian Pound	102
Total	$ 2,188,549

Note: The totals in the foreign currency risk table do not agree to the totals disclosed in the previous investment maturities table because the investment maturities table includes foreign stocks that are denominated in U.S. currency.

The fair value measurements of the 401(k) and 457 Plans’ investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

At December 31, 2021, the investments of the 401(k) and 457 Plans maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

		Fair Value Measurements Using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments Measured at Fair Value			
U.S. Treasuries	$ 1,636,816	$ 0	$ 1,636,816
U.S. Agencies	74,876		74,876
Mortgage Pass-Throughs	670,238		670,238
Collateralized Mortgage Obligations	58,408		58,408
State and Local Government	96,777		96,777
Asset-Backed Securities	369,236		369,236
Domestic Corporate Bonds	706,899		706,899
Foreign Corporate Bonds	179,541		179,541
Foreign Government Bonds	25,960		25,960
Domestic Stocks	3,101,507	3,101,507	
Foreign Stocks	2,188,549	2,188,549	
Total Investments by Fair Value Level	9,108,807	$ 5,290,056	$ 3,818,751
Investments Measured at the Net Asset Value (NAV)			
Short-Term Investment Collective Trust	147,760		
Hedge/Commodity/Debt Mutual Fund	569,808		
Collective Investment Funds	99,209		
Debt Mutual Funds	37,127		
Pooled Debt Funds	1,136,399		
Equity Collective Investment Trusts	5,059,653		
Total Investments Measured at the NAV	7,049,956		
Total Investments Measured at Fair Value	$ 16,158,763		

U.S. Treasuries, U.S. agencies, mortgage pass-throughs, collateralized mortgage obligations, and state and local government securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities, domestic corporate bonds, foreign corporate bonds, and foreign government bonds classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques.

Investments measured at the net asset value (NAV) per share are presented on the following tables (dollars in thousands):

Investments Measured at the NAV		Fair Value 6/30/2022	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Short-Term Investment Collective Trust	$	147,760	Daily	1 day
Hedge/Commodity/Debt Mutual Fund		569,808	Daily	1 day
Collective Investment Funds		99,209	Daily	1 day
Debt Mutual Funds		37,127	Daily	1 day
Pooled Debt Funds		1,136,399	Daily	1 day
Equity Collective Investment Trusts		5,059,653	Daily	1 day
Total Investments Measured at the NAV	$	7,049,956		

Short-term Investment Collective Trust – This type includes two funds, the BNY Mellon EB Temporary Investment Fund and the Wells Fargo/BlackRock Short Term Investment Fund. The BNY Mellon EB Temporary Investment Fund primarily invests in instruments issued by the U.S. Government and federal agencies, short-term corporate obligations, commercial paper, and certificates of deposit. The Wells Fargo/BlackRock Short Term Investment Fund is invested in a diversified portfolio of money market instruments. The average weighted maturities of the funds do not exceed 60 days. The funds are valued with a NAV at $1/unit.

Hedge/Commodity/Debt Collective Investment Trust – This type includes one fund, the NC Inflation Response Fund. The Fund invests wholly in shares of a collective investment trust, the BlackRock Strategic Completion Non-Lendable Fund, managed by BlackRock. This Fund seeks returns that provide a hedge to inflation over the medium to long-term. The Strategic Completion Fund currently allocates to three underlying asset classes: United States Treasury Inflation Protected Securities (TIPS), Commodities and Global Real Estate Investment Trusts (REITs). The Fund’s net asset value is based on the fair value of the Fund’s assets on the valuation date minus the Fund’s liabilities on the valuation date. The Fund’s unit value is calculated by dividing the Fund’s net asset value on the valuation date by the number of units of the Fund that are outstanding on the valuation date.

Fixed Income Collective Investment Funds – This type includes one fund, the Commingled BlackRock Fixed Income Index Fund. The Commingled BlackRock Fixed Income Index Fund seeks to replicate the composition and performance of the Bloomberg Barclays U.S. Aggregate Index. The Commingled BlackRock Fixed Income Index Fund is valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Debt Mutual Funds - This type includes two funds in Fixed Income. The MetWest High Yield Bond Fund invests primarily in high yield bonds with the investment objective of maximizing long-term total return. The MetWest Floating Rate Income Fund invests primarily in floating rate securities and seeks to maximize current income. The net asset value is determined by dividing the total value of the fund's portfolio investments and other assets attributable to the fund, less liabilities, by the total number of shares outstanding. The value is determined at the end of each day the New York Stock Exchange is open.

Pooled Debt Funds – This type includes one fund, the Prudential Core Plus Bond Fund in Fixed Income. The fund is an actively managed bond fund that seeks an excess return over the Bloomberg U.S. Aggregate Bond Index. The fund invests in a diversified portfolio of fixed income securities including corporate obligations, structured products, and U.S. Treasuries. The fund actively allocates to both benchmark and non-benchmark sectors, with heavy emphasis on the credit-oriented sectors. The fund is valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Equity Collective Investment Trusts – This type includes five equity index funds. The BlackRock Large Cap Index Fund seeks to replicate the composition and performance of the S&P 500 Index. The BlackRock Small Mid Cap Index Fund seeks to replicate the composition and performance of the Russell 2500 Index. The BlackRock International Index Fund seeks to replicate the composition and performance of the MSCI ACWI Ex-USA Index. Included in the NC Large Cap Core Fund and the NC Small-Mid Cap Fund are investments in the Russell 1000 Index Fund and the Russell 2500 Index Fund, respectively. Each are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

NOTE 3 - DERIVATIVE INSTRUMENTS

A. Summary Information The following table is a summary of derivative instrument activity during the fiscal year and balances at year-end, classified by type with notional amount for the year ended June 30, 2022 (dollars in thousands).

	Increase (Decrease) in Fair Value		Fair Value		
Investment Derivatives	Classification	Increase (Decrease)	Classification	Debit (Credit)	Notional
Foreign Equity Futures[1]	Investment Earnings	$ (273)	Investment	$ (273)	$ 13,057
Commodity Futures[2]	Investment Earnings	(33,731)	Investment	(33,731)	321,742
Forward Currency Contracts	Investment Earnings	(2,386)	Investment	(2,386)	237,512
Spot Currency Contracts	Investment Earnings	(82)	Investment	(82)	46,984
Total		$ (36,472)		$ (36,472)	

[1] 2.4 million Australian Dollar; 4.6 million Euro; 486.3 million Japanese Yen; 2.5 million British Pound Sterling.

[2] 349 thousand barrels of Brent crude oil; 361 thousand barrels of West Texas Intermediate crude oil; 5.4 million British thermal units natural gas; 4.2 thousand Metric Tons of Aluminum; 3.4 million pounds of Copper; 2.4 million bushels of Corn; 10.5 million gallons of Gas/Oil; 2.9 million gallons of Heating Oil; 174 tonnes of Nickel; 385 thousand troy ounces of Silver; 10.8 million pounds of Soybean Oil; 1.7 million bushels of Wheat; 17.8 thousand fine troy ounces of Gold; 5.4 million pounds of Cotton.

A schedule of all foreign derivatives outstanding at June 30, 2022 is presented below by currency (dollars in thousands):

	Fair Value of Foreign Currency Contracts, Assets (Liabilities) As of June 30, 2022			
Currency	Forwards Currency Contracts	Spot Currency Contracts	Foreign Equity Futures	Total
Australian Dollar	$ (772)	$ 2	$ (27)	$ (797)
Brazilian Real		(10)		(10)
British Pound Sterling	(161)		(30)	(191)
Canadian Dollar	(133)			(133)
Chilean Peso	2			2
Chinese Yuan	(12)			(12)
Euro	999	(5)	(123)	871
Hong Kong Dollar	(15)			(15)
Hungarian Forint		(2)		(2)
Indian Rupee	4			4
Israeli Shekel	(178)			(178)
Japanese Yen	(727)	(53)	(93)	(873)
Kuwaiti Dinar	2			2
Malaysian Ringgit	5			5
Mexican Peso	(2)	4		2
New Taiwan Dollar	5			5
New Zealand Dollar	(253)	(2)		(255)
Norwegian Krone	(18)			(18)
Philippine Peso	(10)			(10)
Polish Zloty		(1)		(1)
Quatari Riyal	(2)			(2)
Singapore Dollar	(350)			(350)
South African Rand	(6)	(4)		(10)
South Korean Won	323	(2)		321
Swedish Krona	(757)	(1)		(758)
Swiss Franc	(315)	(7)		(322)
Thai Baht	(10)	(1)		(11)
Turkish Lira	(5)			(5)
Total	$ (2,386)	$ (82)	$ (273)	$ (2,741)

B. Investment Derivative Instruments – Derivative instruments are securities that derive value from another asset and are in the form of a contract between two or more parties. Common derivatives are futures contracts, forward contracts, options, and swaps.

The Pool maintained by the Department has investments in equity and commodity futures, foreign currency forward, and spot currency contracts. All of these derivative instruments are designated as investment derivative instruments; they are used to implement portfolio strategies, capture valuation opportunities, and to exploit market inefficiencies. The primary risks managed by using these derivative instruments include foreign exchange rate and market price risks.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on underlying principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk.

Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible non-performance of one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such a loss is remote. In addition to forward currency contracts, the Pool also utilizes spot currency contracts. Spot currency contracts are used primarily for trade settlement and currency repatriation.

As of June 30, 2022, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a rating of no less than BBB by one of the nationally recognized ratings agencies.

C. **Synthetic Guaranteed Investment Contracts –** In the Supplemental Retirement Income Plan of North Carolina, (401(k) Plan), there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is one SGIC with Prudential Insurance Company of America (Prudential), one SGIC with Nationwide Life Insurance Company (Nationwide Life), one SGIC with American General Life Insurance Company (American General), and one SGIC with Transamerica Life Insurance Company (Transamerica), which are all fully benefit responsive. For the year ended December 31, 2021, the SGICs provided an average credit rating yield of 2.26%, 1.76%, 1.84%, and 1.91%, respectively. The fair value of the securities covered by the contracts as of December 31, 2021, is $1.79 billion and the contract value is $1.76 billion. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, 457 Plan, there are SGICs within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is one SGIC with Prudential, one SGIC with Nationwide Life, one SGIC with American General and one SGIC with Transamerica, which are fully benefit responsive. For the year ended December 31, 2021, the SGICs provided an average credit rating yield of 2.26%, 1.76%, 1.84%, and 1.91%, respectively. The fair value of the securities covered by the contracts as of December 31, 2021, is $346 million and the contract value is $339 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan have entered into wrap contracts with Prudential, Nationwide Life, American General and Transamerica to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential, Nationwide Life, American General and Transamerica were determined to have no fair value.

NOTE 4 - RECEIVABLES

Accounts receivable for the fiduciary funds at June 30, 2022 were as follows (dollars in thousands):

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Pension and Other Employee Benefits Trust Fund			
Total Accounts Receivables	$ 39,178	$ (7,158)	$ 32,020

NOTE 5 - CAPITAL ASSETS

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2022 is presented as follows (dollars in thousands):

	Balance July 1, 2021 (As Restated)[1]	Additions	Disposals	Balance June 30, 2022
Capital Assets, Depreciable				
Right-to-Use Leased Buildings	$ 22,306	$ 0	$ 1,023	$ 21,283
Equipment	6,040	250	105	6,185
Computer Software	23,877			23,877
Total Capital Assets, Depreciable	52,223	250	1,128	51,345
Less Accumulated Depreciation/Amortization for				
Right-to-Use Leased Buildings		1,593	110	1,483
Equipment	2,354	307	46	2,615
Computer Software	13,860	1,156		15,016
Total Accumulated Depreciation/Amortization	16,214	3,056	156	19,114
Total Capital Assets, Depreciable, Net	$ 36,009	$ (2,806)	$ 972	$ 32,231

[1]As of July 1, 2021, the Department implemented GASB Statement No. 87, Leases. The governmental funds' capital assets beginning balance was impacted as a result of the implementation

Capital assets, which include property, plant, and equipment, are reported as expenditures in the governmental funds. Consequently, capital asset balances are not reported on the face of the governmental funds' financial statements.

Generally, capital assets are defined by the Department as assets with an initial value or cost greater than or equal to $5,000 and an estimated useful life of two or more years, except for internally generated computer software and other intangible assets, which are capitalized when the value or cost is greater than or equal to $1 million and $100 thousand, respectively. Lease payables are capitalized as a right-to-use asset when the leased asset has a cost of $10,000 or greater and an estimated useful life of more than one year. Right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the leased asset into service.

Depreciation, which is recorded at the statewide level for the governmental fund, is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 30 years for machinery and equipment and for computer software.

Amortization for right-to-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset's estimated useful life, unless the lease contains a purchase option the Department is reasonably certain will be exercised. In those instances, the right-to-use leased asset is amortized over the asset's estimated useful life.

At year end, the total amount of leased assets was $21.28 million, and the related accumulated amortization was $1.48 million.

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2022 is presented as follows (dollars in thousands):

Governmental Fund - General Fund	Balance July 1, 2021 (as Restated)[1]	Additions	Reductions	Balance June 30, 2022	Due Within One Year
Leases Payable	$ 22,306	$ 0	$ (2,049)	$ 20,257	$ 1,021
Death Benefits Payable	37			37	
Compensated Absences	3,684	2,274	(2,461)	3,497	381
Net Pension Liability	17,747		(10,337)	7,410	
Net OPEB Liability	35,849	6,490		42,339	
Workers' Compensation	374		(16)	358	18
Total Long-term Liabilities	$ 79,997	$ 8,764	$ (14,863)	$ 73,898	$ 1,420

Component Unit - State Health Plan	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Due Within One Year
Compensated Absences	$ 567	$ 351	$ (343)	$ 575	$ 63
Net Pension Liability	2,815		(1,797)	1,018	
Net OPEB Liability	5,438	322		5,760	
Total Long-term Liabilities	$ 8,820	$ 673	$ (2,140)	$ 7,353	$ 63

[1]As of July 1, 2021, the Department implemented GASB Statement No. 87, Leases. The governmental funds' long-term liabilities beginning balance was impacted as a result of the implementation.

Additional information regarding leases payable is included in Note 7.

Additional information regarding the net pension liability is included in Note 12.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

NOTE 7 - LEASES

The Department's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liability June 30, 2022	Current Portion	Lease Terms	Interest Rate
Lessee:					
Right-to-Use Leased Buildings	1	$ 20,257	$ 1,021	14 Years	3.25%

Lease Liability - During the year the Department did not recognize any variable payment amounts.

The Department had commitments under leases before the lease term as follows: a five-year lease agreement, with options to extend, for the right to use the Longleaf Building beginning July 1, 2021, with total payments over the period of $1,662,648.

Future principal and interest lease payments as of June 30, 2022 were as follows (dollars in thousands:

Fiscal Year	Principal	Interest	Total
2023	$ 1,021	$ 643	$ 1,664
2024	1,105	609	1,714
2025	1,192	572	1,764
2026	1,276	532	1,808
2027	1,364	489	1,853
2028-2032	8,326	1,694	10,020
2033-2037	5,973	287	6,260
Total	$ 20,257	$ 4,826	$ 25,083

NOTE 8 - FUND BALANCE

The details of the fund balance classifications for the governmental funds at June 30, 2022 were as follows (dollars in thousands):

	General Fund	Escheat Fund	Debt Proceeds and Interest Fund	Other Governmental Funds	Total
Nonspendable:					
Inventory of Supplies	$ 99	$ 0	$ 0	$ 0	$ 99
Restricted for:					
Debt Service			40,020	2,880	42,900
Higher Education - Student Aid		1,087,089			1,087,089
Capital Projects			122,152		122,152
Committed to:					
General Government	7,181			370	7,551
Transportation				191	191
Unassigned	(238)				(238)
Total Fund Balance	$ 7,042	$ 1,087,089	$ 162,172	$ 3,441	$ 1,259,744

NOTE 9 - REVENUES AND EXPENDITURES FROM/TO OTHER STATE AGENCIES

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2022 were as follows (dollars in thousands):

Revenues from Other State Agencies:

	Purpose	Amount
General Fund		
N.C. Wildlife Resources Commission	Debt Service for Wildlife Certificates of Participation	$ 2,860
Office of State Budget and Management	Coronavirus Relief Funds	400
Office of State Budget and Management	State Capital and Infrastructure Fund	650,245
Office of State Budget and Management	State Fiscal Recovery Funds	1,265
Total		654,770
Escheats Fund		
Office of State Budget and Management	American Rescue Plan Act Funds	33
Total		33
Total Revenues from Other State Agencies		$ 654,803

Expenditures to Other State Agencies:

	Purpose	Amount
General Fund		
Department of Public Safety	Floodplain Map Register of Deeds	$ 4,933
Department of Natural and Cultural Resources	Register of Deeds Proceeds to Cultural Resources	2,242
Office of the State Controller	Residual Register of Deeds Proceeds to be used by General Fund	3,639
Office of State Budget and Management	Legislative Carry-forward	321
Office of State Budget and Management	Encumbrance Carry-forward	150
Total		11,285
Escheats Fund		
N.C. Community Colleges System	Statutory Scholarship Transfer to Community College System	10,921
Department of Military and Veteran's Affairs	Statutory Scholarship Transfer to DOA for Veteran's Scholarship Fund	16,335
Total		27,256
Debt Proceeds and Interest Fund		
Office of State Budget and Management	Transfer Premium Account Balance held by DST to OSBM Projects Account	47,559
Total		47,559
Total Expenditures to Other State Agencies		$ 86,100

NOTE 10 - INTERFUND BALANCES AND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2022 consisted of the following (dollars in thousands):

Transfers Out	Transfers In General Fund
Debt Proceeds and Interest Fund	$ 10,000
Escheats Fund	913
Total	$ 10,913

Transfers are primarily used to (1) transfer revenues and proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) provide unrestricted revenues collected in the General Fund to finance operating and capital programs accounted for in other funds in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management or legislative requirements.

The Department also had intrafund transfers within the General Fund for fiscal years ended June 30, 2022 in the amount of $664 million, which has been eliminated on the governmental fund financial statements. These General Fund transfers primarily consist of transfers for debt service appropriated from the State Capital and Infrastructure Fund, which the Department transfers to the fund authorized to account for the expenditures.

NOTE 11 - THE STATE'S RETIREMENT PLANS ADMINISTERED BY THE DEPARTMENT

The Department administers eight retirement plans as pension trust funds, seven defined benefit public employee retirement plans, as well as a defined contribution plan, which is administered by a third party under the auspices of the Department. Although the assets of the plans directly administered by the Department are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for the administrative costs in accordance with the terms of each plan. Seven of the plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Exhibits J-1 through J-2 and in the Required Supplementary Information (RSI) section of this report. The Supplemental Retirement Income Plan of North Carolina (401(k) Plan) issues separately audited financial statements. Information on how to obtain the 401(k) Plan financial statements is found in Section B.8.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund participate in the Long-term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The Registers of Deeds' Supplemental Pension Fund is invested in the Bond Index External Investment Pool.

The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 2 of this report.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. Teachers' and State Employees' Retirement System

Plan Administration: The Department administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

At June 30, 2022, the number of participating employers were as follows:

State of North Carolina	1
LEAs	116
Charter Schools	55
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
	254

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources, who serve as ex-officio members.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with partial retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary.

The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the "required employer contribution" to be recommended to the General Assembly. The State's and other participating employers' contractually required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. This was equal to the actuarially determined contribution, consisting of 15.74% toward benefits promised as of the beginning of the year, and 0.64% to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.23.(a) of Session Law 2021-180 and paid in December 2021. This amount, combined with plan member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability and administrative expenses.

Refunds of Contributions: Members who have terminated service as contributing members, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by TSERS.

2. Local Governmental Employees' Retirement System

Plan Administration: The Department administers the Local Governmental Employees' Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees, local law enforcement officers of participating local governmental entities, firefighters and rescue squad workers. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly.

At June 30, 2022, the number of participating local governments were as follows:

Cities	427
Counties	100
Special Districts	368
	895

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: LGERS provides retirement, disability and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad workers who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with partial retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The required contribution rates for employers are set periodically and affirmed annually by the LGERS Board of Trustees. The Board establishes a funding policy from which accrued liability rates and normal contribution rates are developed by the consulting actuary for general employees and firefighters as well as for law enforcement officers. The sum of those two rates developed under the funding policy and the past service liability contribution rates, if applicable, is the actuarially determined contribution rate (ADC). Further, the required employer contribution rates set by the Board of Trustees may not be less than the normal contribution rates developed under the established funding policy. For the fiscal year ended June 30, 2022, all employers made contributions of 12.10% of covered payroll for law enforcement officers and 11.35% for general employees and firefighters. These were different than the actuarially determined contributions. The employer contribution rate for law enforcement officers was less than the actuarially determined contribution of 12.94%. The employer contribution rate for general employees and firefighters was greater than the actuarially determined contribution of 11.27%. These amounts, combined with member contributions and investment income, fund the benefits earned by plan members during the year, a payment to reduce the net pension liability, a payment for past service liability, if applicable, and administrative expenses. In addition, employers with an unfunded liability, established when the employer initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only.

Refunds of Contributions: Members who have terminated service as contributing members may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LGERS.

3. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Administration: The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost-sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2022, there were 1,660 participating fire and rescue units.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: FRSWPF provides retirement, disability and survivor benefits. The present retirement benefit is $170 per month. Plan members are eligible to receive the monthly retirement benefit at age 55 with 20 years of fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. Disabled members may be able to receive benefits after attaining age 55 under certain plan provisions. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected. A survivorship benefit for members provides that beneficiaries may receive the same benefit the deceased member would have received beginning when the deceased would have reached age 55, or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability, and administrative expenses are funded by a $10 monthly contribution by the member, investment income and an actuarially based state appropriation developed under a funding policy adopted by the LGERS Board of Trustees, which may recommend an appropriation that is higher than the actuarially determined contribution.

Refunds of Contributions: Members who are no longer eligible or choose not to participate in the fund may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by FRSWPF.

4. Registers of Deeds' Supplemental Pension Fund

Plan Administration: The Department administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2022, there were 100 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members.

Benefits Provided: An individual's eligibility to receive benefits under the RODSPF is based on at least 10 years of service as a register of deeds. An individual's benefit amount in a given year is limited to the lesser of the following:

1. The member's years of service multiplied by the value of one share of accumulated contributions available for benefits for that year, as specified in General Statute 161-50.3; and

2. The benefit amount is limited to the lesser of the following:

   a. Seventy-five percent (75%) of a member's annual compensation, computed on the latest monthly rate (including any and all supplements); for registers of deeds who began serving after September 10, 2009, this 75% limit is applied to the benefit after combining the benefit with the maximum retirement allowance upon retirement under the Local Governmental Employees' Retirement System or equivalent locally sponsored retirement plan; or

   b. One thousand five hundred dollars ($1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution for the fiscal year ending 2022 is zero. Registers of Deeds do not contribute.

Single-Employer Defined Benefit Plans

5. Consolidated Judicial Retirement System

Plan Administration: The Department administers the Consolidated Judicial Retirement System (CJRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders, and clerks of court. Benefit provisions are established by General Statute 135-58 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: The plan provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's final compensation times the member's years of creditable service. The percentage used is determined by the position held by the member. A member's final compensation is the annual equivalent of the rate of compensation most recently applicable to the retiree as a member of the Retirement System. Plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, or at age 50 with 24 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with five years of membership service. The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate developed by the consulting actuary. The Board of Trustees must recommend a contribution rate that is no less than the actuarially determined rate. The Board of Trustees may adopt a contribution rate policy that results in a recommendation greater than the actuarially determined rate. The State's contractually required contribution for the year ended June 30, 2022 was 40.02% of covered payroll. This was equal to the actuarially determined contribution, consisting of 38.70% toward benefits promised as of the beginning of the year, and 1.32% to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.23.(b) of Session Law 2021-180 and paid in December 2021. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability, and administrative expenses.

Refunds of Contributions: Members who have terminated service as contributing members may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by CJRS.

6. Legislative Retirement System

Plan Administration: The Department administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the TSERS or CJRS. Benefit provisions are established by General Statute 120-4.21 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: LRS provides retirement, disability, and survivor benefits. Retirement benefits are determined as 4.02% of the highest annual compensation as a member of the General Assembly times years of creditable service. A member's highest annual compensation is the 12 consecutive months of salary authorized during the member's final legislative term for the highest position ever held as a member of the General Assembly. Plan members are eligible to retire with full retirement benefits at age 65 after five years of service. Plan members are eligible to retire with partial retirement benefits at age 60 after five years of service or at age 50 with 20 years of service. Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of contributing members of the General Assembly who die while in active service. The beneficiary will receive a return of the member's contributions with interest. If the member dies while in active service after 12 years of creditable service or after reaching age 60 with five years of service, the surviving beneficiary may choose to receive a lifetime monthly benefit instead of a return of contributions with interest. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the consulting actuary. The annual contributions by the State in a given year when combined with the LRS assets in the pension accumulation fund at the beginning of the year may not be less than the projected retirement allowances and other expected benefits to be paid during that year. For the fiscal year ended June 30, 2022, the State's contractually required contribution was 28.43% of covered payroll. This was equal to the actuarially determined contribution, consisting of 27.15% toward benefits promised as of the beginning of the year, and 1.28% to satisfy the cost of the one-time cost of living supplement for retirees enacted through Section 39.23(c) of Session Law 2021-180 and paid in December 2021. This amount, combined with member contributions and investment income, funds the benefits earned by plan members during the year, a payment to reduce the net pension liability, and administrative expenses.

Refunds of Contributions: Members who have terminated service as contributing members may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LRS.

7. North Carolina National Guard Pension Fund

Plan Administration: The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent, and the Director of the Office of State Human Resources who serve as ex-officio members.

Benefits Provided: NGPF provides a pension of $105 per month for 20 years of creditable military service with an additional $10.50 per month for each additional year of such service; provided; however, that the total pension shall not exceed $210 per month. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits earned during the year, a payment to reduce the net pension liability, and administrative expenses are funded by investment income and an actuarially determined state appropriation based on the actuarially determined contribution amount developed by the consulting actuary. The Board of Trustees must recommend a contribution amount that is no less than the actuarially determined amount. The Board of Trustees may adopt a contribution policy that results in a recommendation greater than the actuarially determined amount. NGPF members do not contribute.

Defined Contribution Plan

8. IRC Section 401(K) Plan

Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) in accordance with *Internal Revenue Code (IRC) Section 401(k*). The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department of State Treasurer (the Department) have the responsibility for administering the 401(k) Plan according to the plan document, the North Carolina General Statutes, and the IRC, with the Department serving as the primary administrator carrying out the provisions of the plan, as directed by the Board. The Board and the Department have entered into an agreement with Prudential Retirement Insurance and Annuity Company (Prudential) to perform recordkeeping, administration and education services. On April 1, 2022, Empower acquired the full service retirement business of Prudential. The full migration to the Empower platform is expected to be completed by the end of the 2023 calendar year.

All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC, law enforcement officers as defined under North Carolina General Statutes 143-166.30 and 143-166.50, and individuals who are required under the IRC to be eligible for participation in the 401(k) Plan, are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. The assets of the 401(k) Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. All contributions and earnings are immediately vested in the name of each participant, subject to the felony forfeiture provisions for law enforcement officers in General Statutes 143-166 30(g1) and 143-165 50(e2). At December 31, 2021, there were approximately 274,400employees enrolled with 1,046 participating employers.

The 401(k) Plan is a defined contribution pension plan and benefits of the Plan depend solely on amounts contributed to the plan plus investment earnings, net of expenses. Members of the 401(k) Plan may receive their benefits upon retirement, termination, hardship, death, or the attainment of age 59 ½.

Participants may choose from several withdrawal options, including systematic withdrawals, full or partial lump-sum withdrawals, or transfer of their balance to an eligible employer-sponsored retirement plan or IRA.

Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2021, are presented in this financial report as a pension and other employee benefit trust fund. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. The 401(k) Plan's financial statements are available online at myNCretirement.com or by contacting the

North Carolina Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statutes 143-166.30 and 143-166.50 require employer contributions to the 401(k) Plan to provide benefits for all law enforcement officers (LEOs) employed by State and local governments. Participation begins at the date of employment. Employers are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. In addition, State law enforcement officers receive a contribution into the 401(k) equal to a pro rata share of $0.50 for each court cost assessed and collected under General Statute 7A-304, while $1.25 of this assessment goes to local law enforcement officers, except Sheriffs. All contributions are immediately vested in the name of each participant, subject to the felony forfeiture provisions for law enforcement officers in General Statutes 143-166.30 (g1) and 143-166.50 (e2). At December 31, 2021, 51 state agencies and component units along with 442 local governmental units outside of the State reporting entity contributed the required 5%. In addition, five state agencies and 501 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 14,324 LEOs actively contributing to the 401(k) Plan and approximately 26,085 LEOs receiving employer contributions as of December 31, 2021.

At June 30, 2022, the 401(k) Plan reported total member contributions of $443.477 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2021, amounted to $293.03 million for the State, $30 million for universities, and $8.97 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for $14.65 million, by universities for $1.5 million, and by the remaining component units, public schools, and community colleges for $448 thousand. In addition, the State contributed $256 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The 401(k) Plan (Supplemental Retirement Plan) discloses a related party transaction in Note 17 of this report. The Supplemental Retirement Plan's investment risks are described in Note 2.

C. Plan Membership

The following table summarizes membership information by plan at the actuarial valuate date:

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	238,652	79,318	14,741	103	792	290	4,766
Inactive Plan Members Entitled to but not yet Receiving Benefits	198,642	93,473	108		57	113	3,222
Active Plan Members	305,271	132,235	42,374	101	569	170	5,620
	742,565	305,026	57,223	204	1,418	573	13,608
Date of Valuation	12/31/2021	12/31/2021	12/31/2021	12/31/2021	12/31/2021	12/31/2021	12/31/2021

D. Investments

Investment Policy: The pension plans' policy regarding the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification and achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

For all plans participating in the External Investment Pool, the following table displays the adopted asset allocation policy as of June 30, 2022:

Asset Class	Target Allocation
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Opportunistic Fixed Income	7%
Inflation Sensitive	6%
Total	100%

The Registers of Deeds' Supplemental Pension fund is 100% invested in the Bond Index External Investment Pool as of June 30, 2022.

Rate of Return: For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Money-weighted Rate of Return	(7.18%)	(7.20%)	(7.15%)	(10.13%)	(7.17%)	(7.00%)	(6.90%)

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2022, were as follows (dollars in thousands):

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees'	Local Governmental	Firefighters' and Rescue Squad	Registers of Deeds'	Consolidated Judicial	Legislative	North Carolina National Guard
Total Pension Liability	$ 93,572,242	$ 35,578,561	$ 500,618	$ 33,918	$ 839,335	$ 30,150	$ 150,054
Plan Fiduciary Net Position	78,730,004	29,937,133	480,956	47,158	664,764	28,620	165,381
Net Pension Liability (Asset)	$ 14,842,238	$ 5,641,428	$ 19,662	$ (13,240)	$ 174,571	$ 1,530	$ (15,327)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	84.14%	84.14%	96.07%	139.04%	79.20%	94.93%	110.21%

Actuarial Assumptions: The total pension liability was determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2022, utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2021 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (1)	Local Govern-mental (1)	Firefighters' and Rescue Squad	Registers of Deeds' (1)	Consolidated Judicial (1)	Legislative (1)	North Carolina National Guard
Valuation date	12/31/21	12/31/21	12/31/21	12/31/21	12/31/21	12/31/21	12/31/21
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Salary Increases	3.25-8.05%	3.25-8.25%	N/A	3.25-8.25%	3.25-4.75%	3.25%	N/A
Investment Rate of Return (2)	6.50%	6.50%	6.50%	3.00%	6.50%	6.50%	6.50%

(1) - Salary increases include 3.25% inflation and productivity factor
(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.
N/A - Not Applicable

In December 2021 for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS, and LRS as of September 1, 2021 received a one-time cost-of-living supplement payment, equal to 2% of the beneficiary's annual retirement allowance.

Benefit recipients of the TSERS, CJRS, and LRS will receive a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid by October 2022, as granted by the North Carolina General Assembly for the fiscal year ending June 30, 2023. LGERS benefit recipients will receive a one-time benefit supplement payment equal to 2% of the member's annual benefit amount for the fiscal year ending June 30, 2023, paid by October 2022. The one-time supplements do not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

The retirement plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy in Section D), are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index External Investment Pool as of June 30, 2022 is 0.78%.

Discount Rate: At December 31, 2021, the discount rate used to measure the total pension liability was 6.5% except for Registers of Deeds' Supplemental Pension Fund which was 3%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined.

Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Plans' Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plans at June 30, 2022, calculated using the discount rate of 6.5% (3% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.5%; RODSPF 2%) or 1 percentage point higher (7.5%; RODSPF 4%) than the current rate (dollars in thousands):

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Cost-Sharing, Multiple-Employer			
TSERS' Net Pension Liability	$ 26,241,833	$ 14,842,238	$ 5,432,784
LGERS' Net Pension Liability	10,182,051	5,641,428	1,899,691
FRSWPF's Net Pension Liability (Asset)	83,428	19,662	(32,480)
Single-Employer			
CJRS' Net Pension Liability	$ 262,462	$ 174,571	$ 99,648
LRS' Net Pension Liability (Asset)	4,335	1,530	(870)
NCNG's Net Pension Liability (Asset)	2,485	(15,327)	(29,932)

	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
Cost-Sharing, Multiple-Employer			
RODSPF's Net Pension Asset	$ (9,353)	$ (13,240)	$ (16,513)

NOTE 12 - PENSION PLANS: EMPLOYER REPORTING

The Teachers' and State Employees' Retirement System (TSERS) plan's financial information, including all information about the plan's administration, benefits provided, contributions, basis of accounting, methods used to value TSERS, assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position is discussed in Note 11 of this report.

Contributions: The Department's and the State Health Plan's contractually-required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. The Department's contributions to the pension plan were $4.29 million, and plan member's contributions were $1.57 million for the year ended June 30, 2022. The State Health Plan's contributions to the pension plan were $633 thousand and plan member contributions were $232 thousand for the year ended June 30, 2022.

Net Pension Liability: At June 30, 2022, the Department reported $7.41 million and the State Health Plan reported $1.02 million for their proportionate shares of the collective net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Department's and the State Health Plan's proportion of the net pension liability was based on a projection of the present value of future salaries for the Department (including the State Health Plan) relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.15824%, which was a total increase of 0.01135 from its proportion measured as of June 30, 2020, which was 0.14689%. The State Health Plan's proportion was 0.02174%, which was a total decrease of 0.00156 from its proportion measured as of June 30, 2020, which was 0.02330%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2020
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (the measurement date) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2021 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) than the current rate (dollars in thousands):

	Net Pension Liability (Asset)		
	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Department	$ 24,855	$ 7,410	$ (7,092)
State Health Plan	$ 3,415	$ 1,018	$ (974)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2022, the Department recognized a pension expense of $2.12 million. The State Health Plan recognized a pension expense of $301 thousand. At June 30, 2022, the Department and the State Health Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

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

	Department		State Health Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 417	$ 168	$ 57	$ 23
Changes of Assumptions	2,779		382	
Net Difference Between Projected and Actual Earnings on Plan Investments		9,181		1,261
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,022	94	108	127
Contributions Subsequent to the Measurement Date	4,292		633	
Total	$ 8,510	$ 9,443	$ 1,180	$ 1,411

The amounts of $4,291,980 and $632,857 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized as pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ending June 30:	Department	State Health Plan
2023	$ (655)	$ (64)
2024	(745)	(190)
2025	(1,010)	(223)
2026	(2,816)	(387)
2027		
Total	$ (5,226)	$ (864)

NOTE 13 - DEFERRED COMPENSATION PLANS

A. IRC Section 457 Plan

General Statute 143B-426.24 authorized the creation of the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) to offer a uniform deferred compensation plan to the employees of the State, any county or municipality, the North Carolina Community College System, any political subdivision of the State, and any other entity whose employees are eligible to participate in the plan pursuant to the North Carolina General Statutes and Internal Revenue Code (IRC). The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department have the responsibility for administering the 457 Plan according to the plan document, the North Carolina General Statutes, and Internal Revenue Code (IRC) Section 457, with the Department serving as the primary administrator carrying out the provisions of the plan, as directed by the Board. The Board and the Department have entered into an agreement with Prudential Retirement Insurance and Annuity Company (Prudential) to perform recordkeeping, administration, and education services. On April 1, 2022, Empower acquired the full service retirement business of Prudential and the full migration to the Empower platform is expected to be completed by the end of the 2023 calendar year. At December 31, 2021, there were approximately 56,730 plan members with 585 employers adopting the 457 Plan.

The 457 Plan is a defined contribution plan. Benefits of the 457 Plan depend solely on amounts contributed to the plan plus investment earnings net of expenses. The assets of the 457 Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. As of June 30, 2022, the deferred compensation is available to employees upon separation from service, death, retirement, financial hardship, or attainment of age 59½. All costs of administering and funding the 457 Plan are the responsibility of the plan participants.

The audited statements for the year ended December 31, 2021 are presented in this financial report as a pension and other employee benefit trust fund. The 457 Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential provides third party administration of the 457 Plan. The 457 Plan's financial statements are available online at myNCRetirement.com or by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 17 of this report. The 457 Plan’s investment risks are described in Note 2.

B. IRC Section 403(B) Plan

The Supplemental Retirement Board of Trustees (the Board) and the Retirement Systems Division of the Department administer the North Carolina Public School Teachers’ and Professional Educators’ Investment Plan (the NC 403(b) Program) pursuant to General Statutes 115C-341.2 and 115D-25.4. The NC 403(b) Program offers investment, recordkeeping, administrative, and communications services to participating employers, which serve as the sponsors of their 403(b)plans. The NC 403(b) Program is available to all local school Boards of Education and community colleges across the State. Each individual employer has the discretion to adopt the NC 403(b) Program. The NC 403(b) Program is designed to provide a low-cost supplemental retirement savings option to public school and community college employees. The Board and the Department have entered into an agreement with Prudential to perform recordkeeping, administration and education services. At the Board's December 2, 2021 meeting, the Board approved a plan to discontinue the NC 403(b) Program. Under this plan, the NC 403(b) Program discontinued the collection of administrative fees from participants effective June 30, 2022. Full discontinuation of the NC 403(b) Program is expected to be effective December 31, 2022. At June 30, 2022, there were 92 school districts enrolled in the NC 403(b) Program with 1,419 employees participating.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

The Department administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for related administrative costs. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Exhibits J-1 through J-2 and in the Required Supplementary Information (RSI) section of this report.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 2.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. Health Benefits

Plan Administration: The Department administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Health Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the financial reporting entity also participate. The Health Plan is reported as a major component unit of the State. Management of the Health Plan is vested in the State Health Plan Board of Trustees, which consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the state Senate, two appointed by the state House of Representatives, and the State Treasurer and the Director of State Budget and Management who serve as ex officio members. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135, Article 1, Section 7 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, Local Education Agencies (LEAs), charter schools and some select local governments that are not part of the financial reporting entity also participate.

At June 30, 2022, the number of participating employers were as follows:

State of North Carolina	1
LEAs	116
Charter Schools	55
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Local governments	11
	265

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are other postemployment benefits (OPEB). The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier. Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan’s total noncontributory premium. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 5 but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repealed retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amended Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF’s benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees’ health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Act. For the fiscal year ended June 30, 2022, the State and the other employers contributed the legislatively mandated 6.29% of covered payroll. This amount, combined with investment income, funds the benefits received during the year. RHBF is reported as an employee benefit trust fund.

2. Disability Income

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program.

At June 30, 2022, the number of participating employers were as follows:

State of North Carolina	1
LEAs	116
Charter Schools	55
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
	254

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

Benefits Provided: Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to becoming disabled or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. A general employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age. A member who is a law enforcement officer is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 55 and completing five years of creditable service as an officer, or (2) at any age with 30 years of creditable service.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS or the University Employees' Optional Retirement Program.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2022, the State and the other employers made a statutory contribution of 0.09% of covered payroll. This was equal to the actuarially determined contribution.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

C. Plan Membership

The following table summarizes membership information by plan at the actuarial valuation date as of December 31, 2021:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Retired members and beneficiaries currently receiving benefits	242,186	N/A
Retired members and survivors of deceased members currently receiving benefits.	N/A	4,757
Terminated members entitled to but not yet receiving benefits	48,413	
Active members	318,849	321,312
Total	609,448	326,069

D. Investments

Investment Policy: The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

The adopted asset allocation policies for the Disability Income Plan of North Carolina are primarily in the Bond Index Investment Pool as of June 30, 2022 as described in Note 2.

The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2022:

Asset Class	Target Allocation
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Opportunistic Fixed Income	7%
Inflation Sensitive	6%
Total	100%

Rate of Return: For the year ended June 30, 2022, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense were:

	Cost-Sharing, Multiple-Employer	
	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Money-weighted Rate of Return	(4.13%)	(9.99%)

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net OPEB Liability of Participating Employers

The components of the net OPEB liability of the participating employers at June 30, 2022, were as follows (dollars in thousands):

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Total OPEB liability	$ 26,557,121	$ 307,964
Plan fiduciary net position	2,810,269	278,216
Net OPEB liability	$ 23,746,852	$ 29,748
Plan fiduciary net position as a percentage of the total OPEB liability	10.58%	90.34%

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
	(1)	(1)
Valuation Date	12/31/2021	12/31/2021
Inflation	2.5%	2.5%
Salary Increases	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return (2)	6.5%	3%
Healthcare Cost Trend Rate - Medical (3)	6% grading down to 5% by 2027	N/A
Healthcare Cost Trend Rate - Prescription Drug (3)	9.5% grading down to 5% by 2031	N/A
Healthcare Cost Trend Rate - Medicare Advantage (3)	0% through 2025, 5% thereafter	N/A
Healthcare Cost Trend Rate - Administrative (3)	3%	N/A

(1) - Salary increases include 3.25% inflation and productivity factor
(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.
(3) - Disability Income Plan of NC eliminated employer reimbursements from the plan
(which included State Health Plan premiums) effective July 1, 2019.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled and not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2022 (see the discussion of the OPEB plans' investment policy in Section D) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.1%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	7.5%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2022 is 0.78%.

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

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for benefits that were effective on or after July 1, 2019.

The actuarial assumptions used in the December 31, 2021 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.54% at June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

The discount rate used to measure the total OPEB liability for DIPNC was 3.08% at June 30, 2022, compared to 3.00% for June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plans' fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.08%, 3.00% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.54% was used during the period that the plan was projected to have no fiduciary net position. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

Sensitivity of the Plans' Net OPEB Liability or Asset to Changes in the Discount Rate: The following presents the net OPEB liability or asset of the plans at June 30, 2022, as well as what the plans' net OPEB liability or asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (dollars in thousands):

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
RHBF Net OPEB Liability	$ 27,971,055	$ 23,746,852	$ 20,296,824

	1% Decrease (2.08%)	Current Discount Rate (3.08%)	1% Increase (4.08%)
DIPNC Net OPEB Liability	$ 36,631	$ 29,748	$ 22,848

Sensitivity of the net OPEB liability or asset to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability or asset would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates at June 30, 2022 (dollars in thousands):

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF Net OPEB Liability	$ 19,547,458	$ 23,746,852	$ 29,175,169

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occuring on or after July 1, 2019. Thus, the sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

NOTE 15 - OPEB PLANS EMPLOYER REPORTING

Other postemployment benefit contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net other postemployment benefits liability, discussed in Note 6 to the financial statements, is not reported on the face of the governmental fund financial statements. However, the net other postemployment benefits liability and asset for State Health Plan is reported on the face of the State Health Plan financial statements.

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC). The financial information, including all information about the plan's administration, benefits provided, basis of accounting, methods used for valuation, assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are discussed in Note 14 of this report.

RHBF Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2022 was 6.29% of covered payroll. The Department's contributions to the OPEB plan were $1.6 million and the State Health Plan's contributions to the OPEB plan were $243 thousand for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (the Plan) transferred $187 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2022, the Department and State Health Plan recognized noncapital contributions for RHBF of $256 thousand and $35 thousand, respectively.

DIPNC Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The

Department's and State Health Plan's contractually-required contribution rate for the year ended June 30, 2022 was 0.09% of covered payroll. The Department's contributions to the OPEB plan were $24 thousand and the State Health Plan's contributions to the OPEB plan were $3 thousand for the year ended June 30, 2022.

Net OPEB Liability or (Asset)

Net OPEB Liability: At June 30, 2022, the Department reported $42.339 million for its proportionate share of the collective net OPEB liability for RHBF and the State Health Plan reported $5.760 million. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's and State Health Plan's proportion of the net OPEB liability was based on the present value of future salaries for the Department (including the State Health Plan) relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.13695%, which was an increase of 0.00772 from its proportion measured as of June 30, 2020, which was 0.12923%. The State Health Plan's proportion was 0.01863%, which was a decrease of 0.00097 from its proportion measured as of June 30, 2020, which was 0.01960%.

Net OPEB Asset: At June 30, 2022, the Department reported $23 thousand for its proportionate share of the collective net OPEB asset for DIPNC and the State Health Plan reported $3 thousand. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's and State Health Plan's proportion of the net OPEB asset was based on the present value of future salaries for the Department (including the State Health Plan) relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.13825%, which was an increase of 0.01147 from its proportion measured as of June 30, 2020, which was 0.12678%. The State Health Plan's proportion was 0.01922%, which was a decrease of 0.00129 from its proportion measured as of June 30, 2020, which was 0.02051%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return is net of OPEB plan investment expense, including inflation.
N/A - Not Applicable

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement date) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

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

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

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

The actuarial assumptions used in the December 31, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Department's and State Health Plan's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate (dollars in thousands):

Net OPEB Liability (Asset)	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF Net OPEB Liability:			
Department	$ 50,362	$ 42,339	$ 35,841
State Health Plan	$ 6,851	$ 5,760	$ 4,876
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC Net OPEB Asset:			
Department	$ (14)	$ (23)	$ (30)
State Health Plan	$ (2)	$ (3)	$ (4)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the Department and State Health Plan, as well as what the proportionate share of the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates (dollars in thousands):

Net OPEB Liability (Asset)	1% Decrease (Medical - 4.% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4% Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5% Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6% Administrative - 4%)
RHBF Net OPEB Liability:			
Department	$ 34,287	$ 42,339	$ 53,020
State Health Plan	$ 4,664	$ 5,760	$ 7,213
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%) Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5.% - 6%, Pharmacy - 5% - 9.5%) Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%) Administrative - 4%)
DIPNC Net OPEB Asset:			
Department	$ (24)	$ (23)	$ (21)
State Health Plan	$ (3)	$ (3)	$ (3)

OPEB Expense: For the fiscal year ended June 30, 2022, the Department recognized OPEB contra-expense of $390 thousand for RHBF and expense of $53 thousand for DIPNC for a total OPEB contra-expense of $337 thousand. The State Health Plan recognized OPEB expense of $226 thousand for RHBF and $7 thousand for DIPNC for a total OPEB expense of $233 thousand.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2022, the Department's and State Health Plan's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources (dollars in thousands):

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

	Department			State Health Plan		
	RHBF	DIPNC	Total	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 250	$ 58	$ 308	$ 34	$ 8	$ 42
Changes of Assumptions	3,463	4	3,467	471	1	472
Net Difference Between Projected and Actual Earnings on Plan Investments	-	2	2	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,128	31	4,159	1,788	2	1,790
Contributions Subsequent to the Measurement Date	1,648	24	1,672	243	4	247
Total	$ 9,489	$ 119	$ 9,608	$ 2,536	$ 15	$ 2,551

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

	Department			State Health Plan		
	RHBF	DIPNC	Total	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 788	$ -	$ 788	$ 107	$ -	$ 107
Changes of Assumptions	10,289	8	10,297	1,400	1	1,401
Net Difference Between Projected and Actual Earnings on Plan Investments	22	-	22	3	-	3
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,986	20	3,006	700	5	705
Contributions Subsequent to the Measurement Date	-	-	-	-	-	-
Total	$ 14,085	$ 28	$ 14,113	$ 2,210	$ 6	$ 2,216

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (dollars in thousands):

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in OPEB Expense:

	Department		State Health Plan	
Year Ending June 30:	RHBF	DIPNC	RHBF	DIPNC
2023	$ (3,832)	$ 19	$ (242)	$ 2
2024	(2,284)	14	(123)	1
2025	(568)	17	261	1
2026	(559)	8	185	1
2027	1,000	4	3	(1)
Thereafter	-	5	-	1
Total	$ (6,243)	$ 67	$ 84	$ 5

NOTE 16 - RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

A. Employee Benefit Plans

1. State Health Plan

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the Plan. The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. These benefits are extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

The Plan is reported as a major component unit of the State. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self-funded. Medicare retirees also had the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options in calendar year 2021 and in calendar year 2022. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Some of the plans also require an employee or retiree contribution, depending on the plan selected or the employee's or retiree's willingness to participate in wellness activities that reduce employee contributions. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses.

Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2020-21	$ 233,262	$ 3,637,393	$ (3,570,871)	$ 299,784
2021-22	299,784	3,842,672	(3,733,398)	409,058

2. **Death Benefit Plan of North Carolina**

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

Death benefits are provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of $25,000 and to a maximum of $50,000.

For the period July 1, 2021 to June 30, 2022, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.13% of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2021 to June 2022.

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported).

Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2020-21	$ 4,982	$ 63,333	$ (64,047)	$ 4,268
2021-22	4,268	55,192	(55,861)	3,599

3. Disability Income Plan

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System (TSERS) which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60-day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. Short-term benefits during the initial short-term disability period are payable for a period of up to 365 days following the waiting period. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for benefits that were effective on or after July 1, 2019. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days; provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by DIPNC directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Department is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Department for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Department pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year via contract with private insurance companies. The Department pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Department is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Department is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

5. **Other Insurance Held by the Department**

The Department purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Department is covered for losses from employee theft or from robbery by a non-employee. In addition, the Department has purchased a Fine Arts policy through the State, for coverage of property of a fine art nature; an Inland Marine policy covering the property of others held by the Unclaimed Property Division; and a Cyber Liability insurance policy.

NOTE 17 - RELATED PARTIES

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer as Primary Administrator. The Board and Primary Administrator have entered into an agreement with Prudential Financial, Inc. to perform recordkeeping, administration and investment management services for both Plans.

The Plans contract with Galliard, a subsidiary of Allspring Global Investments (Allspring), to act as a delegated fiduciary investment manager for the NC Stable Value Fund. Allspring commenced operations as a result of the acquisition of Wells Fargo Asset Management by GTCR LLC and Reverence Capital Partners, L.P. Galliard, which was included in that transaction, provides collective investment vehicles and custodial and trustee services for the NC Stable Value Fund. Galliard has discretion over the benefit responsive contracts and the underlying investment managers. Galliard also has the authority to invest in securities subject to guidelines in Galliard's contract with the Board and the Department. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, banks or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances. The Galliard contract was amended and restated in February 2018, which included a revision to the investment structure and guidelines and lower fees.

Prudential Retirement, which was acquired by Empower on April 1, 2022, a specialized unit of the Prudential Financial Investment Division, provides recordkeeping and participant services for the Plans. The fee to Prudential is deducted from the participants' account balances.

One of the funds within the NC Fixed Income Fund is a commingled vehicle offered by Prudential Trust Company and managed by Prudential Investment Management, Inc. Jennison

Associates, a registered investment advisory division within Prudential Global Investment Management, manages a portion of the NC Stable Value Fund. Affiliates of Prudential Retirement also are a wrap provider (Prudential Insurance Company of America) and an investment manager (PGIM, Inc.) for the NC Stable Value Fund.

The Bank of New York Mellon serves as the custodian for the Plans and provides global custody services related to the Pooled Account. On April 1, 2021, The Bank of New York Mellon is the custodian of the separately managed accounts of the Stable Value Fund. Fees for custodial services are charged based on a percentage of net asset value and are paid from the assets of the respective funds. The Bank of New York Mellon also provides a short-term cash vehicle for the temporary investment of funds until they are invested on a longer-term basis.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt - 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, 2022, was $1.3 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

B. Pending Litigation and Claims -

Lake v. North Carolina State Health Plan for Teachers and State Employees, et al. - 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 complaint's general argument is that the State established vesting requirements under which, if an employee fulfilled the requirements, the State contracted with them to provide 80/20 coinsurance insurance coverage at no monthly premium for the duration of their retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 coinsurance health plan to which they allegedly had vested rights. The 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) on top of the legal claims.

The State moved to dismiss, and, after a hearing, the trial court denied the motion. On May 19, 2017, the trial court issued an order granting the 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 coinsurance 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 coinsurance 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 petitioned the North Carolina Supreme Court for discretionary review, which was granted on February 26, 2020. After some debate over whether the case would be heard due to technical disqualifications of a majority of the justices, the Court chose to hear the case, and it was argued on October 4, 2021. The Court issued its opinion on March 11, 2022, holding that the plaintiffs did in fact have a vested contractual right to health care benefits in Lake v. State Health Plan for Teachers & State Emps., 380 N.C. 502, 869 S.E.2d 292 (2022). The Court also held that whether the plaintiffs have any damages, and to what extent, is a question that requires further determination at the trial court level. On June 9, 2022, the State filed a petition for certiorari to the United States Supreme Court, requesting review and reversal of the North Carolina Supreme Court's decision due to its misapplication of federal law. On October 3, 2022, the United State Supreme Court denied certiorari, which will return the case to Superior Court in North Carolina for further proceedings.

The State Treasurer has stated that if the original trial court's ruling were to stand 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. As stated above, the existence and any amount of damages is an issue yet to be resolved.

On October 4, 2022, the North Carolina Supreme Court affirmed in part, reversed in part and remanded the Court of Appeals' decision. The Supreme Court concluded that the eligible retired State employees possessed a vested right protected under the Contracts Clause. The Court also held that genuine issues of material fact needed to be resolved in order to answer whether the General Assembly substantially impaired the retired State employees' vested rights. If so, it must be determined whether any such impairment was reasonable and necessary. The Supreme Court remanded to the trial court on these issues.

The matter is currently pending before the superior court on remand. The parties are in the process of discussing additional discovery to be conducted in this case based on the directives from the Supreme Court and developing a case management order to accommodate the issues identified by the Supreme Court. Written and oral discovery is likely to follow. Additionally, in November 2022, plaintiffs reached out to State defendants to entertain a possibility of settlement.

Union County Board of Education v. Board of Trustees, Teachers' and State Employees' Retirement System, et al.; Johnston County Board of Education v. Department of State Treasurer, Retirement Systems Division, et al.; Wilkes County Board of Education v. Department of State Treasurer, Retirement Systems Division, et al.; and Cabarrus County Board of Education v. Board of Trustees, Teachers' and State Employees' Retirement System, et al. - Four local boards of education, including Union, Johnston, Wilkes, and Cabarrus counties, initiated litigation in 2016 challenging the additional employer contributions each was assessed following the retirement of their superintendents. The additional contributions were the result of 2015 legislation that created a Contribution-Based Benefit Cap ("CBBC"), which was put in place to eliminate "pension spiking," the practice of retirement system employers raising individuals' pensions through large late-career pay raises. The law applies to less than 0.75% of retirements and provides that, upon the retirement of a highly compensated employee (average final compensation greater than $100,000, adjusted annually for inflation), if that employee's retirement benefit would be significantly higher than what had already been funded by contributions, the individual employer is required to make up the difference. Prior to the CBBC legislation, the cost of such underfunded retirements was borne by the Retirement System as a whole.

The plaintiffs contended that the factor the TSERS Board was required to adopt (recommended by the Retirement System's actuary and used in the CBBC calculation) must be a "rule" pursuant to the North Carolina Administrative Procedure Act. According to the plaintiffs, the failure of the Board to follow the rulemaking process meant that the school boards did not have to pay the additional contribution. On May 30, 2017, a Wake County Superior Court judge ruled in favor of the plaintiffs, which was affirmed by the Court of Appeals on September 18, 2018. On April 3, 2020, the North Carolina Supreme Court affirmed those decisions in Cabarrus Cty. Bd. of Educ. v. Dep't of State Treasurer, 374 N.C. 3, 839 S.E.2d 814 (2020), yet the rulemaking that the Court said was required had already been completed.

Much related litigation is still underway, including whether such rulemaking was proper, as well as constitutional challenges to the pension spiking statute. On July 2, 2021, Session Law 2021-72 became law; Section 3.2 generally stays the filing of further related litigation for one year. On July 8, 2022, this moratorium was extended through June 30, 2023, via Session Law 2022-70. In July 2022, there were approximately thirty separate pension spiking actions in various stages, many of which had been combined for efficiency. These actions continue to make their way through the judicial system, and further appellate decisions are expected.

As of March 2023, over $66.8 million had been invoiced to various employing agencies statewide. Of that amount, approximately $13.6 million remained outstanding. Whether the North Carolina Retirement Systems will be able to collect the remainder, or whether any amount of what has been collected must be returned, will depend on the final outcome(s) of the litigation mentioned above.

Hughes v. Board of Trustees of the Teachers' and State Employees' Retirement System, et al. - On April 13, 2022, Mr. Michael Hughes of Wake County filed a Class Action Complaint alleging that retirees are entitled to COLAs ("Cost of Living Adjustments") under N.C. Gen. Stat. § 135-5(o), which states in relevant part that "increases in post-retirement allowances shall be comparable to cost-of-living salary increases for active members in light of the differences between the statutory payroll deductions for State retirement contributions, Social Security taxes, State income withholding taxes, and federal income withholding taxes required of each group." In the complaint, the plaintiff included a declaratory judgment claim, a statutory claim, and a breach of contract claim, stating that the COLAs awarded to retirees have not been comparable to the increases awarded to active employees and that this breaches his contract with the State. The purported class that the plaintiff hopes to represent has not yet been certified.

The Department of State Treasurer is handling the defense of this action on behalf of the named defendants. A motion to dismiss was filed July 13, 2022, but was denied on

August 30, 2022. The defendants then filed an answer to the plaintiff's complaint on September 19, 2022.

This case is still in its infancy, and the discovery phase of the litigation is ongoing. For this reason, it is difficult to estimate either the potential damages if the plaintiff were to prevail or the likelihood of him doing so. With that said, almost any payment of COLAs from the three pension plans named in the complaint (TSERS, LGERS, and CJERS) will have an impact of hundreds of millions of dollars. For example, the 2023 Appropriations Act (House Bill 259) proposed by the North Carolina House of Representatives on March 29, 2023, includes a 1% COLA for retirees, and this has an actuarially determined present value of over $600 million. In other words, this is the necessary amount (and included in House Bill 259) to pay for the proposed 1% COLA. Thus, in this case the impact of a decision for the plaintiff would indeed be significant, assuming both that the plaintiff is successful in certifying a class and that the plaintiff's arguments are not meritless.

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Right-to-use leased assets and related liabilities associated with governmental funds are not reported on the face of the financial statements. See Note 5 and Note 6 for details related to leased assets and liabilities, respectively.

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Fees	$ 0	$ 0	$ 8,968	$ 8,968
Services	8,458	8,759	7,129	(1,630)
Contributions	2,000	2,795	2,700	(95)
Administrative Cost Reimbursements	27,904	29,163	25,187	(3,976)
Investment Earnings	30	30	10	(20)
Interest Earnings on Loans	518	511	48	(463)
Revenues from Other State Agencies	663,735	658,322	654,803	(3,519)
Loan Collection of Principal	3,617	3,644	458	(3,186)
Reimbursement of Expenditures from Investment Pool	12,156	12,049	7,404	(4,645)
Miscellaneous Income	13	21	20	(1)
Total Revenues	718,431	715,294	706,727	(8,567)
EXPENDITURES				
State Aid	30,384	30,384	30,384	
Contracted Services	3,063	4,660	2,920	1,740
Personal Services	32,870	33,079	28,813	4,266
Employee Benefits	13,374	13,436	10,850	2,586
Supplies and Materials	258	285	213	72
Travel	266	208	47	161
Communication	563	612	554	58
Utilities	328	332	197	135
Data Processing Services	869	1,125	451	674
Other Services	893	1,011	708	303
Claims and Benefits	2,200	3,400	3,400	
Debt Service:				
Principal Retirement	829,897	860,737	492,690	368,047
Interest and Fees	251,105	255,983	170,935	85,048
Debt Issuance Costs	753	753	424	329
Other Fixed Charges	2,758	3,871	2,773	1,098
Capital Outlay	1,787	1,419	554	865
Insurance	9	87	86	1
Other Expenditures	1,731	1,720	1,680	40
Expenditures to Other State Agencies	322	472	9,492	(9,020)
Total Expenditures	1,173,430	1,213,574	757,171	456,403
Deficiency of Revenues Over Expenditures	(454,999)	(498,280)	(50,444)	447,836
OTHER FINANCING SOURCES (USES)				
State Appropriations	34,284	35,498	36,984	1,486
Refunding Bonds Issued	132,025	132,025	132,025	
Premiums on Bonds Issued	26,218	26,218	26,218	
Pay to Refunded Debt Escrow Agent	(157,790)	(157,790)	(157,790)	
Transfers In	441,831	484,117	26,767	(457,350)
Transfers Out	(21,572)	(21,789)	(14,451)	7,338
Total Other Financing Sources (Uses)	454,996	498,279	49,753	(448,526)
Net Change in Fund Balance	(3)	(1)	(691)	(690)
Fund Balance - July 1	7,835	7,835	7,835	
Fund Balance - June 30	$ 7,832	$ 7,834	$ 7,144	$ (690)

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

	General Fund
Fund Balance (Budgetary Basis) June 30, 2022	$ 7,144
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Accounts Receivable	2
Intergovernmental Receivables	222
Interest Receivable	1
Contributions Receivable	77
Due from Other Funds	32
Due from Component Unit	10
Total Accrued Revenues	344
Accrued Expenditures:	
Accounts Payable	(545)
Other Adjustments:	
Inventories	99
Fund Balance (GAAP Basis) June 30, 2022	$ 7,042

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

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - Escheat Fund
For the Fiscal Year Ended June 30, 2022 — *Exhibit D-2*

(Dollars in Thousands)

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Funds Escheated	$ 180,000	$ 245,237	$ 245,237	$ 0
Investment Earnings (Loss)	13,296	48,123	(327)	(48,450)
Total Revenues	193,296	293,360	244,910	(48,450)
EXPENDITURES				
State Aid	37,287	37,287	37,287	
Contracted Services	6,225	6,273	5,043	1,230
Other Services	8	8		8
Other Fixed Charges	55	55		55
Expenditures to Other State Agencies	27,256	27,256	27,256	
Total Expenditures	70,831	70,879	69,586	1,293
Excess Revenues Over Expenditures	122,465	222,481	175,324	(47,157)
OTHER FINANCING SOURCES (USES)				
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	122,465	222,481	175,324	(47,157)
Fund Balance - July 1	1,003,502	1,003,502	1,003,502	
Fund Balance - June 30	$ 1,125,967	$ 1,225,983	$ 1,178,826	$ (47,157)

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

	Escheat Fund
Fund Balance (Budgetary Basis) June 30, 2022	$ 1,178,826
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Interest Receivable	429
Accrued Expenditures:	
Escheats Claims Payable	(100,000)
Accounts Payable	(200)
Total Accrued Expenditures	(100,200)
Other Adjustments:	
Investments	321,305
Reduction of Escheat Claims Payable	(332,959)
Unrealized Loss on Investments	(17,599)
Timing Differences	
Forward Funded State Aid	37,287
Fund Balance (GAAP Basis) June 30, 2022	$ 1,087,089

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

A. Budgetary Process

The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the original budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was originally certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the final authorized budget amounts.

B. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund and Escheat Fund,* presents comparisons of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

Basis differences. Budgetary fund balance is accounted for on the cash basis of accounting, while GAAP fund balance for governmental funds is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences. A significant variance between budgetary practices and GAAP is any time-restricted appropriations. G.S. 116B-7 requires that a distribution from the Escheat Fund be made to the State Education Assistance Authority for the UNC-Need Based Financial Aid Forward Funding Reserve (Reserve). Section 11.26 of Session Law 2014-100 restricts the use of funds appropriated to the Reserve in the current fiscal year to the subsequent fiscal year. This time-restriction prevented the revenue/expense from being recognized on a GAAP basis, which resulted in the recognition of a deferred inflow of resources (deferred state aid) by the recipient and a deferred outflow of resources (forward funded state aid) by the provider. So while the cash is paid to the recipient in the current fiscal year, it will not be recognized as an expense (by the provider) or revenue (by the recipient) until the subsequent fiscal year.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans
Last Nine Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	**2022**	**2021**	**2020**	**2019**
Total Pension Liability				
Service Cost	$ 1,918,712	$ 1,906,954	$ 1,851,058	$ 1,782,475
Interest	5,874,188	5,857,546	5,663,045	5,460,427
Changes in Benefit Terms	205,169			
Differences Between Expected and Actual Experience	(175,206)	(141,796)	258,502	535,860
Changes of Assumptions		2,341,992		
Benefit Payments, Including Refunds of Member Contributions	(5,324,253)	(5,055,075)	(4,934,999)	(4,835,144)
Net Change in Total Pension Liability	2,498,610	4,909,621	2,837,606	2,943,618
Total Pension Liability - Beginning	91,073,632	86,164,011	83,326,405	80,382,787
Total Pension Liability - Ending (a)	$ 93,572,242	$ 91,073,632	$ 86,164,011	$ 83,326,405
Plan Fiduciary Net Position				
Contributions-Employer	$ 2,761,946	$ 2,373,252	$ 2,055,075	$ 1,915,146
Contributions-Member	1,030,635	981,051	964,544	951,566
Net Investment Income	(6,118,110)	14,023,684	3,050,585	4,514,117
Benefit Payments, Including Refunds of Member Contributions	(5,324,253)	(5,055,075)	(4,934,999)	(4,835,144)
Administrative Expense	(13,945)	(13,870)	(12,910)	(11,815)
Other	2,700	(25)	271	(1,120)
Net Change in Plan Fiduciary Net Position	(7,661,027)	12,309,017	1,122,566	2,532,750
Plan Fiduciary Net Position - Beginning	86,391,031	74,082,014	72,959,448	70,426,698
Plan Fiduciary Net Position - Ending (b)	$ 78,730,004	$ 86,391,031	$ 74,082,014	$ 72,959,448
TSERS's Net Pension Liability - Ending (a) - (b)	$ 14,842,238	$ 4,682,601	$ 12,081,997	$ 10,366,957
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.14%	94.86%	85.98%	87.56%
Covered Payroll	$ 16,861,697	$ 16,057,185	$ 15,844,834	$ 15,582,963
Net Pension Liability as a Percentage of Covered Payroll	88.02%	29.16%	76.25%	66.53%

Local Governmental Employees'	**2022**	**2021**	**2020**	**2019**
Total Pension Liability				
Service Cost	$ 904,200	$ 876,765	$ 841,148	$ 798,120
Interest	2,225,081	2,139,954	2,037,306	1,934,144
Changes in Benefit Terms	33,159			
Differences Between Expected and Actual Experience	(31,778)	296,054	177,954	252,859
Changes of Assumptions		1,125,778		
Benefit Payments, Including Refunds of Member Contributions	(1,732,564)	(1,630,148)	(1,551,217)	(1,472,856)
Net Change in Total Pension Liability	1,398,098	2,808,403	1,505,191	1,512,267
Total Pension Liability - Beginning	34,180,463	31,372,060	29,866,869	28,354,602
Total Pension Liability - Ending (a)	$ 35,578,561	$ 34,180,463	$ 31,372,060	$ 29,866,869
Plan Fiduciary Net Position				
Contributions-Employer	$ 880,449	$ 745,308	$ 640,969	$ 534,107
Contributions-Member	477,001	453,112	436,754	420,437
Net Investment Income	(2,331,589)	5,283,300	1,139,009	1,675,331
Benefit Payments, Including Refunds of Member Contributions	(1,732,564)	(1,630,148)	(1,551,217)	(1,472,856)
Administrative Expense	(5,415)	(5,295)	(4,889)	(4,634)
Other	2,384	1,956	2,061	1,302
Net Change in Plan Fiduciary Net Position	(2,709,734)	4,848,233	662,687	1,153,687
Plan Fiduciary Net Position - Beginning	32,646,867	27,798,634	27,135,947	25,982,260
Plan Fiduciary Net Position - Ending (b)	$ 29,937,133	$ 32,646,867	$ 27,798,634	$ 27,135,947
LGERS's Net Pension Liability - Ending (a) - (b)	$ 5,641,428	$ 1,533,596	$ 3,573,426	$ 2,730,922
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.14%	95.51%	88.61%	90.86%
Covered Payroll	$ 7,570,499	$ 7,166,423	$ 6,914,444	$ 6,665,378
Net Pension Liability as a Percentage of Covered Payroll	74.52%	21.40%	51.68%	40.97%

2018	2017	2016	2015	2014
$ 1,630,323	$ 1,469,395	$ 1,580,544	$ 1,562,846	$ 1,556,027
5,281,004	5,195,104	4,937,464	4,803,766	4,648,995
44,339	449,563	35,605		355,224
815,911	229,339	(190,178)	(278,170)	(345,392)
1,637,700	381,934	1,743,836		
(4,666,391)	(4,545,296)	(4,339,637)	(4,184,410)	(3,989,397)
4,742,886	3,180,039	3,767,634	1,904,032	2,225,457
75,639,901	72,459,862	68,692,228	66,788,196	64,562,739
$ 80,382,787	$ 75,639,901	$ 72,459,862	$ 68,692,228	$ 66,788,196
$ 1,602,901	$ 1,441,194	$ 1,275,003	$ 1,262,988	$ 1,177,341
910,797	894,538	864,151	854,306	825,548
4,885,354	6,656,652	472,174	1,468,624	9,121,005
(4,666,391)	(4,545,296)	(4,339,637)	(4,184,410)	(3,989,397)
(11,604)	(11,265)	(10,217)	(10,646)	(10,762)
181	808	325	393	320
2,721,238	4,436,631	(1,738,201)	(608,745)	7,124,055
67,705,460	63,268,829	65,007,030	65,615,775	58,491,720
$ 70,426,698	$ 67,705,460	$ 63,268,829	$ 65,007,030	$ 65,615,775
$ 9,956,089	$ 7,934,441	$ 9,191,033	$ 3,685,198	$ 1,172,421
87.61%	89.51%	87.32%	94.64%	98.24%
$ 14,869,212	$ 14,440,822	$ 13,934,459	$ 13,803,148	$ $13,548,227
66.96%	54.94%	65.96%	26.70%	8.65%

2018	2017	2016	2015	2014
$ 713,227	$ 656,231	$ 684,288	$ 670,936	$ 654,735
1,838,989	1,803,590	1,707,699	1,628,373	1,555,958
		12,581	65,914	(7,790)
378,665	73,083	50,205	(72,177)	(80,590)
595,781	138,096	183,019		
(1,402,793)	(1,322,277)	(1,251,918)	(1,172,578)	(1,106,799)
2,123,869	1,348,723	1,385,874	1,120,468	1,015,514
26,230,733	24,882,010	23,496,136	22,375,668	21,360,154
$ 28,354,602	$ 26,230,733	$ 24,882,010	$ 23,496,136	$ 22,375,668
$ 492,317	$ 461,329	$ 414,168	$ 408,694	$ 413,175
401,632	391,459	375,572	363,863	346,961
1,789,337	2,413,758	175,189	520,578	3,161,964
(1,402,793)	(1,322,277)	(1,251,918)	(1,172,578)	(1,106,799)
(4,324)	(4,264)	(3,926)	(4,086)	(3,974)
3,081	3,330	3,248	3,285	3,297
1,279,250	1,943,335	(287,667)	119,756	2,814,624
24,703,010	22,759,675	23,047,342	22,927,586	20,112,962
$ 25,982,260	$ 24,703,010	$ 22,759,675	$ 23,047,342	$ 22,927,586
$ 2,372,342	$ 1,527,723	$ 2,122,335	$ 448,794	$ (551,918)
91.63%	94.18%	91.47%	98.09%	102.47%
$ 6,368,275	$ 6,192,808	$ 5,860,574	$ 5,650,694	$ 5,553,383
37.25%	24.67%	36.21%	7.94%	(9.94%)

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans
Last Nine Fiscal Years

(Dollars in Thousands)

Firefighters' and Rescue Squad Workers'	2022	2021	2020	2019
Total Pension Liability				
Service Cost	$ 7,262	$ 7,675	$ 7,733	$ 7,640
Interest	32,013	33,116	32,500	32,140
Changes in Benefit Terms				
Differences Between Expected and Actual Experience	(8,484)	(4,881)	(1,376)	(4,922)
Changes of Assumptions		6,525		
Benefit Payments, Including Refunds of Member Contributions	(30,369)	(30,147)	(29,953)	(29,502)
Net Change in Total Pension Liability	422	12,288	8,904	5,356
Total Pension Liability - Beginning	500,196	487,908	479,004	473,648
Total Pension Liability - Ending (a)	$ 500,618	$ 500,196	$ 487,908	$ 479,004
Plan Fiduciary Net Position				
Contributions-Member	$ 2,318	$ 2,569	$ 2,581	$ 2,770
Contributions-Nonemployer	19,352	19,002	18,652	18,302
Net Investment Income	(37,515)	85,952	18,593	27,363
Benefit Payments, Including Refunds of Member Contributions	(30,369)	(30,147)	(29,953)	(29,502)
Administrative Expense	(975)	(987)	(885)	(1,002)
Other	18	15	14	(18)
Net Change in Plan Fiduciary Net Position	(47,171)	76,404	9,002	17,913
Plan Fiduciary Net Position - Beginning	528,127	451,723	442,721	424,808
Plan Fiduciary Net Position - Ending (b)	$ 480,956	$ 528,127	$ 451,723	$ 442,721
FRSWPF's Net Pension Liability (Asset) - Ending (a) - (b)	$ 19,662	$ (27,931)	$ 36,185	$ 36,283
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.07%	105.58%	92.58%	92.43%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability (Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Registers of Deeds'	2022	2021	2020	2019
Total Pension Liability				
Service Cost	$ 1,107	$ 1,120	$ 1,125	$ 1,117
Interest	1,025	1,134	1,122	1,133
Differences Between Expected and Actual Experience	(360)	308	(124)	(770)
Changes of Assumptions		2,101		
Benefit Payments, Including Refunds of Member Contributions	(1,844)	(1,802)	(1,788)	(1,754)
Net Change in Total Pension Liability	(72)	2,861	335	(274)
Total Pension Liability - Beginning	33,990	31,129	30,794	31,068
Total Pension Liability - Ending (a)	$ 33,918	$ 33,990	$ 31,129	$ 30,794
Plan Fiduciary Net Position				
Contributions-Employer	$ 1,146	$ 1,200	$ 958	$ 950
Net Investment Income	(5,334)	(228)	4,353	3,721
Benefit Payments, Including Refunds of Member Contributions	(1,844)	(1,802)	(1,788)	(1,754)
Administrative Expense	(13)	(14)	(12)	(12)
Net Change in Plan Fiduciary Net Position	(6,045)	(844)	3,511	2,905
Plan Fiduciary Net Position - Beginning	53,203	54,047	50,536	47,631
Plan Fiduciary Net Position - Ending (b)	$ 47,158	$ 53,203	$ 54,047	$ 50,536
RODSPF's Net Pension Asset - Ending (a) - (b)	$ (13,240)	$ (19,213)	$ (22,918)	$ (19,742)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	139.04%	156.53%	173.62%	164.11%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Asset as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, as amended.

2018	2017	2016	2015	2014
$ 7,542	$ 4,841	$ 5,610	$ 5,884	$ 5,710
31,686	31,475	30,035	29,671	29,394
		118		8,770
(121)	2,048	(2,177)	(2,799)	2,714
10,593	2,549	15,577		(16,688)
(31,727)	(29,070)	(27,998)	(26,912)	(25,614)
17,973	11,843	21,165	5,844	4,286
455,675	443,832	422,667	416,823	412,537
$ 473,648	$ 455,675	$ 443,832	$ 422,667	$ 416,823
$ 17,952	$ 2,594	$ 2,778	$ 2,822	$ 2,781
2,790	17,602	13,900	13,900	14,627
29,505	39,928	2,867	8,711	53,842
(31,727)	(29,070)	(27,998)	(26,912)	(25,614)
(885)	(919)	(860)	(1,622)	(1,045)
10	15	18	4	2
17,645	30,150	(9,295)	(3,097)	44,593
407,163	377,013	386,308	389,405	344,812
$ 424,808	$ 407,163	$ 377,013	$ 386,308	$ 389,405
$ 48,840	$ 48,512	$ 66,819	$ 36,359	$ 27,418
89.69%	89.35%	84.94%	91.40%	93.42%
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

2018	2017	2016	2015	2014
$ 1,086	$ 860	$ 579	$ 578	$ 563
1,157	1,164	1,354	1,372	1,342
(1,125)	440	(45)	(558)	302
		7,082		
(1,793)	(1,793)	(1,718)	(1,715)	(1,666)
(675)	671	7,252	(323)	541
31,743	31,072	23,820	24,143	23,602
$ 31,068	$ 31,743	$ 31,072	$ 23,820	$ 24,143
$ 856	$ 869	$ 817	$ 802	$ 817
(230)	(13)	3,722	1,114	2,714
(1,793)	(1,793)	(1,718)	(1,715)	(1,666)
(14)	(19)	(47)	(16)	(18)
(1,181)	(956)	2,774	185	1,847
48,812	49,768	46,994	46,809	44,962
$ 47,631	$ 48,812	$ 49,768	$ 46,994	$ 46,809
$ (16,563)	$ (17,069)	$ (18,696)	$ (23,174)	$ (22,666)
153.31%	153.77%	160.17%	197.29%	193.88%
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Single-Employer, Defined Benefit Pension Plans
Last Nine Fiscal Years

(Dollars in Thousands)

Consolidated Judicial	**2022**	**2021**	**2020**	**2019**
Total Pension Liability				
Service Cost	$ 14,320	$ 19,545	$ 18,869	$ 18,710
Interest	51,397	49,700	48,149	46,838
Changes in Benefit Terms	2,127			
Differences Between Expected and Actual Experience	22,417	2,451	4,583	845
Changes of Assumptions		46,622		
Benefit Payments, Including Refunds of Member Contributions	(53,819)	(50,001)	(48,920)	(46,451)
Net Change in Total Pension Liability	36,442	68,317	22,681	19,942
Total Pension Liability - Beginning	802,893	734,576	711,895	691,953
Total Pension Liability - Ending (a)	$ 839,335	$ 802,893	$ 734,576	$ 711,895
Plan Fiduciary Net Position				
Contributions-Employer	$ 33,428	$ 29,259	$ 26,637	$ 25,636
Contributions-Member	5,470	5,585	5,224	5,151
Net Investment Income	(51,610)	118,772	25,923	38,211
Benefit Payments, Including Refunds of Member Contributions	(53,819)	(50,001)	(48,920)	(46,451)
Administrative Expense	(29)	(34)	(27)	(30)
Other	4			(119)
Net Change in Plan Fiduciary Net Position	(66,556)	103,581	8,837	22,398
Plan Fiduciary Net Position - Beginning	731,320	627,739	618,902	596,504
Plan Fiduciary Net Position - Ending (b)	$ 664,764	$ 731,320	$ 627,739	$ 618,902
CJRS's Net Pension Liability - Ending (a) - (b)	$ 174,571	$ 71,573	$ 106,837	$ 92,993
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.20%	91.09%	85.46%	86.94%
Covered Payroll	$ 83,528	$ 80,294	$ 79,277	$ 75,712
Net Pension Liability as a Percentage of Covered Payroll	209.00%	89.14%	134.76%	122.82%

Legislative	**2022**	**2021**	**2020**	**2019**
Total Pension Liability				
Service Cost	$ 796	$ 1,034	$ 1,058	$ 1,088
Interest	1,925	2,053	2,051	2,052
Changes in Benefit Terms	94			
Differences Between Expected and Actual Experience	(281)	(815)	(617)	(596)
Changes of Assumptions		(353)		
Benefit Payments, Including Refunds of Member Contributions	(2,358)	(2,516)	(2,388)	(2,732)
Net Change in Total Pension Liability	176	(597)	104	(188)
Total Pension Liability - Beginning	29,974	30,571	30,467	30,655
Total Pension Liability - Ending (a)	$ 30,150	$ 29,974	$ 30,571	$ 30,467
Plan Fiduciary Net Position				
Contributions-Employer	$ 1,029	$ 987	$ 956	$ 809
Contributions-Member	253	253	253	257
Net Investment Income	(2,183)	5,162	1,151	1,726
Benefit Payments, Including Refunds of Member Contributions	(2,358)	(2,516)	(2,388)	(2,732)
Administrative Expense	(15)	(13)	(13)	(14)
Other	(1)		6	(50)
Net Change in Plan Fiduciary Net Position	(3,275)	3,873	(35)	(4)
Plan Fiduciary Net Position - Beginning	31,895	28,022	28,057	28,061
Plan Fiduciary Net Position - Ending (b)	$ 28,620	$ 31,895	$ 28,022	$ 28,057
LRS's Net Pension Liability (Asset) - Ending (a) - (b)	$ 1,530	$ (1,921)	$ 2,549	$ 2,410
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.93%	106.41%	91.66%	92.09%
Covered Payroll	$ 3,619	$ 3,615	$ 3,613	$ 3,611
Net Pension Liability (Asset) as a Percentage of Covered Payroll	42.28%	(53.14%)	70.55%	66.74%

2018	2017	2016	2015	2014
$ 17,192	$ 15,630	$ 16,904	$ 16,812	$ 16,637
45,397	44,837	42,009	40,846	39,405
430	4,349	332		3,031
7,660	2,193	(4,295)	(2,289)	(2,484)
12,836	3,032	26,588		
(43,392)	(42,053)	(40,462)	(38,364)	(35,428)
40,123	27,988	41,076	17,005	21,161
651,830	623,842	582,766	565,761	544,600
$ 691,953	$ 651,830	$ 623,842	$ 582,766	$ 565,761
$ 23,988	$ 19,592	$ 18,908	$ 18,949	$ 21,390
5,706	7,399	7,561	6,238	5,598
41,123	55,762	3,972	12,176	74,294
(43,392)	(42,053)	(40,462)	(38,364)	(35,428)
(24)	(37)	(73)	(30)	(48)
			1	3
27,401	40,663	(10,094)	(1,030)	65,809
569,103	528,440	538,534	539,564	473,755
$ 596,504	$ 569,103	$ 528,440	$ 538,534	$ 539,564
$ 95,449	$ 82,727	$ 95,402	$ 44,232	$ 26,197
86.21%	87.31%	84.71%	92.41%	95.37%
$ 77,255	$ 66,504	$ 69,489	$ 69,638	$ 76,367
123.55%	124.39%	137.29%	63.52%	34.30%

2018	2017	2016	2015	2014
$ 1,006	$ 872	$ 822	$ 844	$ 747
2,028	2,056	1,708	1,742	1,678
24	215	22		146
207	(122)	(520)	(579)	762
511	121	5,151		
(2,531)	(2,437)	(2,430)	(2,473)	(2,614)
1,245	705	4,753	(466)	719
29,410	28,705	23,952	24,418	23,699
$ 30,655	$ 29,410	$ 28,705	$ 23,952	$ 24,418
$ 689	$ 675	$ 65	$ 0	$ 0
253	253	253	253	253
1,975	2,744	181	642	4,293
(2,531)	(2,437)	(2,430)	(2,473)	(2,614)
(14)	(18)	(53)	(17)	(37)
372	1,217	(1,984)	(1,595)	1,895
27,689	26,472	28,456	30,051	28,156
$ 28,061	$ 27,689	$ 26,472	$ 28,456	$ 30,051
$ 2,594	$ 1,721	$ 2,233	$ (4,504)	$ (5,633)
91.54%	94.15%	92.22%	118.80%	123.07%
$ 3,618	$ 3,705	$ 3,616	$ 3,611	$ 3,608
71.70%	46.45%	61.75%	(124.73%)	(156.13%)

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net Pension Liability and Related Ratios
Single-Employer, Defined Benefit Pension Plans
Last Nine Fiscal Years

(Dollars in Thousands)

North Carolina National Guard	**2022**	**2021**	**2020**	**2019**
Total Pension Liability				
Service Cost	$ 196	$ 276	$ 315	$ 327
Interest	11,070	11,097	11,746	12,368
Changes in Benefit Terms				
Differences Between Expected and Actual Experience	(26,734)	4,599	(12,364)	(12,701)
Changes of Assumptions		4,601		
Benefit Payments, Including Refunds of Member Contributions	(9,049)	(8,915)	(9,018)	(8,736)
Net Change in Total Pension Liability	(24,517)	11,658	(9,321)	(8,742)
Total Pension Liability - Beginning	174,571	162,913	172,234	180,976
Total Pension Liability - Ending (a)	$ 150,054	$ 174,571	$ 162,913	$ 172,234
Plan Fiduciary Net Position				
Contributions-Member				
Contributions-Nonemployer	$ 11,032	$ 11,032	$ 11,032	$ 9,072
Net Investment Income	(12,272)	27,365	5,871	8,463
Benefit Payments, Including Refunds of Member Contributions	(9,049)	(8,915)	(9,018)	(8,736)
Administrative Expense	(91)	(94)	(83)	(13)
Other	(4)	1	1	(16)
Net Change in Plan Fiduciary Net Position	(10,384)	29,389	7,803	8,770
Plan Fiduciary Net Position - Beginning	175,765	146,376	138,573	129,803
Plan Fiduciary Net Position - Ending (b)	$ 165,381	$ 175,765	$ 146,376	$ 138,573
NGPF's Net Pension Liability (Asset) - Ending (a) - (b)	$ (15,327)	$ (1,194)	$ 16,537	$ 33,661
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	110.21%	100.68%	89.85%	80.46%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability (Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, as amended.

2018	2017	2016	2015	2014
$ 304	$ 305	$ 593	$ 550	$ 512
12,288	11,975	10,700	9,916	9,330
			8,734	5,752
(1,748)	1,204	30	(198)	192
3,926	955	15,149		
(8,766)	(8,677)	(8,512)	(7,958)	(7,502)
6,004	5,762	17,960	11,044	8,284
174,972	169,210	151,250	140,206	131,922
$ 180,976	$ 174,972	$ 169,210	$ 151,250	$ 140,206
$ 8,923	$ 8,517	$ 7,066	$ 6,039	$ 7,007
8,766	11,626	842	2,493	14,942
(8,766)	(8,677)	(8,512)	(7,958)	(7,502)
(249)	(168)	(97)	(75)	(73)
2		1		1
8,676	11,298	(700)	499	14,375
121,127	109,829	110,529	110,030	95,655
$ 129,803	$ 121,127	$ 109,829	$ 110,529	$ 110,030
$ 51,173	$ 53,845	$ 59,381	$ 40,721	$ 30,176
71.72%	69.23%	64.91%	73.08%	78.48%
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer and Nonemployer Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

(Dollars in Thousands)

	2022	2021	2020	2019	2018
Teachers' and State Employees'					
Actuarially Determined Contribution	$ 2,761,946	$ 2,373,252	$ 2,055,075	$ 1,915,146	$ 1,565,728
Contributions in Relation to the Actuarially Determined Contribution (1)	2,761,946	2,373,252	2,055,075	1,915,146	1,602,901
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ (37,173)
Covered Payroll	$ 16,861,697	$ 16,057,185	$ 15,844,834	$ 15,582,963	$ 14,869,212
Contributions as a Percentage of Covered Payroll	16.38%	14.78%	12.97%	12.29%	10.78%
Local Governmental Employees'					
Actuarially Determined Contribution	$ 886,620	$ 763,653	$ 625,511	$ 512,287	$ 483,559
Contributions in Relation to the Actuarially Determined Contribution (1)	880,449	745,308	640,969	534,107	492,317
Contribution Deficiency (Excess)	$ 6,171	$ 18,345	$ (15,458)	$ (21,820)	$ (8,758)
Covered Payroll	$ 7,570,499	$ 7,166,423	$ 6,914,444	$ 6,665,378	$ 6,368,275
Contributions as a Percentage of Covered Payroll	11.63%	10.40%	9.27%	8.01%	7.73%
Firefighters' and Rescue Squad Workers' (2)					
Actuarially Determined Contribution	$ 15,183	$ 14,846	$ 14,324	$ 14,544	$ 14,287
Contributions in Relation to the Actuarially Determined Contribution (1)	19,352	19,002	18,652	18,302	17,952
Contribution Deficiency (Excess)	$ (4,169)	$ (4,156)	$ (4,328)	$ (3,758)	$ (3,665)
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'					
Actuarially Determined Contribution	$ 0	$ 0	$ 0	$ 0	$ 0
Contributions in Relation to the Actuarially Determined Contribution (1)	1,146	1,200	958	950	856
Contribution Deficiency (Excess)	$ (1,146)	$ (1,200)	$ (958)	$ (950)	$ (856)
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

(1) Contributions in relation to the actuarially determined contribution (ADC) are the same as the contractually required contribution (CRC).
The CRC was the same as the ADC except in years where there is a deficiency (excess).

(2) Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

	2017	2016	2015	2014	2013
	$ 1,438,306	$ 1,210,904	$ 1,262,988	$ 1,177,341	$ 1,078,783
	1,441,194	1,275,003	1,262,988	1,177,341	1,120,482
	$ (2,888)	$ (64,099)	$ 0	$ 0	$ (41,699)
	$ 14,440,822	$ 13,934,459	$ 13,803,148	$ 13,548,227	$ 13,451,164
	9.98%	9.15%	9.15%	8.69%	8.33%
	$ 453,193	$ 393,920	$ 402,429	$ 397,462	$ 370,152
	461,329	414,168	408,694	413,175	383,889
	$ (8,136)	$ (20,248)	$ (6,265)	$ (15,713)	$ (13,737)
	$ 6,192,808	$ 5,860,574	$ 5,650,694	$ 5,553,383	$ 5,421,364
	7.45%	7.07%	7.23%	7.44%	7.08%
	$ 17,705	$ 13,241	$ 13,900	$ 14,620	$ 14,074
	17,602	13,900	13,900	14,627	15,447
	$ 103	$ (659)	$ 0	$ (7)	$ (1,373)
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A
	$ 0	$ 0	$ 0	$ 0	$ 0
	869	817	802	817	937
	$ (869)	$ (817)	$ (802)	$ (817)	$ (937)
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer and Nonemployer Contributions
Single-Employer, Defined Benefit Pension Plans
Last Ten Fiscal Years

(Dollars in Thousands)

	2022	2021	2020	2019	2018
Consolidated Judicial					
Actuarially Determined Contribution	$ 33,428	$ 29,259	$ 26,637	$ 24,947	$ 23,988
Contributions in Relation to the Actuarially Determined Contribution	33,428	29,259	26,637	25,636	23,988
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ (689)	$ 0
Covered Payroll	$ 83,528	$ 80,294	$ 79,277	$ 75,712	$ 77,255
Contributions as a Percentage of Covered Payroll	40.02%	36.44%	33.60%	33.86%	31.05%
Legislative					
Actuarially Determined Contribution	$ 1,029	$ 987	$ 956	$ 809	$ 689
Contributions in Relation to the Actuarially Determined Contribution	1,029	987	956	809	689
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 3,619	$ 3,615	$ 3,613	$ 3,611	$ 3,618
Contributions as a Percentage of Covered Payroll	28.43%	27.30%	26.46%	22.40%	19.04%
North Carolina National Guard*					
Actuarially Determined Contribution	$ 11,032	$ 11,032	$ 11,032	$ 9,072	$ 8,923
Contributions in Relation to the Actuarially Determined Contribution	11,032	11,032	11,032	9,072	8,923
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

* Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

2017	2016	2015	2014	2013
$ 19,592	$ 18,324	$ 18,949	$ 21,390	$ 18,992
19,592	18,908	18,949	21,390	18,992
$ 0	$ (584)	$ 0	$ 0	$ 0
$ 66,504	$ 69,489	$ 69,638	$ 76,367	$ 71,533
29.46%	27.21%	27.21%	28.01%	26.55%
$ 675	$ 65	$ 0	$ 0	$ 0
675	65			
$ 0	$ 0	$ 0	$ 0	$ 0
$ 3,705	$ 3,616	$ 3,611	$ 3,608	$ 3,600
18.22%	1.80%	0.00%	0.00%	0.00%
$ 8,517	$ 7,066	$ 6,039	$ 5,349	$ 5,667
8,517	7,066	6,039	7,007	7,007
$ 0	$ 0	$ 0	$ (1,658)	$ (1,340)
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Investment Returns
All Defined Benefit Pension Plans
Last Nine Fiscal Years ***Exhibit E-4***

Annual Money-Weighted Rate of Return, Net of Investment Expense	2022	2021	2020	2019	2018	2017	2016	2015	2014
Cost Sharing, Multiple-Employer									
Teachers' and State Employees'	(7.18%)	19.13%	4.35%	6.57%	7.61%	10.75%	0.74%	2.27%	15.88%
Local Governmental Employees'	(7.20%)	19.10%	4.34%	6.58%	7.59%	10.74%	0.77%	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	(7.15%)	19.10%	4.33%	6.55%	7.59%	10.76%	0.75%	2.26%	15.62%
Registers of Deeds'	(10.13%)	(0.43%)	8.72%	7.91%	(0.47%)	(0.03%)	8.04%	2.26%	6.04%
Single-Employer									
Consolidated Judicial	(7.17%)	19.13%	4.36%	6.57%	7.60%	10.75%	0.75%	2.27%	15.87%
Legislative	(7.00%)	18.81%	4.30%	6.43%	7.64%	10.72%	0.66%	2.25%	15.91%
North Carolina National Guard	(6.90%)	18.40%	4.28%	6.52%	7.44%	10.63%	0.77%	2.25%	15.63%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, as amended.

	Cost of Living Increase									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Cost-Sharing, Multiple-Employer										
Teachers' and State Employees'	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A
Local Governmental Employees'	N/A	N/A	N/A	N/A	N/A	0.11%	0.63%	N/A	N/A	N/A
Firefighters' and Rescue Squad Workers'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Single-Employer										
Consolidated Judicial	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A
Legislative	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A
North Carolina National Guard (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Beginning in FY 2015, with the implementation of GASB 68, the above table reflects COLA's in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan NPL.

(1) In 2015, basic benefits were increased from $95 to $99 and total potential benefits were increased from $190 to $198. In 2016, basic benefits were increased from $99 to $105 and total benefits were increased from $198 to $210.

N/A - not applicable

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017 and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS and LRS as of July 1, 2016 received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

In December 2021 for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS, and LRS systems as of September 1, 2021 received a one-time cost-of-living supplement payment, equal to 2% of the beneficiary's annual retirement allowance.

Benefit recipients of the TSERS, CJRS, and LRS systems will receive a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid by October 2022, as granted by the North Carolina General Assembly for the fiscal year ending June 30, 2023. LGERS benefit recipients will receive a one-time benefit supplement payment equal to 2% of the member's annual benefit amount for the fiscal year ending June 30, 2023, paid by October 2022.

The one-time supplements do not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Methods and Assumptions used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 11 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: In January 2021, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent review examined each plan's experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund was lowered from 7.00% to 6.50%, and for the Register of Deeds' Supplemental Pension Fund from 3.75% to 3.00%, effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

In 2015, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Supplemental Pension Fund, the Consolidated Judicial

Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund.

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. Also, as a result of market conditions and the allocation of assets in the Register of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%.

As a result of the same Experience Review, the Boards of Trustees also adopted new actuarial cost methods for the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Registers of Deeds' Supplemental Pension Fund. These plans now use the Entry Age Normal cost method to determine plan liabilities and funding requirements. The Boards of Trustees adopted a new asset valuation method for the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The discount rate for Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund was lowered from 7.20% to 7.00% for the December 31, 2017 valuation. For the December 31, 2019 valuation, the discount rate was 7.00%.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
State Health Plan
*Last Nine Fiscal Years** — *Exhibit F-1*

(Dollars in Thousands)

Teachers' and State Employees' Retirement System	2022	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.02174%	0.02330%	0.02284%	0.01619%	0.01948%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,018	$ 2,815	$ 2,368	$ 1,612	$ 1,546
Covered Payroll	$ 3,349	$ 3,475	$ 3,359	$ 2,794	$ 3,255
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	30.40%	81.01%	70.50%	57.70%	47.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.86%	85.98%	87.56%	87.61%	89.51%

	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.01694%	0.01864%	0.02214%	0.01814%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,557	$ 687	$ 259	$ 1,272
Covered Payroll	$ 2,724	$ 2,461	$ 2,973	$ 2,820
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	57.16%	27.92%	8.71%	45.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* , as amended.

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
State Health Plan
Last Nine Fiscal Years* ***Exhibit F-2***

(Dollars in Thousands)

Teachers' and State Employees' Retirement System	**2022**	**2021**	**2020**	**2019**	**2018**
Contractually Required Contribution	$ 633	$ 495	$ 451	$ 413	$ 301
Contributions in Relation to the Contractually Determined Contribution	633	495	416	413	301
Contribution Deficiency (Excess)	$ 0	$ 0	$ 35	$ 0	$ 0
Covered Payroll	$ 3,864	$ 3,349	$ 3,475	$ 3,359	$ 2,794
Contributions as a Percentage of Covered Payroll	16.38%	14.78%	11.96%	12.30%	10.77%

	2017	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 325	$ 249	$ 225	$ 258
Contributions in Relation to the Contractually Determined Contribution	325	249	236	261
Contribution Deficiency (Excess)	$ 0	$ 0	$ (11)	$ (3)
Covered Payroll	$ 3,255	$ 2,724	$ 2,461	$ 2,973
Contributions as a Percentage of Covered Payroll	9.98%	9.14%	9.59%	8.78%

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Changes in the Net OPEB Liability and Related Ratios
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Six Fiscal Years — ***Exhibit G-1***

(Dollars in Thousands)

Retiree Health Benefit	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Total OPEB Liability						
Service Cost	$ 2,131,391	$ 1,974,212	$ 1,824,174	$ 1,539,092	$ 1,753,384	$ 2,650,984
Interest	758,427	690,162	1,203,196	1,192,810	1,261,878	1,332,874
Changes in Benefit Terms	(96,837)		224,085	(72,358)		
Differences Between Expected and Actual Experience	106,923	194,899	30,157	(156,655)	(80,951)	(2,821,033)
Changes of Assumptions	(8,798,881)	1,939,421	(5,489,969)	1,824,892	(6,141,972)	(10,835,144)
Benefit Payments, Including Refunds of Member Contributions	(1,044,121)	(1,100,633)	(1,084,668)	(1,030,956)	(977,176)	(922,021)
Net Change in Total OPEB Liability	(6,943,098)	3,698,061	(3,293,025)	3,296,825	(4,184,837)	(10,594,340)
Total OPEB Liability - Beginning	33,500,219	29,802,158	33,095,183	29,798,358	33,983,195	44,577,535
Total OPEB Liability - Ending (a)	$ 26,557,121	$ 33,500,219	$ 29,802,158	$ 33,095,183	$ 29,798,358	$ 33,983,195
Plan Fiduciary Net Position						
Contributions Employer	$ 1,197,278	$ 1,214,750	$ 1,162,967	$ 1,104,902	$ 1,018,693	$ 950,813
Contributions Other		187,000	475,200			
Net Investment Income	(107,846)	222,377	52,286	71,780	72,384	94,132
Benefit Payments, Including Refunds of Member Contributions	(1,044,121)	(1,100,633)	(1,084,668)	(1,030,956)	(977,176)	(922,021)
Administrative Expense	(174)	(175)	(162)	(215)	(298)	(490)
Other	180,506					
Net Change in Plan Fiduciary Net Position	225,643	523,319	605,623	145,511	113,603	122,434
Plan Fiduciary Net Position - Beginning	2,584,626	2,061,307	1,455,684	1,310,173	1,196,570	1,074,136
Plan Fiduciary Net Position - Ending (b)	$ 2,810,269	$ 2,584,626	$ 2,061,307	$ 1,455,684	$ 1,310,173	$ 1,196,570
Retiree Health Benefit Net OPEB Liability - Ending (a) - (b)	$ 23,746,852	$ 30,915,593	$ 27,740,851	$ 31,639,499	$ 28,488,185	$ 32,786,625
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	10.58%	7.72%	6.92%	4.40%	4.40%	3.52%
Covered Payroll	$ 19,034,634	$ 18,184,883	$ 17,974,758	$ 17,622,035	$ 16,837,901	$ 16,365,112
Net OPEB Liability as a Percentage of Covered Payroll	124.76%	170.01%	154.33%	179.55%	169.19%	200.34%

Disability Income	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Total OPEB Liability						
Service Cost	$ 22,246	$ 23,010	$ 22,708	$ 22,567	$ 25,919	$ 25,441
Interest	9,528	10,969	11,424	13,800	14,654	14,111
Changes of Benefit Terms					(44,158)	(403)
Differences Between Expected and Actual Experience	1,735	15,758	5,137	4,106	48,787	22,345
Changes of assumptions	(552)	(2,935)	2	(4,980)	6,692	
Benefit Payments, Including Refunds of Member Contributions	(40,381)	(47,453)	(55,210)	(61,946)	(69,949)	(71,728)
Net Change in Total OPEB Liability	(7,424)	(651)	(15,939)	(26,453)	(18,055)	(10,234)
Total OPEB Liability - Beginning	315,388	316,039	331,978	358,431	376,486	386,720
Total OPEB Liability - Ending (a)	$ 307,964	$ 315,388	$ 316,039	$ 331,978	$ 358,431	$ 376,486
Plan Fiduciary Net Position						
Contributions Employer	$ 17,019	$ 16,226	$ 17,848	$ 24,468	$ 23,385	$ 61,654
Net Investment Income	(29,145)	(1,292)	28,322	24,725	(1,481)	(122)
Benefit Payments, Including Refunds of Member Contributions	(40,381)	(47,453)	(55,210)	(61,946)	(69,949)	(71,728)
Administrative Expense	(999)	(879)	(835)	(926)	(777)	(1,050)
Other		(113)	(20)		23	32
Net Change in Plan Fiduciary Net Position	(53,506)	(33,511)	(9,895)	(13,679)	(48,799)	(11,214)
Plan Fiduciary Net Position - Beginning	331,722	365,233	375,128	388,807	437,606	448,820
Plan Fiduciary Net Position - Ending (b)	$ 278,216	$ 331,722	$ 365,233	$ 375,128	$ 388,807	$ 437,606
Disability Income's Net OPEB Liability (Asset) - Ending (a) - (b)	$ 29,748	$ (16,334)	$ (49,194)	$ (43,150)	$ (30,376)	$ (61,120)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.34%	105.18%	115.57%	113.00%	108.47%	116.23%
Covered Payroll	$ 18,909,461	$ 18,028,883	$ 17,848,000	$ 17,477,148	$ 16,703,858	$ 16,224,737
Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.16%	(0.09%)	(0.28%)	(0.25%)	(0.18%)	(0.38%)

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

(Dollars in Thousands)

Retiree Health Benefit	**2022**	**2021**	**2020**	**2019**	**2018**
Actuarially Determined Contribution	$ 2,084,130	$ 3,049,625	$ 2,823,873	$ 2,971,069	$ 2,613,258
Contributions in Relation to the Actuarially Determined Contribution (1)	1,197,278	1,214,750	1,162,967	1,104,902	1,018,693
Contribution Deficiency	$ 886,852	$ 1,834,875	$ 1,660,906	$ 1,866,167	$ 1,594,565
Covered Payroll	$ 19,034,634	$ 18,184,883	$ 17,974,758	$ 17,622,035	$ 16,837,901
Contributions as a Percentage of Covered Payroll	6.29%	6.68%	6.47%	6.27%	6.05%
Disability Income					
Actuarially Determined Contribution	$ 17,019	$ 16,226	$ 17,848	$ 22,720	$ 23,385
Contributions in Relation to the Actuarially Determined Contribution (1)	17,019	16,226	17,848	24,468	23,385
Contribution Excess	$ 0	$ 0	$ 0	$ (1,748)	$ 0
Covered Payroll	$ 18,909,461	$ 18,028,883	$ 17,848,000	$ 17,477,148	$ 16,703,858
Contributions as a Percentage of Covered Payroll	0.09%	0.09%	0.10%	0.14%	0.14%

(1) Contributions in relation to the actuarially determined contribution (ADC) are the same as the contractually required contribution (CRC). The CRC was the same as the ADC except in years where there is a deficiency (excess).

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to the Required Supplementary Information (RSI) schedules following the OPEB RSI tables.

Exhibit G-2

2017	2016	2015	2014	2013
$ 2,728,064	$ 2,516,706	$ 2,211,436	$ 2,226,586	$ 2,072,951
950,813	880,847	854,383	815,157	813,223
$ 1,777,251	$ 1,635,859	$ 1,357,053	$ 1,411,429	$ 1,259,728
$ 16,365,112	$ 15,729,411	$ 15,562,532	$ 15,095,500	$ 15,343,830
5.81%	5.60%	5.49%	5.40%	5.30%
$ 24,337	$ 63,963	$ 63,267	$ 65,878	$ 64,969
61,654	63,963	63,267	65,878	64,969
$ (37,317)	$ 0	$ 0	$ 0	$ 0
$ 16,224,737	$ 15,600,732	$ 15,430,976	$ 14,972,273	$ 14,765,682
0.38%	0.41%	0.41%	0.44%	0.44%

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Investment Returns
All Defined Benefit OPEB Plans
Last Six Fiscal Years ***Exhibit G-3***

Annual Money-Weighted Rate of Return, Net of Investment Expense	2022	2021	2020	2019	2018	2017
Retiree Health Benefit	(4.13%)	10.96%	3.80%	5.73%	6.58%	9.31%
Disability Income	(9.99%)	(0.41%)	8.68%	7.74%	(0.42%)	(0.06%)

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
State Health Plan
Last Five Fiscal Years* ***Exhibit H-1***

(Dollars in Thousands)

Retiree Health Benefit Fund	**2022**	**2021**	**2020**	**2019**	**2018**
Proportionate Share Percentage of Collective Net OPEB Liability	0.01863%	0.01960%	0.01445%	0.01424%	0.01690%
Proportionate Share of Collective Net OPEB Liability	$ 5,760	$ 5,438	$ 4,570	$ 4,057	$ 5,541
Covered Payroll	$ 3,349	$ 3,475	$ 3,359	$ 2,794	$ 3,255
Net OPEB Liability as a Percentage of Covered Payroll	171.99%	156.49%	136.05%	145.20%	170.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.72%	6.92%	4.40%	4.40%	3.52%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.01922%	0.02051%	0.02015%	0.01422%	0.01706%
Proportionate Share of Collective Net OPEB Asset	$ 3	$ 10	$ 9	$ 4	$ 10
Covered Payroll	$ 3,349	$ 3,475	$ 3,359	$ 2,794	$ 3,255
Net OPEB Asset as a Percentage of Covered Payroll	0.09%	0.29%	0.27%	0.14%	0.31%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	105.18%	115.57%	113.00%	108.47%	116.23%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* , as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

North Carolina Department of State Treasurer
Required Supplementary Information
Schedule of Employer Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
State Health Plan
Last Five Fiscal Years *Exhibit H-2*

(Dollars in Thousands)

Retiree Health Benefit Fund	2022	2021	2020	2019	2018
Contractually Required Contribution	$ 243	$ 224	$ 225	$ 211	$ 169
Contributions in Relation to the Contractually Determined Contribution	243	224	208	211	169
Contribution Deficiency (Excess)	$ 0	$ 0	$ 17	$ 0	$ 0
Covered Payroll	$ 3,864	$ 3,349	$ 3,475	$ 3,359	$ 2,794
Contributions as a Percentage of Covered Payroll	6.29%	6.68%	5.99%	6.28%	6.05%
Disability Income Plan of North Carolina					
Contractually Required Contribution	$ 3	$ 3	$ 3	$ 5	$ 4
Contributions in Relation to the Contractually Determined Contribution	3	3	3	5	4
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 3,864	$ 3,349	$ 3,475	$ 3,359	$ 2,794
Contributions as a Percentage of Covered Payroll	0.09%	0.09%	0.10%	0.14%	0.14%

Note: Changes in benefit terms, methods and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

Changes of Benefit Terms. Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for three of five options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of five options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for one of four options of the RHBF. Out-of-pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Effective January 1, 2022, the structure of employer contributions to the RHBF was altered by legislation. Previously, non-Medicare-eligible retirees had the same employer contribution rate as active employees. As a result of the legislative change, non-Medicare-eligible retirees have the same employer contribution rate as Medicare-eligible retirees.

Beginning with the DIPNC actuarial valuation as of December 31, 2017, the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of employee's short-term disability benefit period. Effective with the actuarial valuation as of December 31, 2021, this liability was removed from the actuarial valuation because the reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: Consistent with prior years, for the actuarial valuation measured as of June 30, 2022 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.54%, from 2.16% as of June 30, 2021. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next five years. The terms of the Pharmacy Benefits Management contract effective January 1, 2023 were incorporated in the valuation.

For the actuarial valuation measured as of June 30, 2022 for DIPNC, the discount rate was updated to 3.08%, from 3.00% as of June 30, 2021. This was a result of an update to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end, combined with the determination that the plan’s fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members.

In 2020, the North Carolina Retirement Systems’ consulting actuaries performed the quinquennial investigation of each retirement system’s actuarial demographic and economic experience (known as the “Experience Review”). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan’s experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the Teachers’ and State Employees’ Retirement System and the Committee on Actuarial Valuation of Retired Employees’ Health Benefits adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the Teachers and State Employees’ Retirement System actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuations as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

SUPPLEMENTARY INFORMATION

North Carolina Department of State Treasurer
Combining Balance Sheet
Other Governmental Funds
As of June 30, 2022 ***Exhibit I-1***

(Dollars in Thousands)

	Other Special Revenue Fund	Capital Project Fund Public Improvement Bonds	Total
ASSETS			
Cash and Cash Equivalents	$ 561	$ 0	$ 561
Investments		2,880	2,880
Securities Lending Collateral	10		10
Interest Receivable		2	2
Total Assets	571	2,882	3,453
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	$ 571	$ 2,882	$ 3,453
LIABILITIES			
Accounts Payable and Accrued Liabilities			
Accounts Payable	$ 0	$ 2	$ 2
Obligations under Securities Lending	10		10
Total Liabilities	10	2	12
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	0	0	0
FUND BALANCES			
Restricted		2,880	2,880
Committed	561		561
Total Fund Balances	561	2,880	3,441
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 571	$ 2,882	$ 3,453

Note: Other Special Revenue Fund is made up of four nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Other Governmental Funds
For the Fiscal Year Ended June 30, 2022 *Exhibit I-2*

(Dollars in Thousands)

	Other Special Revenue Fund	Capital Project Fund Public Improvement Bonds	Total
REVENUES			
Investment Earnings	$ 1	$ 6	$ 7
EXPENDITURES			
Contracted Services		4	4
Excess Revenues Over (Under) Expenditures	1	2	3
OTHER FINANCING SOURCES (USES)			
Total Other Financing Sources (Uses)	0	0	0
Net Change in Fund Balances	1	2	3
Fund Balances - July 1	560	2,878	3,438
Fund Balances - June 30	$ 561	$ 2,880	$ 3,441

Note: Other Special Revenue Fund is made up of four nonmajor governmental funds. These nonmajor governmental funds account for activities related to Combined Motor Vehicle Registration, Fire Safety Loans, Assurance of Land Titles, and Educational Facilities Finance.

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
As of June 30, 2022

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ASSETS						
Cash and Cash Equivalents	$ 131,524	$ 271	$ 596	$ 672	$ 8,238	$ 49,664
Investments:						
Collective Investment Funds						
Unallocated Insurance Contracts						
Synthetic Guaranteed Investment Contracts						
State Treasurer Investment Pool	78,400,517	661,310	27,993	480,284	157,139	29,813,729
Non-State Treasurer Pooled Investments						
Securities Lending Collateral	780,470	6,564	298	4,783	1,839	297,050
Receivables:						
Accounts Receivable (Net)	5,812		32	1		2,435
Interest Receivable	185	1		1	5	56
Contributions Receivable	98,244					72,234
Due from Other Funds	76,813	3,363				
Due from Component Units	24,289					
Notes Receivable						
Total Assets	79,517,854	671,509	28,919	485,741	167,221	30,235,168
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable						
Benefits Payable	1,474	135		2	1	960
Obligations under Securities Lending	780,470	6,564	298	4,783	1,839	297,050
Funds Held for Others	5,906	46	1			25
Total Liabilities	787,850	6,745	299	4,785	1,840	298,035
NET POSITION						
Restricted for:						
Pension Benefits	78,730,004	664,764	28,620	480,956	165,381	29,937,133
Postemployment Benefits						
Other Employment Benefits						
Total Net Position[1]	$ 78,730,004	$ 664,764	$ 28,620	$ 480,956	$ 165,381	$ 29,937,133

[1] See Exhibit B-1

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Registers of Deeds' Supplemental Pension Fund	Total
$ 0	$ 0	$ 7,676	$ 1,307,381	$ 1,767	$ 75	$ 1,507,864
35,799	6,921					42,720
207,895	40,190					248,085
1,755,275	339,254					2,094,529
		444,533	1,449,688	253,063	47,007	111,735,263
12,401,909	1,580,512					13,982,421
		255	58,411	53	3	1,149,726
24	1		734	22,981		32,020
		4	629	2		883
6,623	660	698	22,531	339	87	201,416
		417	19,326	289		100,208
		132	9,980	148		34,549
258,241	20,711					278,952
14,665,766	1,988,249	453,715	2,868,680	278,642	47,172	131,408,636
1,753	294	76				2,123
		3,599		266	11	6,448
		255	58,411	53	3	1,149,726
				107		6,085
1,753	294	3,930	58,411	426	14	1,164,382
14,664,013					47,158	124,718,029
			2,810,269	278,216		3,088,485
	1,987,955	449,785				2,437,740
$ 14,664,013	$ 1,987,955	$ 449,785	$ 2,810,269	$ 278,216	$ 47,158	$ 130,244,254

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
ADDITIONS						
Contributions						
Employer	$ 2,761,946	$ 33,428	$ 1,029	$ 0	$ 0	$ 880,449
Members	1,030,635	5,470	253	2,318		477,001
Other Contributions	1,952			19,352	11,032	
Total Contributions	3,794,533	38,898	1,282	21,670	11,032	1,357,450
Investment Income (Loss)						
Investment Earnings (Loss)	(5,710,869)	(48,171)	(2,037)	(35,017)	(11,459)	(2,176,837)
Less Investment Expenses	(407,241)	(3,438)	(147)	(2,498)	(813)	(154,752)
Net Investment Income (Loss)	(6,118,110)	(51,609)	(2,184)	(37,515)	(12,272)	(2,331,589)
Other Additions						
Fees and Fines						2,476
Interest Earnings on Loans						
Miscellaneous	1,009	3		17	1	242
Total Other Additions	1,009	3	0	17	1	2,718
Total Additions	(2,322,568)	(12,708)	(902)	(15,828)	(1,239)	(971,421)
DEDUCTIONS						
Claims and Benefits	5,202,342	53,811	2,322	30,184	9,049	1,655,106
Medical Insurance Premiums						
Refund of Contributions	121,911	8	36	184		77,458
Administrative Expenses[1]	13,945	29	13	975	92	5,415
Other Deductions	261		2		4	334
Total Deductions	5,338,459	53,848	2,373	31,343	9,145	1,738,313
Change in Net Position	(7,661,027)	(66,556)	(3,275)	(47,171)	(10,384)	(2,709,734)
Net Position — July 1	86,391,031	731,320	31,895	528,127	175,765	32,646,867
Net Position — June 30[2]	$ 78,730,004	$ 664,764	$ 28,620	$ 480,956	$ 165,381	$ 29,937,133

[1] See Exhibit K-3
[2] See Exhibit B-2

Exhibit J-2

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Registers of Deeds' Supplemental Pension Fund	Total
$ 245,978	$ 4,521	$ 26,318	$ 1,197,278	$ 17,019	$ 1,146	$ 5,169,112
443,477	88,848					2,048,002
		28,662	180,506			241,504
689,455	93,369	54,980	1,377,784	17,019	1,146	7,458,618
1,657,864	223,911	(50,157)	(100,923)	(29,080)	(5,323)	(6,288,098)
(19,188)	(2,694)	(110)	(6,923)	(65)	(12)	(597,881)
1,638,676	221,217	(50,267)	(107,846)	(29,145)	(5,335)	(6,885,979)
						2,476
14,010	1,109					15,119
3,413	509					5,194
17,423	1,618	0	0	0	0	22,789
2,345,554	316,204	4,713	1,269,938	(12,126)	(4,189)	595,428
766,987	122,310	55,192		40,381	1,844	7,939,528
			1,044,104			1,044,104
						199,597
10,132	1,966	367	174	999	12	34,119
			17			618
777,119	124,276	55,559	1,044,295	41,380	1,856	9,217,966
1,568,435	191,928	(50,846)	225,643	(53,506)	(6,045)	(8,622,538)
13,095,578	1,796,027	500,631	2,584,626	331,722	53,203	138,866,792
$ 14,664,013	$ 1,987,955	$ 449,785	$ 2,810,269	$ 278,216	$ 47,158	$ 130,244,254

North Carolina Department of State Treasurer
Combining Statement of Fiduciary Net Position
Custodial Funds
As of June 30, 2022 *Exhibit J-3*

(Dollars in Thousands)

	Departmental Funds	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Swain Co Settlement	Total
ASSETS						
Cash and Cash Equivalents	$ 709	$ 5,572	$ 0	$ 0	$ 52,115	$ 58,396
State Treasurer Investment Pool		1,031,611	463,649	195,575		1,690,835
Securities Lending Collateral		33,486	315		1,784	35,585
Interest Receivable		677			27	704
Total Assets	709	1,071,346	463,964	195,575	53,926	1,785,520
LIABILITIES						
Accounts Payable		996				996
Obligations under Securities Lending		33,486	315		1,784	35,585
Total Liabilities	0	34,482	315	0	1,784	36,581
NET POSITION						
Restricted for:						
Pool Participants		1,036,864		195,575		1,232,439
Individuals, Organizations, and Other Governments	709		463,649		52,142	516,500
Total Net Position[1]	$ 709	$ 1,036,864	$ 463,649	$ 195,575	$ 52,142	$ 1,748,939

[1] See Exhibit B-1

North Carolina Department of State Treasurer
Combining Statement of Changes in Fiduciary Net Position
Custodial Funds
For the Fiscal Year Ended June 30, 2022 — *Exhibit J-4*

(Dollars in Thousands)

	Departmental Funds	State Treasurer Investment Pool	Equity Index Investment Account	Bond Index External Investment Pool	Swain Co Settlement	Total
ADDITIONS						
Investment Income (Loss)						
Investment Earnings (Loss)	$ 2	$ 2,009	$ (78,662)	$ (16,042)	$ 116	$ (92,577)
Less Investment Expenses		(33)	(91)	(35)	(2)	(161)
Net Investment Income (Loss)	2	1,976	(78,753)	(16,077)	114	(92,738)
Pool Share Transactions						
Reinvestment of Dividends		1,976	(78,753)	(16,077)		(92,854)
Net Share Purchases/(Redemptions)		91,379	153,903	85,028		330,310
Net Pool Share Transactions	0	93,355	75,150	68,951	0	237,456
Other Additions						
Participant Deposits	4					4
Total Additions	6	95,331	(3,603)	52,874	114	144,722
DEDUCTIONS						
Distributions Paid and Payable		1,976	(78,753)	(16,077)		(92,854)
Total Deductions	0	1,976	(78,753)	(16,077)	0	(92,854)
Change in Net Position	6	93,355	75,150	68,951	114	237,576
Net Position — July 1	703	943,509	388,499	126,624	52,028	1,511,363
Net Position — June 30[1]	$ 709	$ 1,036,864	$ 463,649	$ 195,575	$ 52,142	$ 1,748,939

[1] See Exhibit B-2

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	General Operations[1]	Information Technology Projects	Benefit Plan Activities[2]
REVENUES			
Funds Escheated	$ 0	$ 0	$ 0
Fees			
Services	8,966	655	
Administrative Cost Reimbursements	7,827		
Contributions			2,685
Investment Earnings			5
Interest Earnings On Loans			
Revenues from Other State Agencies			
Loan Collection of Principal			
Reimbursement of Expenditures from Investment Pool	7,309	95	
Miscellaneous Revenue	7		13
Total Revenues	24,109	750	2,703
EXPENDITURES			
State Aid			30,384
Contracted Services	834	63	231
Personal Services	16,179	130	3,437
Employee Benefits	6,521	47	
Supplies and Materials	91		
Travel	43		
Communication	182		
Utilities	198		
Data Processing Services	414		
Other Services	102		1
Claims and Benefits			3,200
Debt Service:			
Principal Retirement			
Interest and Fees			
Debt issuance costs	439		
Other Fixed Charges	2,123	518	
Capital Outlay	500		
Insurance	39		
Other Expenditures	5		
Expenditures to Other State Agencies	150		321
Total Expenditures	27,820	758	37,574
Excess Revenues Over (Under) Expenditures	(3,711)	(8)	(34,871)
OTHER FINANCING SOURCES (USES)			
State Appropriations	4,078		32,906
Refunding on Bonds Issued			
Premiums on Bonds Issued			
Transfers In	913		
Transfers Out			
Total Other Financing Sources (Uses)	4,991	0	32,906
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 1,280	$ (8)	$ (1,965)

1 See supplementary Exhibit K-2
2 Benefit Plan Activities primarily represent state appropriations and contributions to certain defined benefit plans, including the Firefighters' and Rescue Squad Workers' Pension Fund.
3 Debt Related Activities primarily consist of the collection of state appropriations and bond proceeds and debt payments.
4 Escheat Activities includes the activities of the Escheats Fund noted at Exhibit A-2 as well as General Fund expenditures attributable to Escheat operations.
5 Other Activities primarily consist of the Department's collection of mortgage and deed recording fees and their remittance to other funds.
6 See Exhibit A-2

Debt Related Activities[3]	Escheat Activities[4]	Other Activities[5]	Total[6]
$ 0	$ 137,760	$ 0	$ 137,760
		8,968	8,968
			9,621
			7,827
			2,685
256	(1,632)	7	(1,364)
48			48
654,770	33		654,803
458			458
			7,404
			20
655,532	136,161	8,975	828,230
	37,287		67,671
149	2,195	4	3,476
	1,066		20,812
	512		7,080
	36		127
	3		46
	27		209
			198
	15		429
	166		269
			3,200
648,711			648,711
174,385			174,385
			439
	3		2,644
	41		541
	25		64
	12		17
47,559	27,256	10,814	86,100
870,804	68,644	10,818	1,016,418
(215,272)	67,517	(1,843)	(188,188)
			36,984
132,025			132,025
26,218			26,218
10,000			10,913
(10,000)	(913)		(10,913)
158,243	(913)	0	195,227
$ (57,029)	$ 66,604	$ (1,843)	$ 7,039

North Carolina Department of State Treasurer
Combining Statement of Revenues and Expenditures
Governmental Funds - General Operations
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	Core Services[1]		
	Administrative Operations	Information Services	Financial Operations
REVENUES			
Services	$ 402	$ 1,063	$ 850
Administrative Cost Reimbursements[3]	929	4,801	2,097
Reimbursement of Expenditures from Investment Pool			
Miscellaneous Revenue			1
Total Revenues	1,331	5,864	2,948
EXPENDITURES			
Contracted Services	177	275	151
Personal Services	1,616	4,526	2,069
Employee Benefits	686	1,856	860
Supplies and Materials	8	29	37
Travel	13		1
Communication	48	66	14
Utilities			196
Data Processing Services	9	397	2
Other Services	11	40	5
Debt Service:			
Debt Issuance Costs			
Other Fixed Charges	14	1,550	3
Capital Outlay		456	1
Insurance	9	9	
Other Expenditures	1	3	1
Expenditures to Other State Agencies			
Total Expenditures	2,592	9,207	3,340
Excess Revenues Over (Under) Expenditures	(1,261)	(3,343)	(392)
OTHER FINANCING SOURCES (USES)			
State Appropriations			
Transfers In	229	332	352
Total Other Financing Sources (Uses)	229	332	352
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses[4]	$ (1,032)	$ (3,011)	$ (40)

[1] The North Carolina Department of State Treasurer operates primarily on a receipt supported basis from programs such as unclaimed property, investment earnings on the pension portfolios, local sales tax, the State Health Plan and retirement systems. The core services support the programs under the authority of the State Treasurer.

[2] See supplementary Exhibit K-1

[3] Core services administrative cost reimbursements consist of payments from the North Carolina Retirement Systems for services rendered.

[4] The excess of revenues and other sources over (under) expenditures and other uses amounts presented on this schedule are not indicative of departmental budgetary overruns. All budget codes function on a break-even basis in accordance with the State's budgeting process. The differences shown on this exhibit are primarily a result of expenditures and revenues accrued to present the financial statements in compliance with GASB reporting standards.

Investment Management Operations	State and Local Government Finance Operations	Banking Operations	ABLE Operations	Total[2]
$	$ 6,651	$	$	$ 8,966
				7,827
7,309				7,309
			6	7
7,309	6,651	0	6	24,109
	134	2	95	834
4,104	3,056	808		16,179
1,452	1,272	395		6,521
5	7	3	2	91
(2)	31			43
26	19	9		182
1	1			198
4	2			414
3	26	1	16	102
	439			439
1	13	542		2,123
1	6	36		500
		21		39
				5
		150		150
5,595	5,006	1,967	113	27,820
1,714	1,645	(1,967)	(107)	(3,711)
(40)		4,013	105	4,078
				913
(40)	0	4,013	105	4,991
$ 1,674	$ 1,645	$ 2,046	$ (2)	$ 1,280

North Carolina Department of State Treasurer
Schedule of Deductions for Administrative Expenses
Pension and Other Employee Benefit Trust Funds - Retirement Plans Operations
For the Fiscal Year Ended June 30, 2022 — *Exhibit K-3*

(Dollars in Thousands)

		Pension and Other Employee Benefit Trust Funds
DEDUCTIONS		
Defined Benefit Plan Administrative Expenses		
Reimbursed to the General Fund:		
Personal Services	$	8,000
Employee Benefits		3,769
Contracted Services		1,637
Supplies and Materials		60
Travel		3
Communication		390
Data Processing Services		25
Other Services		250
Other Fixed Charges		19
Capital Outlay		18
Insurance		22
Other Expenses		1
Reimbursement for Core Services		7,827
401(k) and 457 Administrative Expenses		12,098
Total Deductions for Administrative Expenses	$	34,119

Financial activities for the operation of the retirement plans are reported in the Department's fiduciary fund. Costs incurred to operate certain retirement plans administered by the Department are reimbursed from the pension and OPEB plans to general fund. Reimbursements to the general fund, presented above, provide additional information on the administrative expenses reported at a summarized level in Exhibits B-2 and J-2. The general fund is not reimbursed for the administrative expenses of the 401(k) and 457 plans. Record keeping of the 401(k) and 457 plans has been delegated to a third party, Prudential Retirement Insurance and Annuity Company.

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
External Investment Pool
June 30, 2022 ***Exhibit L-1***
(Dollars in Thousands)

	Total	Short-Term Investment Fund [1]	Long-Term Investment Fund	Other Investment Funds [2]
Internal:				
North Carolina Retirement Systems [3]	$ 112,489,005	$ 1,498,346	$ 26,386,897	$ 84,603,762
Other Pension and Postemployment Benefit Plans [4]	11,295	11,295		
State General Fund	22,426,544	22,426,544		
Highway Trust Fund	979,167	979,167		
Highway Fund	1,491,335	1,491,335		
Escheat Fund	828,862	828,862		
EPA Revolving Loan Fund	698,205	698,205		
Unemployment Compensation Fund	55,642	55,642		
Other Primary Government	4,952,020	4,952,020		
State Health Plan	850,101	850,101		
Other Component Units of the State [5]	5,162,836	5,162,836		
External [6]	1,036,864	1,036,864		
Net Position Held in Trust (Note 2) [7, 8]	$ 150,981,876	$ 39,991,217	$ 26,386,897	$ 84,603,762

[1] Assets in the Short-term Investment Fund (STIF) are reported as cash equivalents in the State's *Annual Comprehensive Financial Report* for the fiscal year ended June 30, 2022 and in fund financial statements. The reported STIF net position does not include $13.1 billion that is owned by other investment funds in the External Investment Pool. Additionally, a portion of the cash and cash equivalents reported in the External Investment Pool's Statement of Net Position as presented in Note 2 are included in the STIF caption on this schedule.

[2] Other Investment Funds consist of the Investment Pool's Equity, Real Estate, Alternative, Opportunistic Fixed Income, and Inflation Sensitive Investment Funds, which are wholly owned by the North Carolina Retirement Systems. See Note 2 for more information on these investment funds.

[3] This caption represents the North Carolina Retirement Systems, which consist of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, North Carolina National Guard Pension Fund, Local Governmental Employees' Retirement System and the Retiree Health Benefit Fund. See Note 11 for more information on the North Carolina Retirement System. See Note 14 for more information on the Retiree Health Benefit Fund.

[4] The other pension and postemployment benefit plans consist of the Register of Deeds' Supplemental Pension Fund, Disability Income Plan of N.C., Sheriff's Supplemental Pension Fund, and Death Benefit Plan of N.C. See Note 11 for more information on the Register of Deeds' Supplemental Pension Fund, Note 14 for more information on the Disability Income Plan, and Note 16 for more information about the Death Benefit Plan. The Sheriff's Supplemental Pension Fund is administered by the North Carolina Department of Justice, and its details are not included in the notes to these financial statements.

[5] Other Component Units of the State primarily consist of the University of North Carolina System and Community Colleges.

[6] The external portion of the Short-Term Investment Fund is owned primarily by local government entities including local school districts, school building funds and local OPEB plans. Public schools, local boards of education and public school building funds owned approximately 80% of the external portion of the Short-Term Investment Fund balance as of June 30, 2022.

[7] The total net position presented in this table excludes investments belonging to the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) because these plans are not invested in the State Treasurer's External Investment Pool. See Note 2 for more information on the investments held by these plans.

[8] The Department, a fiduciary, manages the assets of the External Investment Pool on behalf of the ultimate owners, the beneficiaries. As such, participants in the External Investment Pool are considered to have a beneficial ownership in the Pool and the assets in the Pool are considered to be "held in trust."

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
Bond Index External Investment Pool
June 30, 2022 *Exhibit L-2*

(Dollars in Thousands)

		Bond Index External Investment Pool
Internal:		
Other Pension and Postemployment Benefit Plans [1]	$	744,603
Escheat Fund		126,315
EPA Revolving Loan Fund		220,900
Other Primary Government		158,320
Other Component Units of the State [2]		4,213
External [3]		195,576
Net Position Held in Trust (Note 2)	$	1,449,927

[1] The other pension and postemployment benefit plans consist of the Register of Deeds' Supplemental Pension Fund, Disability Income Plan of N.C. and Death Benefit Plan of N.C. See Note 11 for more information on the Register of Deeds' Supplemental Pension Fund, Note 14 for more information on the Disability Income Plan, and Note 16 for more information about the Death Benefit Plan.

[2] Other Component Units of the State consists of the North Carolina Community Colleges.

[3] The external portion of the bond index external investment pool is held by public hospitals and the Local Government Other Postemployment Benefit Trust fund.

North Carolina Department of State Treasurer
Schedule of Allocated Net Position
Equity Index Investment Account
June 30, 2022 — *Exhibit L-3*

(Dollars in Thousands)

		Equity Index Investment Account
Internal:		
Other Primary Government	$	101,283
External [1]		463,650
Net Position Held in Trust (Note 2)	$	564,933

[1] The external portion of the equity index investment account is held by public hospitals and the Local Government Other Postemployment Benefit Trust funds.

North Carolina Department of State Treasurer
Schedule of Deductions by Investment Portfolio
External Investment Pool
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	Investment Portfolio [9]			
	Short-term [10]	Long-term [10]	External Fixed Income	Public Equity
Investment Management Fees				
Investment Performance Fees	$ 0	$ 0	$ 0	$ 22,128
Investment Management Fees				62,964
Custodial fees	390	390		780
Total Investment Management Fees	$ 390	$ 390	$ 0	$ 85,872
Administrative and Other Fees				
Direct				
Internal Costs [1]	$ 5,312	1,763		1,822
Legal			(1)	(1)
Investment Research and Consulting [2]	7	459	22	241
Information Technology [3]	308	206	169	374
Financial Services [4]			66	59
Employee Business Expenses [5]				9
Other Direct Expenses			3	3
Withholding Taxes [6]				15,185
Investment Expenses [7]				216
Banking Expenses [8]	2,299			
Total Administrative and Other Fees	$ 7,926	$ 2,428	$ 259	$ 17,908

1 Internal costs include Investment Management Division (IMD) employee salaries and fringe benefits, IMD's portion of the allocated departmental costs, and departmental information technology and location cost.

2 Investment research and consulting costs primarily consist of information service subscriptions, investment advisory services and external consulting costs.

3 Information technology costs directly support the Department's investment research and management systems.

4 Financial services costs are related to audit and actuarial services.

5 Employee business expenses primarily consist of reimbursed business travel costs.

6 Withholding taxes are related to foreign taxes paid on foreign investment earnings.

7 Investment Expenses primarily consist of partnership expenses and organizational fees paid for administering the investment portfolios.

8 Banking Expenses primarily consist of bank account charges.

9 For more information on the investment portfolios in the External Investment Pool, see the Deposits and Investments note (Note 2).

10 The Short-term and Long-term investment portfolios are internally managed by the Department and do not have any associated management or performance fees.

Investment Portfolio [10]

Real Estate	Alternatives	Credit	Inflation Sensitive	Cash	Total
$ 88,495	$ 121,210	$ 38,914	$ 18,425	$ 0	$ 289,172
65,060	52,546	52,474	34,128		267,172
					1,560
$ 153,555	$ 173,756	$ 91,388	$ 52,553	$ 0	$ 557,904
640	864	391	356		$ 11,148
134	50	47	50		279
165	57	188	217	18	1,374
88	76	52	45	71	1,389
12	13	14	8	19	191
5		1			15
1	2	2		1	12
338	619		1,018		17,160
3,160	13,213	3,460	2,540		22,589
					2,299
$ 4,543	$ 14,894	$ 4,155	$ 4,234	$ 109	$ 56,456

Introduction

The financial statements include investments managed by the Treasurer. The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Firefighters' and Rescue Squad Workers' Pension Fund, North Carolina National Guard Pension Fund, Local Governmental Employees' Retirement System, and Retiree Health Benefit Fund (collectively NCRS) continue that tradition with a significant allocation in fixed income assets (bonds) combined with reasonable exposure to more volatile growth-oriented assets and a diversified portfolio. The result of this strategy is a fund that obtains lower returns than the typical large public fund peer in strong equity markets but is a top performer in turbulent economic and financial market environments.

NCRS comprised 74% of the total net position of the Pool. Following is a discussion of the Investment Policy Statement and management and incentive fees paid relative to NCRS.

Investment Policy Statement

The pension fund investments are allocated according to the NCRS Investment Policy Statement (IPS). The IPS is reviewed annually, although there have been no changes to the asset allocation targets and ranges since July 1, 2014. Periodically, the Investment Management Division conducts an asset liability study utilizing updated capital market assumptions and presents the results to the Treasurer and the Investment Advisory Committee. The table below maps the investment policy statement's classifications to the statutory classifications which are used to prepare the financial statements as of June 30, 2022. The numbers only reflect net position of the NCRS funds in the statutory asset classes excluding securities lending. The Investment Portfolios chart in Note 3 for these portfolios reflects gross investments for all of the State Treasurer Pool.

North Carolina Department of State Treasurer
Investment Performance Schedule
External Investment Pool
As of June 30, 2022

(Dollars in Thousands)

	Statutory Classification			
	Public Equity [1]	Long Term [2]	Pension Cash [2]	Fixed Income [2]
Public Equity	$ 34,471,760	$ 0	$ 0	$ 0
Private Equity				
Non-Core Real Estate				
Opportunistic Fixed Income				
Investment Grade Fixed Income and Cash		26,386,897		3,602,636
Pension Cash			14,444,825	
Inflation Sensitive				
Core Real Estate				
Multi-Strategy				
Total	$ 34,471,760	$ 26,386,897	$ 14,444,825	$ 3,602,636

[1] General Statute 147-69.2(b)(8)(a),(c)

[2] General Statute 147-69.1(c) and 147-69.2(b)(1)-(6b). Consists solely of investments in Short-term Investment Fund.

[3] General Statute 147-69.2(b)(9)

[4] General Statute 147-69.2(b)(7)

[5] General Statute 147-69.2(b)(9a)

[6] General Statute 147-69.2(b)(6c)

[7] General Statute 147-69.2(b)(8)(b)

Statutory Classification					
Alternatives [3]	**Real Estate [4]**	**Inflation Sensitive [5]**	**Opportunistic Fixed Income [6]**	**Public Equity Limited Liability [7]**	**Total**
$ 0	$ 0	$ 0	$ 0	$ 1,207,038	$ 35,678,798
7,118,531					7,118,531
	2,523,099				2,523,099
			6,939,692		6,939,692
					29,989,533
					14,444,825
		5,491,891			5,491,891
	6,623,368				6,623,368
2,180,922					2,180,922
$ 9,299,453	$ 9,146,467	$ 5,491,891	$ 6,939,692	$ 1,207,038	$ 110,990,659

The following supplementary information includes a discussion of the retirement system's risk and returns compared to benchmark and total management and incentive fees paid. The table below relate to NCRS as defined in the introduction to Exhibit N-1.

As of June 30, 2022, the NCRS had the following investment returns over the applicable 1, 3, 5 and 10 year periods:

Investment Returns (Net of Fees) as of June 30, 2022

Asset Classification	1 YR	3 YR	5 YR	10 YR
Growth	-11.65%	8.22%	8.57%	9.77%
Benchmark	-10.24%	7.46%	7.35%	8.51%
Public Equity	-20.20%	5.91%	7.04%	9.19%
Benchmark	-16.53%	5.91%	6.52%	8.52%
Private Equity	15.16%	23.17%	19.50%	14.35%
Benchmark	16.34%	18.94%	15.77%	12.70%
Non-Core Real Estate	24.75%	10.83%	11.25%	12.46%
Benchmark	20.10%	9.88%	8.99%	8.95%
Opportunistic Fixed Income	4.88%	6.76%	6.22%	6.64%
Benchmark	-4.26%	3.62%	2.42%	2.74%
Rates & Liquidity	-6.89%	0.29%	1.72%	2.22%
Benchmark	-11.70%	-1.22%	0.90%	1.79%
Investment Grade Fixed Income and Cash	-9.99%	-0.26%	1.48%	2.15%
Benchmark	-12.10%	-1.29%	0.89%	1.82%
Pension Cash	0.20%	0.80%	1.21%	
Benchmark	0.14%	0.52%	1.01%	0.59%
Inflation Sensitive & Diversifiers	13.68%	7.05%	6.70%	5.44%
Benchmark	13.06%	6.76%	5.91%	5.01%
Inflation Sensitive	13.59%	5.63%	5.49%	2.95%
Benchmark	8.28%	4.57%	4.09%	1.57%
Core Real Estate	13.91%	8.61%	8.08%	8.88%
Benchmark	18.92%	9.34%	8.07%	9.30%
Multi-Strategy	-3.91%	0.66%	2.29%	5.74%
Benchmark	-7.10%	0.44%	1.90%	5.12%
Total Pension Plan	-7.25%	4.86%	5.69%	6.69%
Implementation Benchmark	-8.19%	4.89%	5.37%	6.07%
Long-Term Policy Benchmark	-12.42%	4.37%	5.16%	5.74%

The Growth benchmark used is a blend of the Public Equity, Private Equity, Non-Core Real Estate, and Opportunistic Fixed Income benchmarks at their policy weights. The Public Equity benchmark is a dynamically weighted combination of the MSCI ACWI IMI Net (Long-Only) and a beta adjusted MSCIACWI IMI Net (Hedged Equity). Private Equity's benchmark is comprised of the following Burgiss Group Private iQ indices: 50% Buyout, 20% Venture Capital, and 30% Distressed. The Non-Core Real Estate benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added). Opportunistic Fixed Income's benchmark is comprised of 50% HFRX Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% BOAML High Yield Index.

The overall Rates & Liquidity benchmark is a blend of the Investment Grade Fixed Income & Cash and Pension Cash benchmarks at their policy weights. The benchmark used for Investment Grade Fixed Income & Cash is comprised of 10% iMoneyNet First Tier Institutional Money Market Funds Net Index and 90% custom BOAML Core Investment Grade Index. The Custom BOAML index is comprised of the following weightings: 30% BOAML 5+ Years Governments, 35% BOAML 5+ Years Investment Grade Corporates, and 35% BOAML Mortgage Master. The Pension Cash benchmark used is the iMoneyNet First Tier Institutional Money Market Net Index.

The Inflation Sensitive & Diversifiers benchmark used is a blend of the Inflation Sensitive and Core Real Estate benchmarks at their policy weights. The Inflation Sensitive benchmark is a dynamically weighted combination of the Bank of America Merrill Lynch 1-3 Years U.S. Inflation-Linked Treasury Index (TIPS), the Bloomberg Commodities Index (Commodities), and a combination of benchmarks of investments classified within Private Natural Resources or Other Real Assets and Diversifiers. The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE-EPRA NAREIT Global Index.

The Multi-Strategy benchmark is comprised of a dynamically weighted combination of the HFRX ED: Multi-Strategy Index, net of fees, and the market value weighted benchmarks for any other total fund strategies within the portfolio.

The Benchmarks used for the total plan are the Implementation and Long-Term Policy Benchmarks. The Implementation Benchmark is a blend of the asset class benchmarks at policy weights. It is currently as follows: 58% Growth, 29% Rates and Liquidity, 11% Inflation Sensitive & Diversifiers, and 2% Multi-Strategy. Lastly, the Long-Term Policy Benchmark is comprised of 57% MSCI ACWI IMI Net, 33% BOAML 5+ Years U.S. Treasury Index, 6% Bloomberg Commodity Index, and 4% BOAML 1-3 Years U.S. Inflation-Linked Treasury Index.

North Carolina Department of State Treasurer
Investment Pool Fee Schedule - Total Fees by Basis Points (bps)
For the Fiscal Year Ended June 30, 2022

(Dollars in Thousands)

	Expenses Paid: Management and Incentive Fee (Average Market Value)		
	0 bps	**0 - 25bps**	**25 - 50bps**
Asset Class			
Public Equity	$ 17,031,538	$ 9,990,852	$ 12,524,526
Private Equity	1,205,076	537,947	1,127,450
Non-Core Real Estate	15,720	1,006	
Opportunistic Fixed Income	19,877	80,270	1,309,914
Investment Grade Fixed Income and Cash	32,327,154		
Pension Cash	14,280,610		
Inflation Sensitive	353,424	489,042	2,050,999
Core Real Estate	247,009	1,445,709	1,061,028
Multi-Strategy		1,812,382	
Total Fund	$ 65,480,408	$ 14,357,208	$ 18,073,917

	Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)		
	0 bps	**0 - 25bps**	**25 - 50bps**
Asset Class			
Public Equity	40.92%	24.01%	30.09%
Private Equity	16.20%	7.23%	15.16%
Non-Core Real Estate	0.56%	0.04%	0.00%
Opportunistic Fixed Income	0.28%	1.13%	18.49%
Investment Grade Fixed Income and Cash	100.00%	0.00%	0.00%
Pension Cash	100.00%	0.00%	0.00%
Inflation Sensitive	6.37%	8.82%	36.97%
Core Real Estate	3.96%	23.20%	17.03%
Multi-Strategy	0.00%	79.29%	0.00%
Total Fund	54.74%	12.00%	15.11%

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

Exhibit O-1

Expenses Paid: Management and Incentive Fee (Average Market Value)

50 - 100bps	100 - 150bps	150+bps	Total
$ 2,017,319	$ 0	$ 54,732	$ 41,618,967
1,021,880	1,269,565	2,275,994	7,437,912
681,395	573,720	1,537,895	2,809,736
3,333,093	970,430	1,370,241	7,083,825
			32,327,154
			14,280,610
1,154,314	1,210,046	289,637	5,547,462
2,571,490	188,047	717,694	6,230,977
	131,990	341,366	2,285,738
$ 10,779,491	$ 4,343,798	$ 6,587,559	$ 119,622,381

Expenses Paid: Management and Incentive Fee (% of Asset Class Average Market Value)

50 - 100bps	100 - 150bps	150+bps	Total
4.85%	0.00%	0.13%	100.00%
13.74%	17.07%	30.60%	100.00%
24.25%	20.42%	54.73%	100.00%
47.05%	13.70%	19.34%	100.00%
0.00%	0.00%	0.00%	100.00%
0.00%	0.00%	0.00%	100.00%
20.81%	21.81%	5.22%	100.00%
41.27%	3.02%	11.52%	100.00%
0.00%	5.77%	14.93%	100.00%
9.01%	3.63%	5.51%	100.00%

North Carolina Department of State Treasurer
Investment Pool Fee Schedule - Fee Type by Contract
For the Fiscal Year Ended June 30, 2022 — Exhibit O-2

	Fee Type by Contract (Average Market Value)				
	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Asset Class					
Public Equity	$ 17,014,453	$ 23,245,406	$ 7,084	$ 1,352,024	$ 41,618,967
Private Equity	620,420	22,043		6,795,449	7,437,912
Non-Core Real Estate				2,809,736	2,809,736
Opportunistic Fixed Income		638,746		6,445,079	7,083,825
Investment Grade Fixed Income and Cash	32,327,154				32,327,154
Pension Cash	14,280,610				14,280,610
Inflation Sensitive	129,219	1,382,008	26,781	4,009,454	5,547,462
Core Real Estate		1,009,716		5,221,261	6,230,977
Multi-Strategy		1,812,382		473,356	2,285,738
Total Fund	$ 64,371,856	$ 28,110,301	$ 33,865	$ 27,106,359	$ 119,622,381

	Fee Type by Contract (% of Asset Class Average Market Value)				
	No Fees	Management Only	Incentive Only	Management and Incentive	Total
Asset Class					
Public Equity	40.88%	55.85%	0.02%	3.25%	100.00%
Private Equity	8.34%	0.30%	0.00%	91.36%	100.00%
Non-Core Real Estate	0.00%	0.00%	0.00%	100.00%	100.00%
Opportunistic Fixed Income	0.00%	9.02%	0.00%	90.98%	100.00%
Investment Grade Fixed Income and Cash	100.00%	0.00%	0.00%	0.00%	100.00%
Pension Cash	100.00%	0.00%	0.00%	0.00%	100.00%
Inflation Sensitive	2.33%	24.91%	0.48%	72.28%	100.00%
Core Real Estate	0.00%	16.20%	0.00%	83.80%	100.00%
Multi-Strategy	0.00%	79.29%	0.00%	20.71%	100.00%
Total Fund	53.81%	23.50%	0.03%	22.66%	100.00%

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

Average Market Value

The market value of investments held by investment managers are averaged monthly from July 1, 2021 to June 30, 2022. This schedule is presented in average market value because it measures the performance of an investment manager over the past year, instead of ending market value where the performance is measured as of June 30, 2022. Note: The Investment Returns Schedule (Exhibits N-1) is reported at ending market value and the Investment Pool Fee Schedules (Exhibits O-1 through O-2) are presented at average market value. Thus, the asset's market values reported on these schedules will not agree.

Management Fee

A management fee represents a charge by the investment manager as consideration for serving as a delegated fiduciary with respect to investment duties and powers assigned under a contract. Generally, this fee is expressed as an annual fixed percentage of some base value. Depending on the type of investment structure and strategy, this base value can be a function of the market value of the investments, cost basis of the investments, or the total capital that the investment manager may request for investments under a contractual commitment.

Incentive Fee

An incentive fee represents a profit-sharing arrangement with the investment manager as consideration for serving as a delegated fiduciary with respect to investment duties and powers assigned under a contract. These profit-sharing arrangements may also be referred to as a carried interest or a performance fee. Depending on the type of investment structure and strategy, incentive fees can be charged against all profits earned or applied only to the profits above an agreed upon level that is often times referred to as a hurdle rate of return. Incentive fees can be paid annually based on realized and/or unrealized profits, at agreed to interim milestones, or paid only on a measure of realized profits (i.e., generally all are subject to certain criteria and conditions). The incentive fees shown in the preceding tables represent paid incentive fees. They do not include accrued incentive fees.

Fund of Funds

Consistent with industry convention, cost figures do not include the fees and expenses of investment managers that are held within fund of fund vehicles.

Basis Point

A basis point is a unit of measure used to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. Likewise, a fractional basis point like 1.5 basis point is equivalent to 0.015% or 0.00015 in decimal form.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Dale R. Folwell, State Treasurer
and Management of the North Carolina Department of State Treasurer
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund, the discretely presented component unit, and the aggregate remaining fund information of the North Carolina Department of State Treasurer (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 4, 2023. Our report includes a reference to other auditors who audited the financial statements of the North Carolina Department of State Treasurer Investment Programs, the Supplemental Retirement Income Plan of North Carolina, and the North Carolina Employee Deferred Compensation Plan, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

As discussed in Note 1, the financial statements of the North Carolina Department of State Treasurer are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the North Carolina Department of State Treasurer. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 4, 2023

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: www.auditor.nc.gov

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline:

Telephone:1-800-730-8477

Internet: www.auditor.nc.gov/about-us/state-auditors-hotline

For additional information contact the

North Carolina Office of the State Auditor at:

919-807-7666

This audit required 3,560 hours at an approximate cost of $427,200, plus actuarial costs of $54,000. The total audit cost also includes the cost associated with the report on the Department's statewide financial statement audit procedures.