

STATE OF NORTH CAROLINA

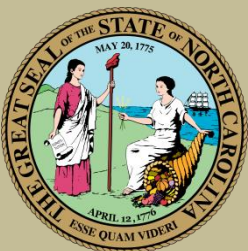
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Department of Public Safety as of and for the year ended June 30, 2017, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the 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 that reads "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 and in more detail further into the report. This report is made up of various components as listed in the Table of Contents.

The Department 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" or supplementary schedules which are referenced next to the line item caption.

Required Information: (Information required to be reported by a state agency per Governmental Reporting 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 and has not been audited.

"A" Exhibits present the Balance Sheet as of June 30, 2017 (with comparative totals for June 30, 2016) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) for the Department's **governmental funds as a whole**.

"B" Exhibits present the Statement of Net Position as of June 30, 2017 (with comparative totals for June 30, 2016), the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2017 (with comparative totals for June 30, 2016), 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.

Required Supplementary Information: (This information is tabbed by topic in the report)

"C" Schedules present the Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Budgetary Basis-Non-GAAP) comparisons for the General Fund, Correction Enterprises Fund, and Welfare Fund (for the fiscal year ended June 30, 2017) 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, 2017 (with comparative totals for the fiscal year ended June 30, 2016) across all the divisions in the department.

“E” through “I” Schedules present further breakdown of each division’s revenues and expenditures for the fiscal year ended June 30, 2017 (with comparative totals for the fiscal year ended June 30, 2016) 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 – Sub-division of Adult Correction by its functions (which includes Prisons, Community Corrections, and Other).
 - 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.



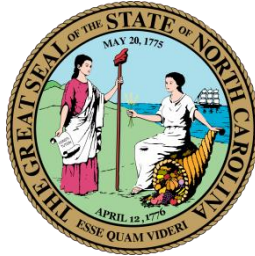
Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
A-1 BALANCE SHEET – GOVERNMENTAL FUNDS.....	19
A-2 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	20
B-1 STATEMENT OF NET POSITION – PROPRIETARY FUNDS	21
B-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS	22
B-3 STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS.....	23
NOTES TO THE FINANCIAL STATEMENTS	24
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS- NON-GAAP) GENERAL FUND	53
C-2 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS- NON-GAAP) CORRECTION ENTERPRISES FUND	54
C-3 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS- NON-GAAP) WELFARE FUND	55
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY INFORMATION	56
C-4 SCHEDULE OF THE NET PENSION LIABILITY	57
C-5 SCHEDULE OF THE DEPARTMENT CONTRIBUTIONS.....	58

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF DEPARTMENT CONTRIBUTIONS.....	59
OTHER SUPPLEMENTARY INFORMATION	
D-1 COMBINING SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS BY DIVISION	60
E-1 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – DIVISION OF ADMINISTRATION BY FUNCTION	62
F-1 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – DIVISION OF ADULT CORRECTION AND JUVENILE JUSTICE BY SUB-DIVISION	64
F-2 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – SUB-DIVISION OF ADULT CORRECTION BY FUNCTION.....	65
F-3 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – SUB-DIVISION OF ADULT CORRECTION – PRISONS BY FUNCTION	66
F-4 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – SUB-DIVISION OF ADULT CORRECTION – COMMUNITY CORRECTIONS BY FUNCTION	68
F-5 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – SUB-DIVISION OF JUVENILE JUSTICE BY FUNCTION.....	70
G-1 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – DIVISION OF LAW ENFORCEMENT BY SUB-DIVISION	72
H-1 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – DIVISION OF THE NORTH CAROLINA NATIONAL GUARD BY FUNCTION	74
I-1 SCHEDULE OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS – DIVISION OF EMERGENCY MANAGEMENT BY FUNCTION	76
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 <i>GOVERNMENT AUDITING STANDARDS</i>	78
FINDINGS, RECOMMENDATIONS, AND RESPONSES.....	80
ORDERING INFORMATION	84



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

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, 2017, 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 audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the North Carolina Department of Public Safety, as of June 30, 2017, 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, changes in financial position and, where applicable, cash flows of only that portion of each major fund that is 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, 2017, the changes in its financial position, or, where applicable, its cash flows 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.

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 June 30, 2016, and the respective changes in financial position for the year then ended. We expressed a qualified audit opinion on the Correction Enterprises Fund inventory due to the inability to obtain sufficient appropriate audit evidence and expressed an unmodified audit opinion on the General Fund, Capital Projects Fund, Welfare Fund, ABC Commission, and aggregate remaining fund information in our report dated August 15, 2017. 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 subjected to the auditing procedures applied in the audit of the basic financial statements of the prior year and accordingly, we expressed an opinion in relation to the basic financial statements as a whole for the year ended June 30, 2016.

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 opinions on the financial statements that collectively comprise the Department's basic financial statements. 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 divisions 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 supplementary schedules by division are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

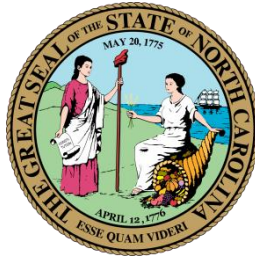
In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

September 26, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

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 year ended June 30, 2017 with comparative information for the fiscal year ended June 30, 2016. 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 System 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 and liabilities 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 funds' 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, 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets	<u>\$ 284,917,543</u>	<u>\$ 278,919,586</u>	<u>\$ 5,997,957</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 284,917,543</u>	<u>\$ 278,919,586</u>	<u>\$ 5,997,957</u>
Total Liabilities	<u>\$ 87,068,831</u>	<u>\$ 75,975,067</u>	<u>\$ 11,093,764</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances			
Nonspendable	57,211,076	64,387,172	(7,176,096)
Restricted	12,154,348	13,727,941	(1,573,593)
Committed	149,288,260	137,238,461	12,049,799
Unassigned	<u>(20,804,972)</u>	<u>(12,409,055)</u>	<u>(8,395,917)</u>
Total Fund Balances	<u>197,848,712</u>	<u>202,944,519</u>	<u>(5,095,807)</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 284,917,543</u>	<u>\$ 278,919,586</u>	<u>\$ 5,997,957</u>

Total assets increased by \$6 million during the year due primarily to the following:

- Intergovernmental receivables increased by \$13.4 million mainly due to Hurricane Matthew disbursements, not yet reimbursed from the federal government.
- Inventories decreased by \$7.1 million. The General Fund inventories decreased by a net \$5 million: 1) State Highway Patrol Aircraft Operations inventory value decreased by \$6.9 million as a result of removing donated parts from inventory; and 2) State Highway Patrol Voice Interoperability Plan for Emergency Responders (VIPER) inventory increased by \$1.9 million. Correction Enterprises Fund inventories decreased by \$2.1 million as a result of closing the Paint Plant and creating efficiencies at the Meat Plant enabling the plant to carry less inventory on hand.

Total liabilities increased by \$11.1 million during the year mainly due to the following:

- Accounts payable increased by \$9.9 million as a result of contractual services and public assistance liabilities for non-governmental organizations related to Hurricane Matthew.
- Medical claims payable increased by \$3.9 million as a result of the increase in inmates with mental health and substance abuse disorders as well as the rising costs of treatments for communicable diseases such as Hepatitis C.
- Intergovernmental payables increased by \$2.3 million as a result of payments to local governments for state aid related to Hurricane Matthew.
- Due to other funds and state agencies decreased by \$1.8 million as a result of a \$0.5 million decrease to the Office of the State Controller for Workers Compensation payments and a \$1.4 million decrease in payables to the Department of Information Technology (DIT) for phone service. DIT payables decreased as a result of implementing Voice Over Internet Protocol (VOIP) at several locations. In addition, the Department was two (2) months in arrears in amounts due to DIT at the end of the 2016 fiscal year but current as of the 2017 fiscal year end.
- Unearned revenue decreased by \$2.7 million due to a decrease in federal funds received in advance for the Justice Assistance Grant (JAG).

Overall fund balances decreased by \$5.1 million during the year due primarily to the following:

- Nonspendable fund balances decreased by \$7.2 million as a result of the decrease in inventory balances described above.
- Committed fund balances increased by \$12 million. In the General Fund, there was a \$10.6 million increase in disaster funds related to the new appropriation for the Disaster Housing Act. The Welfare Fund (entirely committed) decreased by \$6.2 million – see explanation above for Welfare Fund cash balances. There was a \$2 million increase in the Correction Enterprises Fund balance and a \$5.3 million increase in the Non-Debt Capital Projects Fund balances (both entirely committed).
- Unassigned fund balances decreased by \$8.4 million predominantly due to an increase in accounts payable for contractual services and public assistance liabilities (see 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, 2017 and 2016.

	2017	2016	Change
Revenues			
Federal Funds	\$ 172,544,797	\$ 104,993,203	\$ 67,551,594
Sales and Services	99,504,699	97,866,478	1,638,221
Intragovernmental Sales and Services	53,710,183	56,914,912	(3,204,729)
Fees, Licenses, and Fines	39,829,082	48,825,134	(8,996,052)
Revenues from Other State Agencies	54,712,507	25,107,462	29,605,045
Other Revenues	15,755,178	30,437,669	(14,682,491)
Total Revenues	436,056,446	364,144,858	71,911,588
Expenditures			
Personal Services	1,031,972,603	989,955,018	42,017,585
Employee Benefits	441,959,652	428,357,978	13,601,674
Contracted Personal Services	254,620,730	197,893,405	56,727,325
Supplies and Materials	178,543,843	157,740,465	20,803,378
Purchases for Resale	75,319,825	79,448,143	(4,128,318)
Travel	4,253,615	3,582,400	671,215
Communication	10,229,788	15,593,635	(5,363,847)
Utilities	54,425,868	53,118,876	1,306,992
Data Processing Services	19,792,864	13,441,194	6,351,670
Other Services	13,502,146	13,913,903	(411,757)
Claims and Benefits	11,918,902	11,214,485	704,417
Debt Service:			
Principal Retirement	1,273,945	996,215	277,730
Interest and Fees	376,442	404,365	(27,923)
Other Fixed Charges	12,479,606	11,605,340	874,266
Capital Outlay	71,047,016	81,155,944	(10,108,928)
Grants, State Aid, and Subsidies	172,937,483	94,129,956	78,807,527
Scholarships		19,800	(19,800)
Insurance and Bonding	2,755,172	4,341,309	(1,586,137)
Expenditures to Other State Agencies	27,123,021	41,311,160	(14,188,139)
Other Expenditures	31,161,968	30,242,042	919,926
Total Expenditures	2,415,694,489	2,228,465,633	187,228,856
Excess Expenditures over Revenues	(1,979,638,043)	(1,864,320,775)	(115,317,268)
Other Financing Sources (Uses)			
Sale of Capital Assets	3,281,576	3,066,691	214,885
Insurance Recoveries	1,448,809	826,493	622,316
Transfers In	10,431,118	13,076,178	(2,645,060)
Transfers Out	(10,431,118)	(13,076,178)	2,645,060
Transfers to State Reserve Fund	(15,105,047)	(8,517,265)	(6,587,782)
Transfers from State Reserve Fund	7,954,210		7,954,210
State Appropriations	1,976,962,688	1,872,876,202	104,086,486
Total Other Financing Sources	1,974,542,236	1,868,252,121	106,290,115
Net Change in Fund Balances	(5,095,807)	3,931,346	(9,027,153)
Fund Balances - July 1	202,944,519	199,013,173	3,931,346
Fund Balances - June 30	\$ 197,848,712	\$ 202,944,519	\$ (5,095,807)

Total revenues increased by \$71.9 million primarily due to the following:

- Federal funds received increased by \$67.6 million primarily due to Hurricane Matthew funding received for the Public Assistance grant.
- Revenues received from other state agencies increased \$29.6 million. In the General Fund, there was a \$32 million increase in funds received from the Office of State Budget and Management (OSBM) in disaster recovery funds.
- Other revenues decreased by \$14.7 million. In the General Fund, Safekeeper Medical Recoupments decreased by \$2 million, and in the Welfare Fund miscellaneous income decreased by \$5.6 million as a result of no longer being able to collect pay telephone commissions, effective March of 2016. Additionally, reimbursements decreased by \$3 million. Contributions, gifts, and grants decreased by \$2.6 million in the General Fund as a result of a \$1.3 million decrease in funds received from the Department of Public Instruction for Title I Negligence and Delinquency funds and a \$1.2 million decrease in Equitable Sharing Receipts related to seized property.
- Fees, licenses, and fines decreased by \$9 million. In the General Fund, the Misdemeanant Confinement Fund collections decreased by \$6.9 million and the Utilities Fees related to the Coal Ash Commission (no longer housed at the Department) decreased by \$2.5 million.
- Intragovernmental sales and services decreased by \$3.2 million due to a decrease in sales in the Correction Enterprises sewing plants for clothing. New uniforms were made and sold in the prior fiscal year.

Total expenditures increased \$187.2 million compared to the prior year mainly due to the following:

- Grants, state aid, and subsidies increased by \$78.8 million. There was an increase of \$13 million for governmental cost reimbursements for Hurricane Matthew individual assistance, an increase of \$49.3 million for aid to state agencies, component units, and local governments and an increase of \$15.6 million in aid to non-governmental organizations for Hurricane Matthew Public Assistance.
- Contracted personal services increased by \$56.7 million. During the 2016-2017 fiscal year, the Department increased its reliance on locum tenentes due to the difficulty in recruiting and retaining permanent medical staff and the increase in inmates with mental health and substance abuse disorders. There was a \$12.5 million increase in payments to hospitals and a \$16.7 million increase in payments to other medical providers due to the above factors, the aging inmate population, and the rising costs of treatments for communicable diseases such as Hepatitis C. The Department's payments for temporary services also increased throughout the various divisions of the Department by \$10.4 million. Most notably, temporary services increased by \$4.4 million in Prisons Custody and Security and Health Services due to high turnover and vacancy rates in the prison facilities, by \$2 million in the National Guard funds, and by \$1.6 million in Disaster funds for response and recovery efforts related to Hurricane Matthew. In addition, there was a \$15.1 million increase for miscellaneous contracted services as a result of the Department receiving \$20.5 million in State funds in connection with the Disaster Housing Act. Of the \$20.5 million received, the Department paid out \$3.6 million in connection with Short-term Housing and \$6.1 million for Redevelopment Plans. Also included in the

\$15.1 million increase for miscellaneous contractual services were payments related to Hurricane Matthew contracts in the amount of \$5.5 million.

- Personal services and employee benefits increased by \$55.6 million. Appropriated salaries increased by \$22.3 million as a result of a 1.5% legislative increase and increased appropriations in the amount of \$16.9 million for custody-level pay adjustments for correctional officers. Salaries supported by receipts increased by \$1.6 million. Appropriated and receipt-supported law enforcement salaries increased by \$3.2 million (the General Assembly appropriated \$1.8 million in 2016 for experience-based step increases for eligible State Highway Patrol troopers). Employee over-time pay increased by \$13.1 million due to the shortage of correctional staff and employee response to Hurricane Matthew.
- Supplies and materials increased by \$20.8 million almost entirely as a result of an increase in drug and other pharmacy supply purchases due to an increase in mental health services and newly available medical treatments provided to inmates.

In addition to the increases in the expenditure types identified above, there was an offsetting decrease in the following:

- Expenditures to other state agencies decreased by \$14.2 million primarily due to a one time transfer of prior appropriations of \$9 million in 2015-16 to the General Fund to support annual appropriations. In addition, for 2015-16 the Department had a one-time transfer to the Department of Transportation of \$3.1 million returning excess allotments for the State Highway Patrol. Other transfers may fluctuate from year to year due to legislative actions.
- Capital outlay decreased \$10.1 million primarily in the General Fund and Capital Projects Fund. Capital outlay decreased in the General Fund by \$4.7 million as a result of a decrease in outlay for automobiles, trucks, and buses since funds were appropriated in the prior fiscal year to purchase new vehicles. Capital outlay decreased in the Capital Projects Fund by \$7.3 million. There was a \$5.5 million reduction in expenditures for general contractors for buildings and other structures and a \$1.6 million decrease in roofing contracts as many of the Department's major capital projects have been winding down.

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 \$353.6 million and \$2.4 billion, respectively. This represents a 253% increase in revenues and a 13% 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, due to the torrential rains of Hurricane Matthew which caused catastrophic flooding in eastern North Carolina, the Federal Emergency Management Agency issued a disaster

declaration for the state which increased federal grant authorizations by \$64 million. The increase in authorized expenditures is primarily related to an increase in projected grant expenditures and contracted personal services. The amount of the increase in expenditures attributable to Hurricane Matthew response and recovery is \$94.7 million. 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 2017 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 \$122.6 million less than budgeted revenue amounts. Likewise, actual total expenditures were \$184.4 million less than budgeted expenditures. Federal grant revenues were nearly \$145 million below budget since grants are budgeted at the full grant award when received while the grant period of performance may span multiple state fiscal years and ABC non-tax revenue of \$25 million was recognized while it is not required to be included as a budgeted line item. The variance from budgeted expenditures occurred mostly due to \$14.8 million less than projected expended on floodplain mapping program costs and reimbursement grants awarded to sub-recipients for the Governor's Crime Commission were \$98.4 million 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 \$92.6 million and \$89.9 million, respectively. This represents a 3.9% increase in revenues and a 3.9% increase 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 2017 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 \$5 million less than budgeted revenue amounts and actual total expenditures were \$7.6 million less than budgeted expenditures. Variances from budgeted revenues and expenditures primarily occurred due to a decrease in sales and offsetting reduction in purchases 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 \$43.1 million and \$43 million, respectively. This represents an 8.5% increase in revenues and a 10.6% 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 2017 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 \$5.4 million less than budgeted revenue amounts. Likewise, actual total expenditures were \$0.9 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

Condensed Statements of Net Position

The following Condensed Statements of Net Position show the Proprietary Funds' financial position at June 30, 2017 and 2016.

	2017	2016	Change
Assets			
Current Assets	\$ 13,932,769	\$ 10,856,722	\$ 3,076,047
Capital Assets, Net	2,394,339	2,502,780	(108,441)
Total Assets	16,327,108	13,359,502	2,967,606
Deferred Outflows of Resources			
Deferred Outflows for Pensions	1,280,779	298,558	982,221
Liabilities			
Current:			
Long-Term Liabilities - Current Portion	27,629	30,401	(2,772)
Other Current Liabilities	477,148	197,794	279,354
Noncurrent:			
Long-Term Liabilities	2,257,745	1,157,902	1,099,843
Total Liabilities	2,762,522	1,386,097	1,376,425
Deferred Inflows of Resources			
Deferred Inflows for Pensions	103,804	185,520	(81,716)
Net Position			
Investment in Capital Assets	\$ 2,394,339	\$ 2,502,780	\$ (108,441)
Unrestricted	12,347,222	9,583,663	2,763,559
Total Net Position	\$ 14,741,561	\$ 12,086,443	\$ 2,655,118

Total assets were \$16.3 million at June 30, 2017, an increase of \$3 million due mainly to a \$3.1 million increase in cash and cash equivalents as a result of the ABC Commission operating activities.

Noncurrent long-term liabilities increased \$1.1 million due to a \$1.1 million increase in the net pension liability.

Overall net position increased by \$2.7 million which comprised of a \$2.8 million increase in unrestricted net position as a result of net cash provided from ABC Commission's operating activities.

Statements of Revenues, Expenses, and Changes in Net Position

While the Condensed 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, 2017 and 2016:

	2017	2016	Change
Operating Revenues			
Fees, Licenses, and Fines	\$ 20,254,366	\$ 19,559,829	\$ 694,537
Other Operating Revenues	70,369	29,572	40,797
Total Operating Revenues	20,324,735	19,589,401	735,334
Operating Expenses			
Personal Services	3,122,727	3,127,558	(4,831)
Employee Benefits	1,212,115	899,827	312,288
Contracted Personal Services	12,078,653	11,249,946	828,707
Supplies and Materials	155,756	119,049	36,707
Depreciation	118,398	117,063	1,335
Travel	54,644	50,912	3,732
Communication	49,231	43,755	5,476
Utilities	36,694	45,710	(9,016)
Data Processing Services	148,938	85,290	63,648
Other Services	264,181	208,112	56,069
Other Fixed Charges	38,350	38,954	(604)
Grants, State Aid, and Subsidies	3,906	522	3,384
Insurance and Bonding	344	342	2
Other Operating Expenses	489,297	451,885	37,412
Total Operating Expenses	17,773,234	16,438,925	1,334,309
Operating Income	2,551,501	3,150,476	(598,975)
Nonoperating Revenues	103,617	165,804	(62,187)
Change in Net Position	2,655,118	3,316,280	(661,162)
Net Position - July 1	12,086,443	8,770,163	3,316,280
Net Position - June 30	\$ 14,741,561	\$ 12,086,443	\$ 2,655,118

Total operating revenues, comprised mostly of fees, licenses, and fines, increased \$0.7 million. As a result of increases in the ABC store sales there was an increase in Surcharges of \$0.3 million and an increase in Bailment Charges of \$0.3 million.

Total operating expenses increased \$1.3 million compared to prior year due to an increase in contracted personal services of \$0.8 million for the ABC Commission Warehouse with LB&B Associates and an increase in employee benefits of \$0.3 million related to an increase in pension expense.

History and Future Outlook

Juvenile Justice Reinvestment Act (House Bill 280 “Raise the Age”)

During the 2017 legislative session, the North Carolina General Assembly passed House Bill 280 (“Raise the Age”) with bipartisan support, as well as with support from the law enforcement community and other advocacy groups. Effective December 1, 2019, this legislation will increase the age of juvenile jurisdiction to 18, except in cases of certain violent felonies. Previously, crimes committed in North Carolina by youth age 16 and older were heard in the State’s adult court system.

While it is anticipated that “Raise the Age” will require a significant investment in resources to implement, it also promises not only to create a system that better serves our youth for a more hopeful future, but the legislation is expected to create significant economic benefits over the long run. Much of the economic benefit will be a result of an expected 7.5 percent reduction in recidivism when teens are adjudicated in the juvenile system instead of the adult system. The Juvenile Justice system provides programs and opportunities to better equip these youth to be successful citizens in the future, minimizing their chances of becoming part of the adult court and correction system.

Two separate studies, authorized by the North Carolina General Assembly, included a cost-benefit analysis concerning the fiscal impact on increasing the age of juvenile jurisdiction:

The Governor’s Crime Commission Juvenile Age Study (2009) included an analysis conducted by ESTIS Group, LLC. This study found that the benefits of including 16- and 17-year-olds in the Juvenile Justice System could outweigh the costs by as much as \$7.1 million if the system provides more evidence-based programs. On the other hand, the study also suggests that if these youth are included in the juvenile system without enhancing the programs, costs will likely outweigh monetary benefits by as much as \$37.5 million.

The Youth Accountability Planning Task Force (created by the NC General Assembly in 2009) submitted the Task Force report in 2011, which also included a cost-benefit analysis for including 16- and 17-year olds in the Juvenile Justice system. This study was performed by the Vera Institute of Justice and provided the following summary conclusions: “Raising the age of juvenile jurisdiction from 16 to 18 for alleged misdemeanants and low-level felons will generate \$52.3 million in net benefits, per annual cohort of youth aged 16 and 17, from the combined perspectives of taxpayers, victims, and youth. The ‘annual cohort of youth aged 16 and 17’ is the total number of 16- and 17-year-old youth who are arrested during a 12-month period.”

In response to passing the Juvenile Justice Reinvestment Act, the NC General Assembly appropriated \$519,600 (non-recurring) for the fiscal year 2017-2018 and \$478,000 (non-recurring) for the fiscal year 2018-2019 to provide funding for the planning and implementation of “Raise the Age”. In addition, capital funds in the amount of \$13.2 million (non-recurring) were appropriated for the fiscal year 2017-2018 to provide funding to construct a new youth development center in Rockingham County.

Opioid Epidemic

While opioid addiction has become a growing national crisis impacting all walks of life,

according to research conducted by Castlight Health, the City of Wilmington, North Carolina, has the highest rate of opioid abuse in the country. While it is not possible to estimate the cost of this crisis, whether to society as a whole or economically, there is no doubt that North Carolina is in the middle of this battle and will need to invest significant resources to address opioid addiction issues in the future.

During the 2017 legislative session, the City of Wilmington received a special appropriation of \$250,000 (non-recurring) to pilot a project to treat opioid overdose victims. The Department of Public Safety, working in conjunction with the City of Wilmington, has been tasked with developing and implementing a pilot project to establish a Quick Response Team (QRT), which will include firefighters, police officers, medics, behavior health specialists, and other law enforcement personnel as determined by the Department and the City of Wilmington. As the Department and the City of Wilmington work together to develop policy and procedures, the following practices/programs will be considered: (1) family counseling and recovery groups; (2) follow-up care provided by police or medics and licensed counselors to victims who have survived overdoses; (3) short-term and long-term support to overdose victims and family; (4) follow-up provided within three to five days after an initial overdose incident; and (5) creation of a fatality review panel to analyze and track the deaths of those served by the QRT.

North Carolina is one of eight states selected nationwide to participate in a learning lab tasked with finding better ways to address opioid addiction in prison populations. The participating states will develop and execute six-month strategic action plans to treat the epidemic of opioid addiction. Plans will include creating policy, aligning programs across relevant agencies and strategizing as to how state resources can be better used to respond to opioid misuse.

As programs are provided to help inmates overcome opioid addiction, whether incarcerated or under post-release supervision, these individuals will have a better chance of successfully re-entering society, with a reduced risk of ending up back in the prison system.

Prison Staffing Shortages

For the past several years, the Department has struggled with high vacancy rates for prison staffing. According to data compiled by the Department, from March 2013 to July 2015, more than half of the 1,000 bed close-custody facilities have averaged vacancy rates among correctional officers of over 10 percent.

Staffing shortages obviously pose safety issues and liability concerns, but the shortage and high turnover also create additional costs for the Department. Overtime becomes necessary when required staffing needs are not met due to the vacancies. Information compiled by the Department for the same time frame (March 2013 through July 2015), indicates that the annual bill for overtime pay for the prison system went from \$12 million a few years before the shortages to \$21 million in 2015. Subsequent to 2015, overtime pay for prison custody and security staff has continued to increase. Overtime pay for prison correctional staff for the fiscal year 2016 was \$25.1 million and increased to \$35.5 million for the fiscal year 2017.

In an attempt to retain correctional officers and encourage recruitment (especially at the close-custody prison facilities), the NC General Assembly approved custody-level pay increases for Correctional Officers, Custody Supervisors, and Prison Facility Administrations, effective January 1, 2016. During the 2015 legislative session, \$25.54 million (recurring) was

appropriated to implement the custody-level pay increases. During the 2016 legislative session, \$16.92 million (recurring) was appropriated to continue the implementation of this custody-level pay adjustment. And this year, during the 2017 legislation session, the General Assembly appropriated \$18.4 million (recurring) to complete the third and final phase of custody-level pay adjustments.

Currently, the Department has a vacancy rate of 15.14 percent for correctional officers and correctional supervisory positions. While the custody-level pay increases have begun to address the prison staffing shortages, additional initiatives will be required to recruit and maintain adequate staffing in the North Carolina prison system.

Offender Medical Expenses

As a result of outsourcing medical claims processing effective August 1, 2016, the Department experienced a significant decrease in the length of time required to process and pay offender medical claims. In addition, the Department successfully cleared the backlog of medical claims during the fiscal year 2017, resulting in additional one-time costs. Due to these actions, medical claim payments exceeded the budgeted amount by \$59.8 million. The Department was forced to utilize lapsed salary funds to cover these additional costs during the fiscal year 2016-2017.

Reserve for Salaries and Benefits

Compensation Increase Reserve - During the 2017 legislative session, the NC General Assembly appropriated \$30.5 million to provide for an across-the-board salary increase of \$1,000 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.

State Retirement Contributions - An additional \$8.2 million (recurring) for the fiscal year 2017-2018 and \$21.7 million (recurring) for the fiscal year 2018-2019 was appropriated during the 2017 legislative session for the Department's contribution for members of the Teachers' and State Employees' Retirement System (TSERS) to fund the actuarially determined contribution and increased retiree medical premiums, provide a 1.0% cost-of-living adjustment to retirees, and provide additional benefits to probation/parole officers.

State Health Plan - An additional \$5.2 million (recurring) for the fiscal year 2017-2018 and \$10.9 million (recurring) for the fiscal year 2018-2019 provides funding to continue health benefit coverage for enrolled active employees supported by the General Fund.

Administration

Samarcand Training Academy - During the 2017 legislative session, an additional \$1.9 million (recurring) and \$2.4 million (recurring) for the 2018 and 2019 fiscal years respectively were appropriated for the Samarcand Training Academy. An additional \$0.54 million (non-recurring) was also appropriated for the fiscal year 2017-2018. These appropriations provide operating funds for Phase II of the Samarcand Training Academy. Samarcand Phase II includes plans to renovate four existing buildings, construct one new food service building, and construct a simulation shoot house (facility used to train using non-lethal weapons). The Samarcand Training Academy allows the Department to provide

overnight training for correctional officers and juvenile justice officers, as well as other employees of the Department.

Law Enforcement

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. During the fiscal year 2016-2017, the Department paid \$1.2 million towards the purchase of the plane. In September 2017, the Department paid the balance due, at which time the SBI took possession of the plane for a total cost of \$8.6 million.

State Highway Patrol VIPER Tower Construction - \$7 million (recurring) in the fiscal year 2014-2015 was appropriated to complete construction of 29 State-funded towers for the VIPER system. During the 2017 legislative session, \$4.2 million of the \$7 million recurring appropriation was changed to non-recurring.

Adult Correction and Juvenile Justice

Eliminated Positions and Lapsed Salary Funds - During the 2017 legislative session, 69 vacant positions were eliminated throughout the Division of Adult Correction, resulting in a \$3.4 million reduction in appropriated funds. In addition, 183 positions were also lost when the budget for Litter Crews and Road Squads was eliminated. The Department of Transportation (DOT) had previously funded these programs with receipts in excess of \$9 million; however, DOT will no longer support the programs. Although the 183 positions were identified as litter crew or road squad officers, they also served other functions within the prison system as needed. These duties will now need to be distributed among other correctional staff.

With the loss of these positions, funds available to the Department through lapsed salaries have been diminished. Historically, the Department has used lapsed salaries to fund various critical operational needs of the Department when budgeted funds have not been sufficient. As lapsed salary availability decreases, the Department will have limited resources as program and operational needs arise for the Department.

Female Confinement in Response to Violation (CRV) Facility - During the 2017 legislative session, \$0.6 million (recurring) and \$0.3 million (non-recurring) funds for the fiscal year 2017-2018 and \$1.2 million (recurring) for the fiscal year 2018-2019 were appropriated to fund a 200 bed facility dedicated to housing female offenders who have violated the terms of probation and are subject to a mandatory 90-day sentence as directed by the Justice Reinvestment Act. The facility will be located adjacent to the Swannanoa Correctional Center for Women in Buncombe County.

Repair and Renovation funds of \$2.2 million were allocated to the Department during the 2017 legislative session to renovate the Swannanoa Correctional Center for Women to make accommodations for this CRV facility.

Capital Projects

The following provides information on the Department's significant capital projects in process and funding sources:

Western Youth Correctional Facility (Demolition) - \$1.75 million (non-recurring) of the Repair and Renovation funds were allocated to the Department during the 2017 legislative session to be provided to the North Carolina National Guard for the demolition of Western Youth Correctional Facility.

Greenville Office Building and Garage - \$2 million (non-recurring) for the fiscal year 2017-2018 and \$1.9 million (non-recurring) for the fiscal year 2018-2019 was appropriated to provide the General Fund portion of the State Highway Patrol (SHP)/Division of Motor Vehicles office building and SHP garage. These funds will be transferred to the NC Department of Transportation to manage the construction project. *Samarcand Training Facility* - \$5.25 million (non-recurring) was appropriated for fiscal year 2013-2014. \$5.17 million was allocated from the proceeds of bonds and notes (special indebtedness) for the fiscal year 2014-2015 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. As of June 30, 2017, \$9.9 million has been capitalized for the completion of Phase I of the Samarcand project and the construction in progress costs at June 30, 2017 for Phase II are \$0.9 million.

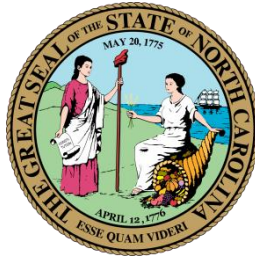
National Guard Armory and Facility Development Projects - \$8.25 million in State funds (\$5 million in fiscal year 2013-2014 and \$3.3 million in fiscal year 2014-2015) were appropriated to expand and renovate National Guard Armories and Facilities located throughout the State. These funds match \$21 million in federal funds, resulting in \$29.3 million worth of National Guard expansions and renovations.

During the 2015 Legislative Session, \$0.9 million of additional capital funds was appropriated for National Guard Armory Facility and Development Projects for the fiscal year 2015-2016 (non-recurring), and \$5.02 million (non-recurring) appropriated during the 2016 Legislative Session for the fiscal year 2016-2017. These funds will match \$6.7 million in federal funds.

For these National Guard projects, approximately \$23.15 million has been expended as of June 30, 2017 and recorded in construction in progress, expensed, or capitalized.

Connect-NC Bonds Project Funding - During the 2016 legislative session, 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.



FINANCIAL STATEMENTS

**North Carolina Department of Public Safety
Balance Sheet
Governmental Funds
June 30, 2017 (With Comparative Totals for June 30, 2016)**

Exhibit A-1

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2017	Total Governmental Funds 2016
ASSETS						
Cash and Cash Equivalents (Note 2)	\$ 112,592,161	\$ 16,306,893	\$ 57,335,362	\$ 8,372,926	\$ 194,607,342	\$ 197,435,587
Receivables:						
Accounts Receivable, Net (Note 4)	1,141,422	822,030			1,963,452	1,385,463
Intergovernmental Receivables, Net (Note 5)	24,155,069	397,509			24,552,578	11,112,950
Interest Receivable	14,101				14,101	12,428
Due from Other Funds and State Agencies	2,847,244	3,591,766			6,439,010	4,454,751
Inventories	38,519,337	16,257,870		1,860,568	56,637,775	63,704,214
Notes Receivable	703,285				703,285	814,193
Total Assets	<u>179,972,619</u>	<u>37,376,068</u>	<u>57,335,362</u>	<u>10,233,494</u>	<u>284,917,543</u>	<u>278,919,586</u>
DEFERRED OUTFLOWS OF RESOURCES						
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 179,972,619</u>	<u>\$ 37,376,068</u>	<u>\$ 57,335,362</u>	<u>\$ 10,233,494</u>	<u>\$ 284,917,543</u>	<u>\$ 278,919,586</u>
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable	\$ 30,023,459	\$ 2,318,974	\$ 2,371,213	\$ 1,104,412	\$ 35,818,058	\$ 25,930,764
Medical Claims Payable	28,322,612				28,322,612	24,439,643
Accrued Payroll	13,446	1,810			15,256	87,614
Intergovernmental Payables	7,095,728	1,686	33	486	7,097,933	4,757,948
Due to Other Funds and State Agencies	5,825,759	32,229		21,823	5,879,811	7,751,528
Funds Held for Others	265,366				265,366	618,618
Unearned Revenue	9,114,271	130,924	424,600		9,669,795	12,388,952
Total Liabilities	<u>80,660,641</u>	<u>2,485,623</u>	<u>2,795,846</u>	<u>1,126,721</u>	<u>87,068,831</u>	<u>75,975,067</u>
DEFERRED INFLOWS OF RESOURCES						
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES (Note 9)						
Nonspendable	39,092,638	16,257,870		1,860,568	57,211,076	64,387,172
Restricted	12,154,348				12,154,348	13,727,941
Committed	68,159,226	18,632,575	55,250,254	7,246,205	149,288,260	137,238,461
Unassigned	(20,094,234)		(710,738)		(20,804,972)	(12,409,055)
Total Fund Balances	<u>99,311,978</u>	<u>34,890,445</u>	<u>54,539,516</u>	<u>9,106,773</u>	<u>197,848,712</u>	<u>202,944,519</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 179,972,619</u>	<u>\$ 37,376,068</u>	<u>\$ 57,335,362</u>	<u>\$ 10,233,494</u>	<u>\$ 284,917,543</u>	<u>\$ 278,919,586</u>

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit A-2

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2017	Total Governmental Funds 2016
REVENUES						
Federal Funds	\$ 172,544,797	\$ 0	\$ 0	\$ 0	\$ 172,544,797	\$ 104,993,203
Local Funds	9,595				9,595	18,635
Investment Earnings	175,896			1,890	177,786	148,699
Sales and Services	28,021,368	34,055,705		37,427,626	99,504,699	97,866,478
Intragovernmental Sales and Services		53,710,183			53,710,183	56,914,912
Rental and Lease of Property	325,526	543,942		6,000	875,468	866,425
Fees, Licenses, and Fines	39,829,082				39,829,082	48,825,134
Student Tuition and Fees	96,370				96,370	37,705
Contributions, Gifts, and Grants	5,401,236			108,748	5,509,984	7,949,131
Revenues from Other State Agencies (Note 11)	50,385,659		4,326,848		54,712,507	25,107,462
Miscellaneous Income	8,779,139	90,373		216,463	9,085,975	21,417,074
Total Revenues	305,568,668	88,400,203	4,326,848	37,760,727	436,056,446	364,144,858
EXPENDITURES						
Personal Services	1,010,963,921	19,764,968		1,243,714	1,031,972,603	989,955,018
Employee Benefits	435,369,156	6,042,692		547,804	441,959,652	428,357,978
Contracted Personal Services	252,546,547	462,793	446,970	1,164,420	254,620,730	197,893,405
Supplies and Materials	170,672,435	4,463,531		3,407,877	178,543,843	157,740,465
Purchases for Resale	7,403	42,586,387		32,726,035	75,319,825	79,448,143
Travel	3,954,655	298,676		284	4,253,615	3,582,400
Communication	10,124,767	101,437		3,584	10,229,788	15,593,635
Utilities	51,410,267	2,819,040		196,561	54,425,868	53,118,876
Data Processing Services	19,225,124	567,740			19,792,864	13,441,194
Other Services	11,885,441	1,513,173		103,532	13,502,146	13,913,903
Claims and Benefits	11,918,902				11,918,902	11,214,485
Debt Service:						
Principal Retirement	1,217,365			56,580	1,273,945	996,215
Interest and Fees	363,442			13,000	376,442	404,365
Other Fixed Charges	11,828,415	435,937		215,254	12,479,606	11,605,340
Capital Outlay	48,515,420	4,106,985	17,225,838	1,198,773	71,047,016	81,155,944
Grants, State Aid, and Subsidies	172,937,483				172,937,483	94,129,956
Scholarships						19,800
Insurance and Bonding	2,676,536	76,065		2,571	2,755,172	4,341,309
Expenditures to Other State Agencies (Note 11)	26,623,021	500,000			27,123,021	41,311,160
Other Expenditures	28,863,492	1,029,898		1,268,578	31,161,968	30,242,042
Total Expenditures	2,271,103,792	84,769,322	17,672,808	42,148,567	2,415,694,489	2,228,465,633
Excess of Revenues Over (Under) Expenditures	(1,965,535,124)	3,630,881	(13,345,960)	(4,387,840)	(1,979,638,043)	(1,864,320,775)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	3,210,993	70,583			3,281,576	3,066,691
Insurance Recoveries	1,448,809				1,448,809	826,493
Transfers In (Note 10)	3,626,213	201,600	6,603,305		10,431,118	13,076,178
Transfers Out (Note 10)	(4,703,468)	(4,008,476)		(1,719,174)	(10,431,118)	(13,076,178)
Transfers to State Reserve Fund	(15,105,047)				(15,105,047)	(8,517,265)
Transfers from State Reserve Fund	7,954,210				7,954,210	
State Appropriations	1,965,071,588		11,891,100		1,976,962,688	1,872,876,202
Total Other Financing Sources (Uses)	1,961,503,298	(3,736,293)	18,494,405	(1,719,174)	1,974,542,236	1,868,252,121
Net Change in Fund Balances	(4,031,826)	(105,412)	5,148,445	(6,107,014)	(5,095,807)	3,931,346
Fund Balances - Beginning of Year	103,343,804	34,995,857	49,391,071	15,213,787	202,944,519	199,013,173
Fund Balances - End of Year	\$ 99,311,978	\$ 34,890,445	\$ 54,539,516	\$ 9,106,773	\$ 197,848,712	\$ 202,944,519

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit B-1

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2017	Total Proprietary Funds 2016
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 9,705,848	\$ 2,136,413	\$ 11,842,261	\$ 8,694,991
Receivables:				
Accounts Receivable	411,938		411,938	238,682
Intergovernmental Receivables	1,662,934		1,662,934	1,899,635
Due from Other Funds		557	557	
Interest Receivable		1,969	1,969	1,496
Inventories	3,674	9,436	13,110	21,918
Total Current Assets	11,784,394	2,148,375	13,932,769	10,856,722
Noncurrent Assets:				
Capital Assets - Nondepreciable (Note 6)	550,407		550,407	550,407
Capital Assets - Depreciable, Net (Note 6)	1,816,342	27,590	1,843,932	1,952,373
Total Noncurrent Assets	2,366,749	27,590	2,394,339	2,502,780
Total Assets	14,151,143	2,175,965	16,327,108	13,359,502
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows for Pensions	929,399	351,380	1,280,779	298,558
LIABILITIES				
Current Liabilities:				
Accounts Payable	250,391	133,078	383,469	83,799
Due to Other Funds	35,441	58,238	93,679	113,995
Long-Term Liabilities - Current Portion (Note 7)	20,593	7,036	27,629	30,401
Total Current Liabilities	306,425	198,352	504,777	228,195
Noncurrent Liabilities:				
Long-Term Liabilities (Note 7)	1,659,924	597,821	2,257,745	1,157,902
Total Liabilities	1,966,349	796,173	2,762,522	1,386,097
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows for Pensions	76,123	27,681	103,804	185,520
NET POSITION				
Investment in Capital Assets	2,366,749	27,590	2,394,339	2,502,780
Unrestricted	10,671,321	1,675,901	12,347,222	9,583,663
Total Net Position	\$ 13,038,070	\$ 1,703,491	\$ 14,741,561	\$ 12,086,443

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, 2017 (With Comparative Totals for June 30, 2016)

Exhibit B-2

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2017	Total Proprietary Funds 2016
OPERATING REVENUES				
Sales and Services	\$ 760	\$ 149	\$ 909	\$ 1,730
Fees, Licenses, and Fines	18,433,262	1,821,104	20,254,366	19,559,829
Student Tuition and Fees		20,575	20,575	17,250
Miscellaneous Income		48,885	48,885	10,592
Total Operating Revenues	18,434,022	1,890,713	20,324,735	19,589,401
OPERATING EXPENSES				
Personal Services	2,192,979	929,748	3,122,727	3,127,558
Employee Benefits	857,823	354,292	1,212,115	899,827
Contracted Personal Services	11,725,182	353,471	12,078,653	11,249,946
Supplies and Materials	55,842	99,914	155,756	119,049
Depreciation	115,801	2,597	118,398	117,063
Travel	24,757	29,887	54,644	50,912
Communication	19,748	29,483	49,231	43,755
Utilities	36,322	372	36,694	45,710
Data Processing Services	125,201	23,737	148,938	85,290
Other Services	125,342	138,839	264,181	208,112
Other Fixed Charges	32,241	6,109	38,350	38,954
Grants, State Aid, and Subsidies		3,906	3,906	522
Insurance and Bonding	134	210	344	342
Other Expenses	325,130	164,167	489,297	451,885
Total Operating Expenses	15,636,502	2,136,732	17,773,234	16,438,925
Operating Income (Loss)	2,797,520	(246,019)	2,551,501	3,150,476
NONOPERATING REVENUES (EXPENSES)				
Sale of Surplus Property		1,070	1,070	
Loss on Sale of Capital Assets		(9,830)	(9,830)	
Noncapital Grants	90,217		90,217	150,947
Investment Earnings		22,160	22,160	14,857
Net Nonoperating Revenues	90,217	13,400	103,617	165,804
Change in Net Position	2,887,737	(232,619)	2,655,118	3,316,280
NET POSITION				
Net Position - Beginning of Year	10,150,333	1,936,110	12,086,443	8,770,163
Net Position - End of Year	\$ 13,038,070	\$ 1,703,491	\$ 14,741,561	\$ 12,086,443

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 Cash Flows
Proprietary Funds

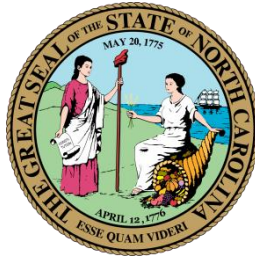
For the Fiscal Year Ended June 30, 2017 (With Comparative Totals for June 30, 2016)

Exhibit B-3

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2017	Total Proprietary Funds 2016
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 18,497,467	\$ 1,890,157	\$ 20,387,624	\$ 19,160,361
Payments to Employees and Fringe Benefits	(3,022,636)	(1,292,499)	(4,315,135)	(4,250,475)
Payments to Vendors and Suppliers	(11,953,560)	(588,976)	(12,542,536)	(11,825,250)
Payments for Other Expenses	(317,185)	(158,685)	(475,870)	(440,936)
Net Cash Provided (Used) by Operating Activities	3,204,086	(150,003)	3,054,083	2,643,700
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES				
Noncapital Grants	90,217		90,217	150,947
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACITIVITES				
Proceeds from Sale of Surplus Property		1,070	1,070	
Acquisition and Construction of Capital Assets		(19,787)	(19,787)	
Net Cash Used by Capital and Related Financing Activities		(18,717)	(18,717)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings		21,687	21,687	14,180
Net Increase (Decrease) in Cash and Cash Equivalents	3,294,303	(147,033)	3,147,270	2,808,827
Cash and Cash Equivalents - July 1, 2016	6,411,545	2,283,446	8,694,991	5,886,164
Cash and Cash Equivalents - June 30, 2017	<u>\$ 9,705,848</u>	<u>\$ 2,136,413</u>	<u>\$ 11,842,261</u>	<u>\$ 8,694,991</u>
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 2,797,520	\$ (246,019)	\$ 2,551,501	\$ 3,150,476
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	115,801	2,597	118,398	117,063
Pension Expense				74,420
TSERS Allocations - Miscellaneous Expense				10,949
Changes in Assets and Deferred Outflows:				
Accounts Receivables	(173,256)		(173,256)	(7,814)
Intergovernmental Receivables	236,701		236,701	(421,225)
Due from Other Funds		(557)	(557)	
Inventories	14,446	(5,638)	8,808	(15,666)
Deferred Outflows for Pensions	(712,359)	(269,862)	(982,221)	(286,344)
Changes in Liabilities and Deferred Inflows:				
Accounts Payable and Accrued Liabilities	186,113	113,557	299,670	(2,652)
Intergovernmental Payables				(10,428)
Due to Other Funds	(9,350)	(10,966)	(20,316)	46,087
Net Pension Liability	826,742	300,633	1,127,375	
Compensated Absences	(18,347)	(11,957)	(30,304)	(11,166)
Deferred Inflows for Pensions	(59,925)	(21,791)	(81,716)	
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,204,086</u>	<u>\$ (150,003)</u>	<u>\$ 3,054,083</u>	<u>\$ 2,643,700</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Loss on Disposal of Capital Assets	\$ 0	\$ (9,830)	\$ (9,830)	\$ 0

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.



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 appropriations 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. Additional information

regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

Accounts receivables 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 recorded net of estimated uncollectible accounts.

Intergovernmental receivables for the governmental funds 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 recorded net of estimated uncollectible amounts.

- G. 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 resale are valued at the lower of cost or market. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

- H. 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 funds' financial statements, but are reported in Note 6 of the Department's Notes to the Financial Statements. Capital Assets are reported on the face of the proprietary fund financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. 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. Donated capital assets are recorded at acquisition value at the date of donation except that capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at 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 greater than or equal to \$1,000,000, respectively.

The value of assets constructed includes all material direct and indirect construction costs that are incurred as a result of the construction. In

proprietary funds, interest costs incurred (if material) are capitalized during the period of construction.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

The Department does not capitalize the library collection of State Highway Patrol training manuals. This collection adheres to the Department's policy to adequately maintain for training, education, or research; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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 by inmates in the current fiscal year but not yet submitted for reimbursement by the provider 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 funds 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 financial statements but are reported in Note 7 of the Department's Notes to the 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 2016 *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 Note 7 of the Department's 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 future period(s) 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 future period(s) 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 have deferred inflows and outflows of resources related to pension plans.

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 North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Unassigned fund balance 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 represent nonexchange transactions and 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.

At June 30, 2017, the governmental funds' cash on hand was \$5,200. The carrying amounts and bank balances of the Department's governmental funds' deposits not with the State Treasurer were \$1,225,357 at June 30, 2017. As of June 30, 2017, \$682,880 of the Department's bank balances was 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, 2017, the Department's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

At June 30, 2017, the governmental funds' Balance Sheet reported cash and cash equivalents of \$193,376,785 while the proprietary funds' Statement of Net Position reported cash and cash equivalents of \$11,842,261, 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 or subject to any formal oversight other than that of the legislative body and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value.

Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx> in the Audited Financial Statements section.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Department's investments are recorded at fair value as of June 30, 2017. 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 \$205,219,046 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, 2017 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Due from Employees	\$ 2,021,503	\$ 1,030,133	\$ 991,370
SBI Security Services	107,566	5,035	102,531
State Highway Patrol	28,805		28,805
Other	21,850	3,134	18,716
Total Accounts Receivable - General Fund	<u>2,179,724</u>	<u>1,038,302</u>	<u>1,141,422</u>
Correction Enterprises Fund:			
Sales	415,425	18,274	397,151
Farm Leases	214,707		214,707
Other	210,172		210,172
Total Accounts Receivable - Correction Enterprises Fund	<u>840,304</u>	<u>18,274</u>	<u>822,030</u>
Total Accounts Receivable	<u><u>\$ 3,020,028</u></u>	<u><u>\$ 1,056,576</u></u>	<u><u>\$ 1,963,452</u></u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables for the governmental funds at June 30, 2017 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Federal Government	\$ 21,064,512	\$ 0	\$ 21,064,512
Local Government:			
Safekeepers	1,881,365	514,779	1,366,586
Juvenile Detention	903,310		903,310
SBI-Concealed Handgun Permits	587,945		587,945
SBI-Criminal History Record Information	45,836	1,177	44,659
Other Local Governments	188,534	477	188,057
Total Intergovernmental Receivables - General Fund	24,671,502	516,433	24,155,069
Correction Enterprises Fund:			
Sales and Services to Local Governments	397,919	410	397,509
Total Intergovernmental Receivables	<u>\$ 25,069,421</u>	<u>\$ 516,843</u>	<u>\$ 24,552,578</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (As Restated)	Increases	Decreases	Balance June 30, 2017
Governmental Funds				
Capital Assets, Nondepreciable:				
Land	\$ 23,591,297	\$ 186,025	\$ 4,800	\$ 23,772,522
Construction in Progress	34,574,851	19,326,418	32,247,729	21,653,540
Literature	29,204			29,204
Total Capital Assets, Nondepreciable	<u>58,195,352</u>	<u>19,512,443</u>	<u>32,252,529</u>	<u>45,455,266</u>
Capital Assets, Depreciable:				
Buildings	1,865,123,901	28,526,957	3,334,413	1,890,316,445
Equipment	296,390,067	26,622,772	21,774,345	301,238,494
General Infrastructure	156,098,876	3,150,709	1,886,355	157,363,230
Computer Software	1,337,766			1,337,766
Total Capital Assets, Depreciable	<u>2,318,950,610</u>	<u>58,300,438</u>	<u>26,995,113</u>	<u>2,350,255,935</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	565,162,170	35,282,708	1,883,107	598,561,771
Equipment	135,276,288	14,218,307	11,091,023	138,403,572
General Infrastructure	48,267,260	1,742,190	994,965	49,014,485
Computer Software	478,463	63,795		542,258
Total Accumulated Depreciation/Amortization	<u>749,184,181</u>	<u>51,307,000</u>	<u>13,969,095</u>	<u>786,522,086</u>
Total Capital Assets, Depreciable, Net	<u>1,569,766,429</u>	<u>6,993,438</u>	<u>13,026,018</u>	<u>1,563,733,849</u>
Capital Assets, Net	<u>\$ 1,627,961,781</u>	<u>\$ 26,505,881</u>	<u>\$ 45,278,547</u>	<u>\$ 1,609,189,115</u>

The July 1, 2016 balances of nondepreciable and depreciable capital assets were restated to reflect reclassifications among categories made after the end of the prior fiscal year.

NOTES TO THE FINANCIAL STATEMENTS

A summary of changes in the proprietary funds' capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
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	19,787	11,988	240,907
General Infrastructure	30,000			30,000
Total Capital Assets, Depreciable	5,505,228	19,787	11,988	5,513,027
Less Accumulated Depreciation for:				
Buildings	3,407,379	104,842		3,512,221
Machinery and Equipment	115,476	13,556	2,158	126,874
General Infrastructure	30,000			30,000
Total Accumulated Depreciation	3,552,855	118,398	2,158	3,669,095
Total Capital Assets, Depreciable, Net	1,952,373	(98,611)	9,830	1,843,932
Capital Assets, Net	\$ 2,502,780	\$ (98,611)	\$ 9,830	\$ 2,394,339

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, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Governmental Funds					
Compensated Absences	\$ 143,742,354	\$ 80,911,984	\$ 85,061,046	\$ 139,593,292	\$ 10,120,541
Notes payable	14,764,391		1,217,365	13,547,026	822,333
Capital Leases Payable ¹	221,115		56,580	164,535	60,459
Net Pension Liability ²	298,916,582	393,324,114		692,240,696	
Total Long-Term Liabilities	\$ 457,644,442	\$ 474,236,098	\$ 86,334,991	\$ 845,545,549	\$ 11,003,333
Proprietary Funds					
Compensated Absences	\$ 411,386	\$ 239,048	\$ 269,352	\$ 381,082	\$ 27,629
Net Pension Liability ²	776,917	1,127,375		1,904,292	
Total Long-Term Liabilities	\$ 1,188,303	\$ 1,366,423	\$ 269,352	\$ 2,285,374	\$ 27,629

¹Additional information regarding the capital leases payable is included in Note 8.

²Additional information regarding the net pension liability is included in Note 12.

B. Notes 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, 2017	Principal Outstanding June 30, 2017
Energy Efficiency	Banc of America Public Capital Corp	2.53%	12/15/2027	\$ 15,801,217	\$ 2,254,191	\$ 13,547,026

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2017 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2018	\$ 822,333	\$ 337,860
2019	1,101,073	310,927
2020	1,157,405	282,595
2021	1,215,174	252,826
2022	1,275,425	221,575
2023-2027	7,360,909	583,091
2028	614,707	5,827
Total Requirements	\$ 13,547,026	\$ 1,994,701

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, 2017:

Fiscal Year	Governmental Funds
2018	\$ 69,580
2019	108,782
Total Minimum Lease Payments	178,362
Amount Representing Interest (7.75% Rate of Interest)	13,827
Present Value of Future Lease Payments	\$ 164,535

Capital assets acquired under capital lease amounted to \$278,320 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$17,294 at June 30, 2017.

- B. Operating Lease Obligations** - The Department entered into operating leases for copiers, equipment, and facilities. Future minimum lease payments under noncancellable operating leases consist of the following at June 30, 2017:

<u>Fiscal Year</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
2018	\$ 7,162,173	\$ 84,832
2019	6,170,388	86,623
2020	5,379,560	87,866
2021	655,866	90,063
2022	589,570	
2023-2027	1,315,043	
Total Minimum Lease Payments	<u>\$ 21,272,600</u>	<u>\$ 349,384</u>

Rental expense for all operating leases during the year ended June 30, 2017, was \$23,382,453.

NOTE 9 - FUND BALANCE

The details of the fund balance classifications for the governmental funds at June 30, 2017 were as follows:

	<u>General Fund</u>	<u>Correction Enterprises Fund</u>	<u>Capital Projects Fund</u>	<u>Welfare Fund</u>	<u>Total</u>
Fund Balance:					
Nonspendable:					
Inventories	\$ 38,519,337	\$ 16,257,870	\$ 0	\$ 1,860,568	\$ 56,637,775
Other	573,301				573,301
Restricted for:					
Federal Grants and Federal Drug Forfeiture Funds	11,861,872				11,861,872
National Guard Funds	292,476				292,476
Committed to:					
State Misdemeanant Confinement	48,692,071				48,692,071
Emergency Management	4,350,519				4,350,519
Law Enforcement	1,548,079				1,548,079
Geodetic Survey Contracts	51,550				51,550
Disaster Recovery Funds	13,066,539				13,066,539
Interstate Compact Fee	450,468				450,468
Correction Enterprises		18,632,575			18,632,575
Welfare of Inmates				7,246,205	7,246,205
Capital Projects			55,250,254		55,250,254
Unassigned	(20,094,234)		(710,738)		(20,804,972)
Total Fund Balance	<u>\$ 99,311,978</u>	<u>\$ 34,890,445</u>	<u>\$ 54,539,516</u>	<u>\$ 9,106,773</u>	<u>\$ 197,848,712</u>

NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2017 consisted of the following:

	Transfers In		
	General Fund	Correction Enterprises Fund	Capital Projects Fund
Transfers Out			
General Fund	\$ 0	\$ 201,600	\$ 4,501,868
Correction Enterprises Fund	2,326,158		1,682,318
Welfare Fund	1,300,055		419,119
Total	\$ 3,626,213	\$ 201,600	\$ 6,603,305

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

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

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2017 were as follows:

Revenues from Other State Agencies:

	Purpose	Amount
General Fund:		
Office of State Budget and Management	Disaster Recovery Funds	\$ 35,408,742
Department of Transportation	Motor Carrier Enforcement Grant	8,691,322
	Specialty License Plate Revenue (National Guard)	78,780
Department of State Treasurer	Floodplain Mapping Register of Deeds	3,990,584
North Carolina Lottery	Funds for Alcohol Law Enforcement Branch Gambling Enforcement	2,100,000
Office of State Controller	Retro-Active Salary Adjustment Funds	13,808
Department of Natural and Cultural Resources	Inmate Work Crews for Battleship North Carolina	102,423
Total General Fund Revenues from Other State Agencies		<u>50,385,659</u>
Capital Projects Fund:		
Office of State Controller	General Repairs and Maintenance	389,461
	Transfer from Statewide Project Reserve	142,459
Office of State Budget & Management	Capital Facility Costs from Issuance of Debt	3,794,928
Total Capital Project Fund Revenues from Other State Agencies		<u>4,326,848</u>
Total Governmental Fund Revenues from Other State Agencies		<u>\$ 54,712,507</u>

Expenditures to Other State Agencies:

	Purpose	Amount
General Fund:		
North Carolina General Fund	Revenues Collected under G.S. 18B-902	\$ 24,027,072
	Transfer to Support Annual Appropriations	1,000,000
Department of Health and Human Services	Fixed Nuclear Assessment per G.S. 166A-29	503,867
Department of Environmental Quality	Transfer for Coal Ash	1,042,082
Community Colleges	Program Start up Funds for Small Colleges	50,000
Total General Fund Expenditures to Other State Agencies		<u>26,623,021</u>
Correction Enterprise Fund:		
North Carolina General Fund	Transfer to Support Annual Appropriations	500,000
Total Governmental Fund Expenditures to Other State Agencies		<u>\$ 27,123,021</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 funds' financial statements. However, the net pension liability for proprietary funds is reported on the face of the proprietary funds' 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 that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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 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 (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have

reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life 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 North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$55,084,801, and the Department's contributions were \$91,624,385 for the year ended June 30, 2017.

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 2016 *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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the Department's proportionate share of the collective net pension liability was \$634,763,988. Of this amount, the governmental funds' share was \$632,859,696, and the proprietary funds reported its share of \$1,904,292. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the Department's proportion was 6.91%, which was a decrease of 0.12 from its proportion measured as of June 30, 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the governmental funds' proportionate share of the collective pension expense was \$120,301,782 and the proprietary funds recognized \$361,991 in pension expense. At June 30, 2017, 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 Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0	\$ 29,999,829
Changes in Assumptions	93,612,262	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	226,377,187	
Change in Proportion and Differences between Department's Contributions and Proportionate Share of Contributions	2,943,403	4,601,332
Contributions Subsequent to the Measurement Date	91,532,577	
Total	<u>\$ 414,465,429</u>	<u>\$ 34,601,161</u>

The governmental funds' deferred outflows of resources related to pensions of \$91,220,597 will represent a reduction of the net pension liability in the fiscal year ended June 30, 2018, and \$311,980 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, 2018. 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
2018	\$ 47,300,486
2019	48,672,954
2020	123,413,877
2021	68,944,374
Total	<u>\$ 288,331,691</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, 2015, consists of 4,484 inactive plan members or beneficiaries currently receiving benefits, 5,512 inactive plan members entitled to but not yet receiving benefits and 5,756 active plan members.

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

Benefits Provided: NGPF provides a pension of \$105 per month for 20 years of creditable military service with an additional \$10.50 per month for each additional year of such service; provided, however that the total pension shall not exceed \$210 per month.

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 \$8,517,073 for the fiscal year ended June 30, 2017.

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 2016 *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, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 0.77% 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, 2017, the Department's net pension liability was \$59,381,000. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The Department's proportion of the net pension liability was based on the present value of future salaries for the Departments relative to the present value of future salaries for all participating employers, actuarially-determined.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the Department recognized pension expense of \$11,100,000. At June 30, 2017, 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 Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 17,000	\$ 44,000
Changes in Assumptions	8,356,000	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,727,000	
Contributions Subsequent to the Measurement Date	8,517,073	
Total	<u>\$ 22,617,073</u>	<u>\$ 44,000</u>

The Department's deferred outflows of resources related to pensions of \$8,517,073 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:**

<u>Fiscal Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 7,664,000
2019	2,469,000
2020	2,503,000
2021	1,420,000
Total	<u>\$ 14,056,000</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:

	<u>Teachers' and State Employees'</u>	<u>NC National Guard</u>
Valuation Date	12/31/2015	12/31/2015
Inflation	3%	3%
Salary Increases*	3.50%-8.10%	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.

N/A - Not Applicable

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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

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

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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plans at June 30, 2016 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>			
Teacher's and State Employees' Net Pension Liability	\$ 1,193,868	\$ 634,764	\$ 164,634
<u>Single-Employer</u>			
NC National Guard's Net Pension Liability	\$ 80,176	\$ 59,381	\$ 42,267

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, 2017, were \$5,751,071.

C. Special Separation Allowance

Plan Administration: 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 provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or 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.

Benefits Provided: 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. These benefits are funded on a pay-as-you-go basis with the Department being responsible for the benefits to its former employees. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

There is no statewide administration of the SSA. The SSA is not administered through a trust and therefore no assets are accumulated. Funds for the SSA are appropriated annually in the Department's budget or paid from the Department's operations. For the fiscal year ended June 30, 2017, the Department paid \$11,897,205 for 765 retired law enforcement officers.

Additional detailed information about the SSA is 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 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 (TSERS). 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 TSERS 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 period July 1, 2016 through December 31, 2016, the Department contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the Department contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016 and 2015, were 5.60% and 5.49%, respectively. The Department made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$53,340,449, \$58,015,680, and \$55,499,632, 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 TSERS. 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. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS. 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, 2017, the Department made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The Department made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$3,488,704, \$4,247,577, and \$4,144,781, 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 is funded by employer and employee contributions. 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. Federal Grants

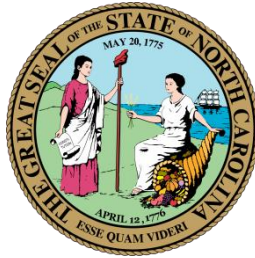
The Department receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources 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, 2017 the Department is unable to estimate what liabilities may result from such audits.

B. Pending Litigation and Claims

The Department is a 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. Department management 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.

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, 2017, the Department had commitments of \$11,541,058 related to construction and improvements of state government facilities, primarily reported in the Capital Projects Fund.



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, 2017

Schedule C-1

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal Funds	\$ 63,692,855	\$ 300,053,003	\$ 155,688,332	\$ (144,364,671)
Contributions, Gifts, and Grants	4,146,695	16,353,093	11,912,358	(4,440,735)
Sales and Services	10,797,860	15,651,919	15,089,557	(562,362)
Fees, Licenses, and Fines	14,250,235	12,384,402	40,395,435	28,011,033
Rental and Lease of Property	80,458	86,048	86,049	1
Investment Earnings	53,037	103,791	166,173	62,382
Student Tuition and Fees	91,345	96,370	96,370	
Miscellaneous Income	7,165,696	8,919,274	7,570,473	(1,348,801)
Total Revenues	100,278,181	353,647,900	231,004,747	(122,643,153)
EXPENDITURES				
Personal Services	1,107,133,371	1,020,529,322	1,015,597,597	4,931,725
Employee Benefits	459,724,967	441,512,513	437,755,233	3,757,280
Contracted Personal Services	177,528,521	283,219,815	246,202,851	37,016,964
Supplies and Materials	131,642,809	172,693,230	170,018,190	2,675,040
Purchases for Resale	367,726	9,462	7,403	2,059
Travel	3,649,959	4,953,313	4,023,871	929,442
Communication	11,206,531	12,024,461	11,563,356	461,105
Utilities	53,991,374	53,207,173	52,470,880	736,293
Data Processing Services	8,072,167	19,374,116	19,251,154	122,962
Other Services	11,883,115	13,303,006	12,098,350	1,204,656
Claims and Benefits	8,937,518	11,918,911	11,918,902	9
Debt Service:				
Principal Retirement	93,560	993,558	993,558	
Interest and Fees	1,211,440	363,443	363,443	
Other Fixed Charges	6,247,659	11,773,525	11,274,657	498,868
Capital Outlay	44,533,154	52,636,964	48,367,644	4,269,320
Scholarships		50	(351)	401
Insurance and Bonding	2,802,842	2,682,801	2,658,597	24,204
Other Expenditures	31,358,447	30,587,769	29,164,939	1,422,830
Grants, State Aid, and Subsidies	95,758,622	297,798,656	171,444,580	126,354,076
Total Expenditures	2,156,143,782	2,429,582,088	2,245,174,854	184,407,234
Excess of Revenues Over (Under) Expenditures	(2,055,865,601)	(2,075,934,188)	(2,014,170,107)	61,764,081
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	3,000,957	3,015,526	3,365,803	350,277
Insurance Recoveries	50,000	920,883	920,884	1
Transfers from Other Departments or Funds	151,670,824	176,062,966	163,764,898	(12,298,068)
Transfers to Other Departments of Funds	(78,753,356)	(10,830,437)	(121,036,673)	(110,206,236)
Appropriations	1,970,988,495	1,970,973,561	1,965,071,588	(5,901,973)
Total Other Financing Sources (Uses)	2,046,956,920	2,140,142,499	2,012,086,500	(128,055,999)
Net Change in Fund Balance	(8,908,681)	64,208,311	(2,083,607)	(66,291,918)
Fund Balance - July 1, 2016	103,312,891	80,716,716	114,675,768	
Fund Balance - June 30, 2017	\$ 94,404,210	\$ 144,925,027	\$ 112,592,161	\$ (66,291,918)

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balances on a modified accrual basis (GAAP):

	General Fund
Fund Balance (budgetary basis) June 30, 2017	\$ 112,592,161
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	28,861,121
Accrued Expenditures:	
Payables	(80,660,641)
Other Adjustments:	
Inventories	38,519,337
Fund Balance (GAAP Basis) June 30, 2017	\$ 99,311,978

The accompanying notes to 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, 2017

Schedule C-2

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Sales and Services	\$ 88,322,540	\$ 92,154,859	\$ 86,773,728	\$ (5,381,131)
Rental and Lease of Property	455,145	272,997	632,704	359,707
Miscellaneous Income	164,563	123,400	96,477	(26,923)
Total Revenues	88,942,248	92,551,256	87,502,909	(5,048,347)
EXPENDITURES				
Personal Services	20,270,301	20,662,948	19,774,258	888,690
Employee Benefits	5,904,695	6,792,247	6,044,313	747,934
Contracted Personal Services	159,386	444,730	431,669	13,061
Supplies and Materials	4,794,388	4,778,066	4,423,515	354,551
Purchases for Resale	45,687,271	45,164,255	40,407,860	4,756,395
Travel	420,777	396,924	304,494	92,430
Communication	140,583	127,072	127,071	1
Utilities	3,143,903	3,052,246	2,756,888	295,358
Data Processing Services	1,500	552,960	552,958	2
Other Services	1,505,020	1,541,795	1,483,624	58,171
Other Fixed Charges	500,265	527,692	431,883	95,809
Capital Outlay	2,290,156	4,114,143	4,040,209	73,934
Insurance and Bonding	511,729	531,289	460,124	71,165
Other Expenditures	1,198,854	1,192,018	1,008,473	183,545
Total Expenditures	86,528,828	89,878,385	82,247,339	7,631,046
Excess of Revenues Over Expenditures	2,413,420	2,672,871	5,255,570	2,582,699
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	33,913	82,687	92,417	9,730
Transfers In	201,600	201,600	201,600	
Transfers Out	(4,156,933)	(4,508,476)	(4,508,476)	
Total Other Financing Sources (Uses)	(3,921,420)	(4,224,189)	(4,214,459)	9,730
Net Change in Fund Balance	(1,508,000)	(1,551,318)	1,041,111	2,592,429
Fund Balance - July 1, 2016	11,561,728	10,290,131	15,265,782	
Fund Balance - June 30, 2017	\$ 10,053,728	\$ 8,738,813	\$ 16,306,893	\$ 2,592,429

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balances on a modified accrual basis (GAAP):

	Correction Enterprises Fund
Fund Balance (budgetary basis) June 30, 2017	\$ 16,306,893
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	4,811,305
Accrued Expenditures:	
Payables	(2,485,623)
Other Adjustments:	
Inventories	16,257,870
Fund Balance (GAAP Basis) June 30, 2017	\$ 34,890,445

The accompanying notes to 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) - Welfare Fund
For the Fiscal Year Ended June 30, 2017

Schedule C-3

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Investment Earnings	\$ 339	\$ 1,888	\$ 1,890	\$ 2
Sales and Services	32,145,102	37,176,797	37,382,903	206,106
Rental and Lease of Property	6,000	6,000	6,000	
Contributions, Gifts, and Grants	20	108,749	108,748	(1)
Miscellaneous Income	7,591,720	5,814,586	216,688	(5,597,898)
Total Revenues	39,743,181	43,108,020	37,716,229	(5,391,791)
EXPENDITURES				
Personal Services	2,004,627	1,526,973	1,243,714	283,259
Employee Benefits	591,078	610,911	550,867	60,044
Contracted Personal Services	622,589	1,199,628	1,123,759	75,869
Supplies and Materials	3,758,939	3,540,021	3,421,910	118,111
Purchases for Resale	28,425,192	32,798,698	32,798,696	2
Travel	18,706	724	724	
Communication	52,700	6,055	6,053	2
Utilities	125,844	196,227	196,225	2
Other Services	145,098	126,078	101,207	24,871
Other Fixed Charges	243,764	221,120	209,439	11,681
Capital Outlay	1,667,801	1,428,740	1,178,561	250,179
Insurance and Bonding		2,571	2,571	
Other Expenditures	1,245,385	1,381,985	1,329,120	52,865
Total Expenditures	38,901,723	43,039,731	42,162,846	876,885
Excess of Revenues Over (Under) Expenditures	841,458	68,289	(4,446,617)	(4,514,906)
OTHER FINANCING SOURCES (USES)				
Transfers In	5,473,410	6,378,669	6,192,392	(186,277)
Transfers Out	(10,107,101)	(10,979,316)	(7,911,566)	3,067,750
Total Other Financing Uses	(4,633,691)	(4,600,647)	(1,719,174)	2,881,473
Net Change in Fund Balance	(3,792,233)	(4,532,358)	(6,165,791)	(1,633,433)
Fund Balance - July 1, 2016	13,875,360	13,432,908	14,538,717	
Fund Balance - June 30, 2017	\$ 10,083,127	\$ 8,900,550	\$ 8,372,926	\$ (1,633,433)

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balances on a modified accrual basis (GAAP):

	Welfare Fund
Fund Balance (budgetary basis) June 30, 2017	\$ 8,372,926
Reconciling Adjustments:	
Basis Differences:	
Accrued Expenditures:	
Payables	(1,126,721)
Other Adjustments:	
Inventories	1,860,568
Fund Balance (GAAP Basis) June 30, 2017	\$ 9,106,773

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

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 originally certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the final authorized budget amounts.

B. RECONCILIATION OF BUDGET/GAAP REPORTING DIFFERENCES

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

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

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

Schedule C-4

Cost-Sharing, Multiple Employer

Teachers' and State Employees' Retirement System

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	6.90634%	7.02737%	6.92697%	7.04980%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 634,763,988	\$ 258,972,499	\$ 81,213,368	\$ 427,994,697
Covered Payroll	\$ 1,035,994,289	\$ 1,010,922,250	\$ 969,142,546	\$ 964,927,949
Net Pension Liability as a Percentage of Covered Payroll	61.27%	25.62%	8.38%	44.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	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 \$1,904,292.

Single-Employer

North Carolina National Guard Pension Fund*

	2016	2015	2014	2013
Total Net Pension Liability	\$ 59,381,000	\$ 40,721,000	\$ 30,176,000	\$ 36,267,000
Covered Payroll	N/A	N/A	N/A	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.91%	73.08%	78.48%	72.51%

*The Department of Public Safety is a Nonemployer Contributing Entity

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

Schedule C-5

Cost-Sharing, Multiple Employer

Teachers' and State Employees' Retirement System	2017	2016	2015	2014
Contractually Required Contribution	\$ 91,624,385	\$ 94,793,477	\$ 92,499,386	\$ 84,218,487
Contributions in Relation to the Contractually Determined Contribution	91,624,385	94,793,477	92,499,386	84,218,487
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 918,080,014	\$ 1,035,994,289	\$ 1,010,922,250	\$ 969,142,546
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%

Single-Employer

North Carolina National Guard Pension Fund*	2017	2016	2015	2014
Contractually Required Contribution	\$ 8,517,073	\$ 7,066,299	\$ 6,039,274	\$ 7,007,000
Contributions in Relation to the Contractually Determined Contribution	8,517,073	7,066,299	6,039,274	7,007,000
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

*The Department of Public Safety 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, 2017

Changes of Benefit Terms:

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

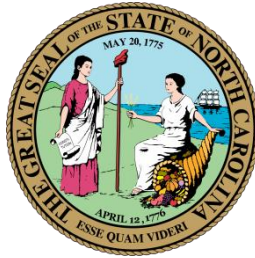
(1) *Changes of assumptions.* In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

(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. In 2016, basic benefits were increased from \$99 to \$105 and total benefits were increased from \$198 to \$210.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*.

N/A - Not applicable

PAGE LEFT BLANK INTENTIONALLY



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, 2017 (With Comparative Totals for June 30, 2016)

	Administration (1)	Adult Correction and Juvenile Justice (2)	Law Enforcement (3)
REVENUES			
Federal Funds	\$ 44,231,974	\$ 2,378,029	\$ 893,000
Local Funds			
Investment Earnings	92,526	15,397	69,137
Sales and Services	122,768	81,641,119	13,286,566
Intragovernmental Sales and Services		53,710,183	
Rental and Lease of Property		549,942	86,049
Fees, Licenses, and Fines	24,794,013	4,495,381	6,885,346
Student Tuition and Fees			96,370
Contributions, Gifts, and Grants	935	2,280,018	2,957,183
Revenues from Other State Agencies	2,102,054	2,152,290	10,791,322
Miscellaneous Income	7,785	8,270,571	434,441
Total Revenues	71,352,055	155,492,930	35,499,414
EXPENDITURES			
Personal Services	35,037,195	819,775,128	154,837,809
Employee Benefits	13,176,500	353,925,930	67,328,581
Contracted Personal Services	7,761,729	199,310,355	13,867,894
Supplies and Materials	759,013	155,345,148	17,425,244
Purchases for Resale		75,312,422	7,403
Travel	146,501	1,547,083	1,079,838
Communication	324,601	5,060,677	2,969,516
Utilities	357,175	48,427,835	1,021,341
Data Processing Services	2,120,345	14,568,767	2,792,117
Other Services	541,004	9,224,283	1,411,880
Claims and Benefits		21,697	11,897,205
Debt Service:			
Principal Retirement		1,273,945	
Interest and Fees		376,442	
Other Fixed Charges	1,870,246	5,588,194	4,198,984
Capital Outlay	6,433,832	26,275,784	29,888,137
Grants, State Aid, and Subsidies	47,026,693	23,035,615	415,895
Scholarships			
Insurance and Bonding	144,184	965,197	1,526,100
Expenditures to Other State Agencies	24,027,072	1,550,000	
Other Expenditures	2,107,256	19,232,452	6,809,444
Total Expenditures	141,833,346	1,760,816,954	317,477,388
Excess of Revenues Over (Under) Expenditures	(70,481,291)	(1,605,324,024)	(281,977,974)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	256	336,948	2,914,423
Insurance Recoveries		782,485	585,759
Transfers In	858,110	5,071,140	
Transfers Out		(5,929,250)	
Transfers to State Reserve Fund	(4,338,350)	(2,805,506)	(7,961,191)
Transfers from State Reserve Fund	4,189,122	2,765,462	661,807
Appropriations	69,805,701	1,589,707,658	279,459,792
Total Other Financing Sources (Uses)	70,514,839	1,589,928,937	275,660,590
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 33,548	\$ (15,395,087)	\$ (6,317,384)

- (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 2017	Total Divisions 2016
\$ 32,113,045	\$ 92,928,749	\$ 172,544,797	\$ 104,993,203
9,595		9,595	18,635
726		177,786	148,699
156,921	4,297,325	99,504,699	97,866,478
		53,710,183	56,914,912
239,477		875,468	866,425
	3,654,342	39,829,082	48,825,134
		96,370	37,705
171,162	100,686	5,509,984	7,949,131
267,515	39,399,326	54,712,507	25,107,462
364,510	8,668	9,085,975	21,417,074
<u>33,322,951</u>	<u>140,389,096</u>	<u>436,056,446</u>	<u>364,144,858</u>
9,631,141	12,691,330	1,031,972,603	989,955,018
3,865,073	3,663,568	441,959,652	428,357,978
7,158,788	26,521,964	254,620,730	197,893,405
2,224,754	2,789,684	178,543,843	157,740,465
		75,319,825	79,448,143
188,214	1,291,979	4,253,615	3,582,400
1,657,499	217,495	10,229,788	15,593,635
4,589,826	29,691	54,425,868	53,118,876
52,818	258,817	19,792,864	13,441,194
2,053,523	271,456	13,502,146	13,913,903
		11,918,902	11,214,485
		1,273,945	996,215
		376,442	404,365
345,314	476,868	12,479,606	11,605,340
6,897,244	1,552,019	71,047,016	81,155,944
78,780	102,380,500	172,937,483	94,129,956
			19,800
45,407	74,284	2,755,172	4,341,309
	1,545,949	27,123,021	41,311,160
494,596	2,518,220	31,161,968	30,242,042
<u>39,282,977</u>	<u>156,283,824</u>	<u>2,415,694,489</u>	<u>2,228,465,633</u>
<u>(5,960,026)</u>	<u>(15,894,728)</u>	<u>(1,979,638,043)</u>	<u>(1,864,320,775)</u>
3,664	26,285	3,281,576	3,066,691
	80,565	1,448,809	826,493
4,501,868		10,431,118	13,076,178
(4,501,868)		(10,431,118)	(13,076,178)
		(15,105,047)	(8,517,265)
230,203	107,616	7,954,210	
15,965,193	22,024,344	1,976,962,688	1,872,876,202
<u>16,199,060</u>	<u>22,238,810</u>	<u>1,974,542,236</u>	<u>1,868,252,121</u>
<u>\$ 10,239,034</u>	<u>\$ 6,344,082</u>	<u>\$ (5,095,807)</u>	<u>\$ 3,931,346</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, 2017 (With Comparative Totals for June 30, 2016)

	Controller's Office	Information Technology	Human Resources	Central Engineering
REVENUES				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services				
Fees, Licenses, and Fines	2,446			
Contributions, Gifts, and Grants				
Revenues from Other State Agencies			13,808	
Miscellaneous Income	43	187	86	316
Total Revenues	2,489	187	13,894	316
EXPENDITURES				
Personal Services	3,427,093	8,727,230	6,094,391	6,776,319
Employee Benefits	1,390,965	2,950,994	2,587,766	2,493,483
Contracted Personal Services	1,839,871	660,301	781,603	4,973
Supplies and Materials	53,238	75,706	84,301	8,735
Travel	1,414	22,046	24,238	1,871
Communication	3,987	215,461	24,589	24,474
Utilities	49,112	36,399	3,485	26,460
Data Processing Services	89,169	1,764,846	54,189	51,504
Other Services	69,580	12,863	32,477	11,423
Other Fixed Charges	18,955	1,578,606	35,602	21,119
Capital Outlay	11,652	445,487	37,243	47,710
Grants, State Aid, and Subsidies				
Insurance and Bonding	203	15,582	127,711	
Expenditures to Other State Agencies				
Other Expenditures	406,311	348,723	433,993	278,246
Total Expenditures	7,361,550	16,854,244	10,321,588	9,746,317
Excess of Revenues Over (Under) Expenditures	(7,359,061)	(16,854,057)	(10,307,694)	(9,746,001)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets				
Insurance Recoveries				
Transfers In				
Transfers to State Reserve Fund	(4,408)			
Transfers from State Reserve Fund	10,558	67,531	51,271	6,027
Appropriations	7,099,278	15,729,114	10,313,931	9,760,225
Total Other Financing Sources (Uses)	7,105,428	15,796,645	10,365,202	9,766,252
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (253,633)	\$ (1,057,412)	\$ 57,508	\$ 20,251

Schedule E-1

Governors Crime Commission	Victims Services	ABC Board Non Tax	Other	Total Administration 2017	Total Administration 2016
\$ 40,947,818	\$ 3,284,156	\$ 0	\$ 0	\$ 44,231,974	\$ 31,127,411
92,526				92,526	78,839
			122,768	122,768	
	109,277	24,682,290		24,794,013	24,137,799
	435		500	935	500
			2,088,246	2,102,054	3,254,766
	18		7,135	7,785	945
<u>41,040,344</u>	<u>3,393,886</u>	<u>24,682,290</u>	<u>2,218,649</u>	<u>71,352,055</u>	<u>58,600,260</u>
983,562	708,230		8,320,370	35,037,195	33,984,946
368,303	319,019		3,065,970	13,176,500	12,512,295
270,064	1,079,395		3,125,522	7,761,729	4,993,776
25,617	59,973		451,443	759,013	684,179
51,854	4,286		40,792	146,501	109,217
36,176	6,831		13,083	324,601	816,790
877			240,842	357,175	316,224
19,822	12,527		128,288	2,120,345	1,217,062
16,338	86,010		312,313	541,004	474,973
34,064	10,577		171,323	1,870,246	1,375,823
113,222	33,524		5,744,994	6,433,832	5,997,586
38,948,898	7,577,795		500,000	47,026,693	33,251,047
21	18		649	144,184	120,054
		24,027,072		24,027,072	33,352,803
<u>209,160</u>	<u>442</u>	<u></u>	<u>430,381</u>	<u>2,107,256</u>	<u>2,016,712</u>
<u>41,077,978</u>	<u>9,898,627</u>	<u>24,027,072</u>	<u>22,545,970</u>	<u>141,833,346</u>	<u>131,223,487</u>
<u>(37,634)</u>	<u>(6,504,741)</u>	<u>655,218</u>	<u>(20,327,321)</u>	<u>(70,481,291)</u>	<u>(72,623,227)</u>
211			45	256	40
	858,110			858,110	20,093
(2,854,952)	(1,295,656)		(183,334)	(4,338,350)	839,868
719,814			3,333,921	4,189,122	(4,383,903)
<u>4,094,003</u>	<u>5,993,950</u>	<u></u>	<u>16,815,200</u>	<u>69,805,701</u>	<u>68,658,210</u>
<u>1,959,076</u>	<u>5,556,404</u>	<u>0</u>	<u>19,965,832</u>	<u>70,514,839</u>	<u>65,134,308</u>
<u>\$ 1,921,442</u>	<u>\$ (948,337)</u>	<u>\$ 655,218</u>	<u>\$ (361,489)</u>	<u>\$ 33,548</u>	<u>\$ (7,488,919)</u>

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, 2017 (With Comparative Totals for June 30, 2016)

Schedule F-1

	Adult Correction (1)	Juvenile Justice (2)	Correction Enterprises	Total Adult Correction and Juvenile Justice 2017	Total Adult Correction and Juvenile Justice 2016
REVENUES					
Federal Funds	\$ 2,338,467	\$ 39,562	\$ 0	\$ 2,378,029	\$ 2,060,194
Investment Earnings	13,507	1,890		15,397	13,585
Sales and Services	47,547,709	37,705	34,055,705	81,641,119	81,701,441
Intragovernmental Sales and Services			53,710,183	53,710,183	56,914,912
Rental and Lease of Property	6,000		543,942	549,942	570,096
Fees, Licenses, and Fines	4,495,381			4,495,381	11,879,711
Contributions, Gifts, and Grants	1,027,078	1,252,940		2,280,018	3,464,262
Revenues from Other State Agencies	1,975,982	176,308		2,152,290	3,300,988
Miscellaneous Income	8,145,927	34,271	90,373	8,270,571	20,613,889
Total Revenues	65,550,051	1,542,676	88,400,203	155,492,930	180,519,078
EXPENDITURES					
Personal Services	749,247,005	50,763,155	19,764,968	819,775,128	787,578,445
Employee Benefits	325,846,079	22,037,159	6,042,692	353,925,930	345,487,560
Contracted Personal Services	175,481,185	23,366,377	462,793	199,310,355	165,575,557
Supplies and Materials	149,192,619	1,688,998	4,463,531	155,345,148	141,528,517
Purchases for Resale	32,726,035		42,586,387	75,312,422	79,448,143
Travel	1,030,537	217,870	298,676	1,547,083	1,714,855
Communication	4,235,138	724,102	101,437	5,060,677	9,181,737
Utilities	44,812,311	796,484	2,819,040	48,427,835	47,456,806
Data Processing Services	12,614,272	1,386,755	14,568,740	14,568,740	10,412,560
Other Services	7,443,501	267,609	1,513,173	9,224,283	9,529,949
Claims and Benefits	21,697			21,697	23,513
Debt Service:					
Principal Retirement	1,273,945			1,273,945	996,215
Interest and Fees	376,442			376,442	404,365
Other Fixed Charges	5,031,267	120,990	435,937	5,588,194	7,184,534
Capital Outlay	20,090,743	1,078,094	5,106,947	26,275,784	27,897,200
Grants, State Aid, and Subsidies		23,035,615		23,035,615	22,623,535
Insurance and Bonding	853,452	35,680	76,065	965,197	2,482,872
Expenditures to Other State Agencies	1,050,000		500,000	1,550,000	1,550,000
Other Expenditures	15,760,245	2,442,309	1,029,898	19,232,452	19,185,960
Total Expenditures	1,547,086,473	127,961,197	85,769,284	1,760,816,954	1,680,262,323
Excess of Revenues Over (Under) Expenditures	(1,481,536,422)	(126,418,521)	2,630,919	(1,605,324,024)	(1,499,743,245)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	264,224	2,141	70,583	336,948	408,791
Insurance Recoveries	782,485			782,485	62,302
Transfers In	4,187,222		883,918	5,071,140	6,212,542
Transfers Out	(1,920,774)		(4,008,476)	(5,929,250)	(7,052,410)
Transfers to State Reserve Fund	(2,616,256)	(189,250)		(2,805,506)	(2,883,704)
Transfers from State Reserve Fund	2,388,027	377,435		2,765,462	
Appropriations	1,464,446,055	125,261,603		1,589,707,658	1,522,217,174
Total Other Financing Sources (Uses)	1,467,530,983	125,451,929	(3,053,975)	1,589,928,937	1,518,964,695
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (14,005,439)</u>	<u>\$ (966,592)</u>	<u>\$ (423,056)</u>	<u>\$ (15,395,087)</u>	<u>\$ 19,221,450</u>

(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, 2017 (With Comparative Totals for June 30, 2016)

Schedule F-2

	Prisons (1)	Community Corrections (2)	Other	Total Adult Correction 2017	Total Adult Correction 2016
REVENUES					
Federal Funds	\$ 2,207,614	\$ 130,853	\$ 0	\$ 2,338,467	\$ 1,984,808
Investment Earnings	7,339	6,168		13,507	12,433
Sales and Services	47,458,613		89,096	47,547,709	46,327,275
Rental and Lease of Property		6,000		6,000	6,000
Fees, Licenses, and Fines	4,080,284	415,097		4,495,381	11,879,711
Contributions, Gifts, and Grants	962,650	64,428		1,027,078	1,904,760
Revenues from Other State Agencies	1,975,982			1,975,982	2,694,912
Miscellaneous Income	<u>7,772,413</u>	<u>462</u>	<u>373,052</u>	<u>8,145,927</u>	<u>20,466,959</u>
Total Revenues	<u>64,464,895</u>	<u>623,008</u>	<u>462,148</u>	<u>65,550,051</u>	<u>85,276,858</u>
EXPENDITURES					
Personal Services	621,064,899	118,318,878	9,863,228	749,247,005	720,038,864
Employee Benefits	271,112,316	50,548,792	4,184,971	325,846,079	318,442,984
Contracted Personal Services	162,079,404	12,739,053	662,728	175,481,185	144,211,556
Supplies and Materials	147,346,354	1,407,309	438,956	149,192,619	135,431,260
Purchases for Resale	32,726,035			32,726,035	31,733,631
Travel	567,760	202,647	260,130	1,030,537	1,199,036
Communication	1,803,805	2,301,634	129,699	4,235,138	8,034,587
Utilities	44,280,268	307,733	224,310	44,812,311	43,802,710
Data Processing Services	10,160,240	2,360,289	93,743	12,614,272	9,790,691
Other Services	7,076,788	250,024	116,689	7,443,501	7,985,901
Claims and Benefits		21,697		21,697	23,513
Debt Service:					
Principal Retirement	1,273,945			1,273,945	996,215
Interest and Fees	376,442			376,442	404,365
Other Fixed Charges	3,863,283	433,672	734,312	5,031,267	6,512,712
Capital Outlay	18,909,466	1,070,998	110,279	20,090,743	20,776,488
Insurance and Bonding	851,204	2,151	97	853,452	1,618,684
Expenditures to Other State Agencies	1,050,000			1,050,000	1,050,000
Other Expenditures	<u>6,927,516</u>	<u>7,885,967</u>	<u>946,762</u>	<u>15,760,245</u>	<u>15,682,862</u>
Total Expenditures	<u>1,331,469,725</u>	<u>197,850,844</u>	<u>17,765,904</u>	<u>1,547,086,473</u>	<u>1,467,736,059</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,267,004,830)</u>	<u>(197,227,836)</u>	<u>(17,303,756)</u>	<u>(1,481,536,422)</u>	<u>(1,382,459,201)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	264,224			264,224	296,731
Insurance Recoveries	178,689		603,796	782,485	62,302
Transfers In	4,187,222			4,187,222	2,918,103
Transfers Out	(1,920,774)			(1,920,774)	(1,508,268)
Transfers to State Reserve Fund	(2,290,286)	(314,439)	(11,531)	(2,616,256)	(2,746,968)
Transfers from State Reserve Fund	2,185,073	150,368	52,586	2,388,027	
Appropriations	<u>1,248,921,499</u>	<u>198,426,494</u>	<u>17,098,062</u>	<u>1,464,446,055</u>	<u>1,404,138,028</u>
Total Other Financing Sources (Uses)	<u>1,251,525,647</u>	<u>198,262,423</u>	<u>17,742,913</u>	<u>1,467,530,983</u>	<u>1,403,159,928</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (15,479,183)</u>	<u>\$ 1,034,587</u>	<u>\$ 439,157</u>	<u>\$ (14,005,439)</u>	<u>\$ 20,700,727</u>

(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, 2017 (With Comparative Totals for June 30, 2016)

	Prisons Management	Prisons Custody and Security	Prisons Food and Clothing	Prisons General, Mental, Dental, and Pharmacy
REVENUES				
Federal Funds	\$ 0	\$ 671,878	\$ 0	\$ 1,343,756
Investment Earnings		7,339		
Sales and Services		18,060	972,927	
Fees, Licenses, and Fines		3,592,068		488,216
Contributions, Gifts, and Grants			145,664	
Revenues from Other State Agencies		1,772,661		203,321
Miscellaneous Income		2,834,587	1,026,876	3,692,756
Total Revenues	0	8,896,593	2,145,467	5,728,049
EXPENDITURES				
Personal Services	8,123,208	450,936,931	16,101,013	97,679,172
Employee Benefits	3,278,985	202,683,685	7,225,110	36,933,426
Contracted Personal Services	152,269	29,938,625	4,965,196	122,954,716
Supplies and Materials	144,033	16,332,558	57,451,963	69,480,814
Purchases for Resale				
Travel	21,240	502,059		2,354
Communication	85,061	1,669,263		19,772
Utilities	19,164	43,237,837		
Data Processing Services	41,008	9,916,483		4,492
Other Services	10,600	2,968,870	288,860	230,339
Debt Service:				
Principal Retirement		1,217,365		
Interest and Fees		363,442		
Other Fixed Charges	54,291	2,365,985	37,587	1,094,948
Capital Outlay	152,066	14,862,427	893,188	1,287,009
Insurance and Bonding		398,473		448,794
Expenditures to Other State Agencies		1,000,000		
Other Expenditures	429,875	4,017,711	579,244	462,587
Total Expenditures	12,511,800	782,411,714	87,542,161	330,598,423
Excess of Revenues Over (Under) Expenditures	(12,511,800)	(773,515,121)	(85,396,694)	(324,870,374)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets		264,224		
Insurance Recoveries		178,689		
Transfers In		1,000,000	2,768,103	
Transfers Out			(201,600)	
Transfers to State Reserve Fund	(11,493)	(2,025,551)	(178,887)	(8,384)
Transfers from State Reserve Fund	14,415	1,774,937	134,471	158,368
Appropriations	12,526,473	770,174,485	84,148,493	316,052,086
Total Other Financing Sources (Uses)	12,529,395	771,366,784	86,670,580	316,202,070
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 17,595	\$ (2,148,337)	\$ 1,273,886	\$ (8,668,304)

Schedule F-3

Prisons Education and Corrective Programs	Alcoholism and Chemical Dependence	Other	Total Prisons 2017	Total Prisons 2016
\$ 191,980	\$ 0	\$ 0	\$ 2,207,614	\$ 1,982,151
			7,339	7,691
		46,467,626	47,458,613	46,257,666
816,986			4,080,284	11,496,995
			962,650	1,897,695
			1,975,982	2,551,949
37		218,157	7,772,413	20,061,126
1,009,003	0	46,685,783	64,464,895	84,255,273
36,966,125	4,121,333	7,137,117	621,064,899	596,741,939
16,085,342	1,766,446	3,139,322	271,112,316	266,488,611
2,580,770	12,758	1,475,070	162,079,404	129,772,517
212,237	124,390	3,600,359	147,346,354	133,612,638
		32,726,035	32,726,035	31,733,631
38,775	3,048	284	567,760	613,532
13,445	9,754	6,510	1,803,805	3,957,505
747,939	4,057	271,271	44,280,268	43,307,879
60,522	119,941	17,794	10,160,240	5,954,969
3,331,180	3,013	243,926	7,076,788	7,633,722
		56,580	1,273,945	996,215
		13,000	376,442	404,365
20,270	23,461	266,741	3,863,283	5,538,886
148,364	23,842	1,542,570	18,909,466	19,464,394
	1,366	2,571	851,204	1,616,572
50,000			1,050,000	1,050,000
31,283	87,335	1,319,481	6,927,516	6,531,095
60,286,252	6,300,744	51,818,631	1,331,469,725	1,255,418,470
(59,277,249)	(6,300,744)	(5,132,848)	(1,267,004,830)	(1,171,163,197)
			264,224	322,918
			178,689	9,024
		419,119	4,187,222	2,918,103
		(1,719,174)	(1,920,774)	(1,508,268)
(19,384)		(46,587)	(2,290,286)	(2,461,817)
24,330		78,552	2,185,073	
59,420,413	5,996,590	602,959	1,248,921,499	1,195,020,401
59,425,359	5,996,590	(665,131)	1,251,525,647	1,194,300,361
\$ 148,110	\$ (304,154)	\$ (5,797,979)	\$ (15,479,183)	\$ 23,137,164

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, 2017 (With Comparative Totals for June 30, 2016)

	Regular Supervision	Community Supervision	Electronic Monitoring
REVENUES			
Federal Funds	\$ 0	\$ 130,853	\$ 0
Investment Earnings			
Rental and Lease of Property			
Fees, Licenses, and Fines			124,352
Contributions, Gifts, and Grants		27,653	
Revenues from Other State Agencies			
Miscellaneous Income	45		
Total Revenues	45	158,506	124,352
EXPENDITURES			
Personal Services	103,030,288	4,545,060	226,661
Employee Benefits	43,911,027	1,950,761	93,674
Contracted Personal Services	697,344	6,503,801	5,478,841
Supplies and Materials	807,135	536,895	2,092
Travel	172,965	9,054	1,140
Communication	2,183,464	24,174	5,079
Utilities	35,230	228,977	
Data Processing Services	2,257,109	70,322	591
Other Services	171,334	68,307	
Claims and Benefits			
Other Fixed Charges	336,290	23,470	1,872
Capital Outlay	904,835	116,175	793
Insurance and Bonding	2,151		
Other Expenditures	7,524,475	46,752	14,281
Total Expenditures	162,033,647	14,123,748	5,825,024
Excess of Revenues Over (Under) Expenditures	(162,033,602)	(13,965,242)	(5,700,672)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets			
Transfers to State Reserve Fund	(311,919)	(2,520)	
Transfers from State Reserve Fund	99,336	48,878	
Appropriations	162,980,706	14,194,994	5,653,585
Total Other Financing Sources (Uses)	162,768,123	14,241,352	5,653,585
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 734,521	\$ 276,110	\$ (47,087)

Schedule F-4

Judicial Services	Other	Total Community Corrections 2017	Total Community Corrections 2016
\$ 0	\$ 0	\$ 130,853	\$ 2,657
	6,168	6,168	4,742
	6,000	6,000	6,000
	290,745	415,097	382,716
	36,775	64,428	7,065
			142,963
	417	462	52,904
0	340,105	623,008	599,047
8,536,230	1,980,639	118,318,878	114,673,235
3,803,462	789,868	50,548,792	48,371,135
6,301	52,766	12,739,053	13,627,603
12,508	48,679	1,407,309	1,369,429
	19,488	202,647	306,640
57,174	31,743	2,301,634	3,941,873
	43,526	307,733	308,662
24,687	7,580	2,360,289	3,828,689
807	9,576	250,024	196,930
21,697		21,697	23,513
23,873	48,167	433,672	349,910
15,301	33,894	1,070,998	1,177,035
		2,151	2,082
	300,459	7,885,967	8,218,675
12,502,040	3,366,385	197,850,844	196,395,411
(12,502,040)	(3,026,280)	(197,227,836)	(195,796,364)
			100
		(314,439)	(259,405)
	2,154	150,368	
12,514,238	3,082,971	198,426,494	196,092,429
12,514,238	3,085,125	198,262,423	195,833,124
\$ 12,198	\$ 58,845	\$ 1,034,587	\$ 36,760

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, 2017 (With Comparative Totals for June 30, 2016)

	Detention Center Services	Development Center Services	Treatment Services	Education Services
REVENUES				
Federal Funds	\$ 609	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services	3,246	3,577		30,882
Contributions, Gifts, and Grants	169,148	354,983		620,061
Revenues from Other State Agencies		172,983		
Miscellaneous Income	23,414	7,984	740	853
Total Revenues	196,417	539,527	740	651,796
EXPENDITURES				
Personal Services	4,288,790	7,345,780	9,619,112	3,413,827
Employee Benefits	2,119,980	4,201,534	4,016,365	1,281,486
Contracted Personal Services	2,146,779	539,408	1,626,599	373,945
Supplies and Materials	219,981	764,719	462,714	62,809
Travel	12,282	29,201	11,913	57,512
Communication	21,913	76,003	15,479	7,984
Utilities	125,223	606,889	4,219	8,015
Data Processing Services	133,389	290,240	165,915	58,130
Other Services	54,197	41,771	17,305	38,908
Other Fixed Charges	5,939	34,831	8,798	3,024
Capital Outlay	39,734	715,698	17,478	35,748
Grants, State Aid, and Subsidies				
Insurance and Bonding	347	9,798	179	70
Other Expenditures	70,894	115,236	63,014	111,468
Total Expenditures	9,239,448	14,771,108	16,029,090	5,452,926
Excess of Revenues Over (Under) Expenditures	(9,043,031)	(14,231,581)	(16,028,350)	(4,801,130)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	129	2,012		
Transfers In				
Transfers Out				
Transfers to State Reserve Fund	(53,485)	(117,035)		
Transfers from State Reserve Fund	75,037	121,996		85,967
Appropriations	9,162,569	13,885,490	16,038,851	4,684,806
Total Other Financing Sources (Uses)	9,184,250	13,892,463	16,038,851	4,770,773
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 141,219	\$ (339,118)	\$ 10,501	\$ (30,357)

Schedule F-5

Community Program Services	Juvenile Crime Prevention Council	Juvenile Court Services	Juvenile Justice Other	Total Juvenile Justice 2017	Total Juvenile Justice 2016
\$ 38,953	\$ 0	\$ 0	\$ 0	\$ 39,562	\$ 75,386
			1,890	1,890	1,152
				37,705	150,337
3,325			108,748	1,252,940	1,555,925
954		12	314	176,308	606,076
				34,271	6,739
<u>43,232</u>	<u>0</u>	<u>12</u>	<u>110,952</u>	<u>1,542,676</u>	<u>2,395,615</u>
1,258,951		23,063,959	1,772,736	50,763,155	47,943,725
493,927		9,333,000	590,867	22,037,159	21,033,810
17,813,952		598,005	267,689	23,366,377	20,927,563
20,102		93,849	64,824	1,688,998	1,790,716
18,028		84,768	4,166	217,870	229,464
18,425		570,112	14,186	724,102	1,046,233
41,410		10,728		796,484	911,498
20,352		671,119	47,610	1,386,755	619,008
34,074		51,239	30,115	267,609	251,118
5,578		56,640	6,180	120,990	155,832
217,185		28,502	23,749	1,078,094	2,926,246
	23,035,615			23,035,615	22,623,535
19		421	24,846	35,680	34,151
<u>179,318</u>		<u>1,574,666</u>	<u>327,713</u>	<u>2,442,309</u>	<u>2,440,921</u>
<u>20,121,321</u>	<u>23,035,615</u>	<u>36,137,008</u>	<u>3,174,681</u>	<u>127,961,197</u>	<u>122,933,820</u>
<u>(20,078,089)</u>	<u>(23,035,615)</u>	<u>(36,136,996)</u>	<u>(3,063,729)</u>	<u>(126,418,521)</u>	<u>(120,538,205)</u>
				2,141	7,538
					614
					(614)
(18,730)				(189,250)	(136,736)
12,429		68,898	13,108	377,435	
<u>19,264,305</u>	<u>23,034,113</u>	<u>36,223,267</u>	<u>2,968,202</u>	<u>125,261,603</u>	<u>118,079,146</u>
<u>19,258,004</u>	<u>23,034,113</u>	<u>36,292,165</u>	<u>2,981,310</u>	<u>125,451,929</u>	<u>117,949,948</u>
<u>\$ (820,085)</u>	<u>\$ (1,502)</u>	<u>\$ 155,169</u>	<u>\$ (82,419)</u>	<u>\$ (966,592)</u>	<u>\$ (2,588,257)</u>

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, 2017 (With Comparative Totals for June 30, 2016)

	State Capital Police	State Highway Patrol	Alcohol Law Enforcement
REVENUES			
Federal Funds	\$ 0	\$ 414,221	\$ 0
Investment Earnings		8,803	31,895
Sales and Services	3,367,706	2,147,618	231,617
Rental and Lease of Property		86,049	
Fees, Licenses, and Fines		119,547	197,191
Student Tuition and Fees		96,370	
Contributions, Gifts, and Grants		1,718,361	235,186
Revenues from Other State Agencies		8,691,322	2,100,000
Miscellaneous Income	33	131,503	212,440
Total Revenues	3,367,739	13,413,794	3,008,329
EXPENDITURES			
Personal Services	3,086,128	122,397,876	6,648,251
Employee Benefits	1,468,689	53,383,116	2,862,978
Contracted Personal Services	51,802	9,524,667	95,831
Supplies and Materials	51,308	15,550,495	590,837
Purchases for Resale		7,403	
Travel	1,404	663,425	73,736
Communication	14,692	2,383,610	123,538
Utilities	1,683	884,924	2,058
Data Processing Services	49,190	1,685,345	116,690
Other Services	2,113	588,814	57,811
Claims and Benefits	119,722	9,411,275	530,465
Other Fixed Charges	19,420	3,025,688	25,417
Capital Outlay	4,462	23,154,071	1,812,150
Grants, State Aid, and Subsidies		415,895	
Insurance and Bonding	10,946	1,357,729	37,277
Expenditures to Other State Agencies			
Other Expenditures		1,849,054	134,254
Total Expenditures	4,881,559	246,283,387	13,111,293
Excess of Revenues Over (Under) Expenditures	(1,513,820)	(232,869,593)	(10,102,964)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	474	2,085,114	283,378
Insurance Recoveries		583,195	
Transfers to State Reserve Fund		(442,636)	(19,334)
Transfers from State Reserve Fund	6,268	174,777	64,378
Appropriations	1,710,249	226,467,099	9,042,248
Total Other Financing Sources (Uses)	1,716,991	228,867,549	9,370,670
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 203,171	\$ (4,002,044)	\$ (732,294)

Schedule G-1

State Bureau of Investigation	Other	Total Law Enforcement 2017	Total Law Enforcement 2016
\$ 478,779	\$ 0	\$ 893,000	\$ 1,780,858
28,439		69,137	48,823
7,539,625		13,286,566	13,881,503
		86,049	84,112
6,568,608		6,885,346	6,818,630
		96,370	37,705
1,003,636		2,957,183	4,234,652
		10,791,322	11,005,969
90,422	43	434,441	522,348
<u>15,709,509</u>	<u>43</u>	<u>35,499,414</u>	<u>38,414,600</u>
22,685,979	19,575	154,837,809	148,945,084
9,518,298	95,500	67,328,581	63,941,495
4,194,337	1,257	13,867,894	13,677,826
1,232,282	322	17,425,244	13,091,342
		7,403	
340,759	514	1,079,838	1,101,422
447,617	59	2,969,516	3,888,720
132,676		1,021,341	1,024,384
940,892		2,792,117	1,578,264
763,142		1,411,880	2,088,154
1,676,913	158,830	11,897,205	11,190,972
1,128,459		4,198,984	2,457,043
4,917,454		29,888,137	31,637,110
		415,895	2,045,001
120,148		1,526,100	1,628,130
			4,494,859
4,725,665	100,471	6,809,444	5,742,828
<u>52,824,621</u>	<u>376,528</u>	<u>317,477,388</u>	<u>308,532,634</u>
<u>(37,115,112)</u>	<u>(376,485)</u>	<u>(281,977,974)</u>	<u>(270,118,034)</u>
545,457		2,914,423	2,620,338
2,564		585,759	659,552
(7,499,221)		(7,961,191)	(935,188)
416,384		661,807	
42,016,000	224,196	279,459,792	263,395,881
<u>35,481,184</u>	<u>224,196</u>	<u>275,660,590</u>	<u>265,740,583</u>
<u>\$ (1,633,928)</u>	<u>\$ (152,289)</u>	<u>\$ (6,317,384)</u>	<u>\$ (4,377,451)</u>

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, 2017 (With Comparative Totals for June 30, 2016)

	Army Guard	Air Guard	Youth Programs
REVENUES			
Federal Funds	\$ 20,529,300	\$ 4,828,624	\$ 6,755,121
Local Funds			
Investment Earnings			
Sales and Services	2,535		4,165
Rental and Lease of Property			
Contributions, Gifts, and Grants			171,162
Revenues from Other State Agencies	188,735		
Miscellaneous Income	4,056	1,531	182,251
Total Revenues	20,724,626	4,830,155	7,112,699
EXPENDITURES			
Personal Services	2,552,930	2,164,388	3,800,064
Employee Benefits	919,346	795,478	1,556,672
Contracted Personal Services	4,651,777	876,246	1,033,348
Supplies and Materials	893,774	97,504	1,141,382
Travel	72,603	28,074	74,376
Communication	1,595,022		60,497
Utilities	3,645,276	708,980	196,110
Data Processing Services	31,310		19,194
Other Services	1,613,131	4,975	185,067
Other Fixed Charges	259,449	20,800	50,816
Capital Outlay	6,101,958		367,582
Grants, State Aid, and Subsidies			
Scholarships			
Insurance and Bonding	21,186		1,125
Expenditures to Other State Agencies			
Other Expenditures	127,425		49,939
Total Expenditures	22,485,187	4,696,445	8,536,172
Excess of Revenues Over (Under) Expenditures	(1,760,561)	133,710	(1,423,473)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	3,646		
Transfers In	3,801,868		700,000
Transfers Out	(3,801,868)		(700,000)
Transfers to State Reserve Fund			
Transfers from State Reserve Fund	41,048		111,396
Appropriations	8,965,827	953,107	2,639,400
Total Other Financing Sources (Uses)	9,010,521	953,107	2,750,796
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 7,249,960	\$ 1,086,817	\$ 1,327,323

Schedule H-1

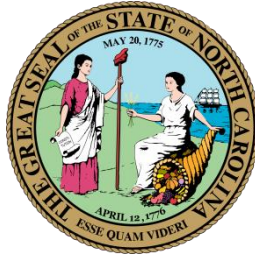
Other	Total National Guard 2017	Total National Guard 2016
\$ 0	\$ 32,113,045	\$ 28,252,283
9,595	9,595	18,635
726	726	
150,221	156,921	3,353
239,477	239,477	212,217
	171,162	128,533
78,780	267,515	289,958
176,672	364,510	275,869
655,471	33,322,951	29,180,848
1,113,759	9,631,141	9,328,579
593,577	3,865,073	3,230,978
597,417	7,158,788	4,465,056
92,094	2,224,754	2,050,164
13,161	188,214	217,393
1,980	1,657,499	1,535,770
39,460	4,589,826	4,190,076
2,314	52,818	69,799
250,350	2,053,523	1,668,667
14,249	345,314	212,709
427,704	6,897,244	14,844,740
78,780	78,780	71,280
		19,800
23,096	45,407	43,784
		107,970
317,232	494,596	374,440
3,565,173	39,282,977	42,431,205
(2,909,702)	(5,960,026)	(13,250,357)
18	3,664	13,040
	4,501,868	6,023,498
	(4,501,868)	(6,023,498)
		(207,719)
77,759	230,203	
3,406,859	15,965,193	11,916,907
3,484,636	16,199,060	11,722,228
\$ 574,934	\$ 10,239,034	\$ (1,528,129)

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, 2017 (With Comparative Totals for June 30, 2016)

	Emergency Management Performance Grant	Disaster Response and Recovery	Homeland Security
REVENUES			
Federal Funds	\$ 9,572,730	\$ 70,826,991	\$ 5,065,289
Investment Earnings			
Sales and Services	3,392,686		
Fees, Licenses, and Fines	3,443,842		
Contributions, Gifts, and Grants	100,686		
Revenues from Other State Agencies		35,408,742	
Miscellaneous Income	7,515	171	
Total Revenues	16,517,459	106,235,904	5,065,289
EXPENDITURES			
Personal Services	5,136,228	3,549,781	477,537
Employee Benefits	1,950,780	285,375	191,506
Contracted Personal Services	1,150,124	18,465,605	209
Supplies and Materials	110,346	2,631,970	4,423
Travel	151,778	1,046,698	31,322
Communication	182,556	6,532	6,163
Utilities	29,691		
Data Processing Services	158,822	6,948	7,025
Other Services	119,371	123,631	2,363
Other Fixed Charges	216,400		17,063
Capital Outlay	539,140	135,235	25,817
Grants, State Aid, and Subsidies	5,277,768	88,369,263	4,197,441
Insurance and Bonding	61,959		
Expenditures to Other State Agencies	503,867		
Other Expenditures	897,513	1,471,684	7,191
Total Expenditures	16,486,343	116,092,722	4,968,060
Excess of Revenues Over (Under) Expenditures	31,116	(9,856,818)	97,229
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	26,285		
Insurance Recoveries	64,835		
Transfers In			
Transfers Out			
Transfers to State Reserve Fund			
Transfers from State Reserve Fund	104,970		
Appropriations	20,220,382	(140,868)	37,522
Total Other Financing Sources (Uses)	20,416,472	(140,868)	37,522
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 20,447,588	\$ (9,997,686)	\$ 134,751

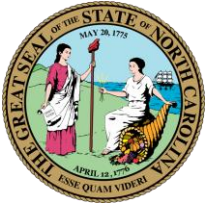
Schedule I-1

Geospatial	Other	Total Emergency Management 2017	Total Emergency Management 2016
\$ 2,477,875	\$ 4,985,864	\$ 92,928,749	\$ 41,772,457
			7,452
904,639		4,297,325	2,280,181
210,500		3,654,342	5,988,994
		100,686	121,184
3,990,584		39,399,326	7,255,781
874	108	8,668	4,023
7,584,472	4,985,972	140,389,096	57,430,072
2,985,872	541,912	12,691,330	10,117,964
1,028,995	206,912	3,663,568	3,185,650
6,691,972	214,054	26,521,964	9,181,190
38,235	4,710	2,789,684	386,263
46,231	15,950	1,291,979	439,513
20,672	1,572	217,495	170,618
		29,691	131,386
75,437	10,585	258,817	163,509
23,980	2,111	271,456	152,160
242,977	428	476,868	375,231
824,122	27,705	1,552,019	779,308
	4,536,028	102,380,500	36,139,093
12,325		74,284	66,469
	1,042,082	1,545,949	1,805,528
127,786	14,046	2,518,220	2,922,102
12,118,604	6,618,095	156,283,824	66,015,984
(4,534,132)	(1,632,123)	(15,894,728)	(8,585,912)
		26,285	24,482
15,730		80,565	84,546
			270
			(270)
			(106,751)
118	2,528	107,616	
1,328,167	579,141	22,024,344	6,688,030
1,344,015	581,669	22,238,810	6,690,307
\$ (3,190,117)	\$ (1,050,454)	\$ 6,344,082	\$ (1,895,605)



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

**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, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated September 26, 2018.

As discussed in Note 1, the financial statements of the North Carolina Department of Public Safety are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of each major fund that is 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, 2017, the changes in its financial position, or, where applicable, its cash flows 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Findings, Recommendations, and Responses section, that we consider to be a significant deficiency.

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.

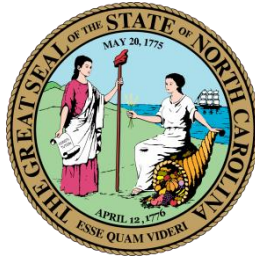


Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

September 26, 2018

PAGE LEFT BLANK INTENTIONALLY



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control. Significant aspects of this finding were reported in the prior year.

LACK OF CONTROLS INCREASED RISK OF INACCURATE INVENTORY BALANCE

The Department did not have internal control¹ procedures over the accuracy of the \$16 million inventory² balance for the Correction Enterprises Fund as of June 30, 2017. As a result, there was an increased risk of undetected errors in the reported inventory balance.

Specifically, we noted the following:

- Inventory costs, which are automatically calculated by the system, can be manipulated through manual data entries. Management does not review the manual data entries for accuracy which could impact the inventory item costs.
- Cost sheets used to make finished goods are not adequately reviewed and adjusted as necessary. Inaccurate raw materials, quantities, and units of measure could impact the cost assigned to a finished good.
- Overhead rate calculations are not properly evaluated by management to ensure appropriate factors are being used and reflect actual overhead during the period. Using inaccurate overhead rates could impact the value of finished goods inventory.
- Obsolete and slow-moving inventory items are not evaluated by management to determine if a reduction in inventory is necessary. This could lead to excessive quantities on hand relative to sales and usage, and overstating the ending inventory balance.
- The Department's valuation method (lower of cost or market) used for finished goods is not properly reviewed and adjusted as necessary. Under this valuation method, the cost to produce an item could be higher than selling price; therefore, requiring a reduction in inventory value. This could result in overstated ending inventory balances and a departure from *Generally Accepted Accounting Principles*.

While no instances of material error were identified in the inventory balance during the audit period, an increased risk existed due to the lack of controls. 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, Correction Enterprises has experienced turnover in recent years. As a result, the plant managers and cost accountant were maintaining and valuing

¹ COSO 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."

² Correction Enterprises maintains inventory for 31 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.

inventory without adequate training. Further, management did not provide appropriate oversight of the inventory process.

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 implement contingency planning to reduce the risk that staff turnover could result in an inaccurate inventory balance. Department management should also increase management oversight of the inventory process and provide inventory maintenance and valuation training to all inventory personnel.

Department's Response: See page 82 for the Department's response to this finding.



North Carolina Department of Public Safety

Controller's Office

Roy Cooper, Governor
Erik A. Hooks, Secretary

Cassandra Skinner Hoekstra, Chief Deputy Secretary
Douglas Holbrook, Chief Financial Officer
James J. Cherokee, Controller

September 12, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

LACK OF CONTROLS INCREASED RISK OF INACCURATE INVENTORY BALANCE

OSA Recommendation:

Department management should implement contingency planning to reduce the risk that staff turnover could result in an inaccurate inventory balance. Department management should also increase management oversight of the inventory process and provide inventory maintenance and valuation training to all inventory personnel.

Agency Response:

The Department agrees with the finding and recommendation. Correction Enterprises has experienced a significant increase in turnover in recent years. As a result, a number of relatively inexperienced staff members are operating in critical positions. In order to properly orient these individuals to the complexities of Correction Enterprises accounting practices, the Department must develop and implement a robust training program. Further, an advanced curriculum should be put into place for supervisory staff to ensure they possess and maintain the skillset necessary to provide the requisite degree of management oversight.

With respect to specific deficiencies reported, the Department has implemented the following procedures to ensure the Correction Enterprises inventory balance is accurately reported:

- Manual adjustments to inventory costs are only made to reflect a change in unit of measure or to correct an error. During FY 18, the Controller's Office required all documentation in support of these adjustments be filed with the related Journal Voucher. Further, the Manager of Correction Enterprises Accounting has been required to personally review and approve the adjustments before entry.

MAILING ADDRESS:
4220 Mail Service Center
Raleigh NC 27699-4220



www.ncdps.gov
An Equal Opportunity employer

OFFICE LOCATION:
2020 Yonkers Road
Raleigh, NC 27604
Telephone: (919) 716-3300
Fax: (919) 324-6240

- Senior officials from Correction Enterprises and the Controller's Office met with the plant managers on a number of occasions during FY 18 to emphasize the need to thoroughly review and accurately update product cost sheets. To ensure full accountability, the Department has required the plant managers to personally review and attest to the accuracy of the cost sheets. Signed cost sheets are currently being filed and maintained by the Correction Enterprises cost accountant.
- Obsolete and slow-moving inventory items were evaluated and written-off during FY 18. The Department plans to enhance analytic review to identify obsolete items in a timely and accurate manner. Adjustments will continue to be made as needed.
- The Department is developing and will implement a protocol to ensure inventory is properly valued at the lower of cost or market and adjusted as needed.
- Overhead rate calculations will be reviewed by management to ensure the rates are being calculated and applied accurately.

The Director of Correction Enterprises, Manager of Correction Enterprises Accounting and the Controller will work collaboratively to ensure the corrective actions delineated above are fully implemented. As noted, a number of corrective actions are already in place. Our goal is to finalize and deploy an enhanced training program by March 2019. In addition, Correction Enterprises and the Controller's Office have jointly begun a planning process to identify Enterprise Resource Planning capacity already available in State Government to tailor to our specific inventory needs.



Erik A. Hooks, Secretary



Doug Holbrook, Chief Financial Officer

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This audit required 13,960 hours at an approximate cost of \$1,437,880.