

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina

We have completed a financial statement audit of the North Carolina Department of Public Safety for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects, except for the possible effects of the matters described in the "Basis for Qualified Opinion on the Correction Enterprises Fund" section of the Independent Auditor's Report.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings, Recommendations, and Responses section of this report. The Department's response is included following the finding.

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

A handwritten signature in black ink, reading "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

This report provides audited financial information on the North Carolina Department of Public Safety (Department) and is designed to provide the information at a summarized level in the beginning, with more details of the information further into the report. This report is made up of various components as listed in the Table of Contents.

The Department reports financial activities in four major governmental funds and one major proprietary fund. The governmental funds report most of the activity of the Department. The major proprietary fund reports the activity of the Alcoholic Beverage Control (ABC) Commission.

The financial information in the report is initially presented at a summarized, departmental level. Where some numbers need further explanation, additional detail is provided in the "Notes to the Financial Statements." The Notes will be referenced next to the line item caption.

Required Information: (Information required to be reported by state departments per Governmental Accounting Standards Board and *Government Auditing Standards*)

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

The **Management's Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years. The Management's Discussion and Analysis is prepared by the Department and has not been audited.

"A" Exhibits present the Balance Sheet as of June 30, 2016 (with comparative totals for June 30, 2015) and the Statement of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ended June 30, 2016 (with comparative totals for the fiscal year ended June 30, 2015) for the Department's **governmental funds as a whole**.

"B" Exhibits present the Statement of Net Position as of June 30, 2016 (with comparative totals for June 30, 2015), the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2016 (with comparative totals for June 30, 2015), and the Statement of Cash Flows for the Department's **proprietary funds as a whole**.

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

"C" Schedules present the budget-to-actual comparisons for the General Fund, Correction Enterprises Fund, and Welfare Fund (for the fiscal year ended June 30, 2016) and the required supplementary information related to pension plans for **the Department as a whole**.

Other Supplementary Information: (This information is tabbed by “Division” in the report)

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

- **“D” Schedule** presents the financial information combining the Schedule of Revenues and Expenditures for the fiscal year ended June 30, 2016 (with comparative totals for the fiscal year ended June 30, 2015) across all the “Divisions” at the Department.
- **“E” through “I” Schedules** present further breakdown of each Division’s revenues and expenditures for the fiscal year ended June 30, 2016 (with comparative totals for the fiscal year ended June 30, 2015) as follows:
 - **“E” Schedule** presents the Division of Administration by its functions.
 - **“F-1” through “F-5” Schedules** present the Division of Adult Correction and Juvenile Justice by subdivision, and provide further breakdown of each subdivision into functions as follows:
 - F-1 – Division of Adult Correction and Juvenile Justice by Sub-division (which includes Adult Correction, Juvenile Justice, and Correction Enterprises). F-2 and F-5 schedules present further breakdown of the Adult Correction and Juvenile Justice subdivisions as follows:
 - F-2 – Sub-division of Adult Correction by its functions. F-3 and F-4 schedules present further breakdown of the Prisons and Community Corrections functions as follows:
 - F-3 – Prisons presents information further by its functions.
 - F-4 – Community Corrections presents information further by its functions.
 - F-5 – Sub-division of Juvenile Justice by its functions.
 - **“G” Schedule** presents the Division of Law Enforcement by its sub-divisions.
 - **“H” Schedule** presents the Division of the North Carolina National Guard by its functions.
 - **“I” Schedule** presents the Division of Emergency Management by its functions.

Required Information:

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

Findings, Recommendations, and Responses:

This section details financial reporting findings and internal control deficiencies that were considered reportable under *Government Auditing Standards*, as well as auditor recommendations and the Department’s response to the finding.



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 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. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Erik A. Hooks, Secretary
and Management of the North Carolina Department of Public Safety

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the North Carolina Department of Public Safety (Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions.

Basis for Qualified Opinion on the Correction Enterprises Fund

We observed that inventory count procedures were not consistently monitored or applied for all Correction Enterprises Fund locations. Our alternate procedures, including inventory rollbacks, did not yield sufficient appropriate audit evidence. In addition, a lack of policies and procedures for estimating obsolete and slow-moving inventory, a lack of management review over supporting documentation for inventory valuation, and a costing system subject to unapproved manual intervention over multiple periods exacerbated our inability to obtain sufficient appropriate audit evidence. Consequently, we were unable to determine whether any adjustment to inventory was necessary. As of June 30, 2016, Correction Enterprises Fund inventory is stated at \$18,382,511 in the accompanying governmental fund balance sheet.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Correction Enterprises Fund," the financial statements referred to above present fairly, in all material respects, the financial position of the Correction Enterprises Fund of the Department of Public Safety as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, Capital Projects Fund, Welfare Fund, ABC Commission, and aggregate remaining fund information of the Department of Public Safety, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Carolina Department of Public Safety are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Public Safety. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the financial statements, during the year ended June 30, 2016, the beginning fund balance for the governmental funds' financial statements has been restated to properly accrue medical claims liabilities. In addition, the beginning net position balance for the proprietary funds' financial statements has been restated to correct an error in the allocation of the proprietary funds' proportionate share of the net pension liability recognized in the fiscal year 2015. Our opinion is not modified with respect to these matters.

Other Matters

Prior Period Information

We have previously audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2015, and the respective changes in financial position for the year then ended. We expressed a qualified audit opinion on the General Fund, Correction Enterprises Fund, and Welfare Fund financial statements due to the inability to obtain sufficient appropriate audit evidence by other auditing procedures concerning inventories and expressed an unmodified audit opinion on the Capital Projects Fund, ABC Commission, and aggregate remaining fund information in our report dated August 18, 2016. The prior year supplementary schedules were derived from and related to the underlying accounting and other records used to prepare the financial statements. The supplementary schedules were not subjected to the auditing procedures applied in the audit of the basic financial statements of the prior year and accordingly, we do not express an opinion or provide any assurance on them.

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, 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.

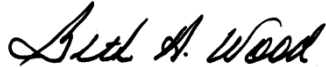
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules by division are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

August 15, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of the North Carolina Department of Public Safety's (Department) financial report is provided as an overview of the financial performance of the governmental funds and proprietary funds for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of governmental funds and proprietary funds. The governmental funds include the General Fund, Correction Enterprises Fund, Capital Projects Fund, and the Welfare Fund. The proprietary funds include the Alcoholic Beverage Control (ABC) Commission and Other Proprietary Funds, which include the Private Protective Services Board and the Alarm Systems Licensing Board. While the State Bureau of Investigation (SBI) and the ABC Commission are administratively housed under the Department of Public Safety, the activities of the SBI (included in the Department's General Fund) and the ABC Commission are exercised independently of the Secretary of Public Safety and fall under the oversight of the respective Director and Commissioner per *North Carolina General Statutes* 143B-915 and 18B-200(a). The Director and Commissioner are solely responsible for all management functions, direction, and supervision of the SBI and ABC Commission, respectively. The governmental funds' basic financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances whereas the proprietary funds' basic financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

Governmental Funds:

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

Proprietary Funds:

- The Statement of Net Position shows the financial position of the proprietary funds and includes all of the fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement of Net Position also provides the basis for evaluating the liquidity and financial flexibility of the funds.
- The Statement of Revenues, Expenses, and Changes in Net Position displays revenue and expense activities of the proprietary funds. The net effect of revenues and expenses rolls into net position which reflects the current year activities.
- The Statement of Cash Flows is prepared using the direct method. This statement shows the net changes in cash resulting from operating, financing, and investing activities.

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

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes the General Fund, Correction Enterprises Fund, and Welfare Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end as well as pension-related disclosures for the Department as a whole.

Governmental Funds

Condensed Balance Sheets

The following Condensed Balance Sheets show the Governmental Funds' financial position at June 30, 2016 and 2015.

North Carolina Department of Public Safety
Condensed Balance Sheets
Governmental Funds

	2016	2015 (As Restated)	Change
Assets	<u>\$ 278,919,586</u>	<u>\$ 268,839,340</u>	<u>\$ 10,080,246</u>
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows	<u>\$ 278,919,586</u>	<u>\$ 268,839,340</u>	<u>\$ 10,080,246</u>
Liabilities	<u>\$ 75,975,067</u>	<u>\$ 67,921,092</u>	<u>\$ 8,053,975</u>
Deferred Inflows of Resources	0	1,905,075	(1,905,075)
Fund Balances			
Nonspendable	64,387,172	65,264,203	(877,031)
Restricted	13,727,941	13,564,295	163,646
Committed	137,238,461	107,584,397	29,654,064
Assigned		3,325,583	(3,325,583)
Unassigned	<u>(12,409,055)</u>	<u>9,274,695</u>	<u>(21,683,750)</u>
Total Fund Balances	<u>202,944,519</u>	<u>199,013,173</u>	<u>3,931,346</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 278,919,586</u>	<u>\$ 268,839,340</u>	<u>\$ 10,080,246</u>

Total assets increased by \$10.1 million during the year due primarily to an increase in cash and cash equivalents of \$9.4 million due to increased appropriations for new projects in the Capital Projects Fund. Total liabilities increased by \$8.1 million during the year primarily due to the following:

- An increase in intergovernmental payables to local and federal entities. Local government payables increased by \$1.5 million primarily as a result of an increase in State-aid payments related to Emergency Management grant payments (Homeland Security and Flood Mitigation). Payables to the federal government increased by \$0.3 million almost entirely as a result of \$265,901 owed to the Federal Bureau of Investigation for services provided to the State Bureau of Investigation.
- A \$6.3 million increase in outstanding medical claims payable at June 30, 2016.

- A \$0.6 million increase in Funds Held for Others related to funds seized by the Alcohol Law Enforcement (ALE) pending a court decision. In addition, there was an offsetting decrease in unearned revenue of \$1.3 million due to receiving federal grant funds on a reimbursement basis rather than in advance of expenditures.

Overall fund balances increased by \$3.9 million, comprised mostly of a \$29.7 million increase in committed fund balance and a \$21.7 million decrease in unassigned fund balance.

Significant changes in the committed fund balances include both the Misdemeanant Confinement Fund (SMCF) in the General Fund which increased by \$15.1 million and the Capital Projects Fund, which increased by \$13.6 million. During the 2015 Legislative Session, \$22.5 million was appropriated to fund the SMCF, which was previously supported by receipts from court costs that were transferred from the Administrative Office of the Courts directly to the fund. During the transition, the fund continued to receive a small portion of the court costs in addition to the appropriations, causing the increase in the fund balance. As explained above, the Capital Projects Fund balance increased as a result of additional appropriations for new projects.

As the committed fund balance increased in the General Fund primarily as a result of the \$15.1 million increase in the SMCF, the decrease in the unassigned fund balance of \$21.7 million is directly related to the committed fund balance increase explained above.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances

The following Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances show the Governmental Funds' resource flows at June 30, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Carolina Department of Public Safety Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

	2016	2015 (As Restated)	Change
Revenues			
Federal Funds	\$ 104,993,203	\$ 121,176,971	\$ (16,183,768)
Sales and Services	97,866,478	93,013,789	4,852,689
Intragovernmental Sales and Services	56,914,912	58,836,378	(1,921,466)
Fees, Licenses, and Fines	48,825,134	63,234,022	(14,408,888)
Revenues from Other State Agencies	25,107,462	41,795,613	(16,688,151)
Other Revenues	30,437,669	35,206,732	(4,769,063)
Total Revenues	364,144,858	413,263,505	(49,118,647)
Expenditures			
Personal Services	989,955,018	964,986,830	24,968,188
Employee Benefits	428,357,978	395,446,705	32,911,273
Contracted Personal Services	197,893,405	188,978,327	8,915,078
Supplies and Materials	157,740,465	156,944,672	795,793
Purchases for Resale	79,448,143	78,582,164	865,979
Travel	3,582,400	3,268,609	313,791
Communication	15,593,635	14,469,198	1,124,437
Utilities	53,118,876	54,483,238	(1,364,362)
Data Processing Services	13,441,194	11,693,129	1,748,065
Other Services	13,913,903	12,974,472	939,431
Claims and Benefits	11,214,485	10,557,684	656,801
Debt Service:			
Principal Retirement	996,215	97,816	898,399
Interest and Fees	404,365	1,212,982	(808,617)
Other Fixed Charges	11,605,340	7,411,769	4,193,571
Capital Outlay	81,155,944	66,201,488	14,954,456
Grants, State Aid, and Subsidies	94,129,956	118,761,765	(24,631,809)
Scholarships	19,800	26,840	(7,040)
Insurance and Bonding	4,341,309	4,504,320	(163,011)
Expenditures to Other State Agencies	41,311,160	23,171,970	18,139,190
Other Expenditures	30,242,042	33,081,245	(2,839,203)
Total Expenditures	2,228,465,633	2,146,855,223	81,610,410
Excess Expenditures over Revenues	(1,864,320,775)	(1,733,591,718)	130,729,057
Other Financing Sources (Uses)			
Other Debt Issued		278,320	(278,320)
Sale of Capital Assets	3,066,691	1,858,376	1,208,315
Insurance Recoveries	826,493	588,821	237,672
Transfers In	13,076,178	9,135,994	3,940,184
Transfers Out	(13,076,178)	(9,135,994)	(3,940,184)
Transfers to State Reserve Fund	(8,517,265)		(8,517,265)
State Appropriations	1,872,876,202	1,731,992,441	140,883,761
Total Other Financing Sources	1,868,252,121	1,734,717,958	133,534,163
Net Change in Fund Balances	3,931,346	1,126,240	2,805,106
Fund Balances - July 1 (As Restated)	199,013,173	197,886,933	1,126,240
Fund Balances - June 30 (As Restated)	<u>\$ 202,944,519</u>	<u>\$ 199,013,173</u>	<u>\$ 3,931,346</u>

Total revenues decreased \$49.1 million due to decreases in federal funds, fees, licenses and fines, and revenues from other state agencies, primarily due to the following:

- Federal fund receipts decreased by \$16.2 million primarily as a result of no new major disaster declarations leading to decreased federal disaster funds received during fiscal year 2016.

- Fees, licenses and fines decreased by \$14.4 million primarily as a result of legislation changing the funding source for the State Misdemeanant Confinement Fund as explained above from fees to appropriations.
- Revenues from other state agencies decreased by \$16.7 million for the following reasons: 1) Along with the decrease in federal disaster funds received, the Department also received \$6.2 million less from the Office of State Budget and Management (OSBM) in state matching funds in connection with the disaster grants during fiscal year 2016; 2) the Department received \$3.2 million from the Department of Commerce during fiscal year 2015 for LiDAR topographical mapping, with no funding during fiscal year 2016; and 3) the Department received \$3.9 million less than the prior year from the Department of Information Technology (DIT) for upgrading the Department's computer systems.

Total expenditures increased \$81.6 million compared to the prior year mainly due to the following:

- Payments for personal services increased by \$25 million (approximately a 2.6% increase) as a result of the legislature approving salary increases for certain positions, including experience-based step increases for State Highway Patrol Troopers, State Highway Patrol market adjustments, and custody level based pay adjustments for Correctional Officers.
- Employee benefits increased by \$32.9 million in correlation to salary increases identified above, including retirement contributions which increased by \$4.5 million and Social Security which increased by \$3 million. Employee benefits also increased by \$17.2 million due to a legislatively mandated one-time bonus incentive wage of \$750 per State employee; \$2.6 million increase in medical insurance payments; and \$4.8 million increase in workers compensation permanent disability payments.
- Contracted personal service payments increased by \$8.9 million as a result of a \$2.8 million increase in Information Technology service contracts, a \$6.7 million increase for an electronic monitoring contract, and the Misdemeanant Housing jail contracts which increased by \$4.1 million.
- Capital outlay payments increased by \$15 million as a result of an increase in purchases for autos, trucks and buses to replace outdated fleets for which the Department received additional appropriations.
- Expenditures to other state agencies increased by \$18.1 million primarily due to: 1) the Department transferring \$9 million which had been reserved for a new accounting system to the NC General Fund during fiscal year 2016; and 2) transfers to the State General Fund as required by G.S. 18B-902 for the ABC Commission non-tax receipts increased by \$8.8 million.

In addition to the increases in the expenditure types identified above, there was also an offsetting decrease of \$24.6 million in grants, state aid, and subsidy payments. Corresponding to the decrease in disaster grant receipts discussed above, the Department made fewer payments to sub-grantees for public assistance.

Budget Variations

General Fund

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

Variances – Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$201.7 million and \$2.1 billion, respectively. This represents a 77% increase in revenues and a 5% increase in expenditures from the original certified budget. The increase in authorized revenue is attributable to the recognition of the aggregate grant revenue in the year of the award. In addition, the federal cap on victims of crime act funding was lifted so the State's allocation increased by \$46 million. The increase in authorized expenditures is primarily related to an increase in projected grant expenditures and contracted personal services. Generally, the variances between certified and authorized budget are attributable to the timing and length of the budget preparation process. The original certified budget for fiscal year 2016 was prepared during the fall of 2014, well over a year in advance of the final authorized budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances – Final Budget and Actual Results:

Actual total revenues were \$4.4 million less than budgeted revenue amounts. Likewise, actual total expenditures were \$85 million less than budgeted expenditures. Although the total variance from budgeted revenues is not material, federal grant revenues were nearly \$30 million below budget since grants are budgeted at the full grant award when received while the grant period of performance may span multiple fiscal years and ABC non-tax revenue of \$24 million was recognized while it is not required to be included as a budgeted line item. Variance from budgeted expenditures occurred mostly due to personnel costs associated with more than 2,500 vacant positions. In addition, \$7.4 million and \$3 million less than projected was expended on floodplain mapping and Statewide Misdemeanant Confinement program contractual services, respectively. Reimbursement grants awarded to sub-recipients for the Governor's Crime Commission and Emergency Management programs were \$13.9 million and \$12.2 million, respectively, less than anticipated requirements.

Correction Enterprises Fund

Data for the Correction Enterprises Fund budget variances is presented in Schedule C-2: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) of this report.

Variances – Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$90.7 million and \$86.1 million, respectively. This represents a 2% increase in revenues and no change in expenditures from the original certified budget. Generally, the minor variances between certified and authorized budget are attributable to the timing and length of the budget

preparation process. The original certified budget for fiscal year 2016 was prepared during the fall of 2014, well over a year in advance of the final authorized budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances – Final Budget and Actual Results:

Actual total revenues were \$1.9 million more than budgeted revenue amounts and actual total expenditures were \$3.1 million less than budgeted expenditures. Variances from budgeted revenues and expenditures primarily occurred due to an increase in sales as a result of improvement in the general economy and a reduction in purchases of materials used in the manufacture of Correction Enterprises products.

Welfare Fund

Data for the Welfare Fund budget variances is presented in Schedule C-3: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) of this report.

Variances – Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$43.6 million and \$42.6 million, respectively. This represents a 9.6% increase in revenues and a 9.5% increase in expenditures from the original certified budget. Generally, minor variances between certified and authorized budget are attributable to the timing and length of the budget preparation process for the fiscal year. The original certified budget for fiscal year 2016 was prepared in the fall of 2014, well in advance of the final authorized budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances – Final Budget and Actual Results:

Actual total revenues were \$1.7 million less than budgeted revenue amounts. Likewise, actual total expenditures were \$1.5 million less than budgeted expenditures. Revenues decreased due to new Federal Communication Commission (FCC) regulations imposing new rate caps on pay telephone commissions. The decrease in expenditures was primarily related to reduction in availability of funds due to the reduction in revenues caused by the rate caps.

Proprietary Funds

On July 1, 2014, the Department of Justice transferred the assets and liabilities comprising its Private Protective Services Board (PPS) and Alarm System Licensing Board (ASL) operations to the Department and on October 1, 2014, the Department of Commerce transferred the assets and liabilities comprising its ABC Commission operations to the Department. The net position transferred as a result is shown as a special item in the 2015 column of the Proprietary Funds Statement of Revenues, Expenditures, and Changes in Net Position. See Note 16 – Government Combinations for more information.

Condensed Statements of Net Position

The following Condensed Statements of Net Position show the Proprietary Funds' financial position at June 30, 2016 and 2015.

North Carolina Department of Public Safety
Condensed Statements of Net Position
Proprietary Funds

	2016	2015 (As Restated)	Change
Assets			
Current Assets	\$ 10,856,722	\$ 7,602,512	\$ 3,254,210
Capital Assets, Net	2,502,780	2,619,843	(117,063)
Total Assets	13,359,502	10,222,355	3,137,147
Deferred Outflows of Resources	298,558	276,426	22,132
Liabilities			
Current Liabilities	228,195	203,027	25,168
Noncurrent Liabilities	1,157,902	627,951	529,951
Total Liabilities	1,386,097	830,978	555,119
Deferred Inflows of Resources	185,520	897,640	(712,120)
Net Position			
Investment in Capital Assets	\$ 2,502,780	\$ 2,619,843	\$ (117,063)
Unrestricted	9,583,663	6,150,320	3,433,343
Total Net Position	\$ 12,086,443	\$ 8,770,163	\$ 3,316,280

Total assets were \$13.4 million at June 30, 2016, an increase of \$3.1 million due mainly to a \$2.8 million increase in cash and cash equivalents. The main factors leading to this increase are an increase in bailment and surcharges received by the Commission during the year and a decrease in payments made for operating expenses in the Other Proprietary Funds. The decreased expenses are driven by several factors, most significantly including 1) a decrease in pension expense due to the required GASB 68 adjustments explained below; 2) a decrease in capital outlay as a result of the Private Protective Services and Alarm System Licensing Boards purchasing less computer software than during fiscal year 2015; and 3) a decrease in other services related primarily to a decrease in data processing fees for background checks. In addition, intergovernmental receivables increased by \$0.4 million due to the ABC Commission bailment and surcharge receivables due from local governments.

Noncurrent liabilities increased \$0.5 million due to restating the June 30, 2015 Noncurrent Net Pension Liability balance according to the North Carolina Office of the State Controller's adjusting entries required by GASB 68 (Governmental Accounting Standards Board – Accounting and Financial Reporting for Pensions), creating an increase at June 30, 2016.

Deferred inflows of resources decreased by \$0.7 million as a result of GASB 68 pension adjustments according to the North Carolina Office of the State Controller, which reduced the June 30, 2016 balance of deferred inflows for pensions.

The Governmental Accounting Standards Board, beginning for the fiscal year ending June 30, 2015, implemented new reporting requirements related to recording and recognizing pension liabilities and expenses. The required entries and adjustments were

calculated, with the help of actuaries, and implemented by the North Carolina Office of the State Controller. As a result of the complexities in these calculations and the implementation date, restatements were required for the North Carolina State agencies that were impacted by GASB 68. See Note 17 – Net Position Restatement for amounts and further details.

Overall net position increased by \$3.3 million due to the reasons discussed above.

Statements of Revenues, Expenses, and Changes in Net Position

While the Combined Statements of Net Position show the financial position of the Proprietary Funds, the following Condensed Statements of Revenues, Expenses, and Changes in Net Position provide answers to the nature and source of changes in net position at June 30, 2016 and 2015:

North Carolina Department of Public Safety
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Proprietary Funds

	2016	2015 (As Restated)	Change
Operating Revenues			
Fees, Licenses, and Fines	\$ 19,488,054	\$ 16,232,250	\$ 3,255,804
Other Operating Revenues	101,347	17,413	83,934
Total Operating Revenues	19,589,401	16,249,663	3,339,738
Operating Expenses			
Personal Services	3,127,558	3,007,134	120,424
Employee Benefits	899,827	912,587	(12,760)
Contracted Personal Services	11,249,946	10,713,043	536,903
Supplies and Materials	119,049	429,151	(310,102)
Depreciation	117,063	115,971	1,092
Travel	50,912	61,540	(10,628)
Communication	43,755	60,385	(16,630)
Utilities	45,710	50,344	(4,634)
Data Processing Services	85,290	68,918	16,372
Other Services	208,112	244,154	(36,042)
Other Fixed Charges	38,954	27,041	11,913
Grants, State Aid, and Subsidies	522	4,948	(4,426)
Insurance and Bonding	342	17,064	(16,722)
Other Operating Expenses	451,885	328,663	123,222
Total Operating Expenses	16,438,925	16,040,943	397,982
Operating Income	3,150,476	208,720	2,941,756
Nonoperating Revenues	165,804	20,679	145,125
Income before Transfers and Special Item	3,316,280	229,399	3,086,881
Transfers Out		(18,113)	18,113
Transfer of Operations		(1,093,783)	1,093,783
Change in Net Position	3,316,280	(882,497)	4,198,777
Net Position - July 1 (As Restated)	8,770,163	9,652,660	(882,497)
Net Position - June 30 (As Restated)	<u>\$ 12,086,443</u>	<u>\$ 8,770,163</u>	<u>\$ 3,316,280</u>

Operating revenues, comprised mostly of fees, licenses, and fines, increased \$3.3 million from the prior year due primarily to an increase in ABC Commission receipts from bailment and surcharge fees collected. A legislative increase authorized by the General Assembly increased the surcharge fee from \$0.80 per case to \$1.40 per case effective for the entirety of fiscal year 2016.

Total operating expenses increased \$0.4 million compared to the prior year due primarily to an increase in contracted personal services of \$0.5 million as a result of payments on an ABC Commission contract with a vendor to provide educational training related to the Underage Drinking Initiative. The increase in contracted personal services was offset by a \$0.3 million decrease in supplies and materials purchased due primarily to a decrease in purchases of small equipment.

History and Future Outlook

Coal Ash Management Commission

The Coal Ash Management Act of 2014 (Senate Bill 729) established the Coal Ash Management Commission ("Commission"), which was administratively located within the Division of Emergency Management of the Department of Public Safety. The Commission consisted of nine members – six appointed by the General Assembly and three appointed by the Governor. The Commission was only located administratively within the Department and exercised all of its powers and duties independently and was not subject to the supervision, direction, or control of the Division of Emergency Management or the Department. The General Assembly estimated that \$2.4 million would be collected in revenues of which \$1.8 million were to be transferred to the Department of Environmental Quality.

In January 2016, the North Carolina Supreme Court ruled that creating a commission controlled by appointments from the legislative branch to carry out executive branch functions violated constitutional separation of powers rules. Following this ruling, the Coal Ash Management Committee was disbanded and responsibility for implementing the Coal Ash Management Act was transferred to the Department of Environmental Quality. In May 2016, the North Carolina General Assembly passed Senate Bill 71 which sought to reestablish the Coal Ash Management Committee by modifying terms of the original legislation to comply with the North Carolina Supreme Court ruling. On June 6, 2016, Senate Bill 71 was vetoed by the governor in office at that time.

Reserve for Salaries and Benefits

Compensation Increase Reserve – During the 2016 Legislative Session, the NC General Assembly appropriated \$18.21 million to provide for a 1.5% salary increase for permanent full-time State employees. In addition, funds are provided for salary increases for State agency teachers who are paid in accordance with the statewide teacher salary schedule.

One-Time Bonus – The legislature also appropriated \$5.9 million in non-recurring funds to the Department during the 2016 Legislative Session to provide for a 0.5% one-time bonus for permanent full-time State employees. This bonus will not increase employees' annual salary or base rate of pay for retirement purposes.

Merit-Based Bonus – The legislature provided for a one-time merit-based bonus in October 2016 to eligible State employees in state-funded positions, who are subject to or exempt from the State Human Resources Act. The total allocation for the Department was \$9.5 million.

State Highway Patrol Trooper Step Increase – The General Assembly appropriated \$1.8 million (recurring) during the 2016 legislative session, which provided funds for an experience-based step increase for eligible State Highway Patrol Troopers pursuant to *North Carolina General Statute* (G.S.) 20-187.3.

SBI/ALE Compensation Reserve – \$500,000 (recurring) was appropriated during the 2016 Legislative Session to provide salary increases for State Bureau of Investigation (SBI) and Alcohol Law Enforcement (ALE) agents. The director of the SBI was given the authority to allocate these funds as needed with the SBI.

Correctional Officer Custody-Level Based Pay Adjustment – Effective January 1, 2016, \$25.6 million (recurring) was appropriated during the 2015 legislative session to provide for the implementation of custody-level pay for Correctional Officers, Custody Supervisors, and Prison Facility Administrations. During the 2016 Legislative Session, the General Assembly appropriated \$16.9 million (recurring) to continue the implementation of this custody-level pay adjustment.

State Retirement Contributions – An additional \$3.1 million in recurring funds was appropriated during the 2016 Legislative Session for the Department's contribution for members of the Teachers' and State Employees' Retirement System (TSERS) to fund the actuarially determined contribution. An additional \$4.6 million (non-recurring) was appropriated to provide a 1.6% one-time cost-of-living supplement to retirees.

Department-wide

Samarcan Training Academy – During the 2015 Legislative Session, an additional \$1.9 million (recurring) funded operating costs and a total of 21 positions for the Samarcan Training Academy in Moore County. The training facility allows the Department to provide overnight training for correctional officers and juvenile justice officers, as well as other employees of the Department. In addition, \$3 million in non-recurring funds were provided to purchase a use-of-force training simulator and construct a state-of-the-art firing range at the academy.

Administration

Grants for Body-worn Cameras – \$2.5 million (non-recurring) was appropriated for both the 2015-2016 and the 2016-2017 fiscal years to provide matching grants for local and county law enforcement agencies to purchase and use body-worn video cameras and for training and related expenses. Agencies can receive up to \$100,000. The grants must be matched by the grantee agencies on a 2 to 1 basis.

HERO Grants – \$600,000 (non-recurring) for fiscal year 2016 and \$1 million (non-recurring) for fiscal year 2017 was appropriated to the Governor's Crime commission for grants to law enforcement agencies for salaries, training, and equipment for internet Crimes Against Children Task Force affiliate investigators and forensic analysts to utilize technology and data analysis to locate and rescue children at risk of exploitation. Priority will be given to veterans who have received training from the Human Exploitation Rescue Operative (HERO) project, a collaborative between the National Association to Protect Children, US Immigration and Customs Enforcement, and the US Special Operations Command, or a comparable training program.

Budget Realignment for Medical Claims Processing – During the 2016 Legislative Session, \$1.4 million was realigned in the Department's administrative budget, eliminating 18 positions to provide funds for outsourcing medical claims processing. Beginning October 1, 2016, billing for inmate medical services performed by outside medical providers transitioned to an electronic system. The annualized cost for this contract for fiscal year 2018 is estimated to be \$1.5 million.

Law Enforcement

Replacement Law Enforcement Vehicles and Cameras – During the 2015 Legislative Session, the State Highway Patrol was appropriated \$10.46 million in recurring funds and \$805,000 in non-recurring funds to purchase replacement law enforcement vehicles, install cameras in the remaining law enforcement fleet vehicles and develop and coordinate appropriate use-of-force training for State law enforcement officers.

Vehicle Replacement SBI/ALE – During the 2015 Legislative Session, the State Bureau of Investigation (SBI) was appropriated \$1.9 million in recurring funds to replace 75 vehicles per year for the Bureau and the Alcohol Law Enforcement Branch (ALE). In addition, the North Carolina Education Lottery will transfer \$2.1 million annually to the Alcohol Law Enforcement Branch for gambling enforcement activities.

SBI Plane – During the 2016 Legislative Session, \$8 million was appropriated to provide funds for the purchase of a new plane for the SBI Airwing. The total estimated cost for the plane is \$8.7 million, and the SBI may use funds available for the balance of the purchase.

Emergency Management and National Guard

School Risk Management Plans – During the 2016 Legislative Session, \$507,784 (non-recurring) for fiscal year 2017 was appropriated to provide funds for the construction and development of first-generation School Risk Management Plans for the public schools in accordance with G.S. 115C-105.49.

Multipurpose Facility – \$700,000 (non-recurring) was appropriated during the 2016 Legislative Session for fiscal year 2017 to renovate the gym at the Tarheel Challenge Academy in Salemburg, which was later transferred to capital funds and designated for the construction of a multipurpose facility under House Bill 805.

Adult Correction and Juvenile Justice – Prisons

Central Prison Mental Health Beds – \$1.1 million (recurring) for fiscal year 2016 and \$3.2 million (recurring) for fiscal year 2017 was appropriated to fund 66 positions at the Central Prison Mental Health Facility. These additional positions enabled 72 additional beds to open, allowing the unit to operate at its full capacity of 216 beds. Thirty-five positions were effective January 1, 2016 and 31 additional positions were effective January 1, 2017.

Mental Health Behavior Treatment – \$2.1 million (recurring) and \$121,300 (non-recurring) for fiscal year 2016 and \$5.6 million (recurring) and \$121,300 (non-recurring) for fiscal year 2017 appropriated funding to staff mental health behavior treatment units at eight close custody prisons. Four units were effective January 1, 2016 (76 positions) and four units were effective January 1, 2017 (76 positions).

Statewide Misdemeanant Confinement Fund – During the 2015 Legislative Session, \$22.5 million (recurring) was appropriated to fund the Statewide Misdemeanant Confinement Fund (SMCF). Previously, the SMCF was supported by receipts from court costs that were transferred from the Administrative Office of the Courts to the fund. SMCF provides payments to county jails for housing, transportation, and medical care for misdemeanants sentenced to confinement for 90 to 180 days.

Adult Correction and Juvenile Justice – Community Corrections

Electronic Monitoring –During the 2015 legislative session, \$2.6 million (recurring) was appropriated for fiscal year 2017, providing increased funding for electronic monitoring for offenders under supervision. Use of electronic monitoring has more than doubled following the Justice Reinvestment Act; this funding supports the increased demand. With these additional funds, the budget for electronic monitoring increased by \$4.9 million in the first year, which was a 17% increase. In the second year (fiscal year 2017), the budget is \$6.8 million, which is an increase of 62%.

Adult Correction and Juvenile Justice – Juvenile Justice

Residential Beds for Adjudicated Juveniles – During the 2015 Legislative Session, \$2 million (recurring) was appropriated to provide for expanded bed capacity for adjudicated juveniles in contracted and State-run facilities throughout the State. The new total budget for juvenile community programs is \$20.1 million, an increase of 11%.

Special Projects – General Fund

State Highway Patrol VIPER Tower Construction – \$7 million recurring in FY 2014-2015 was appropriated to complete construction of 29 State-funded towers for the VIPER system.

Special Project – Welfare Fund

Managed Access for Cell Phones – The 2015 Legislative Session allowed for non-recurring transfers to the Department's general fund of \$675,000 and \$2,750,000 during fiscal year 2016 and fiscal year 2017, respectively, to contract for a managed access system to provide enhanced security technology to deter illegal access to cell phones by inmates in the State's prison system.

Telephone Commission Receipts – As a result of an FCC ruling that took effect March 2016, the Department can no longer collect commissions for the pay telephones in the prison facilities. On average, the Welfare Fund collected \$7.2 million in telephone commissions per fiscal year. During fiscal year 2015 (prior to the FCC ruling), the Welfare Fund collected \$7.4 million in telephone commissions. The Department has been informed that this FCC ruling is being appealed.

Capital Projects

Samarcand Training Facility – Approximately \$5.25 million (nonrecurring) was appropriated for fiscal year 2014. Approximately \$5.2 million was allocated from the proceeds of bonds and notes (special indebtedness) for fiscal year 2015 to finance the capital facility costs to convert the vacant Division of Juvenile Justice Youth Development Center into an overnight training facility for the Department. In addition, \$8.5 million was allocated from the Connect-NC Bonds during the 2016 Legislative Session for Phase II of the Samarcand Training Facility. As of June 30, 2016, the construction in progress balance for the conversion of the Samarcand Training Facility was \$8.3 million.

National Guard Armory and Facility Development Projects – Approximately \$8.25 million in State funds (\$5 million for fiscal year 2014 and 3.3 million for fiscal year 2015) was appropriated to expand and renovate National Guard Armories and Facilities located throughout the State. These funds match \$21 million in federal funds, resulting in

\$29.3 million worth of National Guard expansions and renovations. As of June 30, 2016, approximately \$16.3 million had been expended and recorded in construction in progress or capitalized for these National Guard projects.

During the 2015 Legislative Session, \$868,000 of additional capital funds was appropriated for National Guard Armory Facility and Development Projects for fiscal year 2016 (non-recurring), and \$5 million (non-recurring) appropriated during the 2016 Legislative Session for fiscal year 2017. These funds match \$6.7 million in federal funds.

Connect-NC Bonds Project Funding – The Department received an allocation of \$78.5 million from the Connect NC Bond proceeds for the following capital projects:

- \$8.5 million allocated for Samarcand Phase II (included above in Samarcand Training Facility);
- \$40.6 million allocated for the Guilford National Guard Readiness Center;
- \$23.4 million allocated for the Burke National Guard Readiness Center; and
- \$6 million allocated for the Wilkes National Guard Readiness Center.

Session Law 2015-241, Section 31.22 allows the Department, with the approval of the Office of State Budget and Management, to use the funds from any savings generated, together with available funds, to finance the capital facility costs of renovating existing space at Central Prison for bed space for long-term medical care. The Department has identified \$10.9 million for this renovation.



FINANCIAL STATEMENTS

**North Carolina Department of Public Safety
Balance Sheet
Governmental Funds
June 30, 2016 (With Comparative Totals for June 30, 2015)**

Exhibit A-1

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2016	Total Governmental Funds 2015 (As Restated)
ASSETS						
Cash and Cash Equivalents (Note 2)	\$ 114,675,768	\$ 15,265,782	\$ 52,955,320	\$ 14,538,717	\$ 197,435,587	\$ 188,060,631
Receivables:						
Accounts Receivable, Net (Note 4)	718,779	666,684			1,385,463	1,470,047
Intergovernmental Receivables, Net (Note 5)	10,476,526	636,424			11,112,950	9,104,182
Interest Receivable	12,428				12,428	9,778
Due From Other Funds and State Agencies	1,917,191	2,536,591	969		4,454,751	4,644,678
Inventories	43,595,040	18,382,511		1,726,663	63,704,214	65,264,203
Notes Receivable	814,193				814,193	285,821
Total Assets	172,209,925	37,487,992	52,956,289	16,265,380	278,919,586	268,839,340
DEFERRED OUTFLOWS OF RESOURCES						
	0	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 172,209,925	\$ 37,487,992	\$ 52,956,289	\$ 16,265,380	\$ 278,919,586	\$ 268,839,340
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable	\$ 19,447,574	\$ 2,333,923	\$ 3,100,666	\$ 1,048,601	\$ 25,930,764	\$ 25,366,908
Medical Claims Payable	24,439,643				24,439,643	18,166,930
Accrued Payroll	75,754	11,860			87,614	133,724
Intergovernmental Payables	4,757,369	82		497	4,757,948	2,955,618
Due to Other Funds and State Agencies	7,635,277	73,804	39,952	2,495	7,751,528	7,570,964
Funds Held for Others	618,618				618,618	10,207
Unearned Revenue	11,891,886	72,466	424,600		12,388,952	13,716,741
Total Liabilities	68,866,121	2,492,135	3,565,218	1,051,593	75,975,067	67,921,092
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	0	0	0	0	0	1,905,075
FUND BALANCES (Note 9)						
Nonspendable	44,277,998	18,382,511		1,726,663	64,387,172	65,264,203
Restricted	13,727,941				13,727,941	13,564,295
Committed	57,214,143	16,613,346	49,923,848	13,487,124	137,238,461	107,584,397
Assigned						3,325,583
Unassigned	(11,876,278)		(532,777)		(12,409,055)	9,274,695
Total Fund Balances	103,343,804	34,995,857	49,391,071	15,213,787	202,944,519	199,013,173
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 172,209,925	\$ 37,487,992	\$ 52,956,289	\$ 16,265,380	\$ 278,919,586	\$ 268,839,340

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

North Carolina Department of Public Safety
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Exhibit A-2

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2016	Total Governmental Funds 2015 (As Restated)
REVENUES						
Federal Funds	\$ 104,993,203	\$ 0	\$ 0	\$ 0	\$ 104,993,203	\$ 121,176,971
Local Funds	18,635				18,635	42,028
Investment Earnings	147,546			1,153	148,699	106,149
Sales and Services	26,549,315	35,223,829		36,093,334	97,866,478	93,013,789
Intragovernmental Sales and Services		56,914,912			56,914,912	58,836,378
Rental and Lease of Property	296,329	564,096		6,000	866,425	943,593
Fees, Licenses, and Fines	48,825,134				48,825,134	63,234,022
Student Tuition and Fees	37,705				37,705	60,450
Contributions, Gifts, and Grants	7,838,007	3,577		107,547	7,949,131	5,221,215
Revenues from Other State Agencies (Note 11)	18,816,775		6,290,687		25,107,462	41,795,613
Miscellaneous Income	15,432,413	140,191	21,298	5,823,172	21,417,074	28,833,297
Total Revenues	222,955,062	92,846,605	6,311,985	42,031,206	364,144,858	413,263,505
EXPENDITURES						
Personal Services	968,996,245	19,595,856		1,362,917	989,955,018	964,986,830
Employee Benefits	421,728,116	6,010,766		619,096	428,357,978	395,446,705
Contracted Personal Services	195,876,966	436,438	506,029	1,073,972	197,893,405	188,978,327
Supplies and Materials	149,881,245	4,306,541		3,552,679	157,740,465	156,944,672
Purchases for Resale		47,714,512		31,733,631	79,448,143	78,582,164
Travel	3,294,013	286,355		2,032	3,582,400	3,268,609
Communication	15,489,795	100,917		2,923	15,593,635	14,469,198
Utilities	50,206,049	2,742,597		170,230	53,118,876	54,483,238
Data Processing Services	13,438,333	2,861			13,441,194	11,693,129
Other Services	12,476,306	1,292,930	14,789	129,878	13,913,903	12,974,472
Claims and Benefits	11,214,485				11,214,485	10,557,684
Debt Service:						
Principal Retirement	943,266			52,949	996,215	97,816
Interest and Fees	387,734			16,631	404,365	1,212,982
Other Fixed Charges	10,897,782	515,992		191,566	11,605,340	7,411,769
Capital Outlay	53,181,212	2,329,553	24,486,931	1,158,248	81,155,944	66,201,488
Grants, State Aid and Subsidies	94,129,956				94,129,956	118,761,765
Scholarships	19,800				19,800	26,840
Insurance and Bonding	3,507,273	830,037		3,999	4,341,309	4,504,320
Expenditures to Other State Agencies (Note 11)	40,811,160	500,000			41,311,160	23,171,970
Other Expenditures	28,000,629	1,062,177		1,179,236	30,242,042	33,081,245
Total Expenditures	2,074,480,365	87,727,532	25,007,749	41,249,987	2,228,465,633	2,146,855,223
Excess of Revenues Over (Under) Expenditures	(1,851,525,303)	5,119,073	(18,695,764)	781,219	(1,864,320,775)	(1,733,591,718)
OTHER FINANCING SOURCES (USES)						
Other Debt Issued						278,320
Sale of Capital Assets	2,962,169	104,522			3,066,691	1,858,376
Insurance Recoveries	826,493				826,493	588,821
Transfers In (Note 10)	3,758,855	201,600	9,115,723		13,076,178	9,135,994
Transfers Out (Note 10)	(6,225,098)	(5,543,528)		(1,307,552)	(13,076,178)	(9,135,994)
Transfers to State Reserve Fund	(8,517,265)				(8,517,265)	
State Appropriations	1,849,919,002		22,957,200		1,872,876,202	1,731,992,441
Total Other Financing Sources (Uses)	1,842,724,156	(5,237,406)	32,072,923	(1,307,552)	1,868,252,121	1,734,717,958
Net Change in Fund Balances	(8,801,147)	(118,333)	13,377,159	(526,333)	3,931,346	1,126,240
Fund Balances - Beginning of Year (As Restated, Note 17)	112,144,951	35,114,190	36,013,912	15,740,120	199,013,173	197,886,933
Fund Balances - End of Year (As Restated, Note 17)	\$ 103,343,804	\$ 34,995,857	\$ 49,391,071	\$ 15,213,787	\$ 202,944,519	\$ 199,013,173

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

North Carolina Department of Public Safety
Statement of Net Position
Proprietary Funds
June 30, 2016 (With Comparative Totals for June 30, 2015)

Exhibit B-1

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2016	Total Proprietary Funds 2015 (As Restated)
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 6,411,545	\$ 2,283,446	\$ 8,694,991	\$ 5,886,164
Receivables:				
Accounts Receivable	238,682		238,682	230,868
Intergovernmental Receivables	1,899,635		1,899,635	1,478,410
Interest Receivable		1,496	1,496	818
Inventories	18,121	3,797	21,918	6,252
Total Current Assets	<u>8,567,983</u>	<u>2,288,739</u>	<u>10,856,722</u>	<u>7,602,512</u>
Noncurrent Assets:				
Capital Assets - Nondepreciable (Note 6)	550,407		550,407	550,407
Capital Assets - Depreciable, Net (Note 6)	<u>1,932,142</u>	<u>20,231</u>	<u>1,952,373</u>	<u>2,069,436</u>
Total Noncurrent Assets	<u>2,482,549</u>	<u>20,231</u>	<u>2,502,780</u>	<u>2,619,843</u>
Total Assets	<u>11,050,532</u>	<u>2,308,970</u>	<u>13,359,502</u>	<u>10,222,355</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows for Pensions	<u>217,040</u>	<u>81,518</u>	<u>298,558</u>	<u>276,426</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	64,278	19,521	83,799	86,450
Intergovernmental Payables				10,428
Due to Other Funds	44,791	69,204	113,995	67,908
Long-Term Liabilities - Current Portion (Note 7)	<u>22,346</u>	<u>8,055</u>	<u>30,401</u>	<u>38,241</u>
Total Current Liabilities	<u>131,415</u>	<u>96,780</u>	<u>228,195</u>	<u>203,027</u>
Noncurrent Liabilities:				
Long-Term Liabilities (Note 7)	<u>849,776</u>	<u>308,126</u>	<u>1,157,902</u>	<u>627,951</u>
Total Liabilities	<u>981,191</u>	<u>404,906</u>	<u>1,386,097</u>	<u>830,978</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows for Pensions	<u>136,048</u>	<u>49,472</u>	<u>185,520</u>	<u>897,640</u>
NET POSITION				
Investment in Capital Assets	2,482,549	20,231	2,502,780	2,619,843
Unrestricted	<u>7,667,784</u>	<u>1,915,879</u>	<u>9,583,663</u>	<u>6,150,320</u>
Total Net Position (As Restated, Note 17)	<u>\$ 10,150,333</u>	<u>\$ 1,936,110</u>	<u>\$ 12,086,443</u>	<u>\$ 8,770,163</u>

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

(1) Other Proprietary Funds include the Private Protective Services Board and the Alarm Systems Licensing Board.

**North Carolina Department of Public Safety
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds**

For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Exhibit B-2

	ABC Commission	Other Proprietary Funds	Total Proprietary Funds 2016	Total Proprietary Funds 2015 (As Restated)
REVENUES				
Operating Revenues:				
Sales and Services	\$ 1,508	\$ 71,997	\$ 73,505	\$ 2,163
Fees, Licenses, and Fines	17,513,975	1,974,079	19,488,054	16,232,250
Student Tuition and Fees		17,250	17,250	15,250
Miscellaneous Income		10,592	10,592	
Total Operating Revenues	17,515,483	2,073,918	19,589,401	16,249,663
EXPENSES				
Operating Expenses:				
Personal Services	2,269,811	857,747	3,127,558	3,007,134
Employee Benefits	650,441	249,386	899,827	912,587
Contracted Personal Services	11,081,779	168,167	11,249,946	10,713,043
Supplies and Materials	76,483	42,566	119,049	429,151
Depreciation	115,974	1,089	117,063	115,971
Travel	21,979	28,933	50,912	61,540
Communication	33,103	10,652	43,755	60,385
Utilities	45,710		45,710	50,344
Data Processing Services	69,507	15,783	85,290	68,918
Other Services	173,792	34,320	208,112	244,154
Other Fixed Charges	35,248	3,706	38,954	27,041
Grants, State Aid, and Subsidies		522	522	4,948
Insurance and Bonding	133	209	342	17,064
Other Expenses	299,821	152,064	451,885	328,663
Total Operating Expenses	14,873,781	1,565,144	16,438,925	16,040,943
Operating Income	2,641,702	508,774	3,150,476	208,720
NONOPERATING REVENUES (EXPENSES)				
Loss on Sale of Capital Assets				(7,961)
Noncapital Grants	150,947		150,947	20,129
Investment Earnings		14,857	14,857	8,511
Net Nonoperating Revenues	150,947	14,857	165,804	20,679
Income before Transfers and Special Item	2,792,649	523,631	3,316,280	229,399
Transfers Out				(18,113)
Transfer of Operations (Note 16)				(1,093,783)
Change in Net Position	2,792,649	523,631	3,316,280	(882,497)
NET POSITION				
Net Position - Beginning of Year (As Restated, Note 17)	7,357,684	1,412,479	8,770,163	9,652,660
Net Position - End of Year (As Restated, Note 17)	\$ 10,150,333	\$ 1,936,110	\$ 12,086,443	\$ 8,770,163

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

**North Carolina Department of Public Safety
Statement of Cash Flows**

Proprietary Funds

For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Exhibit B-3

	ABC Commission	Other Proprietary Funds	Total Proprietary Funds 2016	Total Proprietary Funds 2015 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from Customers	\$ 17,086,443	\$ 2,073,918	\$ 19,160,361	\$ 15,732,577
Payments to Employees and Fringe Benefits	(3,078,794)	(1,171,681)	(4,250,475)	(4,085,388)
Payments to Vendors and Suppliers	(11,547,028)	(278,222)	(11,825,250)	(11,543,906)
Payments for Other Expenses	(291,546)	(149,390)	(440,936)	(328,663)
Net Cash Provided (Used) by Operating Activities	2,169,075	474,625	2,643,700	(225,380)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Noncapital Grants	150,947		150,947	20,129
Transfers to Other Funds				(18,113)
Net Cash Provided by Noncapital Financing Activities	150,947		150,947	2,016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets				(6,328)
Cash Used for Capital Financing and Related Financing Activities				(6,328)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings		14,180	14,180	8,328
Cash Provided by Investing Activities		14,180	14,180	8,328
Net Increase (Decrease) in Cash and Cash Equivalents	2,320,022	488,805	2,808,827	(221,364)
Cash and Cash Equivalents - July 1	4,091,523	1,794,641	5,886,164	6,107,528
Cash and Cash Equivalents - June 30	\$ 6,411,545	\$ 2,283,446	\$ 8,694,991	\$ 5,886,164
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	\$ 2,641,702	\$ 508,774	\$ 3,150,476	\$ 208,720
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)				
By Operating Activities:				
Depreciation Expense	115,974	1,089	117,063	115,971
Pension Expense	54,576	19,844	74,420	99,627
TSERS Allocations - Miscellaneous Expense	8,275	2,674	10,949	
Changes in Assets, Liabilities, and Deferred Outflows of Resources:				
Accounts Receivables	(7,814)		(7,814)	(255,802)
Intergovernmental Receivables	(421,225)		(421,225)	(291,279)
Inventories	(14,921)	(745)	(15,666)	41,839
Deferred Outflows for Contributions Subsequent to the Measurement Date (Pension)	(208,083)	(78,261)	(286,344)	(276,426)
Accounts Payable	(6,580)	3,928	(2,652)	54,365
Intergovernmental Payables	(10,393)	(35)	(10,428)	(17,339)
Due to Other Funds	22,599	23,488	46,087	53,528
Compensated Absences	(5,035)	(6,131)	(11,166)	11,416
Net Cash Provided (Used) by Operating Activities	\$ 2,169,075	\$ 474,625	\$ 2,643,700	\$ (255,380)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Loss on Disposal of Capital Assets	\$ 0	\$ 0	\$ 0	\$ (7,960)

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization** - The North Carolina Department of Public Safety (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department is charged with improving the quality of life for North Carolinians by reducing crime and enhancing public safety. The operations of the Department are led by the Secretary of Public Safety, a member of the Governor's cabinet.
- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the Department. The Department's accounts and transactions are included in the State's *Comprehensive Annual Financial Report* as part of the State's governmental funds and proprietary funds.

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

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

The fund financial statements provide information about the Department's funds. The emphasis of fund financial statements is on major governmental funds and proprietary funds, each displayed in separate exhibits.

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

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

Correction Enterprises Fund – Authorized by *North Carolina General Statute* 148-128, this fund accounts for the activities of Correction Enterprises. Correction Enterprises provides rehabilitative opportunities to inmates and produces high-quality merchandise at a savings to the taxpayer. This fund does not receive any appropriation from the General Assembly, and, because the revenues generated are committed by specific legislation, the fund is reported as a special revenue fund in the financial statements.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, and is primarily funded by state appropriations and the State's issuance of debt. Specific projects are identified in the State's budget and approved by the legislature.

Welfare Fund – This fund accounts for the proceeds from (and related expenditures for) operations of the State's prison canteens.

The Department's financial statements consist of the following major proprietary fund:

Alcoholic Beverage Control (ABC) Commission – This fund accounts for the activities of the ABC Commission established by *North Carolina General Statute* 18B-200. The purpose of the ABC Commission is to provide uniform control over the sale, purchase, transportation, manufacture, consumption, and possession of alcoholic beverages within the State of North Carolina. This fund does not receive any appropriations from the General Assembly.

Other proprietary funds include the Private Protective Services Board and the Alarm System Licensing Board, both of which are enterprise funds that charge fees to external users for services rendered for licensing purposes.

D. Measurement Focus and Basis of Accounting

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

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period.

Expenditures are recorded when a liability is incurred, except for compensated absences, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if the payment is not due until the subsequent period.

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

Proprietary Funds – Proprietary fund financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

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

- E. Cash and Cash Equivalents** - This classification includes 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.
- F. Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

Accounts receivable for the governmental funds primarily include amounts due from security services provided by the State Bureau of Investigation, amounts due from employees, and sales and services provided by the Correction Enterprises Fund. Accounts receivable are reported net of estimated uncollectible accounts.

Intergovernmental receivables include amounts due from the federal government in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Intergovernmental receivables also include amounts due from local governments in connection with housing inmates (safekeepers) and security services provided by the State Bureau of Investigation. Intergovernmental receivables are reported net of estimated uncollectible amounts.

- H. Inventories** - Inventories, consisting of general supplies and materials, raw materials, and work-in-process, are valued at cost using the first-in, first-out (FIFO) method or average cost method. Finished goods and merchandise for resales are valued at the lower of cost or market. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

- I. Due from/to Other Funds and State Agencies** - Activities between the Department's funds or State agencies are composed of amounts due from or to other funds of the Department or State agencies. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.

- J. Medical Claims Payable** - The Department annually estimates medical claims payable incurred on behalf of inmates in the current fiscal year but not yet submitted for reimbursement by providers as of June 30th. This liability is also known as Incurred but not Reported (IBNR).

The medical claims liability balance also includes amounts due based upon specifically identified provider accounts.

- K. Unearned Revenue** - Unearned revenue for the governmental fund represents the cumulative excess of cash received from the federal government over expenditures paid in connection with reimbursement of allowable expenditures made pursuant to contracts and grants.

- L. Long-Term Liabilities** - General long-term liabilities for the governmental funds are not recognized in the governmental funds until they become due. Consequently, the general long-term liabilities not yet due are not reported on the face of the governmental funds' financial statements. Long-term liabilities reported in the proprietary funds include compensated absences and the net pension liability. The noncurrent portion represents amounts that will not be paid within the next fiscal year.

The net pension liability represents the Department's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the Department's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System and the North Carolina National Guard Pension Fund. See Note 12 for further information regarding the Department's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- M. Compensated Absences** - Employees of the Department are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the proprietary funds. In the governmental funds, a liability for these amounts is reported only as payments become due each period upon the occurrence of relevant events such as employee resignations and retirements. Consequently, compensated absence balances are not reported on the face of the governmental funds' financial statements but are reported in the Notes to the Financial Statements. When determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. The Department's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

- N. Deferred Outflows/Inflows of Resources** - In addition to assets and liabilities, the Department reports deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of fund balance/net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of fund balance/net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Both are

presented as separate financial statement elements on the face of the financial statements.

The proprietary funds include deferred inflows and outflows of resources related to pension plan contributions in the current fiscal year.

O. Net Position / Fund Balance

Net Position – Net position for the proprietary funds is classified as follows:

Investment in Capital Assets – This represents the proprietary funds' total investment in capital assets.

Unrestricted – This represents resources derived from fees, licenses, and fines, sales and services, unrestricted noncapital grants, and investment earnings.

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

Nonspendable fund balances include amounts that cannot be spent because they mainly represent inventories that are not available for appropriation and are not expendable available financial resources.

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

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

Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carryforward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the "budget as enacted by the General Assembly shall be administered by the Governor." The Governor has delegated the authority to perform certain powers and duties of this role to the State Budget Director.

Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures

incurred for specific purposes exceeded the amounts restricted or committed to those purposes.

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

- P. Revenues and Expenditures from/to Other State Agencies** - Revenues and Expenditures from/to Other State Agencies for the governmental funds represent amounts that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures are eliminated at the statewide reporting level in the State's *Comprehensive Annual Financial Report*.
- Q. Revenues and Expenses** - The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are exchange transactions that generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. 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 grants or assistance to the Department, as well as investment earnings, are considered nonoperating since these are either investing, capital, or noncapital financing activities.

NOTE 2 - DEPOSITS

Unless specifically exempt, the Department is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. General Statute 147-69.1, applicable to the General Fund, authorizes the State Treasurer to invest all deposits in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository under the Department's name and the responsibility of monitoring collateralization rests with each depository. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the Department to the State Treasurer.

Cash on hand at June 30, 2016 was \$5,200. The carrying amounts and bank balances of the Department's governmental funds' deposits not with the State Treasurer were \$1,173,558 at June 30, 2016. As of June 30, 2016, \$631,575 of the Department's bank balances were exposed to custodial credit risk as uninsured and uncollateralized. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2016, the Department's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

At June 30, 2016, the governmental funds' Balance Sheet reported cash and cash equivalents of \$196,256,829, while the proprietary funds' Statement of Net Position reported cash and cash equivalents of \$8,694,991 representing the Department's equity position in the State Treasurer's Short-Term Investment portfolio (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 and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Department's investments are recorded at fair value as of June 30, 2016. 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.

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, cash and cash equivalents valued at \$204,951,820 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is 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.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the governmental funds at June 30, 2016 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Due from Employees	\$ 1,285,535	\$ (812,524)	\$ 473,011
SBI Security Services	101,594	(4,286)	97,308
State Highway Patrol	100,759		100,759
Other	51,640	(3,939)	47,701
Total Accounts Receivable - General Fund	1,539,528	(820,749)	718,779
Correction Enterprises Fund:			
Sales	162,527		162,527
Farm Leases	305,262		305,262
Other	198,895		198,895
Total Accounts Receivable - Correction	666,684		666,684
Total Accounts Receivable	\$ 2,206,212	\$ (820,749)	\$ 1,385,463

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables for the governmental funds at June 30, 2016 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Federal Government	\$ 6,880,249	\$ 0	\$ 6,880,249
Local Government:			
Safekeepers	2,317,806	(733,032)	1,584,774
Juvenile Detention	987,532		987,532
SBI-Concealed Handgun Permits	800,605		800,605
SBI-Criminal History Record Information	113,241	(7,019)	106,222
Other Local Governments	117,438	(294)	117,144
Total Intergovernmental Receivables - General Fund	11,216,871	(740,345)	10,476,526
Correction Enterprises Fund:			
Sales and Services to Local Governments	636,424		636,424
Total Intergovernmental Receivables	\$ 11,853,295	\$ (740,345)	\$ 11,112,950

NOTE 6 - CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported as expenditures in the governmental funds. Consequently, capital asset balances are not reported on the face of the governmental fund financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. The value of assets constructed includes all material direct and indirect construction costs. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Capital assets are stated at acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

Generally, capital assets are defined by the Department as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of two or more years, except for internally generated computer software which is capitalized when the value or cost is \$1,000,000 or greater.

Depreciation and amortization are recorded at the statewide level, and are computed using the straight-line method over the estimated useful lives of the assets, in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental Funds				
Capital Assets, Nondepreciable:				
Land	\$ 23,466,794	\$ 131,887	\$ 0	\$ 23,598,681
Construction in Progress	26,860,512	24,909,968	17,195,629	34,574,851
Total Capital Assets, Nondepreciable	50,327,306	25,041,855	17,195,629	58,173,532
Capital Assets, Depreciable:				
Buildings	1,924,825,361	13,841,994	1,311,892	1,937,355,463
Equipment	287,942,427	30,040,766	23,506,599	294,476,594
General Infrastructure	80,428,353	3,508,758		83,937,111
Computer Software	1,275,900			1,275,900
Total Capital Assets, Depreciable	2,294,472,041	47,391,519	24,818,491	2,317,045,068
Less Accumulated Depreciation/Amortization for:				
Buildings	543,253,388	35,113,455	473,462	577,893,381
Equipment	132,704,203	13,877,921	12,264,132	134,317,992
General Infrastructure	34,458,823	1,679,382		36,138,205
Computer Software	414,668	63,795		478,463
Total Accumulated Depreciation/Amortization	710,831,082	50,734,553	12,737,594	748,828,041
Total Capital Assets, Depreciable, Net	1,583,640,959	(3,343,034)	12,080,897	1,568,217,028
Capital Assets, Net	\$ 1,633,968,265	\$ 21,698,821	\$ 29,276,526	\$ 1,626,390,560

A summary of changes in the proprietary funds' capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Proprietary Funds				
Capital Assets, Nondepreciable				
Land	\$ 550,407	\$ 0	\$ 0	\$ 550,407
Total Capital Assets, Nondepreciable	550,407			550,407
Capital Assets, Depreciable				
Buildings	5,242,120			5,242,120
Machinery and Equipment	233,108			233,108
General Infrastructure	30,000			30,000
Total Capital Assets, Depreciable	5,505,228			5,505,228
Less Accumulated Depreciation for:				
Buildings	3,302,537	104,842		3,407,379
Machinery and Equipment	103,255	12,221		115,476
General Infrastructure	30,000			30,000
Total Accumulated Depreciation	3,435,792	117,063		3,552,855
Total Capital Assets, Depreciable, Net	2,069,436	(117,063)		1,952,373
Capital Assets, Net	\$ 2,619,843	\$ (117,063)	\$ 0	\$ 2,502,780

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2015 (As Restated) ¹	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental Funds:					
Compensated Absences	\$ 144,130,296	\$ 78,531,364	\$ 78,919,306	\$ 143,742,354	\$ 10,622,557
Notes Payable	15,707,657		943,266	14,764,391	993,558
Capital Leases Payable	274,064		52,949	221,115	56,580
Net Pension Liability	111,145,728	187,770,854		298,916,582	
Total Long-Term Liabilities	\$ 271,257,745	\$ 266,302,218	\$ 79,915,521	\$ 457,644,442	\$ 11,672,695
	Balance July 1, 2015 (As Restated) ¹	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Proprietary Funds:					
Compensated Absences	\$ 422,552	\$ 255,606	\$ 266,772	\$ 411,386	\$ 30,401
Net Pension Liability	243,640	533,277		776,917	
Total Long-Term Liabilities	\$ 666,192	\$ 788,883	\$ 266,772	\$ 1,188,303	\$ 30,401

Additional information regarding the capital leases payable is included in Note 8.

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

¹ Additional information regarding the restatement of the proprietary funds' net pension liability beginning balance is included in Note 17.

The governmental funds' net pension liability beginning balance was also impacted as a result of this restatement.

B. Note Payable - The Department was indebted for a note payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Energy Efficiency	Banc of America Public Capital Corp	2.53%	12/15/2027	\$ 15,801,217	\$ 1,036,826	\$ 14,764,391

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016 are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2017	\$ 993,558	\$ 363,442
2018	1,046,140	337,860
2019	1,101,073	310,927
2020	1,157,405	282,595
2021	1,215,174	252,826
2022-2026	7,025,358	763,642
2027-2028	2,225,683	46,851
Total Requirements	\$ 14,764,391	\$ 2,358,143

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to a modular classroom building are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Governmental Funds</u>
2017	\$ 69,580
2018	69,580
2019	<u>108,782</u>
Total Minimum Lease Payments	247,942
Amount Representing Interest (12.13% Rate of Interest)	<u>26,827</u>
Present Value of Future Lease Payments	<u><u>\$ 221,115</u></u>

Capital assets acquired under capital lease amounted to \$278,320 at June 30, 2016.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$10,375 at June 30, 2016.

- B. Operating Lease Obligations** - The Department entered into operating leases for copiers, equipment, and facilities. Future minimum lease payments under noncancellable operating leases consisted of the following at June 30, 2016.

<u>Fiscal Year</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
2017	\$ 6,940,116	\$ 24,283
2018	5,960,050	1,200
2019	5,157,846	1,200
2020	4,532,866	1,200
2021	<u>73,675</u>	
Total Minimum Lease Payments	<u><u>\$ 22,664,553</u></u>	<u><u>\$ 27,883</u></u>

Rental expense for all operating leases during the year ended June 30, 2016, was \$22,966,760.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - FUND BALANCE

The details of the fund balance classifications for the governmental funds at June 30, 2016 were as follows:

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total
Fund Balance:					
Nonspendable:					
Inventories	\$ 43,595,040	\$ 18,382,511	\$ 0	\$ 1,726,663	\$ 63,704,214
Other	682,958				682,958
Restricted for:					
Performance Contracts	1,016,482				1,016,482
Federal Grants and Federal Drug Forfeiture Funds	12,420,347				12,420,347
National Guard Funds	291,112				291,112
Committed to:					
State Misdemeanant Confinement	45,540,975				45,540,975
Coal Ash Management Commission	895,516				895,516
Emergency Management	5,502,071				5,502,071
Law Enforcement	1,984,461				1,984,461
LiDAR Topographical Map	185,722				185,722
Geodetic Survey Contracts	72,652				72,652
Disaster Recovery Funds	2,508,975				2,508,975
Interstate Compact Fee	523,771				523,771
Correction Enterprises		16,613,346			16,613,346
Welfare of Inmates				13,487,124	13,487,124
Capital Projects			49,923,848		49,923,848
Unassigned	(11,876,278)		(532,777)		(12,409,055)
Total Fund Balance	\$ 103,343,804	\$ 34,995,857	\$ 49,391,071	\$ 15,213,787	\$ 202,944,519

NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2016 consisted of the following:

Transfers Out	Transfers In			
	General Fund	Correction Enterprises Fund	Capital Projects Fund	Total
General Fund	\$ 0	\$ 201,600	\$ 6,023,498	\$ 6,225,098
Correction Enterprises Fund	2,451,303		3,092,225	5,543,528
Welfare Fund	1,307,552			1,307,552
Total	\$ 3,758,855	\$ 201,600	\$ 9,115,723	\$ 13,076,178

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

NOTE 11 - REVENUES AND EXPENDITURES FROM/ TO OTHER STATE AGENCIES

The revenues and expenditures from/to other state agencies by entity and purpose at June 30, 2016 are as follows:

Revenues from Other State Agencies:

	Purpose	Amount
General Fund		
Office of State Budget and Management	Disaster Recovery Funds	\$ 3,438,312
Department of Transportation	Division of Motor Vehicles Grant	8,887,466
	Specialty License Plate Revenue (National Guard)	71,280
Department of Information Technology	Information Technology System Conversion	420,480
Department of State Treasurer	Floodplain Map Register of Deeds	3,805,802
North Carolina Lottery	Funds for Alcohol Law Enforcement Branch Gambling Enforcement	2,100,000
Department of Natural and Cultural Resources	Inmate Work Crews for Battleship of North Carolina	93,435
Total General Fund Revenues from Other State Agencies		<u>18,816,775</u>
Capital Project Fund		
Office of State Controller	General Repairs and Maintenance	1,593,986
	Transfer from Statewide Project Reserve	18,017
Office of State Budget and Management	Capital Facility Costs from Issuance of Debt	4,674,970
	Asheville State Highway Patrol Office Renovations	3,714
Total Capital Project Fund Revenues from Other State Agencies		<u>6,290,687</u>
Total Governmental Fund Revenues from Other State Agencies		<u><u>\$ 25,107,462</u></u>

Expenditures to Other State Agencies:

	Purpose	Amount
General Fund		
North Carolina General Fund	Revenues Collected under G.S. 18B-902	\$ 24,042,735
	Transfer to Support Annual Appropriations	10,000,000
Department of Administration	Transfer of Funds for Motor Fleet Management	107,970
Department of Information Technology	Transfer of Funds for State Bureau of Investigation Memex Software	1,150,000
Department of Transportation	Return of Prior Year State Highway Patrol Allotment	3,116,800
	Return of Public Safety Interoperable Communications Grant Funds	158,715
Department of Justice	Refund for Prior Year State Bureau of Investigation Activity	69,344
Department of Environmental Quality	Transfer for Coal Ash	1,805,528
	Pro-rata Share of Legal Fees for Coal Ash Appointments	310,068
Community Colleges	Various	50,000
Total General Fund Expenditures to Other State Agencies		<u>40,811,160</u>
Correction Enterprise Fund		
North Carolina General Fund	Transfer to Support Annual Appropriations	<u>500,000</u>
Total Governmental Fund Expenditures to Other State Agencies		<u><u>\$ 41,311,160</u></u>

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

1. Teachers' and State Employees' Retirement System

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net pension liability, discussed in Note 7 to the financial statements, is not reported on the face of the governmental fund financial statements. However, the net pension liability for proprietary funds is reported on the face of the proprietary fund financial statements.

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, and certain proprietary component units along with the LEAs and charter schools. 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 full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Department's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The Department's contributions to the pension plan were \$94,793,477, and employee contributions were \$62,159,657 for the year ended June 30, 2016.

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 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.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 were 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. The plan's fiduciary net position was determined on the same basis used by the pension plan.

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 Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust

fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the Department's proportionate share of the collective net pension liability was \$258,972,499. Of this amount, the governmental funds' share was \$258,195,582, and the proprietary funds reported its share of \$776,917. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Department's proportion of the net pension liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Department's proportion was 7.03%, which was an increase of .10 from its proportion measured as of June 30, 2014.

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the governmental funds' proportionate share of the collective pension expense was \$24,732,774 and the proprietary funds recognized \$74,420 in pension expense. At June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 29,445,172
Changes in Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		28,057,477
Change in Proportion and Differences between Department's Contributions and Proportionate Share of Contributions	4,071,143	4,337,831
Contributions Subsequent to the Measurement Date	94,793,477	
Total	\$ 98,864,620	\$ 61,840,480

The governmental funds' deferred outflows of resources related to pensions of \$94,507,133 will represent a reduction of the net pension liability in the fiscal year ended June 30, 2017, and \$286,344 reported as deferred outflows for proprietary funds will be included as a reduction of the net pension liability for the fiscal year ended June 30, 2017. Other amounts of deferred outflows of resources and deferred inflows of resources related to pensions included in pension expense are 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 Included in
Pension Expense:

Fiscal Year Ended June 30:	Amount
2017	\$ (34,146,959)
2018	(34,146,959)
2019	(32,756,160)
2020	43,280,741
Total	<u>\$ (57,769,337)</u>

2. North Carolina National Guard Pension Fund

Plan Administration: The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

Membership of the plan at the valuation date, December 31, 2014, consists of 4,421 inactive plan members or beneficiaries currently receiving benefits, 5,317 inactive plan members entitled to but not yet receiving benefits and 5,661 active plan members.

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

Benefits provided: NGPF provides a pension of \$99 per month for 20 years of creditable military service with an additional \$9.90 per

month for each additional year of such service; provided, however that the total pension shall not exceed \$198 per month.

Contributions: Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation. Actual contributions were \$7,066,299 for the fiscal year ended June 30, 2016.

The NGPF'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 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Rate of return: For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 2.25% for the NGPF. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability: At June 30, 2016, the Department's net pension liability was \$40,721,000. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The Department's proportion of the net pension liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined.

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Department's pension expense was \$10,847,000. At June 30, 2016, the Department's deferred outflows of resources and deferred inflows of resources related to pensions resulted from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows
Difference Between Actual and Expected Experience	\$ 38,000	\$ 121,000
Changes in Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		487,000
Contributions Subsequent to the Measurement Date	7,066,299	
Total	<u>\$ 7,104,299</u>	<u>\$ 608,000</u>

The Department's deferred outflows of resources related to pensions of \$7,066,299 represents a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts of deferred outflows of resources and deferred inflows of resources related to pensions will be included in 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 Included in Pension Expense:

Fiscal Year Ended June 30:	Amount
2017	\$ (561,000)
2018	(566,000)
2019	(522,000)
2020	1,079,000
Total	<u>\$ (570,000)</u>

3. Actuarial Assumptions

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

	Teachers' and State Employees'	NC National Guard
Valuation Date	12/31/2014	12/31/2014
Inflation	3%	3%
Salary Increases*	4.25%-9.10%	N/A
Investment Rate of Return**	7.25%	7.25%

*Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability for TSERS and NGPF was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily 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 plans' 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 plans calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate (dollars in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>Cost-Sharing, Multiple Employer</u>			
Teachers' and State Employees' Net Pension Liability (Asset)	\$ 777,097	\$ 258,196	\$ (182,152)
<u>Single-Employer</u>			
NC National Guard's Net Pension Liability	\$ 58,365	\$ 40,721	\$ 26,090

B. Defined Contribution Plan

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Department except for a 5% employer contribution for the Department's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Department law enforcement officers for the year ended June 30, 2016, were \$5,589,588.

C. Special Separation Allowance

The Department provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and major component units and retired on a basic service retirement under the

more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement. Each eligible officer is paid an annual separation allowance equal to 0.85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 2016, the Department paid \$11,190,972 for 681 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with the Department being responsible for the benefits to its former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for the SSA are appropriated annually in the Department's budget or paid from the Department's operations. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The Department participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the Department contributed 5.60% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2015 and 2014, were 5.49% and 5.40%, respectively. The Department made 100% of its annual required contributions to the Plan

for the years ended June 30, 2016, 2015, and 2014, which were \$58,015,680, \$55,499,632, and \$52,333,697, respectively. The Department assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The Department participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. 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.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the Department made a statutory contribution of .41% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44% respectively. The Department made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$4,247,577, \$4,144,781, and \$4,264,227, respectively. The Department assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The Department is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of

Insurance. The Department is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Pending Litigation and Claims** - The Department of Public Safety (Department) is party to a legal action brought against it, which may ultimately result in unfavorable settlements or decisions for the Department.

Richmond County Bd. Of Educ. v. Cowell. The Court of Appeals ruled that payments of the fifty-dollar (\$50) improper equipment surcharges collected in Richmond County and paid into the State Misdemeanant Confinement Fund authorized by *North Carolina General Statute 7A-304(a)(4b)* are unconstitutional and that all such funds should be paid back to the Richmond County Clerk's office. Since this ruling, the Wake County Superior Court has received complaints from 81 other county Boards of Education seeking to recoup the \$50 improper equipment surcharges previously paid into the State Misdemeanant Confinement Fund, which is part of the Department's general fund.

In House Bill 97 [Session Law 2015-241 Section 18A.11], the former *North Carolina General Statute 7A-304(a)(4b)* that directed the surcharge to the Statewide Misdemeanant Confinement Fund was repealed.

Management and legal counsel have determined that it is reasonably possible that these actions will result in a loss to the Department and the loss amounts are reasonably measurable. The estimated potential loss for such claims and actions is \$50,225,369 as of June 30, 2016. Below is the revenue from the surcharges by fiscal year for which the Department could be liable:

<u>Fiscal Year</u>	<u>Revenue Collected</u>
2012	\$ 9,115,769
2013	11,109,284
2014	11,235,986
2015	11,854,458
2016	6,909,872
Total	<u>\$ 50,225,369</u>

The Department is also party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Management of the Department is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Department.

- B. Federal Grants** – The Department receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the Department. As of June 30, 2016 the Department is unable to estimate what liabilities may result from such audits.
- C. Construction and Other Commitments** – The Department has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. As of June 30, 2016, the Department had commitments of \$7,082,990 related to construction and improvements of state government facilities, primarily reported in the Capital Projects Fund.

NOTE 16 - GOVERNMENT COMBINATIONS

- A.** As mandated by Senate Bill 744 [Session Law 2014-100 Section 17.5], the Private Protective Services Board (PPS) and Alarm System Licensing Board (ASL) were transferred from the Department of Justice to the Department of Public Safety (Department) for the purpose of enhancing the provision of those services to the citizens of the State of North Carolina. On July 1, 2014, the Department of Justice transferred the net position comprising its PPS and ASL operations to the Department. PPS and ASL exercise their powers independently from the Department in accordance with G.S. 143A-6(b), and are accounted for as part of the Department for administrative purposes only. The net position transferred as of July 1, 2014 is shown as a special item on the face of the proprietary fund Statement of Revenues, Expenses, and Changes in Net Position for June 30, 2015. As a result of the transfer, the Department

recognized the following assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015:

	<u>Amount</u>
Assets	
Current Assets:	
Pooled Cash	\$ 1,706,948
Other Receivables	635
Inventories	32,558
	<u>1,740,141</u>
Total Current Assets	
Noncurrent Assets:	
Capital Assets, Depreciable, Net	22,409
	<u>1,762,551</u>
Total Assets	
Deferred Outflows of Resources	<u>73,467</u>
Liabilities	
Current Liabilities:	
Accounts Payable	20,958
Intergovernmental Payables	2,114
Long-Term Liabilities - Current Portion	10,237
	<u>33,309</u>
Total Current Liabilities	
Noncurrent Liabilities:	
Long-Term Liabilities*	3,799,901
	<u>3,833,210</u>
Total Liabilities	
Deferred Inflows of Resources	<u>0</u>
Net Position Transferred	
Investment in Capital Assets	22,409
Unrestricted	(2,019,602)
	<u>(1,997,193)</u>
Total Net Position	<u>\$ (1,997,193)</u>

* This amount reflects the impact of the net pension liability and related deferred outflows of resources on the Statement of Net Position as of 6/30/2014 pursuant to the implementation of GASB 68.

- B.** As mandated by Senate Bill 744 [Session Law 2014-100 Section 15.2A], the ABC Commission was transferred from the Department of Commerce to the Department of Public Safety (Department) for the purpose of enhancing the provision of those services to the citizens of the State of North Carolina. The ABC Commission shall be administratively located within the Department of Public Safety but shall exercise its powers independently of the Secretary of Public Safety in accordance with G.S. 18B-200. On October 1, 2014, the Department of Commerce transferred the net position comprising its ABC Commission operations to the Department. The net position transferred as of October 1, 2014 is shown as a special item on the face of the proprietary fund Statement of Revenues, Expenses, and Changes in Net Position for June 30, 2015. As a result of the transfer, the Department recognized the following assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015:

NOTES TO THE FINANCIAL STATEMENTS

	<u>Amount</u>
Assets	
Current Assets:	
Pooled Cash	\$ 4,400,582
Accounts Receivable	1,192,196
Inventories	15,533
Total Current Assets	<u>5,608,311</u>
Noncurrent Assets:	
Capital Assets, Nondepreciable	550,407
Capital Assets, Depreciable, Net	2,164,630
Total Noncurrent Assets	<u>2,715,037</u>
Total Assets	<u>8,323,348</u>
Deferred Outflows of Resources	<u>202,959</u>
Liabilities	
Current Liabilities:	
Accounts Payable	25,506
Intergovernmental Payables	25,653
Long-Term Liabilities - Current Portion	20,473
Total Current Liabilities	<u>71,632</u>
Noncurrent Liabilities:	
Long-Term Liabilities*	7,551,265
Total Liabilities	<u>7,622,897</u>
Deferred Inflows of Resources	<u>0</u>
Net Position Transferred	
Investment in Capital Assets	2,715,037
Unrestricted	(1,811,627)
Total Net Position Transferred	<u>\$ 903,410</u>

* This amount reflects the impact of the net pension liability and related deferred outflows of resources on the Statement of Net Position as of 6/30/3014 pursuant to the implementation of GASB 68.

NOTE 17 - FUND BALANCE / NET POSITION RESTATEMENTS

As of July 1, 2015, the fund balance of the general fund as previously reported was restated as follows:

	<u>2016</u>
Beginning Fund Balance as Previously Reported	\$ 120,864,259
Restatements:	
Restate Medical Claims Payable	<u>(8,719,308)</u>
Beginning Fund Balance as Restated	<u>\$ 112,144,951</u>

This restatement was required in order to properly accrue medical claims payable outstanding as of June 30, 2015.

As of July 1, 2015, the net position of the proprietary funds as previously reported was restated as follows:

	2016
Beginning Net Position as Previously Reported	\$ (1,805,698)
Restatements:	
Restate Net Pension Liability and Deferred Inflows of Resources Due to Incorrect Pension Allocation	<u>10,575,861</u>
Beginning Net Position as Restated	<u>\$ 8,770,163</u>

As a result of an error in the proportionate share percentage for the net pension liability attributable to the proprietary funds, the beginning net position balance was adjusted for the amount noted above, in the aggregate. For comparative purposes, the 2015 long-term liabilities, deferred inflows of resources, and pension expense were also adjusted on the face of the proprietary fund Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows, respectively. In addition, the governmental funds' beginning net pension liability, as shown in Note 7, was also adjusted as a result of this error.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Department does not participate in an external investment pool.



REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Department of Public Safety
Schedule of Revenues, Expenditures, and Changes in
Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

Schedule C-1
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	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES:				
Federal Funds	\$ 63,587,555	\$ 131,564,644	\$ 101,723,095	\$ (29,841,549)
Contributions, Gifts, and Grants	4,147,982	12,670,048	11,130,166	(1,539,882)
Sales and Services	19,753,183	31,556,977	26,361,041	(5,195,936)
Fees, Licenses, and Fines	16,658,265	14,381,509	48,475,063	34,093,554
Rental and Lease of Property	80,458	80,458	84,111	3,653
Investment Earnings	53,037	108,133	143,679	35,546
Student Tuition and Fees	91,345	91,345	37,705	(53,640)
Miscellaneous Income	9,518,719	11,281,831	9,365,292	(1,916,539)
Total Revenues	113,890,544	201,734,945	197,320,152	(4,414,793)
EXPENDITURES:				
Personal Services	1,052,847,514	979,979,549	971,144,988	8,834,561
Employee Benefits	434,711,972	430,439,510	423,238,807	7,200,703
Contracted Personal Services	146,827,856	214,981,562	191,581,068	23,400,494
Supplies and Materials	130,841,049	159,265,189	155,178,702	4,086,487
Purchases for Resale	367,726	333,512	324,432	9,080
Travel	3,135,501	4,365,922	3,288,026	1,077,896
Communication	11,191,892	16,212,255	15,126,917	1,085,338
Utilities	53,877,627	51,741,903	50,963,752	778,151
Data Processing Services	7,979,572	13,490,616	13,188,027	302,589
Other Services	11,771,665	13,613,988	12,430,617	1,183,371
Claims and Benefits	8,937,518	11,228,904	11,214,485	14,419
Debt Service				
Principal Retirement	93,560	943,267	943,266	1
Interest and Fees	1,211,440	387,734	387,734	
Other Fixed Charges	6,168,606	11,103,929	10,867,528	236,401
Capital Outlay	40,260,999	57,146,993	51,988,269	5,158,724
Scholarships		20,000	16,000	4,000
Insurance and Bonding	2,802,437	3,924,610	3,885,506	39,104
Other Expenditures	31,004,487	29,589,347	28,264,404	1,324,943
Grants, State Aid, and Subsidies	73,386,652	127,075,616	96,854,525	30,221,091
Total Expenditures	2,017,418,073	2,125,844,406	2,040,887,053	84,957,353
Excess of Revenues Over (Under) Expenditures	(1,903,527,529)	(1,924,109,461)	(1,843,566,901)	80,542,560
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	3,000,957	3,000,957	2,832,468	(168,489)
Insurance Recoveries	50,000	687,741	687,743	2
Transfers from Other Departments or Funds	78,176,500	99,079,618	84,832,422	(14,247,196)
Transfers to Other Departments or Funds	(56,716,124)	(71,829,357)	(92,847,033)	(21,017,676)
Transfer to State Reserve Fund	(90,331)	(8,517,266)	(8,517,265)	1
Appropriations	1,861,084,086	1,861,069,152	1,849,919,002	(11,150,150)
Total Other Financing Sources (Uses)	1,885,505,088	1,883,490,845	1,836,907,337	(46,583,508)
Net Change in Fund Balance	(18,022,441)	(40,618,616)	(6,659,564)	33,959,052
Fund Balance - July 1, 2015	121,335,332	121,335,332	121,335,332	
Fund Balance - June 30, 2016	\$ 103,312,891	\$ 80,716,716	\$ 114,675,768	\$ 33,959,052

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

North Carolina Department of Public Safety
Schedule of Revenues, Expenditures, and Changes in
Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

Schedule C-1
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The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balances on a modified accrual basis (GAAP).

	<u>General Fund</u>
Fund Balance (budgetary basis) June 30, 2016	\$ 114,675,768
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Revenues:	
Receivables	13,939,117
Accrued Expenditures:	
Payables	(68,866,121)
Other Adjustments:	
Inventories	43,595,040
Fund Balance (GAAP basis) June 30, 2016	<u>\$ 103,343,804</u>

North Carolina Department of Public Safety
Schedule of Revenues, Expenditures, and Changes in
Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)
Correction Enterprises Fund
For the Fiscal Year Ended June 30, 2016

Schedule C-2
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	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Sales and Services	\$ 87,926,758	\$ 90,049,758	\$ 92,129,860	\$ 2,080,102
Rental and Lease of Property	455,145	455,145	272,997	(182,148)
Contributions, Gifts, and Grants			3,577	3,577
Miscellaneous Income	164,563	164,563	123,400	(41,163)
Total Revenues	88,546,466	90,669,466	92,529,834	1,860,368
EXPENDITURES:				
Personal Services	20,238,353	19,689,425	19,689,421	4
Employee Benefits	5,708,892	6,035,571	6,016,534	19,037
Contracted Personal Services	159,386	439,626	438,913	713
Supplies and Materials	4,794,388	4,837,506	4,347,675	489,831
Purchases for Resale	45,687,271	45,421,022	43,555,502	1,865,520
Travel	420,777	277,867	277,862	5
Communication	140,583	94,506	94,505	1
Utilities	3,143,903	2,871,002	2,809,199	61,803
Data Processing Services	1,500	2,390	2,389	1
Other Services	1,505,020	1,270,962	1,270,955	7
Other Fixed Charges	500,265	513,975	513,972	3
Capital Outlay	2,290,156	2,581,184	2,581,175	9
Insurance and Bonding	511,729	385,361	385,360	1
Other Expenditures	1,030,823	1,712,649	1,083,078	629,571
Total Expenditures	86,133,046	86,133,046	83,066,540	3,066,506
Excess of Revenues Over (Under) Expenditures	2,413,420	4,536,420	9,463,294	4,926,874
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	33,913	33,913	82,688	48,775
Transfers from Other Departments or Funds	201,600	201,600	201,600	
Transfers to Other Departments or Funds	(2,648,933)	(6,043,530)	(6,043,528)	2
Total Other Financing Sources (Uses)	(2,413,420)	(5,808,017)	(5,759,240)	48,777
Net Change in Fund Balance	0	(1,271,597)	3,704,054	4,975,651
Fund Balance - July 1, 2015	11,561,728	11,561,728	11,561,728	
Fund Balance - June 30, 2016	\$ 11,561,728	\$ 10,290,131	\$ 15,265,782	\$ 4,975,651

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

North Carolina Department of Public Safety
Schedule of Revenues, Expenditures, and Changes in
Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)
Correction Enterprises Fund
For the Fiscal Year Ended June 30, 2016

Schedule C-2
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The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balances on a modified accrual basis (GAAP):

		Correction Enterprises Fund
Fund Balance (budgetary basis) June 30, 2016	\$	15,265,782
<u>Reconciling Adjustments:</u>		
Basis Differences:		
Accrued Revenues:		
Receivables		3,839,699
Accrued Expenditures:		
Payables		(2,492,135)
Other Adjustments:		
Inventories		18,382,511
Fund Balance (GAAP basis) June 30, 2016	\$	<u>34,995,857</u>

North Carolina Department of Public Safety
Schedule of Revenues, Expenditures, and Changes in
Budget and Actual (Budgetary Basis-Non-GAAP)
Welfare Fund
For the Fiscal Year Ended June 30, 2016

Schedule C-3

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Investment Earnings	\$ 339	\$ 757	\$ 1,153	\$ 396
Sales and Services	32,145,102	35,860,589	35,963,344	102,755
Rental and Lease of Property	6,000	6,000	6,000	
Contributions, Gifts, and Grants	20	106,078	107,547	1,469
Miscellaneous Income	7,591,720	7,592,099	5,823,016	(1,769,083)
Total Revenues	39,743,181	43,565,523	41,901,060	(1,664,463)
EXPENDITURES:				
Personal Services	2,031,542	1,905,898	1,371,587	534,311
Employee Benefits	564,163	691,530	619,961	71,569
Contracted Personal Services	622,589	1,075,692	1,065,502	10,190
Supplies and Materials	3,758,939	3,732,252	3,563,200	169,052
Purchases for Resale	28,425,192	31,573,298	31,573,296	2
Travel	18,706	18,706	1,593	17,113
Communication	52,700	7,459	636	6,823
Utilities	125,844	169,478	169,476	2
Other Services	145,098	169,058	130,728	38,330
Other Fixed Charges	243,764	230,218	191,405	38,813
Capital Outlay	1,667,801	1,641,231	1,158,035	483,196
Insurance and Bonding		3,999	3,999	
Other Expenditures	1,245,386	1,373,823	1,246,967	126,856
Total Expenditures	38,901,724	42,592,642	41,096,385	1,496,257
Excess of Revenues Over (Under) Expenditures	841,457	972,881	804,675	(168,206)
OTHER FINANCING SOURCES (USES):				
Transfers from Other Departments or Funds	5,473,410	5,503,081	6,077,979	574,898
Transfers to Other Departments or Funds	(7,483,101)	(8,086,648)	(7,387,531)	699,117
Total Other Financing Sources (Uses)	(2,009,691)	(2,583,567)	(1,309,552)	1,274,015
Net Change in Fund Balance	(1,168,234)	(1,610,686)	(504,877)	1,105,809
Fund Balance - July 1, 2015	15,043,594	15,043,594	15,043,594	
Fund Balance - June 30, 2016	\$ 13,875,360	\$ 13,432,908	\$ 14,538,717	\$ 1,105,809

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

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balances on a modified accrual basis (GAAP):

	Welfare Fund
Fund Balance (budgetary basis) June 30, 2016	\$ 14,538,717
Reconciling Adjustments:	
Basis Differences:	
Accrued Expenditures:	
Payables	(1,051,593)
Other Adjustments:	
Inventories	1,726,663
Fund Balance (GAAP basis) June 30, 2016	\$ 15,213,787

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL (BUDGETARY BASIS-NON-GAAP) – GENERAL FUND, CORRECTION ENTERPRISES FUND, AND WELFARE FUND

A. BUDGETARY PROCESS

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

B. RECONCILIATION OF BUDGET/GAAP REPORTING DIFFERENCES

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

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

Timing differences: A significant variance between budgetary practices and GAAP is the authorized carry forward of appropriated funds.

Department of Public Safety
Required Supplementary Information
Schedule of the Net Pension Liability
Last Three Fiscal Years

Schedule C-4

Cost-Sharing, Multiple Employer

Teachers' and State Employees' Retirement System

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	7.02737%	6.92697%	7.04980%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 258,972,499	\$ 81,213,368	\$ 427,994,697
Covered-Employee Payroll	\$ 1,010,922,250	\$ 969,142,546	\$ 964,927,949
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.62%	8.38%	44.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Note: Amounts presented are for the Department as a whole. The net pension liability associated with the Proprietary Funds is \$776,917.

Single-Employer

North Carolina National Guard Pension Fund*

	2015	2014	2013
Total Net Pension Liability	\$ 40,721,000	\$ 30,176,000	\$ 36,267,000
Covered-Employee Payroll	N/A	N/A	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.08%	78.48%	72.51%

**The North Carolina National Guard is a Nonemployer Contributing Entity*

Department of Public Safety
Required Supplementary Information
Schedule of Department Contributions
Last Three Fiscal Years

Schedule C-5

Cost-Sharing, Multiple Employer

Teachers' and State Employees' Retirement System

	2016	2015	2014
Contractually Required Contribution	\$ 94,793,477	\$ 92,499,386	\$ 84,218,487
Contributions in Relation to the Contractually Determined Contribution	94,793,477	92,499,386	84,218,487
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered-Employee Payroll	\$ 1,035,994,289	\$ 1,010,922,250	\$ 969,142,546
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%

Single-Employer

North Carolina National Guard Pension Fund *

	2016	2015	2014
Contractually Required Contribution	\$ 7,066,299	\$ 6,039,274	\$ 7,007,000
Contributions in Relation to the Contractually Determined Contribution	7,066,299	6,039,274	7,007,000
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered-Employee Payroll	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A

*The North Carolina National Guard is a Nonemployer contributing entity

Department of Public Safety
Notes to Required Supplementary Information
Schedule of Department Contributions
For the Fiscal Year Ended June 30, 2016

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
	<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cost-Sharing, Multiple Employer Teachers' and State Employees' (1)	1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
Single-Employer	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
North Carolina National Guard (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) *Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

(2) In 2007, the National Guard Pension Fund increased basic benefits from \$75 to \$80 and total potential benefits from \$150 to \$160. In 2008, basic benefits were increased from \$80 to \$95 and total potential benefits were increased from \$160 to \$190. In 2015, basic benefits were increased from \$95 to \$99 and total potential benefits were increased from \$190 to \$198.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

N/A - not applicable



OTHER SUPPLEMENTARY INFORMATION

North Carolina Department of Public Safety
Combining Schedule of Revenues and Expenditures
Governmental Funds by Division
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	Administration (1)	Adult Correction and Juvenile Justice (2)	Law Enforcement (3)
REVENUES			
Federal Funds	\$ 31,127,411	\$ 2,060,194	\$ 1,780,858
Local Funds			
Investment Earnings	78,839	13,585	48,823
Sales and Services		81,701,441	13,881,503
Intragovernmental Sales and Services		56,914,912	
Rental and Lease of Property		570,096	84,112
Fees, Licenses, and Fines	24,137,799	11,879,711	6,818,630
Student Tuition and Fees			37,705
Contributions, Gifts, and Grants	500	3,464,262	4,234,652
Revenues from Other State Agencies	3,254,766	3,300,988	11,005,969
Miscellaneous Income	1,500	20,613,334	522,348
Total Revenues	58,600,815	180,518,523	38,414,600
EXPENDITURES			
Personal Services	37,453,454	784,109,937	148,945,084
Employee Benefits	14,081,593	343,918,262	63,941,495
Contracted Personal Services	5,189,002	165,380,331	13,677,826
Supplies and Materials	755,465	141,457,231	13,091,342
Purchases for Resale		79,448,143	
Travel	309,584	1,514,488	1,101,422
Communication	898,538	9,099,989	3,888,720
Utilities	467,881	47,305,149	1,024,384
Data Processing Services	1,219,664	10,409,958	1,578,264
Other Services	586,673	9,418,249	2,088,154
Claims and Benefits		23,513	11,190,972
Debt Service:			
Principal Retirement		996,215	
Interest and Fees		404,365	
Other Fixed Charges	1,396,867	7,163,490	2,457,043
Capital Outlay	6,013,057	27,881,729	31,637,110
Grants, State Aid, and Subsidies	33,251,047	22,623,535	2,045,001
Scholarships			
Insurance and Bonding	120,054	2,482,872	1,628,130
Expenditures to Other State Agencies	33,352,803	1,550,000	4,494,859
Other Expenditures	2,469,076	18,733,596	5,742,828
Total Expenditures	137,564,758	1,673,921,052	308,532,634
Excess of Revenues Over (Under) Expenditures	(78,963,943)	(1,493,402,529)	(270,118,034)
OTHER FINANCING SOURCES (USES)			
Other Debt Issued			
Sale of Capital Assets	40	408,791	2,620,338
Insurance Recoveries	20,093	62,302	659,552
Transfers In	839,868	6,212,542	
Transfers Out		(7,052,410)	
Transfers to State Reserve Fund	(4,387,920)	(2,879,687)	(935,188)
Appropriations	74,978,363	1,515,897,021	263,395,881
Total Other Financing Sources	71,450,444	1,512,648,559	265,740,583
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (7,513,499)	\$ 19,246,030	\$ (4,377,451)

- (1) See Supplementary Schedule E-1 for further details.
(2) See Supplementary Schedule F-1 for further details.
(3) See Supplementary Schedule G-1 for further details.
(4) See Supplementary Schedule H-1 for further details.
(5) See Supplementary Schedule I-1 for further details.

Schedule D-1

National Guard (4)	Emergency Management (5)	Total Divisions 2016	Total Divisions 2015 (As Restated)
\$ 28,252,283	\$ 41,772,457	\$ 104,993,203	\$ 121,176,971
18,635		18,635	42,028
	7,452	148,699	106,149
3,353	2,280,181	97,866,478	93,013,789
		56,914,912	58,836,378
212,217		866,425	943,593
	5,988,994	48,825,134	63,234,022
		37,705	60,450
128,533	121,184	7,949,131	5,221,215
289,958	7,255,781	25,107,462	41,795,613
275,869	4,023	21,417,074	28,833,297
<u>29,180,848</u>	<u>57,430,072</u>	<u>364,144,858</u>	<u>413,263,505</u>
9,328,579	10,117,964	989,955,018	964,986,830
3,230,978	3,185,650	428,357,978	395,446,705
4,465,056	9,181,190	197,893,405	188,978,327
2,050,164	386,263	157,740,465	156,944,672
		79,448,143	78,582,164
217,393	439,513	3,582,400	3,268,609
1,535,770	170,618	15,593,635	14,469,198
4,190,076	131,386	53,118,876	54,483,238
69,799	163,509	13,441,194	11,693,129
1,668,667	152,160	13,913,903	12,974,472
		11,214,485	10,557,684
		996,215	97,816
		404,365	1,212,982
212,709	375,231	11,605,340	7,411,769
14,844,740	779,308	81,155,944	66,201,488
71,280	36,139,093	94,129,956	118,761,765
19,800		19,800	26,840
43,784	66,469	4,341,309	4,504,320
107,970	1,805,528	41,311,160	23,171,970
374,440	2,922,102	30,242,042	33,081,245
<u>42,431,205</u>	<u>66,015,984</u>	<u>2,228,465,633</u>	<u>2,146,855,223</u>
<u>(13,250,357)</u>	<u>(8,585,912)</u>	<u>(1,864,320,775)</u>	<u>(1,733,591,718)</u>
			278,320
13,040	24,482	3,066,691	1,858,376
	84,546	826,493	588,821
6,023,498	270	13,076,178	9,135,994
(6,023,498)	(270)	(13,076,178)	(9,135,994)
(207,719)	(106,751)	(8,517,265)	
11,916,907	6,688,030	1,872,876,202	1,731,992,441
<u>11,722,228</u>	<u>6,690,307</u>	<u>1,868,252,121</u>	<u>1,734,717,958</u>
<u>\$ (1,528,129)</u>	<u>\$ (1,895,605)</u>	<u>\$ 3,931,346</u>	<u>\$ 1,126,240</u>

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Division of Administration by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	Controller's Office	Information Technology	Human Resources	Staff Development and Training
REVENUES				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Fees, Licenses, and Fines				
Contributions, Gifts, and Grants				
Revenues from Other State Agencies		50,458		
Miscellaneous Income		60	61	555
Total Revenues		50,518	61	555
EXPENDITURES				
Personal Services	3,387,446	8,581,825	5,921,872	3,468,508
Employee Benefits	1,336,519	2,821,453	2,495,732	1,569,298
Contracted Personal Services	366,261	1,294,069	702,839	195,226
Supplies and Materials	54,731	69,434	125,150	71,286
Travel	180	29,513	12,509	200,367
Communication	2,079	585,832	30,088	81,748
Utilities	49,230	37,426	3,503	151,657
Data Processing Services	5,917	1,130,673	7,502	2,602
Other Services	80,195	19,350	26,150	111,700
Other Fixed Charges	23,500	1,164,830	41,724	21,044
Capital Outlay	845	487,899	47,853	15,471
Grants, State Aid and Subsidies				
Insurance and Bonding	5		119,217	
Expenditures to Other State Agencies				
Other Expenditures	396,827	346,984	420,281	452,364
Total Expenditures	5,703,735	16,569,288	9,954,420	6,341,271
Excess of Revenues Over (Under) Expenditures	(5,703,735)	(16,518,770)	(9,954,359)	(6,340,716)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets				
Insurance Recoveries				
Transfers In				
Transfers to State Reserve Fund	(58,463)	(110,710)	(211,162)	(4,017)
Appropriations	5,707,703	17,250,724	10,149,240	6,320,153
Total Other Financing Sources (Uses)	5,649,240	17,140,014	9,938,078	6,316,136
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (54,495)	\$ 621,244	\$ (16,281)	\$ (24,580)

Schedule E-1

Central Engineering	Governors Crime Commission	Victims Services	ABC Board Non Tax	Other	Total Administration 2016	Total Administration 2015
\$ 0	\$ 29,723,926 78,839	\$ 1,349,641 112,977	\$ 0 24,024,822	\$ 53,844 500 3,204,308 658	\$ 31,127,411 78,839 24,137,799 500 3,254,766 1,500	\$ 23,838,247 53,876 24,201,218 1,034,456 444,558 6,625
116	35	15				
116	29,802,800	1,462,633	24,024,822	3,259,310	58,600,815	49,578,980
6,365,517	891,229	689,484		8,147,573	37,453,454	37,278,397
2,276,241	371,531	279,336		2,931,483	14,081,593	13,409,980
80,161	68,218	944,234		1,537,994	5,189,002	3,595,895
17,535	7,619	13,942		395,768	755,465	912,501
3,516	28,508	10,562		24,429	309,584	467,688
13,966	54,415	6,558		123,852	898,538	927,083
39,268	1,167			185,630	467,881	387,645
18,363	31,345	9,719		13,543	1,219,664	1,401,404
10,187	17,103	34,368		287,620	586,673	520,483
12,676	21,198	34,550		77,345	1,396,867	565,217
18,268	3,900	317,898		5,120,923	6,013,057	5,102,110
	26,265,393	6,985,654			33,251,047	28,307,721
	19	17		796	120,054	98,192
			24,042,735	9,310,068	33,352,803	15,378,669
277,989	143,364	3,311		427,956	2,469,076	2,534,663
9,133,687	27,905,009	9,329,633	24,042,735	28,584,980	137,564,758	110,887,648
(9,133,571)	1,897,791	(7,867,000)	(17,913)	(25,325,670)	(78,963,943)	(61,308,668)
	40				40	172
	20,093				20,093	
		839,868			839,868	689,220
(29,426)	(712,863)	(4,479)		(3,256,800)	(4,387,920)	
9,152,293	1,493,980	6,074,135		18,830,135	74,978,363	66,520,945
9,122,867	801,250	6,909,524		15,573,335	71,450,444	67,210,337
\$ (10,704)	\$ 2,699,041	\$ (957,476)	\$ (17,913)	\$ (9,752,335)	\$ (7,513,499)	\$ 5,901,669

**North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Division of Adult Correction and Juvenile Justice by Sub-Division
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)**

Schedule F-1

	Adult Correction (1)	Juvenile Justice (2)	Correction Enterprises	Total Adult Correction and Juvenile Justice 2016	Total Adult Correction and Juvenile Justice 2015 (As Restated)
REVENUES					
Federal Funds	\$ 1,984,808	\$ 75,386	\$ 0	\$ 2,060,194	\$ 1,912,555
Investment Earnings	12,433	1,152		13,585	11,190
Sales and Services	46,327,275	150,337	35,223,829	81,701,441	79,059,113
Intragovernmental Sales and Services			56,914,912	56,914,912	58,836,378
Rental and Lease of Property	6,000		564,096	570,096	576,439
Fees, Licenses, and Fines	11,879,711			11,879,711	26,993,105
Contributions, Gifts, and Grants	1,904,760	1,555,925	3,577	3,464,262	1,307,751
Revenues from Other State Agencies	2,694,912	606,076		3,300,988	11,842,714
Miscellaneous Income	20,466,404	6,739	140,191	20,613,334	28,012,606
Total Revenues	85,276,303	2,395,615	92,846,605	180,518,523	208,551,851
EXPENDITURES					
Personal Services	716,570,356	47,943,725	19,595,856	784,109,937	764,251,129
Employee Benefits	316,873,686	21,033,810	6,010,766	343,918,262	315,884,565
Contracted Personal Services	144,016,330	20,927,563	436,438	165,380,331	152,812,568
Supplies and Materials	135,359,974	1,790,716	4,306,541	141,457,231	138,163,851
Purchases for Resale	31,733,631		47,714,512	79,448,143	78,582,164
Travel	998,669	229,464	286,355	1,514,488	1,294,774
Communication	7,952,839	1,046,233	100,917	9,099,989	8,699,167
Utilities	43,651,053	911,498	2,742,598	47,305,149	48,249,645
Data Processing Services	9,788,089	619,008	2,861	10,409,958	8,582,071
Other Services	7,874,201	251,118	1,292,930	9,418,249	8,737,002
Claims and Benefits	23,513			23,513	25,415
Debt Service:					
Principal Retirement	996,215			996,215	97,816
Interest and Fees	404,365			404,365	1,212,982
Other Fixed Charges	6,491,668	155,832	515,990	7,163,490	4,283,927
Capital Outlay	20,761,017	2,926,246	4,194,466	27,881,729	31,360,145
Grants, State Aid, and Subsidies		22,623,535		22,623,535	22,187,815
Insurance and Bonding	1,618,684	34,151	830,037	2,482,872	2,773,599
Expenditures to Other State Agencies	1,050,000		500,000	1,550,000	3,462,633
Other Expenditures	15,230,498	2,440,921	1,062,177	18,733,596	23,256,497
Total Expenditures	1,461,394,788	122,933,820	89,592,444	1,673,921,052	1,613,917,765
Excess of Revenues Over (Under) Expenditures	(1,376,118,485)	(120,538,205)	3,254,161	(1,493,402,529)	(1,405,365,914)
OTHER FINANCING SOURCES (USES)					
Other Debt Issued					278,320
Sale of Capital Assets	296,731	7,538	104,522	408,791	259,746
Insurance Recoveries	62,302			62,302	92,028
Transfers In	2,918,103	614	3,293,825	6,212,542	3,786,043
Transfers Out	(1,508,268)	(614)	(5,543,528)	(7,052,410)	(4,475,263)
Transfers to State Reserve Fund	(2,742,951)	(136,736)		(2,879,687)	
Appropriations	1,397,817,875	118,079,146		1,515,897,021	1,405,496,964
Total Other Financing Sources (Uses)	1,396,843,792	117,949,948	(2,145,181)	1,512,648,559	1,405,437,838
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 20,725,307	\$ (2,588,257)	\$ 1,108,980	\$ 19,246,030	\$ 71,924

(1) See Supplementary Schedule F-2 for further details.

(2) See Supplementary Schedule F-5 for further details.

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Sub-Division of Adult Correction by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Schedule F-2

	Prisons (1)	Community Corrections (2)	Other	Total Adult Correction 2016	Total Adult Correction 2015 (As Restated)
REVENUES					
Federal Funds	\$ 1,982,151	\$ 2,657	\$ 0	\$ 1,984,808	\$ 1,859,370
Investment Earnings	7,691	4,742		12,433	10,627
Sales and Services	46,257,666		69,609	46,327,275	44,867,415
Rental and Lease of Property		6,000		6,000	5,500
Fees, Licenses, and Fines	11,496,995	382,716		11,879,711	26,993,017
Contributions, Gifts, and Grants	1,897,695	7,065		1,904,760	1,028,856
Revenues from Other State Agencies	2,551,949	142,963		2,694,912	9,923,890
Miscellaneous Income	20,061,126	52,904	352,374	20,466,404	27,886,874
Total Revenues	84,255,273	599,047	421,983	85,276,303	112,575,549
EXPENDITURES					
Personal Services	596,741,939	114,673,235	5,155,182	716,570,356	698,406,201
Employee Benefits	266,488,611	48,371,135	2,013,940	316,873,686	290,600,936
Contracted Personal Services	129,772,517	13,627,603	616,210	144,016,330	132,397,503
Supplies and Materials	133,612,638	1,369,429	377,907	135,359,974	131,768,632
Purchases for Resale	31,733,631			31,733,631	30,576,011
Travel	613,532	306,640	78,497	998,669	807,485
Communication	3,957,505	3,941,873	53,461	7,952,839	7,510,056
Utilities	43,307,879	308,662	34,512	43,651,053	44,231,393
Data Processing Services	5,954,969	3,828,689	4,431	9,788,089	8,172,628
Other Services	7,633,722	196,930	43,549	7,874,201	6,983,978
Claims and Benefits		23,513		23,513	25,415
Debt Service:					
Principal Retirement	996,215			996,215	97,816
Interest and Fees	404,365			404,365	1,212,982
Other Fixed Charges	5,538,886	349,910	602,872	6,491,668	3,789,871
Capital Outlay	19,464,394	1,177,035	119,588	20,761,017	25,691,763
Insurance and Bonding	1,616,572	2,082	30	1,618,684	2,278,965
Expenditures to Other State Agencies	1,050,000			1,050,000	2,962,633
Other Expenditures	6,531,095	8,218,675	480,728	15,230,498	19,609,086
Total Expenditures	1,255,418,470	196,395,411	9,580,907	1,461,394,788	1,407,123,354
Excess of Revenues Over (Under) Expenditures	(1,171,163,197)	(195,796,364)	(9,158,924)	(1,376,118,485)	(1,294,547,805)
OTHER FINANCING SOURCES (USES)					
Other Debt Issued					278,320
Sale of Capital Assets	322,918	100	(26,287)	296,731	217,842
Insurance Recoveries	9,024		53,278	62,302	92,028
Transfers In	2,918,103			2,918,103	3,218,103
Transfers Out	(1,508,268)			(1,508,268)	(1,509,991)
Transfers to State Reserve Fund	(2,461,817)	(259,405)	(21,729)	(2,742,951)	
Appropriations	1,195,020,401	196,092,429	6,705,045	1,397,817,875	1,290,947,290
Total Other Financing Sources (Uses)	1,194,300,361	195,833,124	6,710,307	1,396,843,792	1,293,243,592
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 23,137,164	\$ 36,760	\$ (2,448,617)	\$ 20,725,307	\$ (1,304,213)

(1) See Supplementary Schedule F-3 for further details.

(2) See Supplementary Schedule F-4 for further details.

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Sub-Division of Adult Correction - Prisons by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	Prisons Management	Prisons Custody and Security	Prisons Food and Clothing
REVENUES			
Federal Funds	\$ 0	\$ 638,617	\$ 0
Investment Earnings		7,691	
Sales and Services			1,124,332
Fees, Licenses, and Fines		11,011,944	
Contributions, Gifts, and Grants			134,870
Revenues from Other State Agencies		2,429,124	
Miscellaneous Income	1	2,418,817	6,167,548
Total Revenues	1	16,506,193	7,426,750
EXPENDITURES			
Personal Services	7,843,146	428,976,854	16,400,154
Employee Benefits	3,009,554	200,506,921	7,444,713
Contracted Personal Services	135,344	27,462,374	5,549,918
Supplies and Materials	116,590	17,639,348	60,949,823
Purchases for Resale			
Travel	28,742	502,662	
Communication	116,721	3,749,011	
Utilities	17,784	42,308,390	
Data Processing Services	22,098	5,817,990	
Other Services	28,366	2,810,863	332,197
Debt Service:			
Principal Retirement		943,266	
Interest and Fees		387,734	
Other Fixed Charges	41,898	4,282,854	30,951
Capital Outlay	137,511	15,068,529	1,053,859
Insurance and Bonding		1,128,021	
Expenditures to Other State Agencies		1,000,000	
Other Expenditures	429,008	3,684,940	607,453
Total Expenditures	11,926,762	756,269,757	92,369,068
Excess of Revenues Over (Under) Expenditures	(11,926,761)	(739,763,564)	(84,942,318)
OTHER FINANCING SOURCES (USES)			
Other Debt Issued			
Sale of Capital Assets		322,918	
Insurance Recoveries		9,024	
Transfers In		150,000	2,768,103
Transfers Out			(201,600)
Transfers to State Reserve Fund	(38,382)	(2,137,559)	(138,470)
Appropriations	11,901,191	770,079,710	86,233,153
Total Other Financing Sources (Uses)	11,862,809	768,424,093	88,661,186
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (63,952)	\$ 28,660,529	\$ 3,718,868

Schedule F-3

Prisons General, Mental, Dental and Pharmacy	Prisons Education and Corrective Programs	Alcoholism and Chemical Dependence	Other	Total Prisons 2016	Total Prisons 2015 (As Restated)
\$ 1,277,233	\$ 66,301	\$ 0	\$ 0	\$ 1,982,151	\$ 1,859,370
				7,691	7,760
			45,133,334	46,257,666	44,740,077
485,051				11,496,995	26,666,855
	1,762,825			1,897,695	877,955
118,620		4,205		2,551,949	9,525,967
5,704,789	57	12	5,769,902	20,061,126	27,415,125
<u>7,585,693</u>	<u>1,829,183</u>	<u>4,217</u>	<u>50,903,236</u>	<u>84,255,273</u>	<u>111,093,109</u>
96,739,505	35,470,231	3,974,642	7,337,407	596,741,939	583,960,881
35,132,015	15,471,649	1,648,718	3,275,041	266,488,611	245,032,912
93,391,497	2,085,144	8,633	1,139,607	129,772,517	122,360,133
49,984,095	799,083	128,706	3,994,993	133,612,638	129,263,296
			31,733,631	31,733,631	30,576,011
54,907	21,362	3,641	2,218	613,532	539,781
18,864	10,162	57,857	4,890	3,957,505	3,585,928
	742,965	4,078	234,662	43,307,879	43,729,314
3,186		111,695		5,954,969	5,040,044
217,216	4,001,301	4,336	239,443	7,633,722	6,649,896
			52,949	996,215	97,816
			16,631	404,365	1,212,982
903,857	19,205	27,776	232,345	5,538,886	3,437,387
762,519	796,652	50,872	1,594,452	19,464,394	23,206,717
484,381		171	3,999	1,616,572	2,275,172
	50,000			1,050,000	1,050,000
418,320	81,957	81,407	1,228,010	6,531,095	6,385,679
<u>272,585,087</u>	<u>59,549,711</u>	<u>6,102,532</u>	<u>51,090,278</u>	<u>1,255,418,470</u>	<u>1,208,403,949</u>
<u>(264,999,394)</u>	<u>(57,720,528)</u>	<u>(6,098,315)</u>	<u>(187,042)</u>	<u>(1,171,163,197)</u>	<u>(1,097,310,840)</u>
					278,320
				322,918	
				9,024	2,028
				2,918,103	2,768,103
			(1,306,668)	(1,508,268)	(1,509,991)
(52,221)	(16,633)		(78,552)	(2,461,817)	
263,166,899	57,312,611	5,704,626	622,211	1,195,020,401	1,096,212,348
<u>263,114,678</u>	<u>57,295,978</u>	<u>5,704,626</u>	<u>(763,009)</u>	<u>1,194,300,361</u>	<u>1,097,750,808</u>
\$ (7,409,991)	\$ (424,550)	\$ (393,689)	\$ (950,051)	\$ 23,137,164	\$ 439,968

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Sub-Division of Adult Correction
Community Corrections by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	Regular Supervision	Community Supervision	Electronic Monitoring
REVENUES			
Federal Funds	\$ 0	\$ 2,657	\$ 0
Investment Earnings			
Sales and Services			
Rental and Lease of Property			
Fees, Licenses, and Fines			107,226
Contributions, Gifts, and Grants			
Revenues from Other State Agencies	138,758	4,205	
Miscellaneous Income	20	2	
	<u>138,778</u>	<u>6,864</u>	<u>107,226</u>
Total Revenues			
	<u>138,778</u>	<u>6,864</u>	<u>107,226</u>
EXPENDITURES			
Personal Services	99,475,814	4,567,572	221,615
Employee Benefits	41,906,483	1,890,518	86,221
Contracted Personal Services	874,062	6,400,420	6,350,103
Supplies and Materials	775,613	487,373	665
Travel	268,881	5,602	4,625
Communication	3,773,406	64,187	4,468
Utilities	34,130	231,120	
Data Processing Services	3,714,367	110,726	
Other Services	145,152	23,720	88
Claims and Benefits			
Other Fixed Charges	276,197	26,967	139
Capital Outlay	1,076,198	93,723	
Insurance and Bonding	2,082		
Expenditures to Other State Agencies			
Other Expenditures	7,859,176	44,254	14,756
	<u>160,181,561</u>	<u>13,946,182</u>	<u>6,682,680</u>
Total Expenditures			
	<u>160,181,561</u>	<u>13,946,182</u>	<u>6,682,680</u>
Excess of Revenues Over (Under) Expenditures	(160,042,783)	(13,939,318)	(6,575,454)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets			
Transfers to State Reserve Fund	(254,727)	(4,678)	
Appropriations	159,536,213	14,170,218	7,139,054
	<u>159,281,486</u>	<u>14,165,540</u>	<u>7,139,054</u>
Total Other Financing Sources (Uses)			
	<u>159,281,486</u>	<u>14,165,540</u>	<u>7,139,054</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (761,297)	\$ 226,222	\$ 563,600

Schedule F-4

Judicial Services	Other	Total Community Corrections 2016	Total Community Corrections 2015
\$ 0	\$ 0	\$ 2,657	\$ 0
	4,742	4,742	2,867
	6,000	6,000	234
	275,490	382,716	5,500
	7,065	7,065	326,162
		142,963	82,267
	52,882	52,904	377,636
	346,179	599,047	76,166
			870,832
8,427,320	1,980,914	114,673,235	109,339,603
3,705,371	782,542	48,371,135	43,626,548
2,420	598	13,627,603	10,037,370
14,484	91,294	1,369,429	2,096,656
	27,532	306,640	218,340
50,526	49,286	3,941,873	3,885,574
	43,412	308,662	307,397
	3,596	3,828,689	3,114,211
584	27,386	196,930	204,783
23,513		23,513	25,415
4,531	42,076	349,910	175,838
	7,114	1,177,035	2,347,991
		2,082	3,527
	300,489	8,218,675	1,829,300
			13,223,407
12,228,749	3,356,239	196,395,411	190,435,960
(12,228,749)	(3,010,060)	(195,796,364)	(189,565,128)
	100	100	
		(259,405)	
12,225,036	3,021,908	196,092,429	187,986,549
12,225,036	3,022,008	195,833,124	187,986,549
\$ (3,713)	\$ 11,948	\$ 36,760	\$ (1,578,579)

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Sub-Division of Juvenile Justice by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	Detention Center Services	Development Center Services	Treatment Services	Education Services
REVENUES				
Federal Funds	\$ 3,641	\$ 1,750	\$ 0	\$ 0
Investment Earnings		3		
Sales and Services	7,826	142,511		
Fees, Licenses, and Fines				
Contributions, Gifts, and Grants	182,381	378,891		887,106
Revenues from Other State Agencies		243,404		
Miscellaneous Income	2,916	2,035	631	719
Total Revenues	196,764	768,594	631	887,825
EXPENDITURES				
Personal Services	4,024,550	7,349,755	9,454,908	3,411,136
Employee Benefits	2,120,444	4,316,315	3,891,131	1,393,463
Contracted Personal Services	2,252,543	419,309	1,683,430	108,782
Supplies and Materials	237,299	967,984	343,022	81,002
Travel	8,480	10,606	8,200	93,385
Communication	62,468	190,269	5,979	6,968
Utilities	135,523	714,183	4,284	8,402
Data Processing Services	26,172	67,961	125	31,273
Other Services	27,986	50,346	10,097	50,325
Other Fixed Charges	10,408	38,450	16,871	6,788
Capital Outlay	20,343	1,809,920	8,653	104,652
Grants, State Aid, and Subsidies				
Insurance and Bonding	1,067	10,505	183	69
Other Expenditures	145,024	134,367	76,004	115,388
Total Expenditures	9,072,307	16,079,970	15,502,887	5,411,633
Excess of Revenues Over (Under) Expenditures	(8,875,543)	(15,311,376)	(15,502,256)	(4,523,808)
OTHER FINANCING SOURCES (USES)				
Other Debt Issued				
Sale of Capital Assets	168	7,367		
Transfers In		614		
Transfers Out		(614)		
Transfers to State Reserve Fund		(81,291)		(32,984)
Appropriations	8,704,171	13,840,357	15,465,306	4,444,535
Total Other Financing Sources (Uses)	8,704,339	13,766,433	15,465,306	4,411,551
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (171,204)	\$ (1,544,943)	\$ (36,950)	\$ (112,257)

Schedule F-5

Community Program Services	Juvenile Crime Prevention Council	Juvenile Court Services	Juvenile Justice Other	Total Juvenile Justice 2016	Total Juvenile Justice 2015 (As Restated)
\$ 69,995	\$ 0	\$ 0	\$ 0	\$ 75,386	\$ 53,185
			1,149	1,152	563
				150,337	128,211
					88
			107,547	1,555,925	269,798
362,672				606,076	1,918,824
41			397	6,739	7,687
432,708			109,093	2,395,615	2,378,356
1,111,026		21,667,497	924,853	47,943,725	46,415,481
419,473		8,621,425	271,559	21,033,810	19,803,661
15,860,535		530,168	72,796	20,927,563	19,872,361
36,018		89,010	36,381	1,790,716	1,956,102
22,266		85,038	1,489	229,464	185,228
14,892		760,272	5,385	1,046,233	1,081,998
33,162		15,944		911,498	980,940
4,696		451,108	37,673	619,008	405,852
16,568		73,013	22,783	251,118	290,420
1,457		78,436	3,422	155,832	116,561
902,349		31,094	49,235	2,926,246	2,806,149
	22,623,535			22,623,535	22,187,815
16		400	21,911	34,151	49,631
179,054		1,610,228	180,856	2,440,921	2,544,336
18,601,512	22,623,535	34,013,633	1,628,343	122,933,820	118,696,535
(18,168,804)	(22,623,535)	(34,013,633)	(1,519,250)	(120,538,205)	(116,318,179)
		3		7,538	2,312
				614	
				(614)	
(15,991)		(6,470)		(136,736)	
17,612,961	22,623,535	33,883,572	1,504,709	118,079,146	114,549,674
17,596,970	22,623,535	33,877,105	1,504,709	117,949,948	114,551,986
\$ (571,834)	\$ 0	\$ (136,528)	\$ (14,541)	\$ (2,588,257)	\$ (1,766,193)

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Division of Law Enforcement by Sub-Division
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

	State Capital Police	State Highway Patrol	Alcohol Law Enforcement
REVENUES			
Federal Funds	\$ 0	\$ 821,793	\$ 0
Investment Earnings		6,013	23,602
Sales and Services	3,425,273	1,653,966	164,921
Rental and Lease of Property		84,112	
Fees, Licenses, and Fines		98,586	183,962
Student Tuition and Fees		37,705	
Contributions, Gifts, and Grants		1,706,261	1,623,138
Revenues from Other State Agencies		8,905,969	2,100,000
Miscellaneous Income	93	177,746	209,151
Total Revenues	3,425,366	13,492,151	4,304,774
EXPENDITURES			
Personal Services	3,128,223	118,016,484	5,949,509
Employee Benefits	1,464,722	50,744,970	2,562,081
Contracted Personal Services	36,101	11,956,056	73,526
Supplies and Materials	45,691	10,988,831	684,854
Travel	941	577,468	66,283
Communication	19,104	3,067,152	201,510
Utilities	745	885,889	3,146
Data Processing Services	17,869	1,186,991	40,498
Other Services	2,349	841,415	56,639
Claims and Benefits	104,759	8,858,382	502,438
Other Fixed Charges	2,657	927,538	7,444
Capital Outlay	36,546	25,800,107	1,576,266
Grants, State Aid, and Subsidies		647,501	
Insurance and Bonding	5,504	1,459,304	36,563
Expenditures to Other State Agencies		3,275,515	
Other Expenditures	170	436,627	143,733
Total Expenditures	4,865,381	239,670,230	11,904,490
Excess of Revenues Over (Under) Expenditures	(1,440,015)	(226,178,079)	(7,599,716)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	4,578	2,232,651	177,431
Insurance Recoveries		644,331	
Transfers to State Reserve Fund		(423,670)	(64,379)
Appropriations	1,556,752	220,839,798	8,195,124
Total Other Financing Sources (Uses)	1,561,330	223,293,110	8,308,176
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 121,315	\$ (2,884,969)	\$ 708,460

Schedule G-1

State Bureau of Investigation	Other	Total Law Enforcement 2016	Total Law Enforcement 2015
\$ 959,065	\$ 0	\$ 1,780,858	\$ 858,356
19,208		48,823	38,154
8,637,343		13,881,503	12,822,207
		84,112	76,282
6,536,082		6,818,630	6,756,323
		37,705	60,450
905,253		4,234,652	2,645,530
		11,005,969	11,442,918
70,456	64,902	522,348	583,765
17,127,407	64,902	38,414,600	35,283,985
21,818,202	32,666	148,945,084	147,274,130
9,050,265	119,457	63,941,495	60,668,891
1,578,359	33,784	13,677,826	16,504,905
1,370,434	1,532	13,091,342	15,602,974
455,858	872	1,101,422	956,550
600,299	655	3,888,720	3,090,609
134,604		1,024,384	1,041,245
332,906		1,578,264	1,430,251
817,630	370,121	2,088,154	1,855,869
1,567,546	157,847	11,190,972	10,532,269
1,519,304	100	2,457,043	2,164,438
4,221,357	2,834	31,637,110	18,180,426
1,397,500		2,045,001	543,155
126,759		1,628,130	1,509,706
1,219,344		4,494,859	156,821
5,124,498	37,800	5,742,828	6,041,302
51,334,865	757,668	308,532,634	287,553,541
(34,207,458)	(692,766)	(270,118,034)	(252,269,556)
205,678		2,620,338	1,575,438
15,221		659,552	422,122
(447,139)		(935,188)	
32,266,832	537,375	263,395,881	245,647,400
32,040,592	537,375	265,740,583	247,644,960
\$ (2,166,866)	\$ (155,391)	\$ (4,377,451)	\$ (4,624,596)

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Division of the North Carolina National Guard by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Schedule H-1

	Army Guard	Air Guard	Youth Programs	Other	Total National Guard 2016	Total National Guard 2015 (As Restated)
REVENUES						
Federal Funds	\$ 19,611,538	\$ 3,735,247	\$ 4,905,498	\$ 0	\$ 28,252,283	\$ 24,495,794
Local Funds				18,635	18,635	42,028
Sales and Services			2,812	541	3,353	2,276
Rental and Lease of Property				212,217	212,217	290,872
Contributions, Gifts, and Grants			128,533		128,533	233,478
Revenues from Other State Agencies	218,678			71,280	289,958	308,361
Miscellaneous Income	841	349	65,797	208,882	275,869	226,534
Total Revenues	19,831,057	3,735,596	5,102,640	511,555	29,180,848	25,599,343
EXPENDITURES						
Personal Services	2,774,615	2,001,416	3,510,982	1,041,566	9,328,579	8,313,894
Employee Benefits	880,254	794,974	1,076,984	478,766	3,230,978	2,659,605
Contracted Personal Services	3,203,067	689,659	139,252	433,078	4,465,056	3,558,328
Supplies and Materials	755,633	70,383	1,115,098	109,050	2,050,164	1,927,798
Travel	81,537	6,346	122,058	7,452	217,393	155,221
Communication	1,480,851		53,277	1,642	1,535,770	1,559,253
Utilities	3,318,981	692,628	178,467		4,190,076	4,642,715
Data Processing Services	18,682		2,463	48,654	69,799	39,628
Other Services	1,319,117	9,936	125,697	213,917	1,668,667	1,663,718
Other Fixed Charges	118,902	19,228	43,080	31,499	212,709	108,579
Capital Outlay	11,923,947		504,444	2,416,349	14,844,740	10,280,884
Grants, State Aid, and Subsidies				71,280	71,280	63,080
Scholarships			19,800		19,800	26,840
Insurance and Bonding				43,784	43,784	59,746
Expenditures to Other State Agencies			107,970		107,970	
Other Expenditures	96,175		60,729	217,536	374,440	450,171
Total Expenditures	25,971,761	4,284,570	7,060,301	5,114,573	42,431,205	35,509,460
Excess of Revenues Over (Under) Expenditures	(6,140,704)	(548,974)	(1,957,661)	(4,603,018)	(13,250,357)	(9,910,117)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets				13,040	13,040	6,578
Insurance Recoveries						2,855
Transfers In	6,023,498				6,023,498	4,660,731
Transfers Out	(6,023,498)				(6,023,498)	(4,660,731)
Transfers to State Reserve Fund	(39,613)		(111,646)	(56,460)	(207,719)	
Appropriations	5,180,827	464,662	1,952,702	4,318,716	11,916,907	10,458,171
Total Other Financing Sources (Uses)	5,141,214	464,662	1,841,056	4,275,296	11,722,228	10,467,604
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (999,490)	\$ (84,312)	\$ (116,605)	\$ (327,722)	\$ (1,528,129)	\$ 557,487

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Division of Emergency Management by Function
For the Fiscal Year Ended June 30, 2016 (With Comparative Totals for June 30, 2015)

Schedule I-1

	Emergency Management Performance Grant	Disaster Response and Recovery	Homeland Security	Geospatial	Other	Total Emergency Management 2016	Total Emergency Management 2015
REVENUES							
Federal Funds	\$ 9,341,325	\$ 17,211,297	\$ 9,241,150	\$ 2,985,968	\$ 2,992,717	\$ 41,772,457	\$ 70,072,019
Investment Earnings					7,452	7,452	2,929
Sales and Services	216,528			2,063,653		2,280,181	1,130,193
Fees, Licenses, and Fines	3,268,949			210,700	2,509,345	5,988,994	5,283,376
Contributions, Gifts, and Grants	121,184					121,184	
Revenues from Other State Agencies		3,438,312		3,805,802	11,667	7,255,781	17,757,062
Miscellaneous Income	3,128	5	73	696	121	4,023	3,767
Total Revenues	12,951,114	20,649,614	9,241,223	9,066,819	5,521,302	57,430,072	94,249,346
EXPENDITURES							
Personal Services	5,846,340	524,909	598,538	2,537,305	610,872	10,117,964	7,869,280
Employee Benefits	1,734,365	145,795	220,272	881,100	204,118	3,185,650	2,823,664
Contracted Personal Services	1,180,057	319,792	28,041	7,319,634	333,666	9,181,190	12,506,631
Supplies and Materials	300,900	9,667	19,636	51,398	4,662	386,263	337,548
Travel	262,446	74,675	29,252	51,965	21,175	439,513	394,376
Communication	145,747	3,043	2,857	14,450	4,521	170,618	193,086
Utilities	131,386					131,386	161,988
Data Processing Services	141,824	7,092		11,897	2,696	163,509	239,775
Other Services	120,281	1,809	4,789	20,655	4,626	152,160	197,400
Other Fixed Charges	111,779	4,240	20,480	237,101	1,631	375,231	289,608
Capital Outlay	315,476	15,080	459	435,213	13,080	779,308	1,277,923
Grants, State Aid, and Subsidies	5,852,488	19,643,332	7,905,123		2,738,150	36,139,093	67,659,994
Insurance and Bonding	56,871			9,595	3	66,469	63,077
Expenditures to Other State Agencies					1,805,528	1,805,528	4,173,947
Other Expenditures	2,509,985	284,971	7,079	112,638	7,429	2,922,102	798,612
Total Expenditures	18,709,945	21,034,405	8,836,526	11,682,951	5,752,157	66,015,984	98,986,809
Excess of Revenues Over (Under) Expenditures	(5,758,831)	(384,791)	404,697	(2,616,132)	(230,855)	(8,585,912)	(4,737,463)
OTHER FINANCING SOURCES (USES)							
Sale of Capital Assets	24,482					24,482	16,442
Insurance Recoveries	84,546					84,546	71,816
Transfers In					270	270	
Transfers Out					(270)	(270)	
Transfers to State Reserve Fund	(104,970)				(1,781)	(106,751)	
Appropriations	5,320,208	11,414	(100,203)	697,442	759,169	6,688,030	3,868,961
Total Other Financing Sources (Uses)	5,324,266	11,414	(100,203)	697,442	757,388	6,690,307	3,957,219
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (434,565)</u>	<u>\$ (373,377)</u>	<u>\$ 304,494</u>	<u>\$ (1,918,690)</u>	<u>\$ 526,533</u>	<u>\$ (1,895,605)</u>	<u>\$ (780,244)</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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**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**

Erik A. Hooks, Secretary
and Management of the North Carolina Department of Public Safety

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the North Carolina Department of Public Safety (Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated August 15, 2017.

We expressed a qualified opinion on Correction Enterprises Fund inventory due to the inability to gain sufficient appropriate audit evidence through audit procedures performed concerning the inventory held at the Correction Enterprises Fund for the year ended June 30, 2016. Consequently, we were unable to determine whether any adjustment to inventory was necessary.

As discussed in Note 1, the financial statements of the North Carolina Department of Public Safety are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Public Safety. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Audit Findings, Recommendations, and Responses section to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

Department's Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying Findings, Recommendations and Responses section. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

August 15, 2017



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control.

CONTROL WEAKNESSES PRESENTED SUBSTANTIAL RISK OF INACCURATE INVENTORY BALANCE

The Department's internal control¹ procedures did not provide reasonable assurance that the \$18 million inventory balance² reported for the Correction Enterprises Fund was accurate and reliable as of June 30, 2016. Weaknesses in the Department's procedures were significant and prevented auditors from issuing an unmodified opinion on the account.

Significant weaknesses in internal control for inventory included:

- Over 500 questionable changes in inventory item costs during the month of June 2016. Changes included manipulating system calculated weighted-average costs and setting some items' costs higher than their actual value. An undetermined amount of similar adjustments impacting 2016 inventory items could have occurred in previous years.
- Inconsistencies in the way locations executed year-end inventory counts. For example, some locations deviated from prescribed count dates which could skew results due to shipping, usage, and receiving activities between the conducted count and the reporting date. Also, some locations used inventory count sheets that listed the existing inventory quantities which could allow counters to match the records rather than perform independent counts. The Department relies on these year-end counts to report and substantiate inventory balances.
- Use of inaccurate data to calculate the cost of finished goods. Examples included use of inaccurate materials cost and units of measure. Finished goods valued by these procedures represented approximately \$8 million of the June 30, 2016, reported inventory.
- No overall evaluation of excessive quantities on hand relative to sales and usage. Therefore, the Department could not accurately estimate an appropriate reduction in inventory value for obsolescence or slow-movement.

As a result, there could be significant undetected errors in the reported inventory balance. Consequently, users of the financial statements and those making budget decisions could be misinformed about the financial condition of the Correction Enterprises Fund. This includes sufficiency and flexibility of resources, asset performance, and operating results.

According to Department management, a recent multi-agency consolidation reduced the number of staff who had knowledge and experience with the inventory procedures. As a result, the Department's ability to perform inventory reviews was impaired. Department

¹COSO defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

²Correction Enterprises maintains inventory for 32 revenue producing operations across the State which include manufacturing and service operations. Inventory at each location could include materials for use in manufacturing or service delivery, partially manufactured goods, or finished goods for sale.

management also said that existing personnel involved with inventory processes needed additional training.

State law requires a proper system of internal controls. Specifically, *North Carolina General Statute 143D-7* states that Department management has "...full responsibility for establishing and maintaining a proper system of internal control" for their agency. Management is also responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Recommendation: Department management should ensure adequate resources are allocated to monitor and update existing controls over the Correction Enterprises Fund inventory to ensure financial reporting objectives are met and risks are adequately addressed. Additionally, management should provide appropriate training to inventory personnel and ensure they are held accountable for following policies and procedures.

Agency Response: DPS Management acknowledges that improvements were warranted with respect to internal controls over Correction Enterprises' inventory. To address these concerns, management has proactively implemented several changes contemporaneous with the audit.

Specific enhancements include the following:

Weighted average costs will only be adjusted to address a change in unit of measure, an entry error, or a significant change in raw material costs. All adjustments must be supported by appropriate documentation and will require approval from the manager of enterprise accounting or designee. In addition, Correction Enterprises has requisitioned a new Enterprise Resource Planning system that will further eliminate the need for manual adjustments.

To ensure consistent application of inventory protocols, management provided half day training blocks to Correction Enterprises staff with inventory responsibility on multiple dates during March 2017. DPS Controller's Office will also make plant visits throughout the year to reinforce proper inventory practices and conduct off-cycle counts. Work-in-process inventory accounting procedures will also be reviewed during these plant visits.

Correction Enterprises management will review inventory reports to ensure any items damaged or obsolete are identified and either written-off or written down to saleable value.

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This audit required 9,334 hours at an approximate cost of \$961,402.