

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



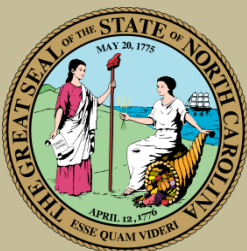
## NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the North Carolina Department of Public Safety as of and for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# AN OVERVIEW OF HOW TO USE THIS REPORT

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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 per the Governmental Accounting Standards Board and *Government Auditing Standards*)

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

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

**“A” Exhibits** present the Balance Sheet as of June 30, 2018 (with comparative totals for June 30, 2017) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2018 (with comparative totals for the fiscal year ended June 30, 2017) for the Department’s **governmental funds as a whole**.

**“B” Exhibits** present the Statement of Net Position as of June 30, 2018 (with comparative totals for June 30, 2017), the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2018 (with comparative totals for June 30, 2017), and the Statement of Cash Flows for the year ended June 30, 2018 (with comparative totals for June 30, 2017) 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 budget and actual comparisons for the General Fund, Correction Enterprises Fund, and Welfare Fund (for the fiscal year ended June 30, 2018) and the required supplementary information related to pension and other postemployment benefit plans for the Department’s proprietary funds.

**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, 2018 (with comparative totals for the fiscal year ended June 30, 2017) 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, 2018 (with comparative totals for the fiscal year ended June 30, 2017) 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 sub-division, and provide further breakdown of each sub-division 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.



Beth A. Wood, CPA  
State Auditor

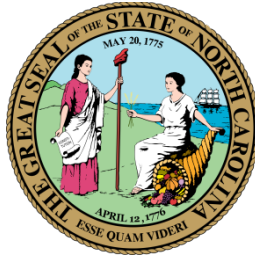
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding.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

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# **INDEPENDENT AUDITOR'S REPORT**



STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## **INDEPENDENT AUDITOR'S REPORT**

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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, 2018, 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, 2018, 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, 2018, 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.

As discussed in Note 17 to the financial statements, during the year ended June 30, 2018, the Department adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. 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, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended and we expressed unmodified opinions on those audited financial statements in our report dated September 26, 2018. The prior period supplementary schedules were derived from and related directly to the underlying accounting and other records used to prepare the basic 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 taken as a whole for the year ended June 30, 2017.

#### *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 division are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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*

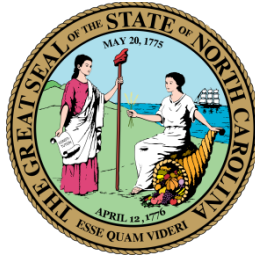
In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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

April 18, 2019



# **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, 2018 with comparative information for the fiscal year ended June 30, 2017. 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 (plus deferred outflows) and liabilities (plus deferred inflows) 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 and other postemployment benefits (OPEB) related disclosures for the Department's proprietary funds.

## **Governmental Funds**

### **Condensed Balance Sheets**

The following Condensed Balance Sheets show the Governmental Funds' financial position at June 30, 2018 and 2017.

	2018	2017 (Restated)	Change
<b>Assets</b>	<u>\$ 305,302,797</u>	<u>\$ 284,917,543</u>	<u>\$ 20,385,254</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 305,302,797</u>	<u>\$ 284,917,543</u>	<u>\$ 20,385,254</u>
<b>Liabilities</b>	<u>\$ 75,906,965</u>	<u>\$ 86,922,265</u>	<u>\$ (11,015,300)</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balances</b>			
Nonspendable	54,864,045	57,211,076	(2,347,031)
Restricted	12,090,028	12,154,348	(64,320)
Committed	174,868,849	149,288,260	25,580,589
Unassigned	<u>(12,427,090)</u>	<u>(20,658,406)</u>	<u>8,231,316</u>
Total Fund Balances	<u>229,395,832</u>	<u>197,995,278</u>	<u>31,400,554</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 305,302,797</u>	<u>\$ 284,917,543</u>	<u>\$ 20,385,254</u>

Total assets increased by \$20.4 million during the year due primarily to the following:

- Cash and cash equivalents increased by \$26.6 million, mainly due to an increase in the Capital Projects Fund of \$16.6 million and the General Fund of \$8.2 million. Capital Projects Fund cash increased due to capital appropriations and revenues from other state agencies (transfer from the Office of State Budget and Management) that were budgeted for construction projects to be completed over several years. See Capital Outlay variance explanations below for additional details. General Fund cash increased due to appropriations for disaster recovery that remained unspent due to the time it takes to assess the needs and to determine eligibility for various federal programs.

The increase in cash and cash equivalents was offset by the following decreases:

- Intergovernmental receivables decreased by \$3.2 million, primarily due to a decrease in receivables from the federal government. During the 2016-2017 fiscal year, the Department had increased receivables related to Hurricane Matthew disaster recovery.
- Inventories decreased by \$2.2 million mostly due to a decrease of \$1.8 million in the Correction Enterprises Fund inventory. During the 2017-2018 fiscal year, Correction Enterprises operations made efforts to create inventory efficiencies and write off obsolete inventory.

Total liabilities decreased by \$11.0 million during the year mainly due to the following:

- Medical claims payable decreased by \$8.2 million predominantly as a result of increased efficiencies in billing during the fiscal year.
- Intergovernmental payables decreased by \$2.4 million almost entirely due to a decrease in payables to local governments in the General Fund related to a decrease in Hurricane Matthew grant funds.
- Unearned revenue decreased by \$5.4 million almost entirely due to a decrease in the General Fund related to a decrease in cash advanced by the federal government for the Justice Assistance Grants (JAG) and several other federal awards, as compared to prior year.

The decreases in liabilities were offset by an increase in due to other funds and state agencies of \$4.4 million, primarily as a result of a \$4.6 million increase in payables to other state agencies/internal service funds. The Department was one month in arrears in amounts due to the Department of Administration - Motor Fleet Management, the Office of State Personnel Temporary Solutions, and the Department of Information Technology at the end of the 2018 fiscal year, but current as of 2017 fiscal year end.

Overall fund balances increased by \$31.4 million during the year due primarily to the following:

- Nonspendable fund balances decreased by \$2.3 million as a result of a decrease in the Department's inventory balances. Most notably, Correction Enterprises Fund inventory balance decreased by \$1.8 million from the previous year as explained above.
- Committed fund balances increased by \$25.6 million. The committed fund balances increased in the General Fund by \$9.6 million and in the Capital Projects Fund by \$15.4 million. These increases are the direct result of the cash increases explained above.
- Unassigned fund balances increased by \$8.2 million as a result of the changes in current year activity as discussed below in the Statement of Revenues, Expenditures, and Changes in Fund Balances section.

**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 for years ended June 30, 2018 and 2017.

	2018	2017 (Restated)	Change
<b>Revenues</b>			
Federal Funds	\$ 180,355,756	\$ 172,544,797	\$ 7,810,959
Sales and Services	93,246,522	99,504,699	(6,258,177)
Intragovernmental Sales and Services	53,794,408	53,710,183	84,225
Fees, Licenses, and Fines	40,914,029	39,829,082	1,084,947
Revenues from Other State Agencies	42,770,154	54,712,507	(11,942,353)
Other Revenues	23,449,596	15,755,178	7,694,418
<b>Total Revenues</b>	<b>434,530,465</b>	<b>436,056,446</b>	<b>(1,525,981)</b>
<b>Expenditures</b>			
Salaries and Benefits	1,507,899,037	1,473,932,255	33,966,782
Contracted Personal Services	129,436,624	132,637,057	(3,200,433)
Contracted Medical Services	121,056,757	121,983,673	(926,916)
Supplies and Materials	169,319,753	178,543,843	(9,224,090)
Purchases for Resale	77,770,422	75,319,825	2,450,597
Travel	4,460,002	4,253,615	206,387
Communication	11,223,244	10,229,788	993,456
Utilities	57,017,435	54,425,868	2,591,567
Data Processing Services	20,333,418	19,792,864	540,554
Other Services	13,949,130	13,502,146	446,984
Claims and Benefits	12,269,884	11,918,902	350,982
Debt Service:			
Principal Retirement	882,792	1,273,945	(391,153)
Interest and Fees	346,981	376,442	(29,461)
Other Fixed Charges	13,119,549	12,479,606	639,943
Capital Outlay	88,629,514	71,047,016	17,582,498
Grants, State Aid, and Subsidies	174,987,374	172,937,483	2,049,891
Insurance and Bonding	3,069,058	2,755,172	313,886
Expenditures to Other State Agencies	32,280,040	26,976,455	5,303,585
Other Expenditures	29,324,369	31,161,968	(1,837,599)
<b>Total Expenditures</b>	<b>2,467,375,383</b>	<b>2,415,547,923</b>	<b>51,827,460</b>
<b>Excess Expenditures over Revenues</b>	<b>(2,032,844,918)</b>	<b>(1,979,491,477)</b>	<b>(53,353,441)</b>
<b>Other Financing Sources (Uses)</b>			
Sale of Capital Assets	3,856,312	3,281,576	574,736
Insurance Recoveries	1,623,047	1,448,809	174,238
Transfers In	7,806,729	10,431,118	(2,624,389)
Transfers Out	(7,806,729)	(10,431,118)	2,624,389
Transfers to State Reserve Fund	(9,495,846)	(15,105,047)	5,609,201
Transfers from State Reserve Fund	14,882,274	7,954,210	6,928,064
State Appropriations	2,053,379,685	1,976,962,688	76,416,997
<b>Total Other Financing Sources</b>	<b>2,064,245,472</b>	<b>1,974,542,236</b>	<b>89,703,236</b>
<b>Net Change in Fund Balances</b>	<b>31,400,554</b>	<b>(4,949,241)</b>	<b>36,349,795</b>
<b>Fund Balances - July 1, as Restated</b>	<b>197,995,278</b>	<b>202,944,519</b>	<b>(4,949,241)</b>
<b>Fund Balances - June 30</b>	<b>\$ 229,395,832</b>	<b>\$ 197,995,278</b>	<b>\$ 31,400,554</b>



While total revenues only reflect a decrease of \$1.5 million from the prior year, various revenue categories had both increases and decreases that are notable.

- Federal funds received increased by \$7.8 million, mainly due to receiving disaster grants and crime victim assistance grants.
- Sales and services decreased by \$6.3 million. General Fund sales and services decreased by \$10.1 million, predominantly due to no longer receiving revenues from the North Carolina Department of Transportation for inmate road crew work. Correction Enterprises Fund sales and services increased by \$2.3 million mainly due to an increase in the Bunn Sign Plant sales. Welfare Fund sales and services increased by \$1.6 million directly as a result of increases in the prison facility canteen sales.
- Revenues from other state agencies decreased by \$11.9 million. In the General Fund, disaster recovery funds (transfer from the Office of State Budget and Management) decreased by \$15.5 million. In the Capital Projects Fund, capital facility costs from the issuance of debt for NC Connect bond projects (transfer from the Office of State Budget and Management) increased by \$3.0 million, predominately for the Samarcand Training Academy Phase II. Other transfers may fluctuate from year to year due to legislative actions.
- Other revenues increased by \$7.7 million. In the General Fund, contributions, gifts, and grants increased by \$2.3 million mostly due to an increase in receipts for equitable sharing, which represents the Department's allocated share of seized property under the law enforcement asset forfeiture program. Miscellaneous income also increased in the General Fund by \$5.5 million almost entirely as a result of an increase in receipts for medical recoupment.

Total expenditures increased by \$51.8 million from the prior year mainly due to the following:

- Salaries and benefits increased by \$34.0 million, predominately due to a salary increase for all state employees and an increase in overtime for correctional staff due to turnover in these positions.
- Supplies and materials decreased by \$9.2 million, mostly as a result of an \$8.8 million decrease in drug supplies purchased due to the decreased cost in Hepatitis C treatment protocol.
- Capital outlay costs increased by \$17.6 million. In the Capital Projects Fund, capital outlay increased by \$9.7 million due to the renovation and expansion of the Samarcand training academy, the renovation of the long term care unit at Central Prison, and general repair and renovation costs. In the General Fund, capital outlay increased by \$9.1 million as a result of the purchase of an airplane for the State Bureau of Investigation and other types of equipment purchases.
- Expenditures to other state agencies increased by \$5.3 million, mainly due to new transfers during the year. In the General Fund, there was a \$2.6 million transfer to the North Carolina Department of Agriculture related to fire disaster funds. In the Capital Projects Fund, there was a \$2.0 million transfer to the North Carolina Department of Transportation to support a joint project with the State Highway Patrol. Other transfers may fluctuate from year to year due to legislative actions.

Other financing sources increased by \$89.7 million from the prior year, mainly due to an increase in state appropriations of \$76.4 million. In the General Fund, state appropriations increased predominately for anticipated increased salaries for all employees and increase in correctional officer base pay. In the Capital Projects Fund, state appropriations increased to fund various construction projects. See additional information in the capital outlay explanation above.

### **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 \$483.5 million and \$2.7 billion, respectively. This represents a 147% increase in revenues and a 11% increase in expenditures from the original certified budget. The increase in authorized revenues was 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 \$70 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 was \$78.5 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 2018 was prepared during the fall of 2016, nearly a year in advance of the final authorized budget. In addition, Session Law 2014-100 modified the State Budget Act (G.S. 143C) to define the base budget as the baseline for the next biennium. Using this baseline prohibits budget increases for inflation, population growth, or other factors that impact the continuation of existing programs. 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 might occur.

#### *Variances – Final Budget and Actual Results:*

Actual total revenues were \$216.1 million less than budgeted revenue amounts. Federal grant revenues were \$240 million below budget. It is the Department's policy to budget the entire award receipt, while the grant period of performance may span multiple state fiscal years.

Likewise, actual total expenditures were \$411.1 million less than budgeted expenditures. Federal grant expenditures were \$364 million below. Grant expenditures are also budgeted at the full grant award when received as described above. The majority of this difference was due to spending less than projected in relation to the Community Development Block Grant disaster funds of \$211.6 million (transferred from Department of Commerce), Governor's Crime Commission grants of \$117.6 million, and \$13.8 million on floodplain mapping costs.

### **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 \$91.8 million and \$88.5 million, respectively. This represents a 1% decrease in revenues and a 2% decrease 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 2018 was prepared during the fall of 2016, nearly 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 expenditures were \$4.4 million less than budgeted expenditures. Variances from budgeted expenditures primarily occurred due to production changes implemented due to the fire and attempted inmate escape at the Pasquotank Sewing Plant.

### **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 \$44.5 million and \$42.4 million, respectively. This represents a 6% increase in revenues and a 3% 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 2018 was prepared in the fall of 2016, nearly a year in advance of the final authorized budget. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

*Variances – Final Budget and Actual Results:*

Actual total revenues were \$4.9 million less than budgeted revenue amounts. Revenues decreased due to new Federal Communication Commission (FCC) regulations imposing new rate caps on pay telephone commissions.

Likewise, actual total expenditures were \$1.1 million less than budgeted expenditures. The decrease in expenditures was primarily related to reduction in availability of funds due to the reduction in revenues caused by the FCC 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, 2018 and 2017.

	2018	2017 (Restated)	Change
<b>Assets</b>			
Current Assets	\$ 18,771,637	\$ 13,932,769	\$ 4,838,868
Capital Asset, Net	2,290,413	2,394,339	(103,926)
Other Noncurrent Assets	12,843	11,504	1,339
<b>Total Assets</b>	<b>21,074,893</b>	<b>16,338,612</b>	<b>4,736,281</b>
<b>Deferred Outflows of Resources</b>			
Deferred Outflows Related to Pensions	1,051,799	1,280,779	(228,980)
Deferred Outflows Related to OPEB	1,504,239	219,404	1,284,835
<b>Total Deferred Outflows of Resources</b>	<b>2,556,038</b>	<b>1,500,183</b>	<b>1,055,855</b>
<b>Liabilities</b>			
Current:			
Long-Term Liabilities - Current Portion	26,913	27,629	(716)
Other Current Liabilities	209,694	477,148	(267,454)
Noncurrent:			
Long-Term Liabilities	9,075,763	9,707,619	(631,856)
<b>Total Liabilities</b>	<b>9,312,370</b>	<b>10,212,396</b>	<b>(900,026)</b>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows Related to Pensions	70,197	103,804	(33,607)
Deferred Inflows Related to OPEB	2,360,780		2,360,780
<b>Total Deferred Inflows of Resources</b>	<b>2,430,977</b>	<b>103,804</b>	<b>2,327,173</b>
<b>Net Position</b>			
Investment in Capital Assets	2,290,413	2,394,339	(103,926)
Restricted	22,685	24,970	(2,285)
Unrestricted	9,574,486	5,103,286	4,471,200
<b>Total Net Position</b>	<b>\$ 11,887,584</b>	<b>\$ 7,522,595</b>	<b>\$ 4,364,989</b>

Total assets increased \$4.7 million from the prior year, mainly due to a \$4.9 million increase in cash and cash equivalents as a result of the ABC Commission's net operating income of \$4.6 million. Unrestricted net position, which increased by \$4.5 million, was directly impacted by this increase.

As a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the proprietary fund financial statements show an increase in deferred outflows of \$1.3 million, decrease in long-term liabilities of \$0.7 million, and an increase in deferred inflows of \$2.4 million related to other postemployment benefits.

### Condensed 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 for years ended June 30, 2018 and 2017.

	2018	2017*	Change
<b>Operating Revenues</b>			
Fees, Licenses, and Fines	\$ 21,031,699	\$ 20,254,366	\$ 777,333
Other Operating Revenues	121,246	70,369	50,877
Total Operating Revenues	21,152,945	20,324,735	828,210
<b>Operating Expenses</b>			
Salaries and Benefits	4,836,352	4,334,842	501,510
Contracted Personal Services	10,666,819	12,078,653	(1,411,834)
Supplies and Materials	208,044	155,756	52,288
Depreciation	122,311	118,398	3,913
Travel	58,182	54,644	3,538
Communication	48,130	49,231	(1,101)
Utilities	39,128	36,694	2,434
Data Processing Services	110,554	148,938	(38,384)
Other Services	195,024	264,181	(69,157)
Other Fixed Charges	129,633	38,350	91,283
Grants, State Aid, and Subsidies		3,906	(3,906)
Insurance and Bonding	214	344	(130)
Other Operating Expenses	422,518	489,297	(66,779)
Total Operating Expenses	16,836,909	17,773,234	(936,325)
Operating Income	4,316,036	2,551,501	1,764,535
Net Nonoperating Revenues	48,953	103,617	(54,664)
Change in Net Position	4,364,989	2,655,118	1,709,871
Net Position - July 1	7,522,595	12,086,443	(4,563,848)
Restatement		(7,218,966)	7,218,966
Net Position - June 30	\$ 11,887,584	\$ 7,522,595	\$ 4,364,989

\*Note: The year ended June 30, 2017 column is not presented as restated in regards to GASB 75 because actuarial calculations performed do not provide sufficient information to restate revenues, expenses, or cash flows for 2017.

Total operating revenues increased by \$0.8 million which comprised mostly of fees, licenses, and fines. As a result of ABC store sales, there was an increase in Surcharges of \$0.4 million and an increase in Bailment Charges of \$0.4 million.

Total operating expenses decreased by \$0.9 million. The ABC Commission's contracted personal services decreased by \$1.4 million as a result of a decrease for the Underage Drinking Fund's educational contract and a decrease in the management contract for the ABC Commission's warehouse. There was also an offsetting increase in salaries and benefits in the amount of \$0.5 million related to recording an expense for other postemployment benefits for the first year due to new reporting requirements mentioned above.

The restatements are explained in the Notes to the Financial Statements – Note 16.

### **Future Outlook**

#### **Hurricane Florence**

In September 2018, Hurricane Florence brought great destruction to the State of North Carolina, with hurricane force winds pounding coastal regions and record rainfall bringing historic flooding, as the storm stalled over the State for several days. In a report issued by Governor Roy Cooper on October 10, 2018, *Hurricane Florence Recovery Recommendations*, it is estimated that Hurricane Florence left North Carolina with almost \$13 billion in damage, impacting almost every aspect of life. The physical and economic impact from Hurricane Florence is estimated to be over twice the \$4.8 billion cost of Hurricane Matthew in 2016.

Immediate access to funding for survivors is an essential step on the road to recovery. Recognizing this need, Governor Cooper issued a proclamation to hold a special session of the North Carolina General Assembly to address Hurricane Florence relief efforts. Subsequently, Legislators created the Hurricane Florence Disaster Recovery Fund (S.L. 2018-136), and appropriated \$100 million to the Department of Public Safety. Additionally, the Office of Recovery and Resiliency was established within the Division of Emergency Management. As with Hurricane Matthew, the Department of Public Safety will play an integral role in North Carolina's disaster recovery related to Hurricane Florence since we anticipate that the effects of these hurricanes will continue for several years.

#### **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, since 2015, the vacancy rate for correctional officers has increased 110%.

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. Since 2015, overtime has increased by \$30 million, which equates to a 97.6% increase.

In an attempt to retain correctional officers and encourage recruitment (especially at the close-custody prison facilities), beginning January 2016, the NC General Assembly approved annual pay increases for correctional officers, custody supervisors, and prison facility administrators and also increased the minimum salaries for correctional officers.

The Department has requested funding to implement a step pay plan for correctional staff that will compensate established employees in the hopes of improving retention.

### **Prison Reform**

In response to violent incidents in the past few years, the Department's management has consulted with and sought out national experts in the field of corrections. Following a requested investigation of prison policy and safety practices, a report was issued by the National Institute of Corrections, providing recommendations for safety improvements in our prisons. The Department continues to seek funding to execute the improvements recommended in the report as well as implement other industry best practices and technology.

### **Juvenile Justice Reinvestment Act (House Bill 280 "Raise the Age")**

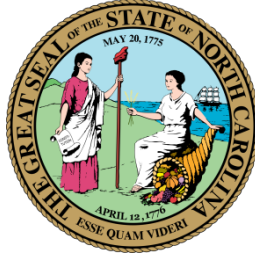
"Raise the Age" continues to have a significant impact on the budget and the operations of the Department of Public Safety for the 2018-2019 fiscal year. During the 2017 legislative session, the NC General Assembly passed House Bill 280 ("Raise the Age") with bipartisan support, as well as with support 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.

The Department will need a significant increase in staff, building capacity, and other resources to serve the increase in juvenile population. However, the initiative 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% 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.

### **Capital Projects**

In the coming years, the Department anticipates funding for National Guard armory and facility development projects to match additional federal funds that have been authorized. Furthermore, the Samarcand training facility will continue to grow into a state of the art law enforcement training academy and additional funding will be necessary to add space for rehabilitation and detention of 16 and 17-year-old juveniles due to the "Raise the Age" legislation.





# **FINANCIAL STATEMENTS**

**North Carolina Department of Public Safety**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018 (With Comparative Totals for June 30, 2017)**

**Exhibit A-1**

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
<b>ASSETS</b>						
Cash and Cash Equivalents (Note 2)	\$ 120,804,350	\$ 20,940,254	\$ 73,970,128	\$ 5,511,554	\$ 221,226,286	\$ 194,607,342
Receivables:						
Accounts Receivable, Net (Note 4)	1,077,391	707,753			1,785,144	1,963,452
Intergovernmental Receivables, Net (Note 5)	20,954,883	397,339			21,352,222	24,552,578
Interest Receivable	16,451				16,451	14,101
Due from Other Funds and State Agencies	2,974,721	2,942,390			5,917,111	6,439,010
Inventories	38,075,171	14,464,415		1,860,815	54,400,401	56,637,775
Notes Receivable	605,182				605,182	703,285
Total Assets	184,508,149	39,452,151	73,970,128	7,372,369	305,302,797	284,917,543
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	0	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 184,508,149	\$ 39,452,151	\$ 73,970,128	\$ 7,372,369	\$ 305,302,797	\$ 284,917,543
<b>LIABILITIES</b>						
Accounts Payable and Accrued Liabilities:						
Accounts Payable	\$ 27,902,977	\$ 2,693,788	\$ 4,489,814	\$ 1,301,813	\$ 36,388,392	\$ 35,818,058
Medical Claims Payable	20,149,010				20,149,010	28,322,612
Accrued Payroll	17,441	2,402			19,843	15,256
Intergovernmental Payables	4,699,561	20,000		487	4,720,048	7,097,933
Due to Other Funds and State Agencies	10,126,768			304	10,127,072	5,733,245
Funds Held for Others	220,976				220,976	265,366
Unearned Revenue	4,247,134	34,490			4,281,624	9,669,795
Total Liabilities	67,363,867	2,750,680	4,489,814	1,302,604	75,906,965	86,922,265
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	0	0	0	0	0	0
<b>FUND BALANCES (Note 9)</b>						
Nonspendable	38,538,815	14,464,415		1,860,815	54,864,045	57,211,076
Restricted	12,090,028				12,090,028	12,154,348
Committed	77,792,469	22,237,056	70,630,374	4,208,950	174,868,849	149,288,260
Unassigned	(11,277,030)		(1,150,060)		(12,427,090)	(20,658,406)
Total Fund Balances	117,144,282	36,701,471	69,480,314	6,069,765	229,395,832	197,995,278
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 184,508,149	\$ 39,452,151	\$ 73,970,128	\$ 7,372,369	\$ 305,302,797	\$ 284,917,543

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, 2018 (With Comparative Totals for June 30, 2017)**

**Exhibit A-2**

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2018	Total Governmental Funds 2017 (Restated)
<b>REVENUES</b>						
Federal Funds	\$ 180,355,756	\$ 0	\$ 0	\$ 0	\$ 180,355,756	\$ 172,544,797
Local Funds	10,535				10,535	9,595
Investment Earnings	171,485			3,054	174,539	177,786
Sales and Services	17,929,035	36,320,055		38,997,432	93,246,522	99,504,699
Intragovernmental Sales and Services		53,794,408			53,794,408	53,710,183
Rental and Lease of Property	273,654	416,610		6,500	696,764	875,468
Fees, Licenses, and Fines	40,914,029				40,914,029	39,829,082
Student Tuition and Fees	55,385				55,385	96,370
Contributions, Gifts, and Grants	7,733,851			107,476	7,841,327	5,509,984
Revenues from Other State Agencies (Note 11)	35,705,882		7,064,272		42,770,154	54,712,507
Miscellaneous Income	14,305,244	135,797		230,005	14,671,046	9,085,975
<b>Total Revenues</b>	<b>297,454,856</b>	<b>90,666,870</b>	<b>7,064,272</b>	<b>39,344,467</b>	<b>434,530,465</b>	<b>436,056,446</b>
<b>EXPENDITURES</b>						
Salaries and Benefits	1,480,900,007	25,772,570		1,226,460	1,507,899,037	1,473,932,255
Contracted Personal Services	127,423,290	386,285	629,352	997,697	129,436,624	132,637,057
Contracted Medical Services	121,056,757				121,056,757	121,983,673
Supplies and Materials	161,984,007	4,565,962		2,769,784	169,319,753	178,543,843
Purchases for Resale		44,545,002		33,225,420	77,770,422	75,319,825
Travel	4,121,891	338,111			4,460,002	4,253,615
Communication	11,084,318	134,406		4,520	11,223,244	10,229,788
Utilities	53,834,856	2,996,093		186,486	57,017,435	54,425,868
Data Processing Services	19,486,825	841,778		4,815	20,333,418	19,792,864
Other Services	12,204,720	1,615,898	1,801	126,711	13,949,130	13,502,146
Claims and Benefits	12,269,884				12,269,884	11,918,902
Debt Service:						
Principal Retirement	822,333			60,459	882,792	1,273,945
Interest and Fees	337,860			9,121	346,981	376,442
Other Fixed Charges	12,435,129	513,291		171,129	13,119,549	12,479,606
Capital Outlay	57,656,166	3,213,145	26,876,271	883,932	88,629,514	71,047,016
Grants, State Aid, and Subsidies	174,987,374				174,987,374	172,937,483
Insurance and Bonding	2,672,715	393,253		3,090	3,069,058	2,755,172
Expenditures to Other State Agencies (Note 11)	29,780,040	500,000	2,000,000		32,280,040	26,976,455
Other Expenditures	26,748,236	1,014,777		1,561,356	29,324,369	31,161,968
<b>Total Expenditures</b>	<b>2,309,806,408</b>	<b>86,830,571</b>	<b>29,507,424</b>	<b>41,230,980</b>	<b>2,467,375,383</b>	<b>2,415,547,923</b>
Excess of Revenues Over (Under) Expenditures	(2,012,351,552)	3,836,299	(22,443,152)	(1,886,513)	(2,032,844,918)	(1,979,491,477)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Capital Assets	3,826,855	29,457			3,856,312	3,281,576
Insurance Recoveries	1,148,047	475,000			1,623,047	1,448,809
Transfers In (Note 10)	3,369,488	201,600	4,235,641		7,806,729	10,431,118
Transfers Out (Note 10)	(3,924,904)	(2,731,330)		(1,150,495)	(7,806,729)	(10,431,118)
Transfers to State Reserve Fund	(9,495,846)				(9,495,846)	(15,105,047)
Transfers from State Reserve Fund	14,882,274				14,882,274	7,954,210
State Appropriations	2,020,231,376		33,148,309		2,053,379,685	1,976,962,688
<b>Total Other Financing Sources (Uses)</b>	<b>2,030,037,290</b>	<b>(2,025,273)</b>	<b>37,383,950</b>	<b>(1,150,495)</b>	<b>2,064,245,472</b>	<b>1,974,542,236</b>
<b>Net Change in Fund Balances</b>	<b>17,685,738</b>	<b>1,811,026</b>	<b>14,940,798</b>	<b>(3,037,008)</b>	<b>31,400,554</b>	<b>(4,949,241)</b>
Fund Balances - July 1, as Restated (Note 16)	99,458,544	34,890,445	54,539,516	9,106,773	197,995,278	202,944,519
Fund Balances - June 30	\$ 117,144,282	\$ 36,701,471	\$ 69,480,314	\$ 6,069,765	\$ 229,395,832	\$ 197,995,278

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, 2018 (With Comparative Totals for June 30, 2017)**

**Exhibit B-1**

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2018	Total Proprietary Funds 2017 (Restated)
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 14,666,112	\$ 2,010,102	\$ 16,676,214	\$ 11,842,261
Receivables:				
Accounts Receivable	409,635		409,635	411,938
Intergovernmental Receivables	1,659,551		1,659,551	1,662,934
Due from Other Funds				557
Interest Receivable		2,570	2,570	1,969
Inventories	1,505	22,162	23,667	13,110
Total Current Assets	16,736,803	2,034,834	18,771,637	13,932,769
Noncurrent Assets:				
Net Other Postemployment Benefits Asset	9,066	3,777	12,843	11,504
Capital Assets - Nondepreciable (Note 6)	550,407		550,407	550,407
Capital Assets - Depreciable, Net (Note 6)	1,717,643	22,363	1,740,006	1,843,932
Total Noncurrent Assets	2,277,116	26,140	2,303,256	2,405,843
Total Assets	19,013,919	2,060,974	21,074,893	16,338,612
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflows Related to Pensions	722,254	329,545	1,051,799	1,280,779
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	892,086	612,153	1,504,239	219,404
Total Deferred Outflows of Resources	1,614,340	941,698	2,556,038	1,500,183
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	121,254	52,066	173,320	383,469
Due to Other Funds	10,154	26,220	36,374	93,679
Compensated Absences (Note 7)	20,508	6,405	26,913	27,629
Total Current Liabilities	151,916	84,691	236,607	504,777
Noncurrent Liabilities:				
Compensated Absences (Note 7)	306,053	95,581	401,634	353,453
Net Pension Liability (Note 7)	1,329,332	553,888	1,883,220	1,904,292
Net Other Postemployment Benefits Liability (Note 7)	4,793,583	1,997,326	6,790,909	7,449,874
Total Noncurrent Liabilities	6,428,968	2,646,795	9,075,763	9,707,619
Total Liabilities	6,580,884	2,731,486	9,312,370	10,212,396
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows Related to Pensions	49,550	20,647	70,197	103,804
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	1,666,197	694,583	2,360,780	
Total Deferred Inflows of Resources	1,715,747	715,230	2,430,977	103,804
<b>NET POSITION</b>				
Investment in Capital Assets	2,268,050	22,363	2,290,413	2,394,339
Restricted for:				
Expendable:				
Specific Purposes	16,265	6,420	22,685	24,970
Unrestricted	10,047,313	(472,827)	9,574,486	5,103,286
Total Net Position	\$ 12,331,628	\$ (444,044)	\$ 11,887,584	\$ 7,522,595

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, 2018 (With Comparative Totals for June 30, 2017)**

**Exhibit B-2**

	<b>ABC Commission</b>	<b>Other Proprietary Funds (1)</b>	<b>Total Proprietary Funds 2018</b>	<b>Total Proprietary Funds 2017</b>
<b>REVENUES</b>				
Operating Revenues:				
Sales and Services	\$ 1,073	\$ 255	\$ 1,328	\$ 909
Fees, Licenses, and Fines	19,213,300	1,818,399	21,031,699	20,254,366
Student Tuition and Fees		20,241	20,241	20,575
Miscellaneous Income	30,909	68,768	99,677	48,885
Total Operating Revenues	19,245,282	1,907,663	21,152,945	20,324,735
<b>EXPENSES</b>				
Operating Expenses:				
Salaries and Benefits	3,379,065	1,457,287	4,836,352	4,334,842
Contracted Personal Services	10,339,750	327,069	10,666,819	12,078,653
Supplies and Materials	180,214	27,830	208,044	155,756
Depreciation	117,084	5,227	122,311	118,398
Travel	21,993	36,189	58,182	54,644
Communication	28,997	19,133	48,130	49,231
Utilities	38,991	137	39,128	36,694
Data Processing Services	75,783	34,771	110,554	148,938
Other Services	168,333	26,691	195,024	264,181
Other Fixed Charges	36,261	93,372	129,633	38,350
Grants, Aid, and Subsidies				3,906
Insurance and Bonding	179	35	214	344
Other Expenses	286,748	135,770	422,518	489,297
Total Operating Expenses	14,673,398	2,163,511	16,836,909	17,773,234
Operating Income (Loss)	4,571,884	(255,848)	4,316,036	2,551,501
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Sale of Surplus Property				1,070
Loss on Sale of Capital Assets				(9,830)
Noncapital Grants	52,356		52,356	90,217
Noncapital Grant Expenses	(30,750)		(30,750)	
Investment Earnings		27,347	27,347	22,160
Net Nonoperating Revenues	21,606	27,347	48,953	103,617
Change in Net Position	4,593,490	(228,501)	4,364,989	2,655,118
<b>NET POSITION</b>				
Net Position - July 1	7,738,138	(215,543)	7,522,595	12,086,443
Restatement (Note 16)				(7,218,966)
Net Position - June 30	\$ 12,331,628	\$ (444,044)	\$ 11,887,584	\$ 7,522,595

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**

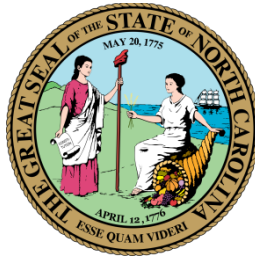
**For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)**

**Exhibit B-3**

	<b>ABC Commission</b>	<b>Other Proprietary Funds (1)</b>	<b>Total Proprietary Funds 2018</b>	<b>Total Proprietary Funds 2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 19,220,522	\$ 1,897,340	\$ 21,117,862	\$ 20,387,624
Payments to Employees and Fringe Benefits	(2,933,976)	(1,228,328)	(4,162,304)	(4,315,135)
Payments to Vendors and Suppliers	(11,329,503)	(822,069)	(12,151,572)	(12,542,536)
Payments for Other Expenses				(475,870)
Net Cash Provided (Used) by Operating Activities	4,957,043	(153,057)	4,803,986	3,054,083
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Noncapital Grants	52,356		52,356	
Noncapital Grant Disbursements	(30,750)		(30,750)	90,217
Net Cash Provided by Noncapital Financing Activities	21,606		21,606	90,217
<b>CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Sale of Surplus Property				1,070
Acquisition and Construction of Capital Assets	(18,385)		(18,385)	(19,787)
Net Cash Used by Capital Financing and Related Financing Activities	(18,385)		(18,385)	(18,717)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Earnings		26,746	26,746	21,687
Net Increase (Decrease) in Cash and Cash Equivalents	4,960,264	(126,311)	4,833,953	3,147,270
Cash and Cash Equivalents - July 1, 2017	9,705,848	2,136,413	11,842,261	8,694,991
Cash and Cash Equivalents - June 30, 2018	<u>\$ 14,666,112</u>	<u>\$ 2,010,102</u>	<u>\$ 16,676,214</u>	<u>\$ 11,842,261</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 4,571,884	\$ (255,848)	\$ 4,316,036	\$ 2,551,501
Adjustments to Reconcile Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	117,084	5,227	122,311	118,398
Changes in Assets and Deferred Outflows of Resources:				
Accounts Receivable	2,302		2,302	(173,256)
Intergovernmental Receivables	3,383		3,383	236,701
Due from Other Funds		557	557	(557)
Inventories	2,170	(12,726)	(10,556)	8,808
Net Other Postemployment Benefits Asset	(630)	(709)	(1,339)	
Deferred Outflows Related to Pensions	207,145	21,835	228,980	(982,221)
Deferred Outflows Related to Other Postemployment Benefits	(737,213)	(547,622)	(1,284,835)	
Changes in Liabilities and Deferred Inflows of Resources:				
Accounts Payable and Accrued Liabilities	(129,137)	(81,012)	(210,149)	299,670
Due to Other Funds	(25,287)	(32,018)	(57,305)	(20,316)
Net Pension Liability	(67,149)	46,077	(21,072)	1,127,375
Net Other Postemployment Benefits Liability	(669,658)	10,693	(658,965)	
Compensated Absences	42,525	4,940	47,465	(30,304)
Deferred Inflows Related to Pensions	(26,573)	(7,034)	(33,607)	(81,716)
Deferred Inflows Related to Other Postemployment Benefits	1,666,197	694,583	2,360,780	
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,957,043</u>	<u>\$ (153,057)</u>	<u>\$ 4,803,986</u>	<u>\$ 3,054,083</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>				
Loss on Disposal of Capital Assets	\$ 0	\$ 0	\$ 0	\$ (9,830)

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 fund is reported as a special revenue fund in the financial statements.

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

**Alcoholic Beverage Control (ABC) Commission** - This enterprise 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.

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 and obligations for workers' compensation, which are recognized as expenditures when payment is due. Pension and other postemployment benefit 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. The Department's equity position in the STIF is recorded at fair value. 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 receivable for the governmental funds primarily include amounts due from security services provided by the State Bureau of Investigation,

amounts due from employees, and sales and services provided by the Correction Enterprises Fund. Accounts receivable for the proprietary funds include amounts due to the ABC Commission from suppliers. Accounts receivable for the governmental funds 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 receivable also includes amounts due from local governments in connection with housing inmates (safekeepers) and security services provided by the State Bureau of Investigation. Intergovernmental receivables for the proprietary funds include amounts due to the ABC Commission from the local ABC boards for bailments and surcharges. Intergovernmental receivables for the governmental funds 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) or weighted average 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 the 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.

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, net pension liability, and net other postemployment benefits (OPEB) 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 2017 *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. See Note 12 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Department's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the Department's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- 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, the Department reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance/net position that applies to a future period(s) and so will not be recognized as an outflow of resources



(expense) until then. The Department's proprietary funds have the following items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows related to other postemployment benefits.

In addition to liabilities, the Department reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance/net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Department's proprietary funds have the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

#### **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.

*Restricted - Expendable* - Expendable restricted net position includes resources for which the proprietary funds are legally or contractually obligated to spend in accordance with restrictions imposed by external parties. It includes the net position of accrued employee benefits such as other postemployment benefits.

*Unrestricted* - This represents resources derived from fees, licenses, and fines, sales and services, unrestricted noncapital grants, and investment earnings. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the Department. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

**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.

The amount shown on the governmental funds' Balance Sheet as cash and cash equivalents included cash on hand totaling \$5,200, and deposits in private financial institutions with a carrying value and bank balance of \$1,490,698. As of June 30, 2018, \$998,325 of the Department's bank balance 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, 2018, the Department's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

At June 30, 2018, the governmental funds' Balance Sheet included cash and cash equivalents of \$219,730,388. The proprietary funds' Statement of Net Position reported cash and cash equivalents of \$16,676,214 for the same date. These amounts represent 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 1.4 years as of June 30, 2018. 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, 2018. 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 \$236,406,602 were held in the STIF. 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. Pool investments are measured at fair value in accordance with GASB 72. The Department's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable for the governmental funds at June 30, 2018 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Governmental Funds:</b>			
<b>General Fund:</b>			
Due from Employees	\$ 2,305,563	\$ 1,459,064	\$ 846,499
SBI Security Services	80,324	2,611	77,713
State Highway Patrol	50,612		50,612
Other	117,957	15,390	102,567
Total	<u>2,554,456</u>	<u>1,477,065</u>	<u>1,077,391</u>
<b>Correction Enterprises Fund:</b>			
Sales	479,715	2,487	477,228
Farm Leases	22,246		22,246
Other	208,279		208,279
Total	<u>710,240</u>	<u>2,487</u>	<u>707,753</u>
<b>Total Accounts Receivable</b>	<u><u>\$ 3,264,696</u></u>	<u><u>\$ 1,479,552</u></u>	<u><u>\$ 1,785,144</u></u>

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables for the governmental funds at June 30, 2018 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Governmental Funds:</b>			
<b>General Fund:</b>			
Federal Government	\$ 12,201,422	\$ 0	\$ 12,201,422
U.S. States and Territories	3,510,848		3,510,848
Local Government:			
Safekeepers	3,717,386	511,419	3,205,967
Juvenile Detention	1,159,694		1,159,694
SBI-Concealed Handgun Permits	648,765		648,765
SBI-Criminal History Record Information	42,157	545	41,612
Other Local Governments	187,043	468	186,575
Total	<u>21,467,315</u>	<u>512,432</u>	<u>20,954,883</u>
<b>Correction Enterprises Fund:</b>			
Federal Government	53,794		53,794
U.S. States and Territories	1,083		1,083
Sales and Services to Local Governments	343,458	996	342,462
Total	<u>398,335</u>	<u>996</u>	<u>397,339</u>
<b>Total Intergovernmental Receivables</b>	<u><u>\$ 21,865,650</u></u>	<u><u>\$ 513,428</u></u>	<u><u>\$ 21,352,222</u></u>

# NOTE 6 - CAPITAL ASSETS

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<b>Governmental Funds</b>				
Capital Assets, Nondepreciable:				
Land	\$ 23,772,522	\$ 54,365	\$ 98,942	\$ 23,727,945
Construction in Progress	21,653,540	33,424,903	18,577,687	36,500,756
Literature	29,204			29,204
<b>Total Capital Assets, Nondepreciable</b>	<b>45,455,266</b>	<b>33,479,268</b>	<b>18,676,629</b>	<b>60,257,905</b>
Capital Assets, Depreciable:				
Buildings	1,890,316,445	5,987,307	11,266,766	1,885,036,986
Equipment	301,238,494	36,978,254	18,565,628	319,651,120
General Infrastructure	157,363,230	3,025,402	666,011	159,722,621
Computer Software	1,337,766			1,337,766
<b>Total Capital Assets, Depreciable</b>	<b>2,350,255,935</b>	<b>45,990,963</b>	<b>30,498,405</b>	<b>2,365,748,493</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	598,561,771	34,679,634	6,293,310	626,948,095
Equipment	138,403,572	14,615,724	8,868,461	144,150,835
General Infrastructure	49,014,485	3,158,857	388,908	51,784,434
Computer Software	542,258	63,795		606,053
<b>Total Accumulated Depreciation/Amortization</b>	<b>786,522,086</b>	<b>52,518,010</b>	<b>15,550,679</b>	<b>823,489,417</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>1,563,733,849</b>	<b>(6,527,047)</b>	<b>14,947,726</b>	<b>1,542,259,076</b>
<b>Capital Assets, Net</b>	<b>\$ 1,609,189,115</b>	<b>\$ 26,952,221</b>	<b>\$ 33,624,355</b>	<b>\$ 1,602,516,981</b>

A summary of changes in the proprietary funds' capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<b>Proprietary Funds</b>				
Capital Assets, Nondepreciable:				
Land	\$ 550,407	\$ 0	\$ 0	\$ 550,407
<b>Total Capital Assets, Nondepreciable</b>	<b>550,407</b>			<b>550,407</b>
Capital Assets, Depreciable:				
Buildings	5,242,120			5,242,120
Machinery and Equipment	240,907	18,385		259,292
General Infrastructure	30,000			30,000
<b>Total Capital Assets, Depreciable</b>	<b>5,513,027</b>	<b>18,385</b>		<b>5,531,412</b>
Less Accumulated Depreciation for:				
Buildings	3,512,221	104,841		3,617,062
Machinery and Equipment	126,874	17,470		144,344
General Infrastructure	30,000			30,000
<b>Total Accumulated Depreciation</b>	<b>3,669,095</b>	<b>122,311</b>		<b>3,791,406</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>1,843,932</b>	<b>(103,926)</b>		<b>1,740,006</b>
<b>Capital Assets, Net</b>	<b>\$ 2,394,339</b>	<b>\$ (103,926)</b>	<b>\$ 0</b>	<b>\$ 2,290,413</b>

**NOTE 7 - LONG-TERM LIABILITIES****A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Due Within One Year
<b>Governmental Funds</b>					
Long-Term Debt					
Notes Payable	\$ 13,547,026	\$ 0	\$ 822,333	\$ 12,724,693	\$ 1,101,073
Capital Leases Payable	164,535		60,459	104,076	104,076
Total Long-Term Debt	13,711,561	0	882,792	12,828,769	1,205,149
<b>Other Long-Term Liabilities</b>					
Compensated Absences	139,593,292	83,334,026	78,670,006	144,257,312	9,059,359
Workers' Compensation Liability	290,403,177	46,720,683	48,283,672	288,840,188	35,517,191
Net Other Postemployment Benefits Liability	2,475,841,600		485,306,313	1,990,535,287	
Net Pension Liability	632,859,696		80,854,665	552,005,031	
Total Other Long-Term Liabilities	3,538,697,765	130,054,709	693,114,656	2,975,637,818	44,576,550
<b>Total Long-Term Liabilities</b>	<b>\$ 3,552,409,326</b>	<b>\$ 130,054,709</b>	<b>\$ 693,997,448</b>	<b>\$ 2,988,466,587</b>	<b>\$ 45,781,699</b>
	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Due Within One Year
<b>Proprietary Funds</b>					
Compensated Absences	\$ 381,082	\$ 276,713	\$ 229,248	\$ 428,547	\$ 26,913
Net Other Postemployment Benefits Liability	7,449,874	10,693	669,658	6,790,909	
Net Pension Liability	1,904,292	46,077	67,149	1,883,220	
<b>Total Long-Term Liabilities</b>	<b>\$ 9,735,248</b>	<b>\$ 333,483</b>	<b>\$ 966,055</b>	<b>\$ 9,102,676</b>	<b>\$ 26,913</b>

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

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

Additional information regarding the net other postemployment benefits liability is included in Note 13.

Additional information regarding the workers' compensation liability is included in Note 14.

The July 1, 2017 net other postemployment benefits liability was restated in accordance with the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The July 1, 2017 workers' compensation liability was restated to record the Department's obligations.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Energy Efficiency	Banc of America Public Capital Corp	2.53%	12/15/2027	\$ 15,801,217	\$ 3,076,524	\$ 12,724,693

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2018 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2019	\$ 1,101,073	\$ 310,927
2020	1,157,405	282,595
2021	1,215,174	252,826
2022	1,275,424	221,576
2023	1,338,221	188,779
2024-2028	6,637,396	400,138
Total Requirements	\$ 12,724,693	\$ 1,656,841

# 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, 2018:

Fiscal Year	Governmental Funds
2019	\$ 108,782
Total Minimum Lease Payments	108,782
Amount Representing Interest (7.75% Rate of Interest)	4,706
Present Value of Future Lease Payments	\$ 104,076

Capital assets acquired under capital lease amounted to \$278,320 at June 30, 2018.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$24,217 at June 30, 2018.

- 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, 2018:

<u>Fiscal Year</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
2019	\$ 8,609,080	\$ 86,685
2020	7,835,399	87,995
2021	5,532,075	89,865
2022	2,524,844	45,031
2023	2,000,836	
2024-2028	3,463,878	
<b>Total Minimum Lease Payments</b>	<b>\$ 29,966,112</b>	<b>\$ 309,576</b>

Rental expense for all operating leases during the year ended June 30, 2018, was \$22,951,996.

**NOTE 9 - FUND BALANCE/NET POSITION**

**A. Fund Balance** - The details of the fund balance classifications for the governmental funds at June 30, 2018 were as follows:

	<u>General Fund</u>	<u>Correction Enterprises Fund</u>	<u>Capital Projects Fund</u>	<u>Welfare Fund</u>	<u>Total</u>
<b>Fund Balance:</b>					
Nonspendable:					
Inventories	\$ 38,075,171	\$ 14,464,415	\$ 0	\$ 1,860,815	\$ 54,400,401
Other	463,644				463,644
Restricted for:					
Federal Grants and Federal Drug Forfeiture Funds	11,847,656				11,847,656
National Guard Funds	242,372				242,372
Committed to:					
State Misdemeanant Confinement	50,487,445				50,487,445
Emergency Management	3,342,602				3,342,602
Law Enforcement	577,794				577,794
Geodetic Survey Contracts	79,960				79,960
Disaster Recovery Funds	22,836,896				22,836,896
Interstate Compact Fee	467,772				467,772
Correction Enterprises		22,237,056			22,237,056
Welfare of Inmates				4,208,950	4,208,950
Capital Projects			70,630,374		70,630,374
Unassigned	(11,277,030)		(1,150,060)		(12,427,090)
<b>Total Fund Balance</b>	<b>\$ 117,144,282</b>	<b>\$ 36,701,471</b>	<b>\$ 69,480,314</b>	<b>\$ 6,069,765</b>	<b>\$ 229,395,832</b>

**B. Net Position** - The deficit in unrestricted net position for the Other Proprietary Funds of \$472,827 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances



reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
<b>Other Proprietary Funds:</b>			
Deferred Outflows Related to Pensions	\$ 329,545	\$ 0	\$ 329,545
Deferred Outflows Related to OPEB		608,936	608,936
<b>Noncurrent Liabilities:</b>			
Long-Term Liabilities:			
Net Pension Liability	553,888		553,888
Net OPEB Liability		1,997,326	1,997,326
Deferred Inflows Related to Pensions	20,647		20,647
Deferred Inflows Related to OPEB		694,009	694,009
<b>Net Effect on Unrestricted Net Position</b>	<b>\$ (244,990)</b>	<b>\$ (2,082,399)</b>	<b>\$ (2,327,389)</b>

See Notes 12 and 13 for detailed information regarding the amortization of the proprietary funds' deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

#### NOTE 10 - INTERFUND TRANSFERS

Transfers in/out of other funds for the fiscal year ended June 30, 2018 consisted of the following:

	Transfers In			
	General Fund	Correction Enterprises Fund	Capital Projects Fund	Total
<b>Transfers Out</b>				
General Fund	\$ 0	\$ 201,600	\$ 3,723,304	\$ 3,924,904
Correction Enterprises Fund	2,218,993		512,337	2,731,330
Welfare Fund	1,150,495			1,150,495
<b>Total</b>	<b>\$ 3,369,488</b>	<b>\$ 201,600</b>	<b>\$ 4,235,641</b>	<b>\$ 7,806,729</b>

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, 2018 were as follows:

**Revenues from Other State Agencies:**

	Purpose	Amount
<b>General Fund:</b>		
Office of State Budget and Management	Disaster Recovery Funds	\$ 19,927,094
Department of Environmental Quality	Disaster Recovery Funds	325,152
Department of Transportation	Motor Carrier Enforcement Grant	9,237,770
	Specialty License Plate Revenue (National Guard)	79,380
Department of State Treasurer	Floodplain Mapping Register of Deeds	3,858,311
North Carolina Lottery	Funds for Alcohol Law Enforcement Branch Gambling Enforcement	2,100,000
Department of Information Technology	Information Technology System Conversion	169,470
Department of Public Instruction	Bonus for Eligible Teachers	8,705
Total		<u>35,705,882</u>
<b>Capital Projects Fund:</b>		
Office of State Controller	General Repairs and Maintenance	251,080
Office of State Budget and Management	Capital Facility Costs from Issuance of Debt	6,813,192
Total		<u>7,064,272</u>
Total Revenues from Other State Agencies		<u>\$ 42,770,154</u>

**Expenditures to Other State Agencies:**

	Purpose	Amount
<b>General Fund:</b>		
North Carolina General Fund	Revenues Collected under G.S. 18B-902	\$ 25,040,440
	Transfer to Support Annual Appropriations	1,000,000
	Excess Surplus Property Receipts per G.S. 143-64	472,507
Department of Agriculture	Fire Disaster Funds	2,576,977
Department of Health and Human Services	Fixed Nuclear Assessment per G.S. 166A-29	167,956
Community Colleges	Pamlico Recidivism Project	472,160
	Program Start up Funds for Small Colleges	50,000
Total		<u>29,780,040</u>
<b>Correction Enterprise Fund:</b>		
North Carolina General Fund	Transfer to Support Annual Appropriations	<u>500,000</u>
<b>Capital Projects Fund:</b>		
Department of Transportation	Transfer to Support Joint Project with State Highway Patrol	<u>2,000,000</u>
Total Expenditures to Other State Agencies		<u>\$ 32,280,040</u>

**NOTE 12 - PENSION PLANS****A. Cost-Sharing, Multiple-Employer, Defined Benefit Plan**

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment

is not due until the subsequent period. Consequently, the net pension liability, discussed in Note 7 to the financial statements, is not reported on the face of the governmental fund financial statements. However, the net pension liability for proprietary funds is reported on the face of the proprietary fund financial statements.

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$63,467,969, and the Department's contributions were \$114,030,785 for the year ended June 30, 2018. Of this amount, the proprietary funds contributed \$329,600.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2018, the Department's proportionate share of the collective net pension liability was \$553,888,251. Of this amount, the proprietary funds reported \$1,883,220. The net pension

liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the Department's proportion was 6.98081%, which was an increase of 0.07447 from its proportion measured as of June 30, 2016, which was 6.90634%. Of this proportion, the proprietary funds' share was 0.02373%, which was an increase of 0.00301 from its proportion measured as of June 30, 2016, which was 0.02072%.

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

Valuation Date	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return includes inflation assumption and is net of pension plan investment expense.

TSERS 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

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

return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

*Discount Rate:* The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

	Net Pension Liability		
	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Department as a Whole	\$ 1,140,131,299	\$ 553,888,251	\$ 62,691,304
Proprietary Funds	\$ 3,876,446	\$ 1,883,220	\$ 213,150

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2018, the Department's proportionate share of the collective pension expense was \$150,170,894. Of this amount, the proprietary funds recognized \$545,226. At June 30, 2018, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

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

	Department as a Whole		Proprietary Funds	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 12,007,272	\$ 18,120,577	\$ 40,824	\$ 61,610
Changes of Assumptions	87,505,989		297,520	
Net Difference Between Projected and Actual Earnings on Plan Investments	74,959,868		254,864	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	7,370,521	2,525,557	128,991	8,587
Contributions Subsequent to the Measurement Date	114,030,785		329,600	
<b>Total</b>	<b>\$ 295,874,435</b>	<b>\$ 20,646,134</b>	<b>\$ 1,051,799</b>	<b>\$ 70,197</b>

The amounts of \$114,030,785 and \$329,600 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Department as a Whole	Proprietary Funds
2019	\$ 31,724,361	\$ 142,506
2020	107,262,702	399,337
2021	52,210,205	212,157
2022	(29,999,752)	(101,998)
<b>Total</b>	<b>\$ 161,197,516</b>	<b>\$ 652,002</b>



## **B. Single-Employer, Defined Benefit Plan**

### **1. Special Separation Allowance**

*Plan Administration:* The State 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 the Department 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, 2018, the Department paid \$12,320,374 for 727 retired law enforcement officers.

Additional detailed information about the SSA is included in the State'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 <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

### **2. North Carolina National Guard Pension Fund**

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. The Department assumes no obligations in relation to the plan. Benefit provisions are established



by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

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 2018 *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.

### C. 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, 2018, were \$10,466,656.

### NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

*Basis of Accounting:* The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

*Methods Used to Value Plan Investments:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

**B. Plan Descriptions****1. Health Benefits**

*Plan Administration:* The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

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

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

is supported by a percent of payroll contributions from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The

Department's contributions to the RHBF were \$63,996,869 for the year ended June 30, 2018. Of this amount, the proprietary funds contributed \$184,980.

## 2. Disability Income

*Plan Administration:* As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are

subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The Department's contributions to DIPNC were \$1,480,919 for the year ended June 30, 2018. Of this amount, the proprietary funds contributed \$4,280.

### **C. Net OPEB Liability (Asset)**

*Net OPEB Liability:* At June 30, 2018, the Department reported a liability of \$1,997,326,196 for its proportionate share of the collective net OPEB liability for RHBF. Of this amount, the proprietary funds reported \$6,790,909. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The Department's proportion of the net OPEB 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, 2017, the Department's proportion was 6.09189%, which was an increase of 0.38362 from its proportion

measured as of June 30, 2016, which was 5.70827%. Of this proportion, the proprietary funds' share was 0.02071%, which was an increase of 0.00359 from its proportion measured as of June 30, 2016, which was 0.01712%.

*Net OPEB Asset:* At June 30, 2018, the Department reported an asset of \$3,777,399 for its proportionate share of the collective net OPEB asset for DIPNC. Of this amount, the proprietary funds reported \$12,843. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The Department's proportion of the net OPEB asset 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, 2017, the Department's proportion was 6.18030%, which was an increase of 0.00567 from its proportion measured as of June 30, 2016, which was 6.17463%. Of this proportion, the proprietary funds' share was 0.02101%, which was an increase of 0.00249 from its proportion measured as of June 30, 2016, which was 0.01852%.

*Actuarial Assumptions:* The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

\* 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

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



The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These

assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

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

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

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

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



Net OPEB Liability (Asset)			
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
<b>RHBF Net OPEB Liability:</b>			
Department as a Whole	\$ 2,382,694,131	\$ 1,997,326,196	\$ 1,691,672,773
Proprietary Funds	\$ 8,101,164	\$ 6,790,909	\$ 5,751,691
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
<b>DIPNC Net OPEB Asset:</b>			
Department as a Whole	\$ (3,211,346)	\$ (3,777,399)	\$ (4,344,751)
Proprietary Funds	\$ (10,918)	\$ (12,843)	\$ (14,772)

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

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
<b>RHBF Net OPEB Liability:</b>			
Department as a Whole	\$ 1,631,630,679	\$ 1,997,326,196	\$ 2,483,379,732
Proprietary Funds	\$ 5,547,547	\$ 6,790,909	\$ 8,443,496
<b>DIPNC Net OPEB Asset:</b>			
Department as a Whole	N/A	N/A	N/A
Proprietary Funds	N/A	N/A	N/A

N/A - Not applicable

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** For the year ended June 30, 2018, the Department's proportionate share of the collective OPEB expense was \$127,289,144 for RHBF and \$2,043,601 for DIPNC. Of these amounts, the proprietary funds recognized \$598,336 for RHBF and \$6,565 for DIPNC. At June 30, 2018, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

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

	Department as a Whole			Proprietary Funds		
	RHBF	DIPNC	Total	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0	\$ 1,035,695	\$ 1,035,695	\$ 0	\$ 3,522	\$ 3,522
Changes of Assumptions						
Net Difference Between Projected and Actual Earnings on Plan Investments		827,975	827,975		2,815	2,815
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	141,324,590	110,015	141,434,605	1,308,268	374	1,308,642
Contributions Subsequent to the Measurement Date	63,996,869	1,480,919	65,477,788	184,980	4,280	189,260
<b>Total</b>	<b>\$ 205,321,459</b>	<b>\$ 3,454,604</b>	<b>\$ 208,776,063</b>	<b>\$ 1,493,248</b>	<b>\$ 10,991</b>	<b>\$ 1,504,239</b>

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

	Department as a Whole			Proprietary Funds		
	RHBF	DIPNC	Total	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 143,211,962	\$ 0	\$ 143,211,962	\$ 486,921	\$ 0	\$ 486,921
Changes of Assumptions	550,054,515		550,054,515	1,870,186		1,870,186
Net Difference Between Projected and Actual Earnings on Plan Investments	742,293		742,293	2,524		2,524
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions					1,149	1,149
<b>Total</b>	<b>\$ 694,008,770</b>	<b>\$ 0</b>	<b>\$ 694,008,770</b>	<b>\$ 2,359,631</b>	<b>\$ 1,149</b>	<b>\$ 2,360,780</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	Department as a Whole		Proprietary Funds	
	RHBF	DIPNC	RHBF	DIPNC
2019	\$ (110,573,951)	\$ 589,005	\$ (210,398)	\$ 1,619
2020	(110,573,951)	589,005	(210,398)	1,619
2021	(110,573,951)	588,820	(210,398)	1,621
2022	(110,573,951)	206,855	(210,398)	703
2023	(110,388,376)		(209,771)	
Total	<u>\$ (552,684,180)</u>	<u>\$ 1,973,685</u>	<u>\$ (1,051,363)</u>	<u>\$ 5,562</u>

## 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 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the

State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

### **3. Disability Income Plan**

Short-term and long-term disability benefits are provided to Department employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Department up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

## **B. Other Risk Management and Insurance Activities**

### **1. Automobile, Fire, and Other Property Losses**

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, 2018 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, 2018, the Department had commitments of \$18,740,125

related to construction and improvements of state government facilities, primarily reported in the Capital Projects Fund.

#### NOTE 16 - FUND BALANCE/ NET POSITION RESTATEMENTS

As of July 1, 2017, the fund balances of the governmental funds as previously reported were restated as follows:

	General Fund	Total Governmental Funds
July 1, 2017 Fund Balances as Previously Reported	\$ 99,311,978	\$ 197,848,712
Restatement:		
Correct Prior Period Error in Due to Other Funds for the General Fund	146,566	146,566
July 1, 2017 Fund Balances as Restated	<u>\$ 99,458,544</u>	<u>\$ 197,995,278</u>

As of July 1, 2017, the net position of the proprietary funds as previously reported was restated as follows:

	ABC Commission	Other Proprietary Funds	Total Proprietary Funds
July 1, 2017 Net Position as Previously Reported	\$ 13,038,070	\$ 1,703,491	\$ 14,741,561
Restatements:			
Record the Department's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(5,299,932)</u>	<u>(1,919,034)</u>	<u>(7,218,966)</u>
July 1, 2017 Net Position as Restated	<u>\$ 7,738,138</u>	<u>\$ (215,543)</u>	<u>\$ 7,522,595</u>

The above restatement is not reflected in the Statement of Revenues, Expenses, and Changes in Net Position or the Statement of Cash Flows for the 2017 comparative amounts because GASB 75 actuarial calculations performed do not provide sufficient information to restate revenues, expenses, or cash flows for 2017.

#### NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

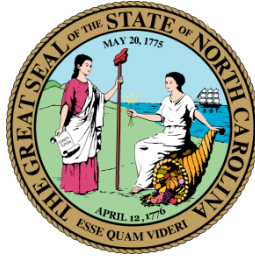
For the fiscal year ended June 30, 2018, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and OPEB).



# **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, 2018**

**Schedule C-1**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Funds	\$ 156,900,147	\$ 424,481,859	\$ 184,462,875	\$ (240,018,984)
Contributions, Gifts, and Grants	5,678,995	15,239,614	11,623,343	(3,616,271)
Sales and Services	13,863,752	18,147,051	18,083,535	(63,516)
Fees, Licenses, and Fines	10,399,909	12,901,068	40,486,189	27,585,121
Rental and Lease of Property	84,474	97,306	97,305	(1)
Investment Earnings	82,128	110,308	169,134	58,826
Student Tuition and Fees	37,705	48,620	55,385	6,765
Miscellaneous Income	8,523,205	12,477,545	12,449,211	(28,334)
Total Revenues	195,570,315	483,503,371	267,426,977	(216,076,394)
EXPENDITURES				
Salaries and Benefits	1,616,232,164	1,496,117,495	1,488,553,140	7,564,355
Contracted Personal Services	98,016,471	159,611,019	129,026,203	30,584,816
Contracted Medical Services	58,100,728	130,442,596	130,418,327	24,269
Supplies and Materials	128,768,467	165,066,243	163,341,465	1,724,778
Purchases for Resale	235,523	8,189	819	7,370
Travel	3,148,690	5,425,928	4,429,079	996,849
Communication	12,712,771	11,385,336	10,646,543	738,793
Utilities	53,755,599	54,048,956	53,820,070	228,886
Data Processing Services	7,718,130	18,000,659	17,889,954	110,705
Other Services	12,336,434	12,663,761	12,199,061	464,700
Claims and Benefits	8,937,518	12,340,153	12,269,885	70,268
Debt Service:				
Principal Retirement	993,558	822,334	822,333	1
Interest and Fees	363,443	337,860	337,860	
Other Fixed Charges	6,266,909	13,760,140	13,544,466	215,674
Capital Outlay	38,142,262	60,961,784	57,818,307	3,143,477
Insurance and Bonding	3,025,789	3,365,962	3,317,767	48,195
Other Expenditures	27,354,618	28,052,272	27,106,992	945,280
Grants, State Aid, and Subsidies	371,961,299	550,586,998	186,374,824	364,212,174
Total Expenditures	2,448,070,373	2,722,997,685	2,311,917,095	411,080,590
Excess of Revenues Over (Under) Expenditures	(2,252,500,058)	(2,239,494,314)	(2,044,490,118)	195,004,196
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	3,357,009	3,486,394	3,483,672	(2,722)
Insurance Recoveries	657,100	1,090,431	1,090,434	3
Transfers from Other Departments or Funds	311,625,308	338,903,660	123,045,473	(215,858,187)
Transfers to Other Departments or Funds	(61,034,183)	(78,723,072)	(95,148,648)	(16,425,576)
Appropriations	2,020,231,378	2,020,231,378	2,020,231,376	(2)
Total Other Financing Sources	2,274,836,612	2,284,988,791	2,052,702,307	(232,286,484)
Net Change in Fund Balance	22,336,554	45,494,477	8,212,189	(37,282,288)
Fund Balance - July 1, 2017	112,592,161	112,592,161	112,592,161	
Fund Balance - June 30, 2018	\$ 134,928,715	\$ 158,086,638	\$ 120,804,350	\$ (37,282,288)

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

	General Fund
Fund Balance (Budgetary Basis) June 30, 2018	\$ 120,804,350
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	25,628,628
Accrued Expenditures:	
Payables	(67,363,867)
Other Adjustments:	
Inventories	38,075,171
Fund Balance (GAAP Basis) June 30, 2018	\$ 117,144,282

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, 2018**

**Schedule C-2**

	Budgeted Amounts		Actual	Favorable
	Original	Final	(Cash Basis)	(Unfavorable)
REVENUES				
Sales and Services	\$ 92,154,859	\$ 91,020,932	\$ 91,029,557	\$ 8,625
Rental and Lease of Property	622,997	609,073	609,072	(1)
Miscellaneous Income	123,400	136,084	136,085	1
Total Revenues	92,901,256	91,766,089	91,774,714	8,625
EXPENDITURES				
Salaries and Benefits	28,092,647	28,138,607	25,768,853	2,369,754
Contracted Personal Services	438,202	465,122	405,751	59,371
Supplies and Materials	5,414,807	4,530,606	4,460,928	69,678
Purchases for Resale	45,598,975	43,567,824	42,547,596	1,020,228
Travel	422,777	360,196	334,216	25,980
Communication	105,583	123,807	123,805	2
Utilities	3,052,246	2,909,794	2,810,988	98,806
Data Processing Services	2,390	820,889	820,885	4
Other Services	1,587,484	1,683,051	1,638,692	44,359
Other Fixed Charges	542,772	510,443	508,242	2,201
Capital Outlay	3,416,530	3,782,517	3,196,091	586,426
Insurance and Bonding	531,289	458,066	453,571	4,495
Other Expenditures	1,153,683	1,165,915	1,068,191	97,724
Total Expenditures	90,359,385	88,516,837	84,137,809	4,379,028
Excess of Revenues Over Expenditures	2,541,871	3,249,252	7,636,905	4,387,653
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	82,687	26,187	26,186	(1)
Transfers In	201,600	201,600	201,600	
Transfers Out	(2,826,158)	(3,368,993)	(3,231,330)	137,663
Total Other Financing Uses	(2,541,871)	(3,141,206)	(3,003,544)	137,662
Net Change in Fund Balance		108,046	4,633,361	4,525,315
Fund Balance - July 1, 2017	16,306,893	16,306,893	16,306,893	
Fund Balance - June 30, 2018	\$ 16,306,893	\$ 16,414,939	\$ 20,940,254	\$ 4,525,315

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

	<b>Correction Enterprises Fund</b>
Fund Balance (Budgetary Basis) June 30, 2018	\$ 20,940,254
<b>Reconciling Adjustments:</b>	
<b>Basis Differences:</b>	
<b>Accrued Revenues:</b>	
Receivables	4,047,482
<b>Accrued Expenditures:</b>	
Payables	(2,750,680)
<b>Other Adjustments:</b>	
Inventories	14,464,415
Fund Balance (GAAP Basis) June 30, 2018	\$ 36,701,471

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, 2018**

**Schedule C-3**

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Investment Earnings	\$ 1,091	\$ 2,073	\$ 3,054	\$ 981
Sales and Services	36,089,031	38,803,485	39,259,650	456,165
Rental and Lease of Property	6,000	6,000	6,500	500
Contributions, Gifts, and Grants	106,078	107,708	107,476	(232)
Miscellaneous Income	5,814,282	5,596,976	229,948	(5,367,028)
Total Revenues	42,016,482	44,516,242	39,606,628	(4,909,614)
EXPENDITURES				
Salaries and Benefits	2,371,093	1,529,256	1,225,449	303,807
Contracted Personal Services	642,589	1,064,688	1,040,435	24,253
Supplies and Materials	3,396,296	3,222,559	2,774,591	447,968
Purchases for Resale	31,493,513	33,476,165	33,475,324	841
Travel	18,706			
Communication	52,700	4,529	4,527	2
Utilities	125,844	188,264	188,261	3
Data Processing Services		4,817	4,815	2
Other Services	141,735	153,185	131,662	21,523
Other Fixed Charges	243,764	185,573	173,026	12,547
Capital Outlay	1,523,437	1,133,905	920,839	213,066
Insurance and Bonding		3,090	3,090	
Other Expenditures	1,106,823	1,433,417	1,375,486	57,931
Total Expenditures	41,116,500	42,399,448	41,317,505	1,081,943
Excess of Revenues Over (Under) Expenditures	899,982	2,116,794	(1,710,877)	(3,827,671)
OTHER FINANCING SOURCES (USES)				
Transfers In	6,263,907	6,240,218	6,979,397	739,179
Transfers Out	(7,563,962)	(8,317,760)	(8,129,892)	187,868
Total Other Financing Uses	(1,300,055)	(2,077,542)	(1,150,495)	927,047
Net Change in Fund Balance	(400,073)	39,252	(2,861,372)	(2,900,624)
Fund Balance - July 1, 2017	8,372,926	8,372,926	8,372,926	
Fund Balance - June 30, 2018	\$ 7,972,853	\$ 8,412,178	\$ 5,511,554	\$ (2,900,624)

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2018 to the fund balance on a modified accrual basis (GAAP).

	<b>Welfare Fund</b>
Fund Balance (Budgetary Basis) June 30, 2018	\$ 5,511,554
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
<b>Accrued Expenditures:</b>	
Payables	(1,302,604)
<b>Other Adjustments:</b>	
Inventories	1,860,815
Fund Balance (GAAP Basis) June 30, 2018	<u>\$ 6,069,765</u>

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

**North Carolina Department of Public Safety**  
**Notes to Required Supplementary Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP)**  
**General Fund, Correction Enterprises Fund, and Welfare Fund**  
**For the Fiscal Year Ended June 30, 2018**

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**A. Budgetary Process**

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

**B. Reconciliation of Budget/GAAP Reporting Differences**

The *Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund, Correction Enterprises Fund, and 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 for governmental funds is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

**North Carolina Department of Public Safety**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Proprietary Funds**  
**Last Five Fiscal Years**

**Schedule C-4**

Teachers' and State Employees' Retirement System	2018	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.02373%	0.02072%	0.02108%	0.02078%	0.02115%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 1,883,220	\$ 1,904,292	\$ 776,917	\$ 243,640	\$ 1,283,984
Covered Payroll	\$ 3,129,194	\$ 3,129,442	\$ 3,021,054	\$ 2,890,271	\$ 2,751,580
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	60.18%	60.85%	25.72%	8.43%	46.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended. The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**North Carolina Department of Public Safety**  
**Required Supplementary Information**  
**Schedule of Department Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Proprietary Funds**  
**Last Five Fiscal Years**

**Schedule C-5**

<b>Teachers' and State Employees' Retirement System</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 329,600	\$ 312,294	\$ 286,344	\$ 276,426	\$ 251,164
Contributions in Relation to the Contractually Determined Contribution	329,600	312,294	286,344	276,426	251,164
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 3,057,511	\$ 3,129,194	\$ 3,129,442	\$ 3,021,054	\$ 2,890,271
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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

**North Carolina Department of Public Safety  
Notes to Required Supplementary Information  
Schedule of Department Contributions  
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2018**

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*Changes of Benefit Terms:*

	<u>Cost of Living Increase</u>									
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Teachers' and State Employees' Retirement System</b>	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

*Changes of assumptions:* In 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 (TSERS) 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. The discount rate for TSERS was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the TSERS. For determining plan funding requirements, this plan now uses a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.

N/A - Not applicable

**North Carolina Department of Public Safety**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net OPEB Liability or Asset**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Proprietary Funds**  
**Last Two Fiscal Years** **Schedule C-6**

<b>Retiree Health Benefit Fund</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net OPEB Liability	0.02071%	0.01712%
Proportionate Share of Collective Net OPEB Liability	\$ 6,790,909	\$ 7,449,874
Covered Payroll	\$ 3,129,194	\$ 3,129,442
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	217.02%	238.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
<hr/>		
<b>Disability Income Plan of North Carolina</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net OPEB Asset	0.02101%	0.01852%
Proportionate Share of Collective Net OPEB Asset	\$ 12,843	\$ 11,504
Covered Payroll	\$ 3,129,194	\$ 3,129,442
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.41%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.



**North Carolina Department of Public Safety**  
**Required Supplementary Information**  
**Schedule of Department Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Proprietary Funds**  
**Last Two Fiscal Years**

**Schedule C-7**

<b>Retiree Health Benefit Fund</b>	<b>2018</b>	<b>2017</b>
Contractually Required Contribution	\$ 184,980	\$ 181,806
Contributions in Relation to the Contractually Determined Contribution	184,980	181,806
Contribution Deficiency (Excess)	\$ 0	\$ 0
Covered Payroll	\$ 3,057,511	\$ 3,129,194
Contributions as a Percentage of Covered Payroll	6.05%	5.81%
<b>Disability Income Plan of North Carolina</b>	<b>2018</b>	<b>2017</b>
Contractually Required Contribution	\$ 4,280	\$ 11,891
Contributions in Relation to the Contractually Determined Contribution	4,280	11,891
Contribution Deficiency (Excess)	\$ 0	\$ 0
Covered Payroll	\$ 3,057,511	\$ 3,129,194
Contributions as a Percentage of Covered Payroll	0.14%	0.38%

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

**North Carolina Department of Public Safety**  
**Notes to Required Supplementary Information**  
**Schedule of Department Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2018**

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*Changes of Benefit Terms:* Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

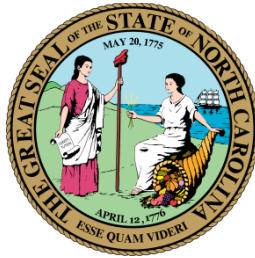
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

*Method and assumptions used in calculations of actuarially determined contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina (DIPNC). See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of assumptions:* In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the RHBF were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.



# **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, 2018 (With Comparative Totals for June 30, 2017)**

	Administration (1)	Adult Correction and Juvenile Justice (2)	Law Enforcement (3)
<b>REVENUES</b>			
Federal Funds	\$ 52,430,139	\$ 1,658,493	\$ 1,597,615
Local Funds			
Investment Earnings	71,832	8,881	91,275
Sales and Services	100,000	76,881,434	13,893,703
Intragovernmental Sales and Services		53,794,408	
Rental and Lease of Property		423,110	97,304
Fees, Licenses, and Fines	25,937,562	3,589,692	7,221,863
Student Tuition and Fees			55,385
Contributions, Gifts, and Grants		1,965,934	5,033,548
Revenues from Other State Agencies	3,238,590	3,201,614	11,337,770
Miscellaneous Income	6,506	14,069,638	395,465
Total Revenues	81,784,629	155,593,204	39,723,928
<b>EXPENDITURES</b>			
Salaries and Benefits	50,774,833	1,202,394,074	227,336,499
Contracted Personal Services	7,326,852	88,688,311	10,688,218
Contracted Medical Services		120,607,075	410,634
Supplies and Materials	774,185	149,593,627	16,100,768
Purchases for Resale		77,770,422	
Travel	155,410	2,348,898	1,088,418
Communication	382,143	5,856,417	3,296,733
Utilities	385,610	51,084,272	1,047,780
Data Processing Services	1,934,028	16,245,280	1,949,301
Other Services	526,735	10,141,967	1,493,448
Claims and Benefits		19,770	12,250,114
Debt Service:			
Principal Retirement		882,792	
Interest and Fees		346,981	
Other Fixed Charges	734,877	5,923,944	5,688,974
Capital Outlay	4,704,602	33,169,726	35,734,544
Grants, State Aid, and Subsidies	56,612,260	22,057,479	
Insurance and Bonding	132,605	1,309,195	1,519,890
Expenditures to Other State Agencies	25,040,440	2,220,398	2,274,269
Other Expenditures	2,066,688	18,920,522	5,661,916
Total Expenditures	151,551,268	1,809,581,150	326,541,506
Excess of Revenues Over (Under) Expenditures	(69,766,639)	(1,653,987,946)	(286,817,578)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of Capital Assets	38	571,063	3,204,802
Insurance Recoveries		518,496	860,820
Transfers In	1,329,428	2,978,997	
Transfers Out	(225,000)	(4,083,425)	
Transfers to State Reserve Fund	(3,149,384)	(4,909,657)	(1,055,458)
Transfers from State Reserve Fund	4,444,488	2,574,272	7,863,514
Appropriations	67,340,846	1,676,212,307	273,863,559
Total Other Financing Sources (Uses)	69,740,416	1,673,862,053	284,737,237
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (26,223)	\$ 19,874,107	\$ (2,080,341)

- (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**

<b>National Guard (4)</b>	<b>Emergency Management (5)</b>	<b>Total Divisions 2018</b>	<b>Total Divisions 2017 (Restated)</b>
\$ 33,779,098	\$ 90,890,411	\$ 180,355,756	\$ 172,544,797
10,535		10,535	9,595
2,551		174,539	177,786
242,825	2,128,560	93,246,522	99,504,699
		53,794,408	53,710,183
176,350		696,764	875,468
	4,164,912	40,914,029	39,829,082
		55,385	96,370
256,168	585,677	7,841,327	5,509,984
881,623	24,110,557	42,770,154	54,712,507
190,395	9,042	14,671,046	9,085,975
<u>35,539,545</u>	<u>121,889,159</u>	<u>434,530,465</u>	<u>436,056,446</u>
13,577,560	13,816,071	1,507,899,037	1,473,932,255
7,108,468	15,624,775	129,436,624	132,637,057
39,048		121,056,757	121,983,673
2,187,370	663,803	169,319,753	178,543,843
		77,770,422	75,319,825
140,048	727,228	4,460,002	4,253,615
1,475,046	212,905	11,223,244	10,229,788
4,465,330	34,443	57,017,435	54,425,868
28,243	176,566	20,333,418	19,792,864
1,669,715	117,265	13,949,130	13,502,146
		12,269,884	11,918,902
		882,792	1,273,945
		346,981	376,442
321,031	450,723	13,119,549	12,479,606
13,747,558	1,273,084	88,629,514	71,047,016
79,380	96,238,255	174,987,374	172,937,483
49,382	57,986	3,069,058	2,755,172
	2,744,933	32,280,040	26,976,455
519,682	2,155,561	29,324,369	31,161,968
<u>45,407,861</u>	<u>134,293,598</u>	<u>2,467,375,383</u>	<u>2,415,547,923</u>
<u>(9,868,316)</u>	<u>(12,404,439)</u>	<u>(2,032,844,918)</u>	<u>(1,979,491,477)</u>
8,572	71,837	3,856,312	3,281,576
32,499	211,232	1,623,047	1,448,809
3,498,304		7,806,729	10,431,118
(3,498,304)		(7,806,729)	(10,431,118)
(20,966)	(360,381)	(9,495,846)	(15,105,047)
		14,882,274	7,954,210
<u>11,465,954</u>	<u>24,497,019</u>	<u>2,053,379,685</u>	<u>1,976,962,688</u>
<u>11,486,059</u>	<u>24,419,707</u>	<u>2,064,245,472</u>	<u>1,974,542,236</u>
<u>\$ 1,617,743</u>	<u>\$ 12,015,268</u>	<u>\$ 31,400,554</u>	<u>\$ (4,949,241)</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, 2018 (With Comparative Totals for June 30, 2017)**

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	Controller's Office	Information Technology	Human Resources	Central Engineering
<b>REVENUES</b>				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services				
Fees, Licenses, and Fines				
Contributions, Gifts, and Grants				
Revenues from Other State Agencies		169,470		
Miscellaneous Income				
Total Revenues	0	169,470	0	0
<b>EXPENDITURES</b>				
Salaries and Benefits	4,758,243	12,608,751	7,967,156	8,847,141
Contracted Personal Services	1,711,738	633,691	763,099	4,293
Supplies and Materials	63,127	72,019	96,745	25,086
Travel		15,832	22,247	5,859
Communication	3,233	196,136	37,645	23,429
Utilities	40,948	32,154		9,266
Data Processing Services	67,639	1,685,985	44,274	45,865
Other Services	85,708	17,092	31,232	10,354
Other Fixed Charges	23,226	516,219	33,574	20,132
Capital Outlay	5,447	740,851	18,261	156,238
Grants, State Aid, and Subsidies				
Insurance and Bonding	5	17,500	114,309	
Expenditures to Other State Agencies				
Other Expenditures	413,642	327,753	375,728	277,550
Total Expenditures	7,172,956	16,863,983	9,504,270	9,425,213
Excess of Revenues Over (Under) Expenditures	(7,172,956)	(16,694,513)	(9,504,270)	(9,425,213)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets				
Transfers In				
Transfers Out				
Transfers to State Reserve Fund				
Transfers from State Reserve Fund	4,408			
Appropriations	6,724,457	14,874,644	9,303,549	9,413,148
Total Other Financing Sources (Uses)	6,728,865	14,874,644	9,303,549	9,413,148
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (444,091)	\$ (1,819,869)	\$ (200,721)	\$ (12,065)

**Schedule E-1**

<b>Governor's Crime Commission</b>	<b>Victim Services</b>	<b>ABC Board Non Tax</b>	<b>Other</b>	<b>Total Administration 2018</b>	<b>Total Administration 2017</b>
\$ 49,607,738	\$ 2,822,401	\$ 0	\$ 0	\$ 52,430,139	\$ 44,231,974
71,832				71,832	92,526
	108,742	25,828,820	100,000	100,000	122,768
				25,937,562	24,794,013
			3,069,120	3,238,590	935
	7		6,499	6,506	2,102,054
					7,785
49,679,570	2,931,150	25,828,820	3,175,619	81,784,629	71,352,055
1,507,965	1,279,518		13,806,059	50,774,833	48,213,695
345,519	789,892		3,078,620	7,326,852	7,761,729
30,051	11,187		475,970	774,185	759,013
58,859	5,670		46,943	155,410	146,501
25,764	7,275		88,661	382,143	324,601
1,230			302,012	385,610	357,175
475	10,788		79,002	1,934,028	2,120,345
17,192	25,647		339,510	526,735	541,004
17,641	8,661		115,424	734,877	1,870,246
	2,345		3,781,460	4,704,602	6,433,832
47,252,280	8,864,980		495,000	56,612,260	47,026,693
49	29		713	132,605	144,184
		25,040,440		25,040,440	24,027,072
207,823	1,866		462,326	2,066,688	2,107,256
49,464,848	11,007,858	25,040,440	23,071,700	151,551,268	141,833,346
214,722	(8,076,708)	788,380	(19,896,081)	(69,766,639)	(70,481,291)
38				38	256
	601,385		728,043	1,329,428	858,110
			(225,000)	(225,000)	
(1,866,313)	(996,241)		(286,830)	(3,149,384)	(4,338,350)
2,939,520	1,295,656		204,904	4,444,488	4,189,122
853,480	6,257,662		19,913,906	67,340,846	69,805,701
1,926,725	7,158,462	0	20,335,023	69,740,416	70,514,839
\$ 2,141,447	\$ (918,246)	\$ 788,380	\$ 438,942	\$ (26,223)	\$ 33,548

**North Carolina Department of Public Safety**  
**Schedule of Revenues and Expenditures**  
**Governmental Funds - Division of Adult Corrections and Juvenile Justice by Sub-Division**  
**For the Fiscal Year Ended June 30, 2018 (With Comparative Totals for June 30, 2017)**

**Schedule F-1**

	Adult Correction (1)	Juvenile Justice (2)	Correction Enterprises	Total Adult Correction and Juvenile Justice 2018	Total Adult Correction and Juvenile Justice 2017
<b>REVENUES</b>					
Federal Funds	\$ 668,202	\$ 990,291	\$ 0	\$ 1,658,493	\$ 2,378,029
Investment Earnings	5,827	3,054		8,881	15,397
Sales and Services	40,380,257	181,122	36,320,055	76,881,434	81,641,119
Intragovernmental Sales and Services			53,794,408	53,794,408	53,710,183
Rental and Lease of Property	6,500		416,610	423,110	549,942
Fees, Licenses, and Fines	3,589,692			3,589,692	4,495,381
Contributions, Gifts, and Grants	726,933	1,239,001		1,965,934	2,280,018
Revenues from Other State Agencies	3,198,712	2,902		3,201,614	2,152,290
Miscellaneous Income	13,929,913	3,928	135,797	14,069,638	8,270,571
<b>Total Revenues</b>	<b>62,506,036</b>	<b>2,420,298</b>	<b>90,666,870</b>	<b>155,593,204</b>	<b>155,492,930</b>
<b>EXPENDITURES</b>					
Salaries and Benefits	1,102,718,068	73,903,436	25,772,570	1,202,394,074	1,173,701,058
Contracted Personal Services	64,868,175	23,377,786	442,350	88,688,311	77,801,740
Contracted Medical Services	119,058,318	1,548,757		120,607,075	121,508,615
Supplies and Materials	143,207,438	1,820,227	4,565,962	149,593,627	155,345,148
Purchases for Resale	33,225,420		44,545,002	77,770,422	75,312,422
Travel	1,617,171	393,616	338,111	2,348,898	1,547,083
Communication	4,871,102	850,909	134,406	5,856,417	5,060,677
Utilities	47,310,355	777,824	2,996,093	51,084,272	48,427,835
Data Processing Services	14,133,983	1,269,519	841,778	16,245,280	14,568,767
Other Services	8,198,133	327,936	1,615,898	10,141,967	9,224,283
Claims and Benefits	19,770			19,770	21,697
Debt Service:					
Principal Retirement	882,792			882,792	1,273,945
Interest and Fees	346,981			346,981	376,442
Other Fixed Charges	5,291,755	118,898	513,291	5,923,944	5,588,194
Capital Outlay	26,582,918	878,134	5,708,674	33,169,726	26,275,784
Grants, State Aid, and Subsidies		22,057,479		22,057,479	23,035,615
Insurance and Bonding	884,432	31,510	393,253	1,309,195	965,197
Expenditures to Other State Agencies	1,714,024	6,374	500,000	2,220,398	1,550,000
Other Expenditures	15,571,261	2,334,483	1,014,778	18,920,522	19,232,452
<b>Total Expenditures</b>	<b>1,590,502,096</b>	<b>129,696,888</b>	<b>89,382,166</b>	<b>1,809,581,150</b>	<b>1,760,816,954</b>
Excess of Revenues Over (Under) Expenditures	(1,527,996,060)	(127,276,590)	1,284,704	(1,653,987,946)	(1,605,324,024)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Capital Assets	533,400	8,206	29,457	571,063	336,948
Insurance Recoveries	43,496		475,000	518,496	782,485
Transfers In	2,265,060		713,937	2,978,997	5,071,140
Transfers Out	(1,352,095)		(2,731,330)	(4,083,425)	(5,929,250)
Transfers to State Reserve Fund	(4,681,464)	(228,193)		(4,909,657)	(2,805,506)
Transfers from State Reserve Fund	2,391,591	182,681		2,574,272	2,765,462
Appropriations	1,536,192,826	140,019,481		1,676,212,307	1,589,707,658
<b>Total Other Financing Sources (Uses)</b>	<b>1,535,392,814</b>	<b>139,982,175</b>	<b>(1,512,936)</b>	<b>1,673,862,053</b>	<b>1,589,928,937</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 7,396,754	\$ 12,705,585	\$ (228,232)	\$ 19,874,107	\$ (15,395,087)

(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, 2018 (With Comparative Totals for June 30, 2017)**

**Schedule F-2**

	Prisons (1)	Community Corrections (2)	Other	Total Adult Correction 2018	Total Adult Correction 2017
<b>REVENUES</b>					
Federal Funds	\$ 485,081	\$ 183,121	\$ 0	\$ 668,202	\$ 2,338,467
Investment Earnings		5,827		5,827	13,507
Sales and Services	40,197,940	100	182,217	40,380,257	47,547,709
Rental and Lease of Property		6,500		6,500	6,000
Fees, Licenses, and Fines	3,172,539	417,153		3,589,692	4,495,381
Contributions, Gifts, and Grants	644,003	82,930		726,933	1,027,078
Revenues from Other State Agencies	3,198,712			3,198,712	1,975,982
Miscellaneous Income	13,618,670	269	310,974	13,929,913	8,145,927
Total Revenues	61,316,945	695,900	493,191	62,506,036	65,550,051
<b>EXPENDITURES</b>					
Salaries and Benefits	919,626,189	168,260,791	14,831,088	1,102,718,068	1,075,093,084
Contracted Personal Services	46,194,426	17,981,217	692,532	64,868,175	55,411,926
Contracted Medical Services	118,782,177	276,141		119,058,318	120,069,259
Supplies and Materials	140,052,331	2,358,515	796,592	143,207,438	149,192,619
Purchases for Resale	33,225,420			33,225,420	32,726,035
Travel	1,016,730	243,617	356,824	1,617,171	1,030,537
Communication	2,084,134	2,661,346	125,622	4,871,102	4,235,138
Utilities	46,799,728	288,057	222,570	47,310,355	44,812,311
Data Processing Services	10,771,900	3,293,164	68,919	14,133,983	12,614,272
Other Services	7,773,811	270,109	154,213	8,198,133	7,443,501
Claims and Benefits		19,770		19,770	21,697
Debt Service:					
Principal Retirement	882,792			882,792	1,273,945
Interest and Fees	346,981			346,981	376,442
Other Fixed Charges	4,365,377	219,592	706,786	5,291,755	5,031,267
Capital Outlay	25,015,579	1,356,362	210,977	26,582,918	20,090,743
Insurance and Bonding	881,498	2,705	229	884,432	853,452
Expenditures to Other State Agencies	1,522,160		191,864	1,714,024	1,050,000
Other Expenditures	7,294,659	7,340,970	935,632	15,571,261	15,760,245
Total Expenditures	1,366,635,892	204,572,356	19,293,848	1,590,502,096	1,547,086,473
Excess of Revenues Over (Under) Expenditures	(1,305,318,947)	(203,876,456)	(18,800,657)	(1,527,996,060)	(1,481,536,422)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Capital Assets	322,918		210,482	533,400	264,224
Insurance Recoveries	1,251		42,245	43,496	782,485
Transfers In	2,265,060			2,265,060	4,187,222
Transfers Out	(1,352,095)			(1,352,095)	(1,920,774)
Transfers to State Reserve Fund	(4,517,551)		(163,913)	(4,681,464)	(2,616,256)
Transfers from State Reserve Fund	2,249,720	132,091	9,780	2,391,591	2,388,027
Appropriations	1,317,028,301	202,497,843	16,666,682	1,536,192,826	1,464,446,055
Total Other Financing Sources (Uses)	1,315,997,604	202,629,934	16,765,276	1,535,392,814	1,467,530,983
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 10,678,657	\$ (1,246,522)	\$ (2,035,381)	\$ 7,396,754	\$ (14,005,439)

(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, 2018 (With Comparative Totals for June 30, 2017)**

	Prisons Management	Prisons Custody and Security	Prisons Food and Clothing	Prisons General, Mental, Dental, and Pharmacy
<b>REVENUES</b>				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services		107,084	1,093,424	
Fees, Licenses, and Fines		2,716,955		455,584
Contributions, Gifts, and Grants			145,782	
Revenues from Other State Agencies		597,599		2,595,310
Miscellaneous Income		2,837,386	1,128,727	9,422,989
Total Revenues	0	6,259,024	2,367,933	12,473,883
<b>EXPENDITURES</b>				
Salaries and Benefits	11,381,591	687,749,581	24,285,134	134,579,703
Contracted Personal Services	127,002	33,415,086	4,628,679	4,024,422
Contracted Medical Services		1,420,406		117,182,358
Supplies and Materials	184,519	17,284,737	60,099,517	59,271,988
Purchases for Resale				
Travel	28,317	942,783		555
Communication	101,762	1,922,874		17,412
Utilities	17,241	45,737,053		
Data Processing Services	49,979	10,491,668		4,424
Other Services	28,757	3,627,947	335,150	304,708
Debt Service:				
Principal Retirement		822,333		
Interest and Fees		337,860		
Other Fixed Charges	24,218	3,386,454		719,829
Capital Outlay	128,842	19,593,330	876,416	3,206,433
Insurance and Bonding		826,456		51,727
Expenditures to Other State Agencies		1,000,000		
Other Expenditures	399,027	4,127,712	588,605	438,755
Total Expenditures	12,471,255	832,686,280	90,813,501	319,802,314
Excess of Revenues Over (Under) Expenditures	(12,471,255)	(826,427,256)	(88,445,568)	(307,328,431)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets		322,918		
Insurance Recoveries		1,251		
Transfers In			2,265,060	
Transfers Out			(201,600)	
Transfers to State Reserve Fund		(4,372,800)		(111,282)
Transfers from State Reserve Fund	11,493	1,984,984	178,887	8,384
Appropriations	12,417,214	831,065,215	85,952,123	319,474,494
Total Other Financing Sources (Uses)	12,428,707	829,001,568	88,194,470	319,371,596
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (42,548)	\$ 2,574,312	\$ (251,098)	\$ 12,043,165

**Schedule F-3**

<b>Prisons Education and Corrective Programs</b>	<b>Alcoholism and Chemical Dependence</b>	<b>Other</b>	<b>Total Prisons 2018</b>	<b>Total Prisons 2017</b>
\$ 485,081	\$ 0	\$ 0	\$ 485,081	\$ 2,207,614
				7,339
		38,997,432	40,197,940	47,458,613
498,221			3,172,539	4,080,284
5,803			644,003	962,650
147		229,421	3,198,712	1,975,982
			13,618,670	7,772,413
989,252	0	39,226,853	61,316,945	64,464,895
54,512,117	5,564,093	1,553,970	919,626,189	892,177,215
2,792,642	137,968	1,068,627	46,194,426	42,281,446
179,413			118,782,177	119,797,958
201,335	129,315	2,880,920	140,052,331	147,346,354
		33,225,420	33,225,420	32,726,035
39,041	5,050	984	1,016,730	567,760
13,497	23,532	5,057	2,084,134	1,803,805
761,291	3,404	280,739	46,799,728	44,280,268
59,019	161,525	5,285	10,771,900	10,160,240
3,275,262	3,199	198,788	7,773,811	7,076,788
		60,459	882,792	1,273,945
		9,121	346,981	376,442
	17,866	217,010	4,365,377	3,863,283
146,281	42,569	1,021,708	25,015,579	18,909,466
	225	3,090	881,498	851,204
522,160			1,522,160	1,050,000
40,977	89,148	1,610,435	7,294,659	6,927,516
62,543,035	6,177,894	42,141,613	1,366,635,892	1,331,469,725
(61,553,783)	(6,177,894)	(2,914,760)	(1,305,318,947)	(1,267,004,830)
			322,918	264,224
			1,251	178,689
			2,265,060	4,187,222
		(1,150,495)	(1,352,095)	(1,920,774)
		(33,469)	(4,517,551)	(2,290,286)
19,384		46,588	2,249,720	2,185,073
61,164,149	5,950,684	1,004,422	1,317,028,301	1,248,921,499
61,183,533	5,950,684	(132,954)	1,315,997,604	1,251,525,647
\$ (370,250)	\$ (227,210)	\$ (3,047,714)	\$ 10,678,657	\$ (15,479,183)

**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, 2018 (With Comparative Totals for June 30, 2017)**

	Regular Supervision	Community Supervision	Electronic Monitoring
<b>REVENUES</b>			
Federal Funds	\$ 0	\$ 183,121	\$ 0
Investment Earnings			
Sales and Services	100		
Rental and Lease of Property			
Fees, Licenses, and Fines			148,403
Contributions, Gifts, and Grants			
Miscellaneous Income			
Total Revenues	100	183,121	148,403
<b>EXPENDITURES</b>			
Salaries and Benefits	146,002,418	6,833,275	257,687
Contracted Personal Services	1,649,025	9,629,149	6,698,049
Contracted Medical Services		276,141	
Supplies and Materials	1,741,572	562,105	1,813
Travel	213,562	5,239	77
Communication	2,560,483	25,294	4,394
Utilities	35,611	215,789	
Data Processing Services	3,211,640	77,808	4
Other Services	221,260	34,582	166
Claims and Benefits			
Other Fixed Charges	165,261	12,915	
Capital Outlay	1,271,376	68,716	538
Insurance and Bonding	2,705		
Other Expenditures	6,985,810	41,685	15,307
Total Expenditures	164,060,723	17,782,698	6,978,035
Excess of Revenues Over (Under) Expenditures	(164,060,623)	(17,599,577)	(6,829,632)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to State Reserve Fund			
Transfers from State Reserve Fund	129,571	2,520	
Appropriations	163,223,994	17,046,604	6,692,931
Total Other Financing Sources (Uses)	163,353,565	17,049,124	6,692,931
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (707,058)	\$ (550,453)	\$ (136,701)

**Schedule F-4**

<b>Judicial Services</b>	<b>Other</b>	<b>Total Community Corrections 2018</b>	<b>Total Community Corrections 2017</b>
\$ 0	\$ 0	\$ 183,121	\$ 130,853
	5,827	5,827	6,168
		100	
	6,500	6,500	6,000
	268,750	417,153	415,097
	82,930	82,930	64,428
	269	269	462
0	364,276	695,900	623,008
12,509,937	2,657,474	168,260,791	168,867,670
3,124	1,870	17,981,217	12,473,062
		276,141	265,991
11,903	41,122	2,358,515	1,407,309
	24,739	243,617	202,647
42,537	28,638	2,661,346	2,301,634
	36,657	288,057	307,733
116	3,596	3,293,164	2,360,289
669	13,432	270,109	250,024
19,770		19,770	21,697
	41,416	219,592	433,672
6,201	9,531	1,356,362	1,070,998
		2,705	2,151
	298,168	7,340,970	7,885,967
12,594,257	3,156,643	204,572,356	197,850,844
(12,594,257)	(2,792,367)	(203,876,456)	(197,227,836)
			(314,439)
		132,091	150,368
12,604,111	2,930,203	202,497,843	198,426,494
12,604,111	2,930,203	202,629,934	198,262,423
\$ 9,854	\$ 137,836	\$ (1,246,522)	\$ 1,034,587

**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, 2018 (With Comparative Totals for June 30, 2017)**

	Detention Center Services	Development Center Services	Treatment Services	Education Services
<b>REVENUES</b>				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services	24,845	97,248		59,029
Contributions, Gifts, and Grants	197,861	355,049		578,615
Revenues from Other State Agencies				2,902
Miscellaneous Income	875	1,437	895	139
Total Revenues	223,581	453,734	895	640,685
<b>EXPENDITURES</b>				
Salaries and Benefits	6,049,127	12,328,983	13,342,390	4,976,535
Contracted Personal Services	1,733,807	482,692	200,434	218,363
Contracted Medical Services			1,548,757	
Supplies and Materials	222,115	756,935	363,071	93,728
Travel	9,608	37,319	38,125	76,770
Communication	26,251	88,529	18,060	10,502
Utilities	123,306	583,792	4,925	9,174
Data Processing Services	93,025	221,026	99,663	95,889
Other Services	44,245	47,180	13,799	21,720
Other Fixed Charges		36,221	4,832	2,704
Capital Outlay	53,081	615,618	23,685	16,983
Grants, State Aid, and Subsidies				
Insurance and Bonding	4,695	17,492	222	86
Expenditures to Other State Agencies				
Other Expenditures	35,200	91,061	17,157	48,366
Total Expenditures	8,394,460	15,306,848	15,675,120	5,570,820
Excess of Revenues Over (Under) Expenditures	(8,170,879)	(14,853,114)	(15,674,225)	(4,930,135)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	75			
Transfers to State Reserve Fund	(3,034)	(34,743)		
Transfers from State Reserve Fund	48,485	115,466		
Appropriations	8,084,079	27,925,635	15,577,255	4,930,601
Total Other Financing Sources (Uses)	8,129,605	28,006,358	15,577,255	4,930,601
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (41,274)</u>	<u>\$ 13,153,244</u>	<u>\$ (96,970)</u>	<u>\$ 466</u>

**Schedule F-5**

Community Program Services	Juvenile Crime Prevention Council	Juvenile Court Services	Juvenile Justice Other	Total Juvenile Justice 2018	Total Juvenile Justice 2017
\$ 3,810	\$ 0	\$ 0	\$ 986,481	\$ 990,291	\$ 39,562
			3,054	3,054	1,890
				181,122	37,705
			107,476	1,239,001	1,252,940
				2,902	176,308
154		69	359	3,928	34,271
3,964	0	69	1,097,370	2,420,298	1,542,676
1,750,467		32,959,258	2,496,676	73,903,436	72,800,314
18,230,284		630,045	1,882,161	23,377,786	21,927,021
				1,548,757	1,439,356
31,235		256,685	96,458	1,820,227	1,688,998
12,460		96,366	122,968	393,616	217,870
24,833		661,337	21,397	850,909	724,102
44,061		12,566		777,824	796,484
23,654		700,228	36,034	1,269,519	1,386,755
22,630		65,773	112,589	327,936	267,609
757		72,880	1,504	118,898	120,990
127,879		19,989	20,899	878,134	1,078,094
	22,057,479			22,057,479	23,035,615
23		532	8,460	31,510	35,680
			6,374	6,374	
107,011		1,371,720	663,968	2,334,483	2,442,309
20,375,294	22,057,479	36,847,379	5,469,488	129,696,888	127,961,197
(20,371,330)	(22,057,479)	(36,847,310)	(4,372,118)	(127,276,590)	(126,418,521)
			8,131	8,206	2,141
		(3,988)	(186,428)	(228,193)	(189,250)
18,730				182,681	377,435
20,412,159	22,074,481	36,581,201	4,434,070	140,019,481	125,261,603
20,430,889	22,074,481	36,577,213	4,255,773	139,982,175	125,451,929
\$ 59,559	\$ 17,002	\$ (270,097)	\$ (116,345)	\$ 12,705,585	\$ (966,592)

**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, 2018 (With Comparative Totals for June 30, 2017)**

	State Capital Police	State Highway Patrol	Alcohol Law Enforcement
<b>REVENUES</b>			
Federal Funds	\$ 0	\$ 1,116,610	\$ 0
Investment Earnings		12,721	37,447
Sales and Services	3,621,001	2,201,948	297,817
Rental and Lease of Property		97,304	
Fees, Licenses, and Fines		235,219	218,818
Student Tuition and Fees		55,385	
Contributions, Gifts, and Grants		2,580,755	859,924
Revenues from Other State Agencies		9,237,770	2,100,000
Miscellaneous Income	18	65,785	216,102
Total Revenues	3,621,019	15,603,497	3,730,108
<b>EXPENDITURES</b>			
Salaries and Benefits	4,835,257	179,488,926	9,481,410
Contracted Personal Services	77,390	9,107,071	88,292
Contracted Medical Services		337,044	5,120
Supplies and Materials	79,911	14,043,246	664,295
Purchases for Resale			
Travel	141	652,392	41,558
Communication	17,078	2,577,467	146,536
Utilities	368	913,733	
Data Processing Services	34,465	851,142	52,635
Other Services	3,333	751,041	45,297
Claims and Benefits	139,715	9,814,711	587,359
Other Fixed Charges	6,788	2,126,849	34,828
Capital Outlay	34,638	23,635,288	947,485
Grants, State Aid, and Subsidies			
Insurance and Bonding	5,527	1,344,719	38,057
Expenditures to Other State Agencies	100	2,211,101	63,068
Other Expenditures		491,174	72,341
Total Expenditures	5,234,711	248,345,904	12,268,281
Excess of Revenues Over (Under) Expenditures	(1,613,692)	(232,742,407)	(8,538,173)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of Capital Assets	100	2,641,250	267,908
Insurance Recoveries		857,751	
Transfers to State Reserve Fund		(716,021)	(19,549)
Transfers from State Reserve Fund		377,763	8,869
Appropriations	1,383,687	227,952,102	8,778,968
Total Other Financing Sources (Uses)	1,383,787	231,112,845	9,036,196
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (229,905)	\$ (1,629,562)	\$ 498,023



**Schedule G-1**

<b>State Bureau of Investigation</b>	<b>Other</b>	<b>Total Law Enforcement 2018</b>	<b>Total Law Enforcement 2017</b>
\$ 481,005	\$ 0	\$ 1,597,615	\$ 893,000
41,107		91,275	69,137
7,772,937		13,893,703	13,286,566
		97,304	86,049
6,767,826		7,221,863	6,885,346
		55,385	96,370
1,592,869		5,033,548	2,957,183
		11,337,770	10,791,322
113,560		395,465	434,441
16,769,304	0	39,723,928	35,499,414
33,449,431	81,475	227,336,499	222,166,390
1,415,465		10,688,218	13,417,435
68,470		410,634	450,459
1,313,316		16,100,768	17,425,244
			7,403
393,589	738	1,088,418	1,079,838
555,652		3,296,733	2,969,516
133,679		1,047,780	1,021,341
1,011,059		1,949,301	2,792,117
693,777		1,493,448	1,411,880
1,568,527	139,802	12,250,114	11,897,205
3,520,509		5,688,974	4,198,984
11,117,133		35,734,544	29,888,137
			415,895
131,587		1,519,890	1,526,100
		2,274,269	
5,075,032	23,369	5,661,916	6,809,444
60,447,226	245,384	326,541,506	317,477,388
(43,677,922)	(245,384)	(286,817,578)	(281,977,974)
295,544		3,204,802	2,914,423
3,069		860,820	585,759
(319,888)		(1,055,458)	(7,961,191)
7,476,882		7,863,514	661,807
35,530,927	217,875	273,863,559	279,459,792
42,986,534	217,875	284,737,237	275,660,590
\$ (691,388)	\$ (27,509)	\$ (2,080,341)	\$ (6,317,384)

**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, 2018 (With Comparative Totals for June 30, 2017)**

	Army Guard	Air Guard	Youth Programs
<b>REVENUES</b>			
Federal Funds	\$ 23,546,153	\$ 4,031,806	\$ 6,201,139
Local Funds			
Investment Earnings	56		
Sales and Services	163		4,176
Rental and Lease of Property			
Contributions, Gifts, and Grants	12,193		243,975
Revenues from Other State Agencies	802,243		
Miscellaneous Income	4,425	2,203	138,735
Total Revenues	24,365,233	4,034,009	6,588,025
<b>EXPENDITURES</b>			
Salaries and Benefits	3,896,473	2,782,116	5,538,805
Contracted Personal Services	4,831,792	642,613	1,075,232
Contracted Medical Services			39,048
Supplies and Materials	944,665	130,667	1,055,532
Travel	61,197	12,531	54,050
Communication	1,414,144		57,337
Utilities	3,484,129	663,205	214,037
Data Processing Services			10,712
Other Services	1,388,684	4,106	222,739
Other Fixed Charges	245,768	16,030	42,891
Capital Outlay	13,031,931		53,783
Grants, State Aid, and Subsidies			
Insurance and Bonding			1,125
Other Expenditures	160,514		53,386
Total Expenditures	29,459,297	4,251,268	8,418,677
Excess of Revenues Over (Under) Expenditures	(5,094,064)	(217,259)	(1,830,652)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of Capital Assets	5,255		379
Insurance Recoveries	19,999		
Transfers In	3,498,304		
Transfers Out	(3,498,304)		
Transfers to State Reserve Fund	(20,966)		
Transfers from State Reserve Fund			
Appropriations	3,331,673	(290,637)	2,248,122
Total Other Financing Sources (Uses)	3,335,961	(290,637)	2,248,501
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,758,103)	\$ (507,896)	\$ 417,849

**Schedule H-1**

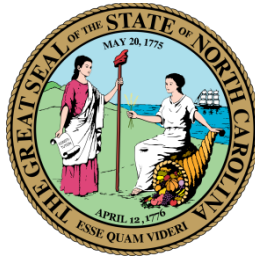
<b>Other</b>	<b>Total National Guard 2018</b>	<b>Total National Guard 2017</b>
\$ 0	\$ 33,779,098	\$ 32,113,045
10,535	10,535	9,595
2,495	2,551	726
238,486	242,825	156,921
176,350	176,350	239,477
	256,168	171,162
79,380	881,623	267,515
45,032	190,395	364,510
552,278	35,539,545	33,322,951
1,360,166	13,577,560	13,496,214
558,831	7,108,468	7,134,189
	39,048	24,599
56,506	2,187,370	2,224,754
12,270	140,048	188,214
3,565	1,475,046	1,657,499
103,959	4,465,330	4,589,826
17,531	28,243	52,818
54,186	1,669,715	2,053,523
16,342	321,031	345,314
661,844	13,747,558	6,897,244
79,380	79,380	78,780
48,257	49,382	45,407
305,782	519,682	494,596
3,278,619	45,407,861	39,282,977
(2,726,341)	(9,868,316)	(5,960,026)
2,938	8,572	3,664
12,500	32,499	
	3,498,304	4,501,868
	(3,498,304)	(4,501,868)
	(20,966)	
6,176,796	11,465,954	230,203
		15,965,193
6,192,234	11,486,059	16,199,060
\$ 3,465,893	\$ 1,617,743	\$ 10,239,034

**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, 2018 (With Comparative Totals for June 30, 2017)**

	Emergency Management Performance Grant	Disaster Response and Recovery	Homeland Security
<b>REVENUES</b>			
Federal Funds	\$ 9,783,401	\$ 67,121,307	\$ 8,489,156
Sales and Services	179,602		
Fees, Licenses, and Fines	3,575,092		
Contributions, Gifts, and Grants	52,179	324,498	
Revenues from Other State Agencies		20,252,246	
Miscellaneous Income	6,302	1,198	229
Total Revenues	13,596,576	87,699,249	8,489,385
<b>EXPENDITURES</b>			
Salaries and Benefits	7,085,951	1,702,638	740,884
Contracted Personal Services	1,338,260	7,603,109	41,752
Supplies and Materials	158,350	454,452	4,199
Travel	219,071	398,640	32,074
Communication	172,447	16,980	3,608
Utilities	34,443		
Data Processing Services	86,661	10,445	10,743
Other Services	82,841	7,356	6,280
Other Fixed Charges	140,425	371	19,169
Capital Outlay	141,811	398,348	1,668
Grants, State Aid, and Subsidies	5,679,986	79,933,514	7,518,747
Insurance and Bonding	49,124		
Expenditures to Other State Agencies	167,956	2,576,977	
Other Expenditures	1,014,073	981,651	7,887
Total Expenditures	16,371,399	94,084,481	8,387,011
Excess of Revenues Over (Under) Expenditures	(2,774,823)	(6,385,232)	102,374
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of Capital Assets	71,837		
Insurance Recoveries	211,232		
Transfers to State Reserve Fund	(360,381)		
Transfers from State Reserve Fund			
Appropriations	2,847,002	20,141,611	(10,202)
Total Other Financing Sources (Uses)	2,769,690	20,141,611	(10,202)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (5,133)	\$ 13,756,379	\$ 92,172

**Schedule I-1**

<b>Geospatial</b>	<b>Other</b>	<b>Total Emergency Management 2018</b>	<b>Total Emergency Management 2017 (Restated)</b>
\$ 1,834,144	\$ 3,662,403	\$ 90,890,411	\$ 92,928,749
1,948,958		2,128,560	4,297,325
589,820		4,164,912	3,654,342
209,000		585,677	100,686
3,858,311		24,110,557	39,399,326
1,223	90	9,042	8,668
8,441,456	3,662,493	121,889,159	140,389,096
3,949,956	336,642	13,816,071	16,354,898
5,849,756	791,898	15,624,775	26,521,964
44,089	2,713	663,803	2,789,684
58,099	19,344	727,228	1,291,979
17,843	2,027	212,905	217,495
		34,443	29,691
64,103	4,614	176,566	258,817
19,927	861	117,265	271,456
290,580	178	450,723	476,868
430,829	300,428	1,273,084	1,552,019
	3,106,008	96,238,255	102,380,500
8,862		57,986	74,284
		2,744,933	1,399,383
143,640	8,310	2,155,561	2,518,220
10,877,684	4,573,023	134,293,598	156,137,258
(2,436,228)	(910,530)	(12,404,439)	(15,748,162)
		71,837	26,285
		211,232	80,565
		(360,381)	
			107,616
1,180,525	338,083	24,497,019	22,024,344
1,180,525	338,083	24,419,707	22,238,810
\$ (1,255,703)	\$ (572,447)	\$ 12,015,268	\$ 6,490,648



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 18, 2019.

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, 2018, 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.

### 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*.

### 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

April 18, 2019



# ORDERING INFORMATION

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



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This audit required 5,745 hours at an approximate cost of \$591,735.