

USS North Carolina Battleship Commission

Wilmington, NC



Financial Statement Audit Report

For the Year Ended September 30, 2025

State Auditor
Dave Boliek

*A Constitutional Office of the
State of North Carolina*





North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Auditor's Transmittal

The Honorable Josh Stein, Governor
The Honorable Phil Berger, President Pro Tempore
The Honorable Destin Hall, Speaker of the House
Honorable Members of the North Carolina General Assembly
Board of Commissioners, USS North Carolina Battleship Commission
Dr. Jay Martin, Executive Director

The USS North Carolina Battleship Commission holds the distinguished role of overseeing the USS North Carolina, our State's historic battleship that sits on the Cape Fear River in Wilmington. With reported revenues of \$4.9 million and expenses of \$4.6 million, it's important that proper financial control is maintained in the USS North Carolina Battleship Commission's daily operations.

While our Fiscal Year 2024 audit of the USS North Carolina Battleship Commission included findings, the situation has since improved. Recommendations made by the State Auditor's Office to improve internal controls were implemented, and our audit of the USS North Carolina Battleship Commission's financial records shows no material errors for the year ended September 30, 2025.

USS North Carolina Battleship Commission leadership took action following last year's audit and corrected the course. I'm thankful to commission leadership and staff for their cooperation throughout this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dave Boliek".

Dave Boliek
State Auditor



REPORT SUMMARY

USS North Carolina Battleship Commission Financial Statement Audit

The Office of the State Auditor performs annual financial statement audits¹ at the USS North Carolina Battleship Commission (Commission).

Audit Results

- The Commission’s financial statements for fiscal year ended September 30, 2025 are **accurate** and **reliable**.
- Our audit found **no material weaknesses in internal controls or instances of reportable noncompliance**.

Audit Purpose & Importance

Provide an opinion on whether the Commission’s financial statements are materially correct and, if necessary, report any internal control weaknesses or noncompliance with laws and regulations.


The annual financial statement audit serves a vital role in promoting transparency, accountability, and trust in the Commission’s financial operations.

While a formal process, the audit’s impact extends to many members of the public, including:

- Battleship visitors rely on the Commission’s financial stability to maintain infrastructure, preserve the ship as a World War II memorial, and provide ongoing public access and educational services.
- Citizens and public officials expect responsible reporting of public funds and grants.
- Management and commissioners rely on accurate financial reporting to monitor performance, manage risks, and make informed decisions about operations and planning.
- Grantors and donors use audited financial statements to assess financial health and strength.

A “clean” audit opinion supports public trust and demonstrates the Commission’s commitment to responsible financial stewardship, assuring stakeholders that resources are being managed to fulfill the Commission’s mission.

Quick Highlights

 **Revenues:
\$4.9 Million**

**Expenses:
\$4.6 Million**  

Reports

The Commission’s financial statement audit reports are available on our website at this [link](#).

Please review the report to fully understand the Commission’s overall financial health and our reporting responsibilities.

¹ North Carolina General Statute 143B-74.1



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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



Independent Auditor's Report



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Independent Auditor's Report

Board of Commissioners
USS North Carolina Battleship Commission
Wilmington, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the USS North Carolina Battleship Commission (Commission), and its discretely presented component unit, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the USS North Carolina Battleship Commission, and its discretely presented component unit, as of September 30, 2025, 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 Friends of the Battleship North Carolina, Inc., the Commission's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Friends of the Battleship North Carolina, Inc., are based solely on the report 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 USS North Carolina Battleship Commission 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.

Responsibilities of Management for the Financial Statements

The Commission'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 Commission'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 Commission'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 Commission'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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2026 on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.



Dave Boliek
State Auditor

Raleigh, North Carolina

May 7, 2026



Management's Discussion and Analysis

This section of the financial report presents Management's Discussion and Analysis (MD&A) and provides an overview of the financial activities of the *USS North Carolina* Battleship Commission (Commission) for the fiscal year ended September 30, 2025, with comparative data for the fiscal year ended September 30, 2024.

Since the MD&A is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the Commission's basic financial statements and notes to the financial statements. The basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the Commission.

While the financial statements reflect on the Commission as a whole, the Commission is an enterprise, non-appropriated fund activity of the State of North Carolina that is required by general statute to be self-sufficient for its annual operations. Funding for the annual operation of the Commission is met primarily from revenues generated through admissions to tour the ship and gift shop sales, hence a principal focus on the Statement of Revenues, Expenses, and Changes in Net Position.

The USS North Carolina (BB-55) is a retired World War II (WWII) battleship permanently moored as a museum ship in Wilmington, North Carolina. It is a National Historic Landmark that serves as North Carolina's memorial to its WWII veterans.

Using This Annual Report

The financial statements present financial information in a form similar to that used by corporations.

The Statement of Net Position reports current and noncurrent assets and liabilities separately, as well as deferred inflows and outflows of resources. Over time, increases and decreases in net position are an indicator of the improvement or erosion of the Commission's financial health when considered with nonfinancial facts such as admission levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the net position changed during the fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows provides information regarding the Commission's cash receipts and cash payments during the reported period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, capital and related financing, and investing activities. The statement reconciles the beginning cash on hand as of October 1, 2024, to the ending cash on hand as of September 30, 2025.

Management's Discussion and Analysis will concentrate on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, using condensed versions for the purposes of this discussion.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements and may be found at the end of this report.

The financial statements also include a Statement of Financial Position, Statement of Activities, and certain note disclosures for the Commission's discretely presented component unit, Friends of the Battleship *North Carolina*, Inc. (Friends); however, the Friends is not included in Management's Discussion and Analysis. More information describing the relationship between the Commission and Friends can be found in Note 1A.

Financial Highlights

As of October 1, 2024, a change in the accounting principle resulting from *GASB Statement No. 101, Compensated Absences*, affected the Commission's reporting treatment of compensated absences. The change in accounting policy for compensated absences can be seen in Note 1, Significant Accounting Policies. The change in accounting principle required a beginning balance restatement for fiscal year 2025. Ending balances for fiscal year 2024 presented inside the MD&A section do not show the accounting impact of these restated balances. Within the Notes to the Financial Statements, see Note 8 for the detailed breakdown of long-term liabilities and Note 15 for information on the restatement.

During fiscal year 2025, the Commission, the operating authority for the *USS North Carolina* Battleship Memorial (Battleship), continued to prosper in the Wilmington and eastern North Carolina travel and tourism market as part of the community of attractions. More than ever, a separate and distinct destination with visitors coming specifically to see the Battleship. In years past, travelers came to Wilmington and the beaches, visiting the Battleship as one of the many available attractions. However, the latest, based on Wilmington Visitor Bureau surveys, more travelers came specifically to see the Battleship. The Battleship remains TripAdvisor's top-ranked regional attraction, reinforcing its reputation as a standout destination. Yelp, the Visitor's Bureau, and other review platforms likewise recognize its significance, frequently describing it as a "must-see" for history enthusiasts. Visitors consistently praise the immersive experience of exploring its decks and restored crew areas—including the dentist's office, post office, and living quarters—and highlight its importance as a World War II memorial. During fiscal year 2025, total visitation was 235,300 in comparison to fiscal year 2024 total visitation of 237,885.

Capital contributions during fiscal year 2025 totaled \$490,105.12, with most of these funds coming from the Friends and the National Fish and Wildlife Foundation. With most of these funds, the Commission was able to continue construction of the Living with Water Project, which made up the majority of the \$1,361,135.61 increase in construction in progress.

For fiscal year 2024 and until summer of 2025, success as an attraction and a separate and distinct destination was challenged by construction of the Living with Water Project, which left the Battleship with greatly diminished parking. The Battleship is a popular tourist attraction, featuring exhibits, educational programs, and ongoing preservation efforts to combat the effects of time and sea level rise. Inflation, work force recruitment and retention have added to the challenges of success.

To fully understand fiscal year 2025, one must recognize the continuum of success and challenges experienced at the Commission. In fiscal year 2021, the Commission had the second best financial operating year. During fiscal year 2022, inflation in general, specifically at the gas pump, and safety concerns of the travelling public, turned what started as an exceptional operating year into an

average operating year. During fiscal year 2023, with lower inflation rates in general, lower gas pump prices, and COVID safety concerns diminishing, the public returned to traditional travel and tourism patterns, getting out and seeing the sights in America. Battleship visitation improved in fiscal year 2024 with new leadership, a parking lot under construction, and operations led to continued rebounds in attendance as the year ended with better than predicted financials. In fiscal year 2025, vacancies were filled by new staff, but with complexities in accounting standards and financial reporting and challenges of completing the Living with Water Project, fiscal areas continued to struggle. By the end of fiscal 2025, staff were preparing to modernize and expand infrastructure and facilities for the next decade.

Statement of Net Position

The following table summarizes the major categories of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position and their corresponding changes.

**Condensed Statement of Net Position
For the Years Ended September 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Current Assets	\$ 8,050,175.35	\$ 8,599,748.43	\$ (549,573.08)
Noncurrent Assets:			
Net Other Postemployment Benefits Asset	1,016.00	-	1,016.00
Capital Assets, Nondepreciable	97,425.80	2,637,444.60	(2,540,018.80)
Capital Assets, Depreciable, Net	<u>8,618,203.77</u>	<u>5,188,540.52</u>	<u>3,429,663.25</u>
Total Assets	<u>16,766,820.92</u>	<u>16,425,733.55</u>	<u>341,087.37</u>
Deferred Outflows Related to Pensions	536,114.55	748,680.00	(212,565.45)
Deferred Outflows Related to OPEB	<u>722,712.96</u>	<u>449,511.00</u>	<u>273,201.96</u>
Total Deferred Outflows of Resources	<u>1,258,827.51</u>	<u>1,198,191.00</u>	<u>60,636.51</u>
Current Liabilities	331,467.35	357,222.70	(25,755.35)
Noncurrent Long-Term Liabilities	<u>3,689,730.39</u>	<u>3,557,791.50</u>	<u>131,938.89</u>
Total Liabilities	<u>4,021,197.74</u>	<u>3,915,014.20</u>	<u>106,183.54</u>
Deferred Inflows Related to Pensions	262,369.00	278,432.00	(16,063.00)
Deferred Inflows Related to OPEB	<u>557,775.00</u>	<u>798,655.00</u>	<u>(240,880.00)</u>
Total Deferred Inflows of Resources	<u>820,144.00</u>	<u>1,077,087.00</u>	<u>(256,943.00)</u>
Net Position:			
Investment in Capital Assets	8,715,629.57	7,729,804.59	985,824.98
Restricted	722,315.28	1,719,767.80	(997,452.52)
Unrestricted	<u>3,746,361.84</u>	<u>3,182,250.96</u>	<u>564,110.88</u>
Total Net Position	<u>\$ 13,184,306.69</u>	<u>\$ 12,631,823.35</u>	<u>\$ 552,483.34</u>

The decrease in current assets of \$549,573.08 was mainly due to disbursements of restricted funds on hand for the Phase III – Generations Capital Campaign’s Living with Water Project. This decrease in construction related cash is reflected in the increase to capital assets discussed below.

Capital assets, nondepreciable had a net decrease of \$2,540,018.80 in fiscal year 2025. This included increases of \$1,361,135.61 offset with decreases of \$3,901,154.41 associated with the substantial completion of the Battleship's Living with Water Project and completion of the Uplighting Project costing a total of \$3,830,009.49 and \$71,144.92, respectively. Capital assets, depreciable, net increased \$3,429,663.25 primarily due to these two projects. See the Capital Assets section described below for additional information on these changes.

Changes in deferred outflows of resources, long-term liabilities, and deferred inflows of resources are a result of the Commission's participation in the Teachers' and State Employees' Retirement System, Disability Income Plan of North Carolina, and Retiree Health Benefit Fund and changes in the actuarial valuations for these plans. Further information about the plans can be found in Notes 8,10, and 11 (Long-Term Liabilities, Retirement Plans, and Other Postemployment Benefits (OPEB), respectively).

Total net position of the Commission increased by \$552,483.34 compared to the prior fiscal year. Both investment in capital assets and restricted net position changed in similar amounts as restricted grant funds were expended on the Living with Water Project. This activity was the primary reason for the restricted net position decrease of \$997,452.52 and investment in capital assets increase of \$985,824.98. Unrestricted net position increased by \$564,110.88, driven largely by changes in pension and OPEB-related balances, which can fluctuate from year to year based on actuarial valuations and proportionate share adjustments. In addition, unrestricted cash increased by \$188,079.89, reflecting lower-than-anticipated salary and benefit expenditures, as discussed in a later section, as well as higher rental and commission revenues. These additional revenues were not fully spent by year-end, further contributing to the overall increase in unrestricted net position.

Capital Assets

As of September 30, 2025, the Battleship recorded \$12,207,616.56, in gross capital assets, \$3,491,986.99 in accumulated depreciation, and \$8,715,629.57 in net capital assets. The following table depicts the changes in the two years presented:

Capital Assets, Net			
For the Years Ended September 30, 2025 and 2024			
	<u>2025</u>	<u>2024</u>	<u>Change</u>
Capital Assets			
Land	\$ 97,425.80	\$ 97,425.80	\$ -
Construction in Progress	-	2,540,018.80	(2,540,018.80)
Buildings	1,172,596.54	1,172,596.54	-
Machinery and Equipment	353,038.31	319,714.40	33,323.91
General Infrastructure	<u>10,584,555.91</u>	<u>7,104,015.50</u>	<u>3,480,540.41</u>
Total	<u>12,207,616.56</u>	<u>11,233,771.04</u>	<u>973,845.52</u>
Less: Accumulated Depreciation	<u>3,491,986.99</u>	<u>3,407,785.92</u>	<u>84,201.07</u>
Capital Assets, Net	<u><u>\$ 8,715,629.57</u></u>	<u><u>\$ 7,825,985.12</u></u>	<u><u>\$ 889,644.45</u></u>

During fiscal year 2025, overall construction in progress decreased \$2,540,018.80 due to the Living with Water Project and the Uplighting Project. During the year, both projects were removed from

construction in progress for a cost of \$3,901,154.41 and capitalized as additions to general infrastructure.

General infrastructure increased \$3,480,540.41, due to the \$3,830,009.49 Living with Water Project and \$71,144.92 Uplighting Project, mentioned previously, offset with the planned retirement and disposal of two capital assets. A cofferdam purchased in 2019 for \$399,160.00 and capitalized as part of the Battleship's hull replacement was determined to be no longer functional and was removed from the property as scrap. Accumulated depreciation at the date of retirement totaled \$67,857.06. Additionally, a retaining wall purchased in a prior period for \$21,454.00 was demolished in connection with construction of the Living with Water Project; accumulated depreciation at the date of retirement was \$15,770.04. As a result of these retirements, accumulated depreciation decreased by \$83,627.10. No impairment loss was recognized, as the assets were intentionally removed from service and did not experience a significant or unexpected decline in service utility.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase in net position for the fiscal year ending September 30, 2025. The following table identifies variances between the two fiscal years.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Operating Revenues:			
Sales and Services	\$ 1,153,246.79	\$ 1,152,913.29	\$ 333.50
Admission Fees	2,522,130.20	2,538,761.62	(16,631.42)
Other Operating Revenues	345,895.34	299,848.36	46,046.98
Total Operating Revenue	<u>4,021,272.33</u>	<u>3,991,523.27</u>	<u>29,749.06</u>
Less Operating Expenditures	<u>4,282,125.01</u>	<u>4,355,922.97</u>	<u>(73,797.96)</u>
Operating Loss	<u>(260,852.68)</u>	<u>(364,399.70)</u>	<u>103,547.02</u>
Nonoperating and Other Revenues			
Noncapital Contributions	264,832.17	193,937.90	70,894.27
Investment Income	118,446.19	112,475.53	5,970.66
Loss on Disposal of Capital Assets	(336,986.90)	-	(336,986.90)
Capital Contributions	<u>490,105.12</u>	<u>1,746,829.29</u>	<u>(1,256,724.17)</u>
Increase in Net Position	<u>275,543.90</u>	<u>1,688,843.02</u>	<u>(1,413,299.12)</u>
Net Position - Beginning of Year	12,631,823.35	10,942,980.33	1,688,843.02
Restatement to Readjust the Commission's Compensated Absences Pursuant to GASB Statement No. 101	<u>276,939.44</u>	-	<u>276,939.44</u>
Net Position and Net Position as Restated	<u>\$ 13,184,306.69</u>	<u>\$ 12,631,823.35</u>	<u>\$ 552,483.34</u>

Fiscal year 2024-2025 total revenues are \$4,894,655.81 and total expenses are \$4,619,111.91.

Fiscal year 2023-2024 total revenues are \$6,044,765.99 and total expenses are \$4,355,922.97.

Other operating revenues increased \$46,046.98 primarily due to commissions received for photography, penny machines, and the medallion machines that the visiting public access.

Management's Discussion and Analysis

Capital contributions decreased by \$1,256,724.17 in fiscal year 2025 mainly due to conclusion of the capital project related grant received from the National Fish and Wildlife Foundation used for the Living with Water Project. This grant funded capital project is nearing completion as the end of fiscal year 2025. The Friends also provided a significant capital contribution of \$292,000.00 to the project.

The following table identifies variances between the two fiscal years for the components of operating expenses.

Operating Expenses			
For the Years Ended September 30, 2025 and 2024			
	<u>2025</u>	<u>2024</u>	<u>Change</u>
Operating Expense			
Salaries and Benefits	\$ 2,100,965.61	\$ 2,199,693.64	\$ (98,728.03)
Supplies and Services	1,187,540.12	1,176,875.03	10,665.09
Rental Expense	10,015.40	8,333.21	1,682.19
Cost of Goods Sold	399,974.47	406,662.82	(6,688.35)
Insurance and Bonding	32,653.83	38,507.82	(5,853.99)
Other Operating Expenses	383,147.41	353,305.37	29,842.04
Depreciation	167,828.17	172,545.08	(4,716.91)
Total	<u>\$ 4,282,125.01</u>	<u>\$ 4,355,922.97</u>	<u>\$ (73,797.96)</u>

Salaries and benefits decreased \$98,728.03 primarily due to salaries for the business operations, ship operations, and store operations decreasing due to position vacancies occurring throughout the fiscal year, primarily in the business office.

Financial Outlook

During fiscal year 2026, the Commission will continue to improve the Battleship and operate as a successful Enterprise of the State of North Carolina, serving as a memorial, an attraction, and as a center of education impacting the local community, the State, and travelers across the world. With trends in visitation, store sales, and rentals recovering from the detrimental impact of greatly reduced parking availability, the Battleship has risen above the label of attraction and is now destined for greater success as a destination. The Commission budgeted for and is executing fiscal year 2026 operations based on trends observed during fiscal year 2025 and a new focus on data driven marketing decisions. Still, declining consumer confidence nationally, an aged gift shop/visitor center, and staffing challenges pose additional challenges to Battleship success.



Financial Statements

USS North Carolina Battleship Commission
Statement of Net Position
September 30, 2025

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,432,677.26
Restricted Cash and Cash Equivalents	722,315.28
Receivables (Note 4)	394,987.44
Inventories	221,902.85
Prepaid Items	278,292.52

Total Current Assets	8,050,175.35
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Noncurrent Assets:

Net Other Postemployment Benefits Asset	1,016.00
Capital Assets - Nondepreciable (Note 6)	97,425.80
Capital Assets - Depreciable, Net (Note 6)	8,618,203.77

Total Noncurrent Assets	8,716,645.57
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Total Assets	16,766,820.92
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	536,114.55
Deferred Outflows Related to Other Postemployment Benefits (Note 11)	722,712.96

Total Deferred Outflows of Resources	1,258,827.51
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	237,144.63
Unearned Revenue	56,682.22
Long-Term Liabilities - Current Portion (Note 8)	37,640.50

Total Current Liabilities	331,467.35
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Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	3,689,730.39
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Total Liabilities	4,021,197.74
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	262,369.00
Deferred Inflows Related to Other Postemployment Benefits (Note 11)	557,775.00

Total Deferred Inflows of Resources	820,144.00
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USS North Carolina Battleship Commission
Statement of Net Position
September 30, 2025

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	8,715,629.57
Restricted:	
Expendable:	
Restoration Projects	566,268.50
Restricted for Specific Programs	156,046.78
	<hr/>
Total Restricted-Expendable Net Position	722,315.28
	<hr/>
Unrestricted	3,746,361.84
	<hr/>
Total Net Position	<u><u>\$ 13,184,306.69</u></u>

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

USS North Carolina Battleship Commission
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended September 30, 2025

Exhibit A-2

OPERATING REVENUES

Sales and Services	\$ 1,153,246.79
Admission Fees	2,522,130.20
Rentals	108,633.75
Commissions	214,904.20
Special Events	12,100.00
Miscellaneous	10,257.39
	4,021,272.33
Total Operating Revenues	4,021,272.33

OPERATING EXPENSES

Salaries and Benefits	2,100,965.61
Supplies and Services	1,187,540.12
Rental Expense	10,015.40
Cost of Goods Sold	399,974.47
Insurance and Bonding	32,653.83
Other Operating Expenses	383,147.41
Depreciation	167,828.17
	4,282,125.01
Total Operating Expenses	4,282,125.01
Operating Loss	(260,852.68)

NONOPERATING REVENUES (EXPENSES)

Noncapital Contributions	264,832.17
Investment Income	118,446.19
Loss on Disposal of Capital Assets	(336,986.90)
	46,291.46
Net Nonoperating Revenues	46,291.46
Loss Before Other Revenues	(214,561.22)
Capital Contributions	490,105.12
Increase in Net Position	275,543.90

NET POSITION

Net Position - October 1, 2024, as Restated (Note 15)	12,908,762.79
Net Position - September 30, 2025	\$ 13,184,306.69

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

USS North Carolina Battleship Commission
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2025

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,776,080.26
Payments to Employees and Fringe Benefits	(2,362,769.27)
Payments to Vendors and Suppliers	<u>(1,604,780.05)</u>
Net Cash Used by Operating Activities	<u>(191,469.06)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Noncapital Contributions	<u>264,176.17</u>
Cash Provided by Noncapital Financing Activities	<u>264,176.17</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Contributions	827,442.11
Acquisition and Construction of Capital Assets	<u>(1,490,640.05)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(663,197.94)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>118,446.19</u>
Cash Provided by Investing Activities	<u>118,446.19</u>
Net Decrease in Cash and Cash Equivalents	(472,044.64)
Cash and Cash Equivalents - October 1, 2024	<u>7,627,037.18</u>
Cash and Cash Equivalents - September 30, 2025	<u><u>\$ 7,154,992.54</u></u>

USS North Carolina Battleship Commission
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2025

Exhibit A-3
Page 2 of 2

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (260,852.68)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	167,828.17
Changes in Assets and Deferred Outflows of Resources:	
Receivables	(239,892.52)
Inventories	69,684.15
Prepaid Items	(89,600.18)
Net Other Postemployment Benefits Asset	(1,016.00)
Deferred Outflows Related to Pensions	212,565.45
Deferred Outflows Related to Other Postemployment Benefits	(273,201.96)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	66,674.05
Unearned Revenue	(5,299.55)
Net Pension Liability	(83,958.00)
Net Other Postemployment Benefits Liability	485,727.00
Compensated Absences	16,816.01
Deferred Inflows Related to Pensions	(16,063.00)
Deferred Inflows Related to Other Postemployment Benefits	(240,880.00)
Net Cash Used by Operating Activities	<u>\$ (191,469.06)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$ (336,986.90)
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(656.00)

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

Friends of the Battleship North Carolina, Inc.
Statement of Financial Position
September 30, 2025

Exhibit B-1

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 436,485	\$ 177,256	\$ 613,741
Certificates of Deposit	391,672	-	391,672
Other Receivables and Current Assets	2,038	-	2,038
	<u>830,195</u>	<u>177,256</u>	<u>1,007,451</u>
Total Assets	<u>\$ 830,195</u>	<u>\$ 177,256</u>	<u>\$ 1,007,451</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 299,906	\$ -	\$ 299,906
Battleship Payable	130	-	130
Other Current Liabilities	3,427	-	3,427
	<u>303,463</u>	<u>-</u>	<u>303,463</u>
Total Liabilities	<u>303,463</u>	<u>-</u>	<u>303,463</u>
NET ASSETS			
Without Donor Restrictions	526,732	-	526,732
With Donor Restrictions	-	177,256	177,256
	<u>526,732</u>	<u>177,256</u>	<u>703,988</u>
Total Net Assets	<u>526,732</u>	<u>177,256</u>	<u>703,988</u>
Total Liabilities and Net Assets	<u>\$ 830,195</u>	<u>\$ 177,256</u>	<u>\$ 1,007,451</u>

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

Friends of the Battleship North Carolina, Inc.
Statement of Activities
For the Fiscal Year Ended September 30, 2025

Exhibit B-2

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 17,149	\$ 20,785	\$ 37,934
Membership Dues	80,602	-	80,602
Interest Income	20,877	-	20,877
Special Events	68,006	-	68,006
Other Revenue	17,493	-	17,493
Net Assets Released from Restriction	307,843	(307,843)	-
	<u>511,970</u>	<u>(287,058)</u>	<u>224,912</u>
Total Support and Revenue			
EXPENSES			
Program	340,066	-	340,066
Administrative	59,717	-	59,717
Fundraising	13,458	-	13,458
	<u>413,241</u>	<u>-</u>	<u>413,241</u>
Total Expenses			
Change in Net Assets	98,729	(287,058)	(188,329)
NET ASSETS			
Net Assets at Beginning of Year	<u>428,003</u>	<u>464,314</u>	<u>892,317</u>
Net Assets at End of Year	<u>\$ 526,732</u>	<u>\$ 177,256</u>	<u>\$ 703,988</u>

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. 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 *USS North Carolina* Battleship Commission (Commission) is an enterprise fund 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 the Commission and its component unit. While the Commission has ultimate responsibility, the Executive Director has been delegated responsibilities for financial accountability of the Commission's funds. The Commission's component unit is discretely presented in the Commission's financial statements. See below for further discussion of the Commission's component unit.

Discretely Presented Component Unit - The Friends of the Battleship *North Carolina*, Inc. (Friends) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the Commission.

The Friends was organized under the laws of North Carolina for the purposes of promoting and supporting the Battleship *North Carolina*. In fiscal year 2010, the Friends initiated a multi-year fundraising project called the Generations Campaign. Gifts to the Generations Campaign helped support construction of the State Employees Credit Union (SECU) Memorial Walkway, which was designed to provide greater public access to the Battleship; the cofferdam, which creates a dry workspace for completing repairs to the Battleship's hull when needed; and to construct the Piedmont Natural Gas Marine Trail Dock (Dock). The Dock provides access for boat, kayak, and canoe launching. These gifts will also be used to fund upgrades to educational programs enabling the work of memorializing the Battleship *North Carolina* and educating all those who come aboard to continue.

The Friends reports its financial results under the Financial Accounting Standards (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Friend's financial information in the Commission's financial reporting entity for these differences.

During the year ended September 30, 2025, the Friends distributed \$340,066.00 to the Commission for both restricted and unrestricted purposes. Donations included contributions from various grantors to support the Battleship restorations projects, up-lighting the Battleship superstructure, software support for the Interpretations Department, online archiving systems, signage for tour routes, audio visual and media equipment, and volunteer support. Complete financial statements for the Friends can be obtained by mailing a request to Friends of the Battleship *North Carolina*, Inc., 1 Battleship Rd., Wilmington, NC 28401, or by calling (910) 399-9117.

B. Basis of Presentation - 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). Pursuant to the provisions of 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*, the full scope of the Commission's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. Basis of Accounting - The financial statements of the Commission have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Commission receives value without directly giving equal value in exchange, include certain grants and donations. 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.

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). 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. Additional information regarding the fair value measurement of investments is disclosed in Note 3.

E. Receivables - Receivables consist of amounts due for commissions and amounts due from the Friends in connection with reimbursement of allowable expenditures made pursuant to the Friends of the Battleship *North Carolina*, Inc. Generations Campaign Memorandum of Understanding. Receivables are considered fully collectible and accordingly, no allowance for doubtful accounts is required.

F. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the average cost method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to October 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The Commission capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	2-80 years
General Infrastructure	10-75 years

The Commission does not capitalize the Battleship exhibit or its art and artifact collections. These collections adhere to the Commission’s policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources whose use is limited by external parties.
- I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability that will not be paid within the next fiscal year.

The net pension liability represents the Commission’s proportionate share of the collective net pension liability reported in the State of North Carolina’s *2024 Annual Comprehensive Financial Report*. This liability represents the Commission’s portion of the collective total pension liability less the fiduciary net position of the Teachers’ and State Employees’ Retirement System. See Note 10 for further information regarding the Commission’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Commission’s proportionate share of the collective net OPEB liability reported in the State of North Carolina’s *2024 Annual Comprehensive Financial Report*. This liability represents the Commission’s portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 11 for further information regarding the Commission’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- J. **Compensated Absences** - The Commission accrues a liability for earned leave that carries over to future periods and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. When determining the liability, leave is considered taken on a last in, first out (LIFO) basis.

Vacation Leave – Vacation is earned through the annual or personal leave programs established by the North Carolina Office of State Human Resources. Leave is earned monthly and is subject to a maximum accumulated unused amount as of the end of each calendar year. The maximum amounts and the ability to convert amounts over the maximum to sick leave vary based on the program.

Bonus Leave – Bonus leave includes 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 to the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

Sick Leave – Sick leave is earned monthly by eligible employees. The policy provides for the accumulation of unused sick leave to be carried forward until used. When employment is terminated, unused leave is forfeited or used to increase a member's creditable service for employees participating in the North Carolina Teachers' and State Employees' Retirement System (TSERS).

K. Deferred Outflows/Inflows of Resources - Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

L. Net Position - The Commission's net position is classified as follows:

Investment in Capital Assets - This represents the Commission's total investment in capital assets.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the Commission is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from admission fees, sales and services, unrestricted gifts, royalties, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

When both restricted and unrestricted funds are available for expenditure, the decision for funding is internally generated by management of the Commission. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

M. Revenue and Expense Recognition - The Commission classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) admission and fees, (2) sales and services, and (3) contracts for services. 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*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the Commission, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

Note 2 - Deposits and Investments

Unless specifically exempt, the Commission 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.

At September 30, 2025, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,656,531.73, which represents the Commission's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 2.1 years as of June 30, 2025. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Cash on hand at September 30, 2025 was \$1,253.00. The carrying amount of the Commission's deposits not with the State Treasurer was \$4,497,207.81, and the bank balance was \$4,514,748.37. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. As of September 30, 2025, the Commission's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$4,014,748.37.

Note 3 - Fair Value Measurements

To the extent available, the Commission's investments are recorded at fair value as of September 30, 2025. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

Notes to the Financial Statements

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the Commission's investments valued at \$2,656,531.73 were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Commission's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

Note 4 - Receivables

Receivables at September 30, 2025, were as follows:

	<u>Amount</u>
Receivables:	
Commission Revenue	\$ 394,857.44
Due from Friends of the Battleship North Carolina, Inc.	<u>130.00</u>
Total Receivables	<u>\$ 394,987.44</u>

Note 5 - Reserve Fund

In accordance with North Carolina General Statute 143B-74-1, the Secretary of the North Carolina Department of Natural and Cultural Resources (Secretary) may determine the amount of a reserve fund, established by the Commission, to be maintained and used for contingencies and emergencies. On February 2, 2021, the Secretary determined that the Commission reserve amount to be 50% of the Commission's annual operating budget, excluding any fully funded repair and renovation projects that are \$500,000.00 or more.

Accordingly, 50% of the authorized normal operating budget for fiscal year 2025 of \$4,540,650.29 yields a reserve requirement of 2,270,325.15. For the reporting purposes, this reserve is included in unrestricted net position. At year-end, the value of the unrestricted portion of the Commission's investments held in the State Treasurer's Short-Term Investment Funds, described in Note 2, exceeded the reserve requirement; therefore, the \$230,159.66 excess is considered available for operations and restoration projects.

Note 6 - Capital Assets

A summary of changes in the capital assets for the year ended September 30, 2025, is presented as follows:

	Balance October 1, 2024	Increases	Decreases	Balance September 30, 2025
Capital Assets, Nondepreciable:				
Land	\$ 97,425.80	\$ -	\$ -	\$ 97,425.80
Construction in Progress	2,540,018.80	1,361,135.61	3,901,154.41	-
Total Capital Assets, Nondepreciable	2,637,444.60	1,361,135.61	3,901,154.41	97,425.80
Capital Assets, Depreciable:				
Buildings	1,172,596.54	-	-	1,172,596.54
Machinery and Equipment	319,714.40	33,323.91	-	353,038.31
General Infrastructure	7,104,015.50	3,901,154.41	420,614.00	10,584,555.91
Total Capital Assets, Depreciable	8,596,326.44	3,934,478.32	420,614.00	12,110,190.76
Less Accumulated Depreciation for:				
Buildings	986,691.15	27,810.32	-	1,014,501.47
Machinery and Equipment	279,727.27	4,049.65	-	283,776.92
General Infrastructure	2,141,367.50	135,968.20	83,627.10	2,193,708.60
Total Accumulated Depreciation	3,407,785.92	167,828.17	83,627.10	3,491,986.99
Total Capital Assets, Depreciable, Net	5,188,540.52	3,766,650.15	336,986.90	8,618,203.77
Capital Assets, Net	\$ 7,825,985.12	\$ 5,127,785.76	\$ 4,238,141.31	\$ 8,715,629.57

Note 7 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at September 30, 2025, were as follows:

	Amount
Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 207,126.49
Accrued Payroll	27,980.14
Accounts Payable - Friends of the Battleship North Carolina, Inc.	2,038.00
Total Accounts Payable and Accrued Liabilities	\$ 237,144.63

Note 8 - Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended September 30, 2025, is presented as follows:

	Balance October 1, 2024 (as Restated)	Additions	Reductions	Balance September 30, 2025	Current Portion
Compensated Absences	\$ 171,574.88	\$ 16,816.01	\$ -	\$ 188,390.89	\$37,640.50
Net Pension Liability	1,391,252.00	-	83,958.00	1,307,294.00	-
Net Other Postemployment Benefits Liability	1,746,615.00	487,757.00	2,686.00	2,231,686.00	-
Total Long-Term Liabilities	\$ 3,309,441.88	\$ 504,573.01	\$86,644.00	\$ 3,727,370.89	\$37,640.50

Additional information regarding the net pension liability is included in Note 10.

Additional information regarding the net other postemployment benefits liability is included in Note 11.

Note 9 - Net Position

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (1,033,548.45)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(2,064,638.39)</u>
Effect on Unrestricted Net Position	(3,098,186.84)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>6,844,548.68</u>
Total Unrestricted Net Position	<u>\$ 3,746,361.84</u>

See Notes 10 and 11 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

Note 10 - Retirement Plans

Defined Benefit Plan

Plan Administration: The State of North Carolina 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 not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, LEAs, and certain proprietary component units along with charter schools that elect to join the Retirement System. Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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 unreduced 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 reduced 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.

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 TSERS 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 TSERS 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 North Carolina General Assembly. The Commission's contractually-required contribution rate for the year ended September 30, 2025 was 16.79% of covered payroll. Plan members' contributions to the pension plan were \$81,893.23, and the Commission's contributions were \$229,164.55 for the year ended September 30, 2025.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2024 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.ncosc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

Methods Used to Value TSERS Investment: 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. TSERS and other pension plans of the State of North Carolina 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 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. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2024 *Annual Comprehensive Financial Report*.

Notes to the Financial Statements

Net Pension Liability: At September 30, 2025, the Commission reported a liability of \$1,307,294.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total pension liability to June 30, 2024. The Commission's proportion of the net pension liability was based on a projection of the present value of future salaries for the Commission relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Commission's proportion was 0.00882%, which was an increase of 0.00048 from its proportion measured as of June 30, 2023, which was 0.00834%.

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	12/31/2023
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

* Salary increases include 3.25% inflation and productivity

** 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, 2023 valuation 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, 2024 (the measurement date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.4%
Global Equity	6.9%
Real Estate	6.0%
Alternatives	8.6%
Opportunistic Fixed Income	5.3%
Inflation Sensitive	4.3%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

Discount Rate: The discount rate used to measure the total pension liability was 6.5% for the December 31, 2023 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, 2024 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:

<u>Net Pension Liability</u>		
Current		
1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
\$ 2,017,941.00	\$ 1,307,294.00	\$ 498,819.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended September 30, 2025, the Commission recognized pension expense of \$147,856.00. At September 30, 2025, the Commission reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 100,906.00	\$ 3,310.00
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	184,636.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	21,408.00	259,059.00
Contributions Subsequent to the Measurement Date	<u>229,164.55</u>	<u>-</u>
Total	<u><u>\$ 536,114.55</u></u>	<u><u>\$ 262,369.00</u></u>

The amount 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 September 30, 2026. 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**

<u>Year Ending September 30:</u>	<u>Amount</u>
2026	\$ (57,714.00)
2027	126,834.00
2028	(4,775.00)
2029	<u>(19,764.00)</u>
Total	<u><u>\$ 44,581.00</u></u>

Note 11 - Other Postemployment Benefits

The Commission participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2024 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.ncosc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were 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 are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: 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. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2024 *Annual Comprehensive Financial Report*.

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the 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 State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 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, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). 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 Plan. The State Treasurer, with the approval of the 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 Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are 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 12. The plan options change when the 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 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 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 and retirees of 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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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 North Carolina 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 Plan's total noncontributory premium. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with five 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 Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the 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: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina

General Assembly in the Appropriations Act. The Commission's contractually-required contribution rate for the year ended September 30, 2025 was 6.99% of covered payroll. The Commission's contributions to the RHBF were \$95,405.61 for the year ended September 30, 2025.

In fiscal year 2023, the Plan transferred \$35 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 the RHBF employers and recorded as noncapital contributions. For the fiscal year ended September 30, 2025, the Commission recognized noncapital contributions for RHBF of \$656.00.

2. Disability Income

Plan Administration: As discussed in Note 12, 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 TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the State's reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB 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 TSERS or the University Employees' ORP, 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 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 TSERS after: (1) reaching the age of 65 and completing five years of membership service; (2) reaching the age of 60 and completing 25 years of creditable service; or (3) completing 30 years of creditable service, at any age.

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 TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

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.

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.

Contributions: Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The Commission's contractually-required contribution rate for the year ended September 30, 2025 was 0.13% of covered payroll. The Commission's contributions to DIPNC were \$1,774.35 for the year ended September 30, 2025.

C. Net OPEB Liability (Asset)

Retiree Health Benefit Fund: At September 30, 2025, the Commission reported a liability of \$2,231,686.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2024. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The Commission's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Commission relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Commission's proportion was 0.00656%, which was an increase of 0.00002 from its proportion measured as of June 30, 2023, which was 0.00654%.

Disability Income Plan of North Carolina: At September 30, 2025, the Commission reported an asset of \$1,016.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2024. The total OPEB liability used to

calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The Commission's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the Commission relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the Commission's proportion was 0.00309%, which was a decrease of 0.00701 from its proportion measured as of June 30, 2023, which was 0.01010%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2023, 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, 2024 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2023	12/31/2023
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.0%
Healthcare Cost Trend Rate - Medical***	6.5% grading down to 5% by 2030	N/A
Healthcare Cost Trend Rate - Prescription Drug***	10% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Prescription Drug Rebates***	7% through 2030 grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	Premium adjustments for IRA impact through 2027, 6.17% in 2028 down to 5% by 2034	N/A
Healthcare Cost Trend Rate - Administrative***	3.0%	N/A

* Salary increases include 3.25% inflation and productivity factor.

** Investment rate of return is net of OPEB plan investment expense, including inflation.

*** 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 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 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, 2024.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2024 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.4%
Global Equity	6.9%
Real Estate	6.0%
Alternatives	8.6%
Opportunistic Fixed Income	5.3%
Inflation Sensitive	4.3%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

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 the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and 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, 2023 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 3.93% at June 30, 2024 compared to 3.65% at June 30, 2023. 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 to current plan members. As a result, a municipal bond rate of 3.93% was used as the discount rate used to measure the total OPEB liability. The 3.93% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2024.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2024 and at June 30, 2023. 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 plan’s fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Commission’s proportionate share of the net OPEB liability (asset) of the plans, as well as what each 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:

Net OPEB Liability (Asset)			
	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
RHBF	\$ 2,361,491.00	\$ 2,231,686.00	\$ 1,704,334.00
	1% Decrease (2.00%)	Current Discount Rate (3.00%)	1% Increase (4.00%)
DIPNC	\$ (516.00)	\$ (1,016.00)	\$ (940.00)

Sensitivity of the Net OPEB Liability 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 would be if it were calculated using healthcare cost trend rates that are

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1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Net OPEB Liability		
1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 9%, Pharmacy Rebate - 4% - 6%, Med. Advantage - 4% - 5.17%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebate - 5% - 7%, Med. Advantage - 5% - 6.17%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebate - 6% - 8%, Med. Advantage - 6% - 7.17%, Administrative - 4%)
RHBF \$ 1,661,637.00	\$ 2,231,686.00	\$ 2,431,216.00

The sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

OPEB Expense: For the fiscal year ended September 30, 2025, the Commission recognized OPEB expense as follows:

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ 11,485.00
DIPNC	364.00
Total OPEB Expense	\$ 11,849.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At September 30, 2025, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 17,570.00	\$ 882.00	\$ 18,452.00
Changes of Assumptions	519,185.00	33.00	519,218.00
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	9,238.00	1,717.00	10,955.00
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	76,813.00	95.00	76,908.00
Contributions Subsequent to the Measurement Date	<u>95,405.61</u>	<u>1,774.35</u>	<u>97,179.96</u>
Total	\$ 718,211.61	\$ 4,501.35	\$ 722,712.96

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ -	\$ 2,515.00	\$ 2,515.00
Changes of Assumptions	281,062.00	1,019.00	282,081.00
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>270,102.00</u>	<u>3,077.00</u>	<u>273,179.00</u>
Total	<u><u>\$ 551,164.00</u></u>	<u><u>\$ 6,611.00</u></u>	<u><u>\$ 557,775.00</u></u>

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 September 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB 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 OPEB Expense:**

<u>Year Ending September 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2026	\$ (71,440.00)	\$ (1,964.00)
2027	(28,588.00)	(1,449.00)
2028	79,458.00	(246.00)
2029	92,213.00	(172.00)
2030	<u>(1.00)</u>	<u>(53.00)</u>
Total	<u><u>\$ 71,642.00</u></u>	<u><u>\$(3,884.00)</u></u>

Note 12 - Risk Management

The Commission 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

Commission employees 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 11, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Commission employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Commission for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 11, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

The Commission is required by UNC Policy 1300.12 – Policy on Insurance Coverage to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning coverage is provided at no cost to the Commission for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the Commission. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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 \$5,000,000 in the aggregate per fiscal year via contract with private insurance companies. The Commission pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The Commission 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 Commission is charged a premium by the private insurance company. Coverage limit is \$1,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$25,000 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 Commission's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Commission is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Commission 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 Commission

The Commission purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The marine pollution control insurance has a \$1,000,000.00 limit for costs and damages incurred from removal, response or remedial action during sudden, accidental, discharge, spillage, leakage or emission of hazardous substance into or upon navigable waters or adjoining shorelines.

Note 13 - Commitments

The Commission has established an encumbrance system to track its outstanding commitments on other purchases. Outstanding commitments on other purchases were \$196,635.43 at September 30, 2025.

Note 14 - Changes in Financial Accounting and Reporting

For the fiscal year ended September 30, 2025, the Commission implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 101, Compensated Absences

GASB Statement No. 102, Certain Risk Disclosures

GASB Statement No. 101 updates the recognition, measurement, and disclosure requirements for compensated absences. This Statement supersedes GASB Statement No. 16, *Accounting for Compensated Absences*, which was issued in 1992, and aims to better meet the information needs of financial statement users by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. Lastly, the model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

GASB Statement No. 102 improves financial reporting by providing users of financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.

Note 15 - Net Position Restatement

As of October 1, 2024, net position as previously reported was restated as follows:

	<u>Amount</u>
October 1, 2024 Net Position as Previously Reported	\$ 12,631,823.35
Restatement:	
Restatement of Compensated Absences due to the Implementation of GASB Statement No. 101	<u>276,939.44</u>
October 1, 2024 Net Position as Restated	<u><u>\$ 12,908,762.79</u></u>



Required Supplementary Information

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years***

Exhibit C-1

Teachers' and State Employees' Retirement System	2025	2024	2023	2022	2021
Proportionate Share Percentage of Collective Net Pension Liability	0.00882%	0.00834%	0.00886%	0.01142%	0.00878%
Proportionate Share of TSERS Collective Net Pension Liability	\$1,307,294.00	\$1,391,252.00	\$1,314,583.00	\$ 534,615.00	\$1,061,031.00
Covered Payroll	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30	\$1,300,607.08
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	89.95%	103.08%	100.78%	40.28%	81.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.35%	82.97%	84.14%	94.86%	85.98%
	2020	2019	2018	2017	2016
Proportionate Share Percentage of Collective Net Pension Liability	0.00832%	0.00847%	0.00909%	0.00736%	0.81400%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 862,203.00	\$ 843,302.00	\$ 720,941.00	\$ 676,812.00	\$ 299,815.00
Covered Payroll	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26	\$1,018,162.26
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	70.11%	70.53%	65.47%	59.34%	29.45%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%	94.64%

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.

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of Commission Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years**

Exhibit C-2

Teachers' and State Employees' Retirement System	2025	2024	2023	2022	2021
Contractually Required Contribution	\$ 229,164.55	\$ 256,381.35	\$ 234,570.84	\$ 213,670.98	\$ 196,171.73
Contributions in Relation to the Contractually Determined Contribution	<u>229,164.55</u>	<u>256,381.35</u>	<u>234,570.84</u>	<u>213,670.98</u>	<u>196,171.73</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$1,364,887.12	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30
Contributions as a Percentage of Covered Payroll	16.79%	17.64%	17.38%	16.38%	14.78%
	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 168,688.74	\$ 151,132.74	\$ 128,889.45	\$ 109,894.32	\$ 104,366.85
Contributions in Relation to the Contractually Determined Contribution	<u>168,688.74</u>	<u>151,132.74</u>	<u>128,889.45</u>	<u>109,894.32</u>	<u>104,366.85</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$1,300,607.08	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%

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

**USS North Carolina Battleship Commission
Notes to Required Supplementary Information
Schedule of Commission Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
For the Fiscal Year Ended September 30, 2025**

Changes of Benefit Terms:

Teachers' and State Employees' Retirement System	Cost of Living Increase									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
	N/A	N/A	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA) 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 net pension liability.

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 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 before 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 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 received a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Benefit recipients of the TSERS will receive a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in November 2023, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2024. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of University 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 10 for more information on the specific assumptions for the 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 for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of the TSERS 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 the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS 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 the TSERS was lowered from 7.00% to 6.50% 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.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Nine Fiscal Years***

**Exhibit C-3
Page 1 of 2**

Retiree Health Benefit Fund	2025	2024	2023	2022	2021
Proportionate Share Percentage of Collective Net OPEB Liability	0.00656%	0.00654%	0.00703%	0.00747%	0.00694%
Proportionate Share of Collective Net OPEB Liability	\$2,231,686.00	\$1,743,929.00	\$1,669,171.00	\$2,310,720.00	\$1,924,410.00
Covered Payroll	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30	\$1,300,607.08
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	153.55%	129.21%	127.96%	174.09%	147.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	9.79%	10.73%	10.58%	7.72%	6.92%
	2020	2019	2018	2017	
Proportionate Share Percentage of Collective Net OPEB Liability	0.00649%	0.00660%	0.00704%	1.48000%	
Proportionate Share of Collective Net OPEB Liability	\$2,054,345.00	\$1,879,166.00	\$2,308,888.00	\$2,396,089.00	
Covered Payroll	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26	
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	167.06%	157.17%	209.68%	210.07%	
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%	

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Nine Fiscal Years***

**Exhibit C-3
Page 2 of 2**

Disability Income Plan of North Carolina	2025	2024	2023	2022	2021
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.00309%	0.01010%	0.00982%	0.00176%	0.00479%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (1,016.00)	\$ 2,686.00	\$ 2,921.00	\$ (287.00)	\$ (2,356.00)
Covered Payroll	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30	\$1,300,607.08
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.07%	0.20%	0.22%	0.02%	0.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	114.99%	90.61%	90.34%	105.18%	115.57%
	2020	2019	2018	2017	
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.00349%	0.00227%	0.00111%	1.48000%	
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (1,504.00)	\$ (691.00)	\$ (680.00)	\$ (3,695.00)	
Covered Payroll	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26	
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.12%	0.06%	0.06%	0.32%	
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	116.23%	116.06%	

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.

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of Commission Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years**

**Exhibit C-4
Page 1 of 2**

Retiree Health Benefit Fund	2025	2024	2023	2022	2021
Contractually Required Contribution	\$ 95,405.61	\$ 103,773.40	\$ 92,991.55	\$ 82,050.70	\$ 88,662.19
Contributions in Relation to the Contractually Determined Contribution	95,405.61	103,773.40	92,991.55	82,050.70	88,662.19
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$1,364,887.12	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30
Contributions as a Percentage of Covered Payroll	6.99%	7.14%	6.89%	6.29%	6.68%
	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 84,149.28	\$ 77,103.52	\$ 74,966.31	\$ 65,958.62	\$ 64,445.10
Contributions in Relation to the Contractually Determined Contribution	84,149.28	77,103.52	74,966.31	65,958.62	64,445.10
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$1,300,607.08	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.27%	5.99%	5.65%

**USS North Carolina Battleship Commission
Required Supplementary Information
Schedule of Commission Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years**

**Exhibit C-4
Page 2 of 2**

Disability Income Plan of North Carolina	2025	2024	2023	2022	2021
Contractually Required Contribution	\$ 1,774.35	\$ 1,598.75	\$ 1,349.66	\$ 1,174.02	\$ 1,194.55
Contributions in Relation to the Contractually Determined Contribution	1,774.35	1,598.75	1,349.66	1,174.02	1,194.55
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$1,364,887.12	\$1,453,409.02	\$1,349,659.63	\$1,304,462.62	\$1,327,278.30
Contributions as a Percentage of Covered Payroll	0.13%	0.11%	0.10%	0.09%	0.09%
	2020	2019	2018	2017	2016
Contractually Required Contribution	\$ 1,300.61	\$ 1,721.61	\$ 1,673.87	\$ 3,776.93	\$ 4,573.01
Contributions in Relation to the Contractually Determined Contribution	1,300.61	1,721.61	1,673.87	3,776.93	4,573.01
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$1,300,607.08	\$1,229,721.24	\$1,195,634.96	\$1,101,145.57	\$1,140,621.26
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.34%	0.40%

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

USS North Carolina Battleship Commission

Notes to Required Supplementary Information

Schedule of Commission Contributions

Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

For the Fiscal Year Ended September 30, 2025

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.

Effective April 1, 2024, coverage of GLP-1 prescriptions for obesity management (GLP-1-AOM) was terminated.

Beginning with the Disability Income Plan of North Carolina (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. The reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019 and no further reimbursements may be issued.

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 University 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 RHBF. The actuarially determined contribution rates in the Schedule of University 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 DIPNC. See Note 11 for more information on the specific assumptions for each plan. The actuarially determined contributions 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, 2024 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.93%, from 3.65% as of June 30, 2023. 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 four years. The expected impact from the Inflation Reduction Act on assumed Medicare Advantage rates by including proposed PMPM vendor rates through 2027 and then using assumed trend beginning in 2028. Employer portion of contributions were calculated to have less volatility than recent experience and have a smoother transition to the ultimate trend.

For the actuarial valuation measured as of June 30, 2024 for DIPNC, the discount rate remained at 3%, unchanged from the rate as of June 30, 2023.

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 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 TSERS 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 TSERS actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuation 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.

For the DIPNC actuarial valuation as of December 31, 2023, benefit payments expected to be issued after 36 months of disability to claimants who had at least five years of membership service as of July 31, 2007 were updated to include an offset (reduction to the DIPNC benefit) based on estimated Social Security benefits.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*.



Independent Auditor's Report



North Carolina Office of the State Auditor

Dave Boliek, State Auditor

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*

Board of Commissioners
USS North Carolina Battleship Commission
Wilmington, 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 the USS North Carolina Battleship Commission (Commission), and its discretely presented component unit, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 7, 2026. Our report includes a reference to other auditors who audited the financial statements of the Friends of the Battleship North Carolina, Inc., as described in our report on the Commission's financial statements. The financial statements of the Friends of the Battleship North Carolina, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Friends of the Battleship North Carolina, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 Commission'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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Boliek
State Auditor

Raleigh, North Carolina

May 7, 2026

Ordering Information

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