

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



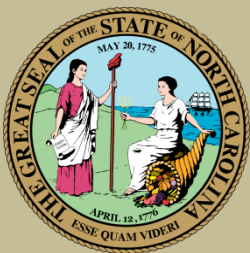
NORTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

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, 2019, 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

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

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

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

Required Information: (Information required to be reported 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. The Management’s Discussion and Analysis is prepared by the Department and has not been subjected to the same auditing procedures performed on the financial statements.

“A” Exhibits present the Balance Sheet as of June 30, 2019 (with comparative totals for June 30, 2018) and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2019 (with comparative totals for the fiscal year ended June 30, 2018) for the Department’s **governmental funds as a whole**.

“B” Exhibits present the Statement of Net Position as of June 30, 2019 (with comparative totals for June 30, 2018), the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2019 (with comparative totals for June 30, 2018), and the Statement of Cash Flows for the year ended June 30, 2019 (with comparative totals for June 30, 2018) 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:

“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, 2019) and the required supplementary information related to pension and other postemployment benefit plans for the Department’s proprietary funds. These schedules have not been subjected to the same auditing procedures performed on the financial statements.

Other Supplementary Information:

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, 2019 (with comparative totals for the fiscal year ended June 30, 2018) 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, 2019 (with comparative totals for the fiscal year ended June 30, 2018) 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.



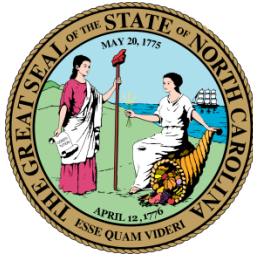
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State Auditor

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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

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, 2019, 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, 2019, 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, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Information

We have previously audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Department as of June 30, 2018 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 April 18, 2019. The prior period supplementary schedules of divisions 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, 2018.

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 Supplementary Information

The accompanying supplementary schedules of divisions are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 of divisions 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

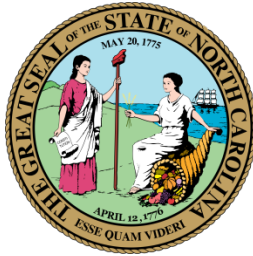
In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2020 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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

March 24, 2020



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, 2019 with comparative information for the fiscal year ended June 30, 2018. 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, 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 schedules 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, 2019 and 2018.

	2019	2018	Change
Assets	<u>\$ 379,941,492</u>	<u>\$ 305,302,797</u>	<u>\$ 74,638,695</u>
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	<u>\$ 379,941,492</u>	<u>\$ 305,302,797</u>	<u>\$ 74,638,695</u>
Liabilities	<u>\$ 126,929,411</u>	<u>\$ 75,906,965</u>	<u>\$ 51,022,446</u>
Deferred Inflows of Resources	0	0	0
Fund Balances			
Nonspendable	58,167,607	54,864,045	3,303,562
Restricted	15,061,068	12,090,028	2,971,040
Committed	194,705,506	174,868,849	19,836,657
Unassigned	<u>(14,922,100)</u>	<u>(12,427,090)</u>	<u>(2,495,010)</u>
Total Fund Balances	<u>253,012,081</u>	<u>229,395,832</u>	<u>23,616,249</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 379,941,492</u>	<u>\$ 305,302,797</u>	<u>\$ 74,638,695</u>

Total assets increased by \$74.6 million during the year due primarily to the following:

- Cash and cash equivalents increased by \$34.3 million due to the following:
 - Capital Projects Fund cash increased by \$26.5 million primarily due to capital appropriations and a transfer in from the Correction Enterprises Fund for legislatively approved construction projects that were to be completed over several years.
 - General Fund cash increased in the amount of \$15.4 million primarily as a result of a special appropriation for Hurricane Matthew recovery that remained unspent due to the time it takes to assess the needs and to determine eligibility for various programs. In addition, the General Fund increased \$7.4 million related to cash advanced from the federal government, predominantly for the

Edward Byrne Memorial Justice Assistance Grant program from the Department of Justice.

- These increases were offset by a \$6.8 million decrease in cash in the Correction Enterprises Fund due to the above-mentioned transfer to the Capital Projects Fund and the general slowdown in operations due to the reduced availability of inmate labor caused by the staff shortages within prisons discussed in the Future Outlook section below.
- Intergovernmental receivables increased by \$35.7 million mainly due to an increase in federal receivables for Hurricane Matthew and Hurricane Florence disaster recovery.
- Inventories increased by \$3.4 million. Correction Enterprises Fund inventory increased due to the receipt of a large delivery of aluminum at the sign plant and an increase in the price of goods purchased for resale at the cannery. General Fund inventory increased due to the replenishment of disaster supplies utilized during Hurricane Florence in the prior year.

Total liabilities increased by \$51.0 million during the year principally for the following reasons:

- Accounts payable increased by \$31.0 million mainly due to an increase in disaster recovery efforts for Hurricane Florence.
- Intergovernmental payables increased by \$11.2 million mainly due to an increase in disaster recovery efforts at local entities for Hurricane Florence.
- Unearned revenue increased by \$7.4 million related to cash advanced from the federal government, predominantly for the Edward Byrne Memorial Justice Assistance Grant program discussed above.

Overall fund balances increased by \$23.6 million during the year due primarily to the following:

- Nonspendable fund balances increased by \$3.3 million as a direct result of an increase in the Department's various inventory balances as explained above.
- Committed fund balances increased by \$19.8 million as a direct result of the cash changes explained above. The committed fund balances increased in the General Fund by \$4.6 million and in the Capital Projects Fund by \$24.5 million with an offsetting decrease of \$8.4 million in the Correction Enterprises Fund.

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 the years ended June 30, 2019 and 2018.

	2019	2018	Change
Revenues			
Federal Funds	\$ 371,427,204	\$ 180,355,756	\$ 191,071,448
Sales and Services	96,386,823	93,246,522	3,140,301
Intragovernmental Sales and Services	50,953,849	53,794,408	(2,840,559)
Fees, Licenses, and Fines	40,627,856	40,914,029	(286,173)
Revenues from Other State Agencies	585,668,040	42,770,154	542,897,886
Other Revenues	23,177,199	23,449,596	(272,397)
Total Revenues	1,168,240,971	434,530,465	733,710,506
Expenditures			
Salaries and Benefits	1,570,083,313	1,507,899,037	62,184,276
Contracted Personal Services	236,036,673	129,436,624	106,600,049
Contracted Medical Services	126,884,019	121,056,757	5,827,262
Supplies and Materials	171,574,606	169,319,753	2,254,853
Purchases for Resale	74,525,116	77,770,422	(3,245,306)
Travel	6,312,749	4,460,002	1,852,747
Communication	10,369,528	11,223,244	(853,716)
Utilities	57,073,744	57,017,435	56,309
Data Processing Services	23,029,461	20,333,418	2,696,043
Other Services	14,656,499	13,949,130	707,369
Claims and Benefits	12,866,309	12,269,884	596,425
Debt Service:			
Principal Retirement	1,165,947	882,792	283,155
Interest and Fees	315,633	346,981	(31,348)
Other Fixed Charges	10,874,797	13,119,549	(2,244,752)
Capital Outlay	113,960,465	88,629,514	25,330,951
Grants, State Aid, and Subsidies	371,334,046	174,987,374	196,346,672
Insurance and Bonding	4,429,175	3,069,058	1,360,117
Expenditures to Other State Agencies	429,764,529	32,280,040	397,484,489
Other Expenditures	33,209,463	29,324,369	3,885,094
Total Expenditures	3,268,466,072	2,467,375,383	801,090,689
Excess of Revenues Under Expenditures	(2,100,225,101)	(2,032,844,918)	(67,380,183)
Other Financing Sources (Uses)			
Sale of Capital Assets	3,100,924	3,856,312	(755,388)
Insurance Recoveries	1,266,348	1,623,047	(356,699)
Transfers In	9,505,688	7,806,729	1,698,959
Transfers Out	(9,505,688)	(7,806,729)	(1,698,959)
Transfers to State Reserve Fund	(8,139,036)	(9,495,846)	1,356,810
Transfers from State Reserve Fund	9,495,845	14,882,274	(5,386,429)
State Appropriations	2,118,117,269	2,053,379,685	64,737,584
Total Other Financing Sources	2,123,841,350	2,064,245,472	59,595,878
Net Change in Fund Balances	23,616,249	31,400,554	(7,784,305)
Fund Balances - July 1	229,395,832	197,995,278	31,400,554
Fund Balances - June 30	\$ 253,012,081	\$ 229,395,832	\$ 23,616,249

Total revenues increased by \$733.7 million due primarily to the following:

- Federal funds received increased by \$191.1 million. The increase in the General Fund is a result of disaster grant fund receipts for Hurricanes Matthew and Florence and VOCA (Victims of Crime Act) Crime Victim Assistance awards in the Governor's Crime Commission.
- Revenues from other state agencies increased by \$542.9 million primarily due to an increase of \$21.6 million in transfers from the Office of State Budget and Management for disaster recovery due to Hurricane Matthew and the Department was designated the lead agency for distributing appropriations of \$521.0 million to other state agencies for Hurricane Florence disaster recovery per Session Law 2018-136. See more details below in the Future Outlook section.

Total expenditures increased by \$801.1 million from the prior year mainly due to the following:

- Salaries and benefits increased by \$62.2 million primarily due to an increase in correctional staff salaries and the legislature approved a new pay plan for State Highway Patrol troopers of \$7.2 million. In addition, overtime increased by \$11.2 million from prior year due to continued staffing shortages.
- Contracted personal services increased by \$106.6 million. Miscellaneous contract payments increased by \$71.4 million due to Hurricane Florence disaster recovery. In addition, Disaster Recovery Act services for Hurricane Matthew increased by \$8.3 million.
- Capital outlay costs increased by \$25.3 million. Most of the significant change in Capital outlay was due to a \$16.0 million increase in voice equipment for the Department related to Voice Interoperability Plan for Emergency Responders (VIPER) communications system upgrades and prison safety improvements authorized by the General Assembly. Also, other computer equipment costs increased \$3.0 million from the previous year due to the prison safety improvements.
- Grants, state aid, and subsidies increased by \$196.3 million. Federal funds for Hurricane Florence totaling \$132.1 million were disbursed to eligible subrecipients. In addition, \$52.9 million was granted or loaned to local governments and component units of the state since the Department is now the designated agency that will disburse Hurricane Florence Disaster Recovery funding.
- Expenditures to other state agencies increased by \$397.5 million primarily due to the disbursement of Hurricane Florence Disaster Recovery Funds to other state agencies such as the Department of Transportation, Agriculture, Public Instruction, Environmental Quality, Health and Human Services, and other state agencies per S.L. 2018-136 and 138.

Other financing sources increased by \$60.0 million from the prior year, mainly due to an increase in state appropriations of \$64.7 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 \$688.6 million and \$3.0 billion, respectively. This represents a 273% increase in revenues and a 23% 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 Hurricanes Matthew and Florence, which caused catastrophic flooding in eastern North Carolina, the Federal Emergency Management Agency issued disaster declarations for the state which increased federal grant authorizations by \$230.0 million. The increase in authorized expenditures is primarily related to an increase in projected grant expenditures and contracted personal services that are attributable to response and recovery costs for Hurricanes Matthew and Florence of \$351.4 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 2019 was prepared during the fall of 2016, nearly two years 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 may occur.

Variances - Final Budget and Actual Results:

Actual total revenues were \$260.3 million less than budgeted revenue amounts. Federal grant revenues were \$275.0 million below budget since grants are budgeted at the full grant award when received while the grant period of performance may span multiple state fiscal years.

Actual total expenditures were \$403.6 million less than budgeted expenditures. Grant expenditures are also budgeted at the full grant award when received as described above. Grants, state aid, and subsidies were less than the budgeted by \$81.3 million for Hurricane Florence, \$91.2 million for Hurricane Matthew, \$164.0 million for Governor's Crime Commission, \$11.7 million for Emergency Management Homeland Security, and \$8.9 million for Emergency Management Hazard Mitigation. Motor Vehicle Enforcement grant awards for the State Highway Patrol were budgeted at the full amount for fiscal year 2018-19, but \$2.9 million in funding will be expended in future years. Contracted personal services for the floodplain mapping program were \$13.6 million less than projected amounts. Capital outlay for prison security enhancements, appropriated by the General Assembly in S.L. 2018-5, was \$5.1 million less than anticipated due to a phased-in implementation of technology and safety enhancements over three fiscal years.

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 \$90.7 million, respectively. This represents a 1% and 0.3% decrease in revenues and increase in expenditures, respectively, 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 2019 was prepared during the fall of 2016, nearly two years 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 \$3.6 million less than budgeted amounts. Variances from budgeted revenues primarily occurred due to the slowdown in operations due to the reduced availability of inmate labor caused by the staff shortages within prisons discussed in the Future Outlook section below.

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 \$40.7 million and \$41.8 million, respectively. This represents a 3% decrease in revenues and a 2% 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 2019 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 \$0.3 million less than budgeted revenue amounts. Revenues decreased due to implementation of a new policy in prisons that restricted deposits to the offender account to depositors identified as approved visitors for the offenders, making less funds available for the inmate to purchase items from the canteens.

Actual total expenditures were \$1.7 million less than budgeted expenditures due to a change in policy that requires inmates to purchase condiments and other overhead items that in the past were given away for free and the reduction in availability of inmate funds resulting from the above-mentioned limitation on deposits.

Proprietary Funds

Condensed Statements of Net Position

The following Condensed Statements of Net Position show the proprietary funds' financial position at June 30, 2019 and 2018.

	2019	2018	Change
Assets			
Current Assets	\$ 23,428,101	\$ 18,771,637	\$ 4,656,464
Capital Asset, Net	2,166,073	2,290,413	(124,340)
Other Noncurrent Assets	5,370	12,843	(7,473)
Total Assets	25,599,544	21,074,893	4,524,651
Deferred Outflows of Resources			
Deferred Outflows for Pensions	1,252,493	1,051,799	200,694
Deferred Outflows for OPEB	1,251,677	1,504,239	(252,562)
Total Deferred Outflows of Resources	2,504,170	2,556,038	(51,868)
Liabilities			
Current:			
Compensated Absences	35,111	26,913	8,198
Other Current Liabilities	1,202,441	209,694	992,747
Noncurrent:			
Long-Term Liabilities	7,572,613	9,075,763	(1,503,150)
Total Liabilities	8,810,165	9,312,370	(502,205)
Deferred Inflows of Resources			
Deferred Inflows for Pensions	169,818	70,197	99,621
Deferred Inflows for OPEB	3,596,340	2,360,780	1,235,560
Total Deferred Inflows of Resources	3,766,158	2,430,977	1,335,181
Net Position			
Investment in Capital Assets	2,166,073	2,290,413	(124,340)
Restricted	5,370	22,685	(17,315)
Unrestricted	13,355,948	9,574,486	3,781,462
Total Net Position	\$ 15,527,391	\$ 11,887,584	\$ 3,639,807

Total assets increased \$4.5 million from the prior year, mainly due to a \$4.5 million increase in cash and cash equivalents as a result of the ABC Commission's net operating income of \$3.6 million. Unrestricted net position, which increased by \$3.7 million, was directly impacted by this increase.

Total current liabilities increased by \$1.0 million from the prior year, mainly due to the timing difference of the ABC Commission's monthly payment for the warehouse management contract, as compared to prior year. Total noncurrent liabilities decreased by \$1.5 million from the prior year, mainly due to a decrease in the actuarial valuation for the net other postemployment benefits liability. Total deferred inflows of resources increased \$1.3 million from prior year, mainly due to changes in the actuarial valuation as well.

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 the years ended June 30, 2019 and 2018:

	2019	2018	Change
Operating Revenues			
Fees, Licenses, and Fines	\$ 20,744,030	\$ 21,031,699	\$ (287,669)
Other Operating Revenues	97,052	121,246	(24,194)
Total Operating Revenues	20,841,082	21,152,945	(311,863)
Operating Expenses			
Salaries and Benefits	4,487,968	4,836,352	(348,384)
Contracted Personal Services	11,246,363	10,666,819	579,544
Supplies and Materials	459,276	208,044	251,232
Depreciation	124,340	122,311	2,029
Travel	56,518	58,182	(1,664)
Communication	48,219	48,130	89
Utilities	42,808	39,128	3,680
Data Processing Services	79,612	110,554	(30,942)
Other Services	193,906	195,024	(1,118)
Other Fixed Charges	80,503	129,633	(49,130)
Grants, State Aid, and Subsidies	7,749		7,749
Insurance and Bonding	176	214	(38)
Other Operating Expenses	490,065	422,518	67,547
Total Operating Expenses	17,317,503	16,836,909	480,594
Operating Income	3,523,579	4,316,036	(792,457)
Net Nonoperating Revenues	116,228	48,953	67,275
Change in Net Position	3,639,807	4,364,989	(725,182)
Net Position - July 1	11,887,584	7,522,595	4,364,989
Net Position - June 30	\$ 15,527,391	\$ 11,887,584	\$ 3,639,807

Total revenues and expenses for fiscal year 2019 were \$20,957,310 and \$17,317,503, respectively.

Total revenues and expenses for fiscal year 2018 were \$21,201,898 and \$16,836,909, respectively.

Total operating revenues decreased by \$0.3 million, primarily due to a decrease in fees, licenses, and fines from the reduction in the ABC Commission bailment surcharge from \$1.40 to \$1.15 per case.

Total operating expenses increased by \$0.5 million. The ABC Commission's miscellaneous contractual personal services increased by \$0.4 million due to an increase in the management

contract for the ABC warehouse. There was also an offsetting decrease in salaries and benefits in the amount \$0.3 million primarily due to the effect of the actuarial changes for other postemployment benefits expense as discussed above.

Future Outlook

Hurricane Florence

Hurricane Florence brought catastrophic damage and destruction to the State of North Carolina in September 2018. The Division of Emergency Management received the official declaration from Federal Emergency Management Agency (FEMA) in October 2018. The North Carolina Legislature created the Hurricane Florence Disaster Recovery Fund (S.L. 2018-136) and appropriated \$100 million to the Department of Public Safety. Since the official declaration, the North Carolina Division of Emergency Management has utilized agency resources along with those of local governments and other state agencies to ensure that the citizens of North Carolina that were affected by Hurricane Florence are on the road to recovery. As of June 2019, the Department expended over \$180 million for Hurricane Florence. The economic and physical impact of Hurricane Florence will take years to recover from and the Department will play a very critical and integral role in recovery efforts.

North Carolina Office of Recovery and Resiliency

Due to the catastrophic damage of Hurricanes Florence and Matthew, the North Carolina Office of Recovery and Resiliency (NCORR) was established per S.L. 2018-136(5.7) in January 2019. NCORR is responsible for the execution of the Community Development Block Grant-Disaster Recovery funding awarded by the U.S. Department of Housing and Urban Development (HUD) which was transitioned to the Department from the North Carolina Department of Commerce in July 2019. The initial funding for Hurricane Matthew from HUD is \$236.5 million and \$168 million of mitigation funding with additional awards expected for Hurricane Florence in fiscal year 2019-20. NCORR will provide general disaster recovery coordination and public information, reach out to citizens for applications for case management, finance, compliance, reporting on all disaster recovery funds, and auditing. NCORR will manage and have oversight of all contracts for services in construction, housing, and project management.

Inmate Health Care and Hepatitis C

The Department is required to provide community-standard health care to prison inmates. This requirement has consistently been underfunded and the resulting structural deficit for the agency has been covered by lapsed salaries. The Department has maximized its ability to contain costs with its health care contracts. Dependence on lapsed salaries will continue. If turnover of vacancies slows down, the Department will have less lapsed salaries with which to cover its existing projected costs.

The Department is currently engaged in a lawsuit with an inmate over provision of treatment for Hepatitis C. The Department does not currently test all inmates for Hepatitis C and thus has no measure of how many inmates may be infected. The current practice is to treat inmates found to have the disease at a high acuity level. If under this lawsuit the Department is required to test all inmates for infection and treat all infected inmates regardless of acuity level, the cost to the State could exceed \$200 million.

Prison Staffing Shortages

For the past several years, the Department has struggled with high vacancy rates for prison staffing. According to data compiled by the Department, from March 2013-July 2015, more than half of the 1000-bed close-custody facilities have averaged vacancy rates among correctional officers of over 10 percent. Currently, the Department has a vacancy rate of 20.5% for correctional officers.

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, leading to a 145% increase in overtime costs from 2016 to 2019.

During the 2018 legislative session, the NC General Assembly appropriated \$27 million (recurring) to provide for an across-the-board salary increase of 4% for all employees that worked in prison facilities. Session Law 2018-5 also established higher minimum salaries for Correctional Officer position classifications, effective July 2018: (1) Correctional Officer I-\$33,130; (2) Correctional Officer II-\$34,220; and (3) Correctional Officer III-\$36,598. The Department anticipates that with these salary initiatives, along with investment in prison safety equipment (see below), turnover will slow down and vacancy rates will drop over the coming years.

Prison Reform

In response to violent incidents in the past few years, Department management have 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 (NIC) providing recommendations for safety improvements in our prisons. Along with authorizing salary initiatives in the 2018 legislative session, the NC General Assembly provided funding in the amount of \$15 million for Prison Security Equipment to address Prison Reform safety concerns raised by the NIC report by transferring the funds from the Statewide Misdemeanant Confinement Fund. These funds have been used mainly for installation of security cameras and radio infrastructure in prison facilities, as well as policy enhancement, staffing, and training. Session Law 2018-5 also requires the Department to provide quarterly reporting on the implementation of the recommendations made in the report issued in November 2017.

Transfer of ALE

The General Assembly approved S.L. 2019-203 which moves the Alcohol Law Enforcement (ALE) Branch from the State Bureau of Investigation to the Department as a separate division. Alcohol Law Enforcement is the lead enforcement agency for the State's alcoholic beverage control, lottery, and tobacco laws. They have been a branch of the State Bureau of Investigation since 2014. Based on S.L. 2019-203, the Secretary of the Department would appoint and supervise the Director of ALE who in turn will hire and appoint authorized personnel within the division. The bill also clarifies and justifies jurisdiction to include any criminal offense relating to Alcoholic Beverage Control (ABC) or the Education Lottery Commission. This provision also includes the primary responsibilities of an ALE agent to include violations of gaming and lottery laws along with raffle and bingo laws. Session Law 2019-203 also transferred the Boxing Advisory Commission from the ALE to the North Carolina Department of Commerce effective October 1, 2019.

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 for the 2018-2019 fiscal year. During the 2017 legislative session, the North Carolina General Assembly passed House Bill 280 ("Raise the Age") with bipartisan support, as well as with support from the law enforcement community and other advocacy groups. Effective December 1, 2019, this legislation will increase the age of juvenile jurisdiction to 18, except in cases of certain violent felonies. Previously, crimes committed in North Carolina by youth age 16 and older were heard in the State's adult court system.

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

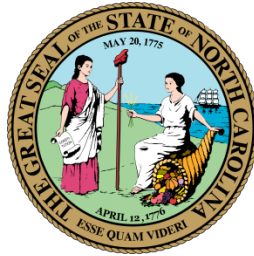
In response to passing the Juvenile Justice Reinvestment Act, the General Assembly appropriated \$519,600 (non-recurring) for the 2017-2018 fiscal year and \$478,000 (non-recurring) for the 2018-2019 fiscal year to provide funding for the planning and implementation of "Raise the Age". During the 2018 Session, the General Assembly appropriated \$722,622 (recurring) and \$1.2 million (non-recurring) for the 2018-2019 fiscal year to provide partial funding for the Court Services section of the Division of Juvenile Justice to accommodate the anticipated needed for increases in court services from "Raise the Age" legislation.

In addition, \$13.2 million (non-recurring) was appropriated for the 2017-2018 fiscal year from the North Carolina General Fund and \$7.2 million was appropriated in capital funds from the Project Reserve Account to provide funding to construct a new youth Development Center in Rockingham County.

Session Law 2019-229 provides additional resources to support implementation of the "Raise the Age" legislation. The sum of \$30,915,431 for the 2019-2020 fiscal year and the sum of \$43,538,704 for 2020-2021 is appropriated for increases to all operational areas of the Division of Juvenile Justice to manage the increased population of offenders anticipated due to the change.

SBI and ALE implementation of a Step-Pay Plan

The North Carolina Legislature approved Session Law 2019-211 which implements a new Step Pay Plan for the State Bureau of Investigation and the Alcohol Law Enforcement Division. The legislation was enacted to maintain an experienced-based pay progression for all agents. The legislation set aside \$2.68 million in recurring funds for the 2019-2020 fiscal year along with \$3.36 million in recurring funds for the 2020-2021 fiscal year. The Step Pay Plan increases entry level salary of agents and officers from \$45,100 in fiscal year 2019-2020 and increases the salaries of the agents and officers to \$46,228 in fiscal year 2020-2021. The legislation sets a stepped progression of 6.5% per year until reaching \$65,807.



FINANCIAL STATEMENTS

North Carolina Department of Public Safety
Balance Sheet
Governmental Funds
As of June 30, 2019 (With Comparative Totals for June 30, 2018)

Exhibit A-1

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2019	Total Governmental Funds 2018
ASSETS						
Cash and Cash Equivalents (Note 2)	\$ 136,182,665	\$ 14,156,179	\$ 100,492,729	\$ 4,718,755	\$ 255,550,328	\$ 221,226,286
Receivables:						
Accounts Receivable, Net (Note 4)	1,197,515	301,016			1,498,531	1,785,144
Intergovernmental Receivables, Net (Note 5)	56,495,983	549,360			57,045,343	21,352,222
Interest Receivable	35,979				35,979	16,451
Due from Other Funds and State Agencies	3,912,024	3,500,256	89,885		7,502,165	5,917,111
Inventories	39,162,460	16,633,942		2,022,219	57,818,621	54,400,401
Notes Receivable	490,525				490,525	605,182
Total Assets	237,477,151	35,140,753	100,582,614	6,740,974	379,941,492	305,302,797
DEFERRED OUTFLOWS OF RESOURCES						
	0	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	<u>\$ 237,477,151</u>	<u>\$ 35,140,753</u>	<u>\$ 100,582,614</u>	<u>\$ 6,740,974</u>	<u>\$ 379,941,492</u>	<u>\$ 305,302,797</u>
LIABILITIES						
Accounts Payable and Accrued Liabilities:						
Accounts Payable	\$ 55,261,467	\$ 4,604,270	\$ 6,163,338	\$ 1,395,661	\$ 67,424,736	\$ 36,388,392
Medical Services Payable	23,588,078				23,588,078	20,149,010
Accrued Payroll	14,259	14,954			29,213	19,843
Intergovernmental Payables	15,922,145			430	15,922,575	4,720,048
Due to Other Funds and State Agencies	8,072,270			322	8,072,592	10,127,072
Funds Held for Others	221,410				221,410	220,976
Unearned Revenue	11,655,433	15,374			11,670,807	4,281,624
Total Liabilities	114,735,062	4,634,598	6,163,338	1,396,413	126,929,411	75,906,965
DEFERRED INFLOWS OF RESOURCES						
	0	0	0	0	0	0
FUND BALANCES (Note 9)						
Nonspendable	39,511,446	16,633,942		2,022,219	58,167,607	54,864,045
Restricted	15,061,068				15,061,068	12,090,028
Committed	82,387,757	13,872,213	95,123,194	3,322,342	194,705,506	174,868,849
Unassigned	(14,218,182)		(703,918)		(14,922,100)	(12,427,090)
Total Fund Balances	122,742,089	30,506,155	94,419,276	5,344,561	253,012,081	229,395,832
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 237,477,151</u>	<u>\$ 35,140,753</u>	<u>\$ 100,582,614</u>	<u>\$ 6,740,974</u>	<u>\$ 379,941,492</u>	<u>\$ 305,302,797</u>

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

North Carolina Department of Public Safety
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)

Exhibit A-2

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds 2019	Total Governmental Funds 2018
REVENUES						
Federal Funds	\$ 371,427,204	\$ 0	\$ 0	\$ 0	\$ 371,427,204	\$ 180,355,756
Local Funds	3,875				3,875	10,535
Investment Earnings	367,455			3,644	371,099	174,539
Sales and Services	21,344,976	37,070,953	89,885	37,881,009	96,386,823	93,246,522
Intragovernmental Sales and Services		50,953,849			50,953,849	53,794,408
Rental and Lease of Property	250,789	371,307		5,500	627,596	696,764
Fees, Licenses, and Fines	40,627,856				40,627,856	40,914,029
Student Tuition and Fees	98,690				98,690	55,385
Contributions, Gifts, and Grants	7,069,691			109,377	7,179,068	7,841,327
Revenues from Other State Agencies (Note 11)	577,797,346		7,870,694		585,668,040	42,770,154
Miscellaneous Income	13,124,567	97,643	2,235	1,672,426	14,896,871	14,671,046
Total Revenues	1,032,112,449	88,493,752	7,962,814	39,671,956	1,168,240,971	434,530,465
EXPENDITURES						
Salaries and Benefits	1,543,167,037	25,869,606		1,046,670	1,570,083,313	1,507,899,037
Contracted Personal Services	232,640,906	1,040,494	580,321	1,774,952	236,036,673	129,436,624
Contracted Medical Services	126,884,019				126,884,019	121,056,757
Supplies and Materials	163,458,730	5,384,705		2,731,171	171,574,606	169,319,753
Purchases for Resale		43,554,391		30,970,725	74,525,116	77,770,422
Travel	6,029,221	283,029		499	6,312,749	4,460,002
Communication	10,199,850	169,678			10,369,528	11,223,244
Utilities	54,044,262	2,840,833		188,649	57,073,744	57,017,435
Data Processing Services	22,498,938	530,523			23,029,461	20,333,418
Other Services	12,357,740	2,193,619	5,000	100,140	14,656,499	13,949,130
Claims and Benefits	12,866,309				12,866,309	12,269,884
Debt Service:						
Principal Retirement	1,101,073			64,874	1,165,947	882,792
Interest and Fees	310,927			4,706	315,633	346,981
Other Fixed Charges	10,085,757	578,392		210,648	10,874,797	13,119,549
Capital Outlay	79,853,079	6,311,531	26,884,671	911,184	113,960,465	88,629,514
Grants, State Aid, and Subsidies	371,334,046				371,334,046	174,987,374
Insurance and Bonding	3,896,321	529,764		3,090	4,429,175	3,069,058
Expenditures to Other State Agencies (Note 11)	427,346,536	500,000	1,917,993		429,764,529	32,280,040
Other Expenditures	30,828,477	1,121,758		1,259,228	33,209,463	29,324,369
Total Expenditures	3,108,903,228	90,908,323	29,387,985	39,266,536	3,268,466,072	2,467,375,383
Excess of Revenues Over (Under) Expenditures	(2,076,790,779)	(2,414,571)	(21,425,171)	405,420	(2,100,225,101)	(2,032,844,918)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	3,074,268	26,656			3,100,924	3,856,312
Insurance Recoveries	1,266,348				1,266,348	1,623,047
Transfers In (Note 10)	3,515,866	654,134	5,319,981	15,707	9,505,688	7,806,729
Transfers Out (Note 10)	(3,429,581)	(4,461,535)	(468,241)	(1,146,331)	(9,505,688)	(7,806,729)
Transfers to State Reserve Fund	(8,139,036)				(8,139,036)	(9,495,846)
Transfers from State Reserve Fund	9,495,845				9,495,845	14,882,274
State Appropriations	2,076,604,876		41,512,393		2,118,117,269	2,053,379,685
Total Other Financing Sources (Uses)	2,082,388,586	(3,780,745)	46,364,133	(1,130,624)	2,123,841,350	2,064,245,472
Net Change in Fund Balances	5,597,807	(6,195,316)	24,938,962	(725,204)	23,616,249	31,400,554
Fund Balances - July 1	117,144,282	36,701,471	69,480,314	6,069,765	229,395,832	197,995,278
Fund Balances - June 30	\$ 122,742,089	\$ 30,506,155	\$ 94,419,276	\$ 5,344,561	\$ 253,012,081	\$ 229,395,832

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
As of June 30, 2019 (With Comparative Totals for June 30, 2018)

Exhibit B-1

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2019	Total Proprietary Funds 2018
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 19,288,021	\$ 1,921,738	\$ 21,209,759	\$ 16,676,214
Receivables:				
Accounts Receivable (Note 4)	416,205	39,545	455,750	409,635
Intergovernmental Receivables (Note 5)	1,744,623		1,744,623	1,659,551
Interest Receivable				2,570
Inventories	1,850	16,119	17,969	23,667
Total Current Assets	21,450,699	1,977,402	23,428,101	18,771,637
Noncurrent Assets:				
Net Other Postemployment Benefits Asset	3,889	1,481	5,370	12,843
Capital Assets - Nondepreciable (Note 6)	550,407		550,407	550,407
Capital Assets - Depreciable, Net (Note 6)	1,598,530	17,136	1,615,666	1,740,006
Total Noncurrent Assets	2,152,826	18,617	2,171,443	2,303,256
Total Assets	23,603,525	1,996,019	25,599,544	21,074,893
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows Related to Pensions	889,088	363,405	1,252,493	1,051,799
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	756,423	495,254	1,251,677	1,504,239
Total Deferred Outflows of Resources	1,645,511	858,659	2,504,170	2,556,038
LIABILITIES				
Current Liabilities:				
Accounts Payable	1,107,276	48,159	1,155,435	173,320
Due to Other Funds	10,222	36,784	47,006	36,374
Compensated Absences (Note 7)	27,600	7,511	35,111	26,913
Total Current Liabilities	1,145,098	92,454	1,237,552	236,607
Noncurrent Liabilities:				
Compensated Absences (Note 7)	392,488	106,814	499,302	401,634
Net Pension Liability (Note 7)	1,465,226	558,181	2,023,407	1,883,220
Net Other Postemployment Benefits Liability (Note 7)	3,656,827	1,393,077	5,049,904	6,790,909
Total Noncurrent Liabilities	5,514,541	2,058,072	7,572,613	9,075,763
Total Liabilities	6,659,639	2,150,526	8,810,165	9,312,370
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows Related to Pensions	104,691	65,127	169,818	70,197
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	2,472,179	1,124,161	3,596,340	2,360,780
Total Deferred Inflows of Resources	2,576,870	1,189,288	3,766,158	2,430,977
NET POSITION				
Investment in Capital Assets	2,148,937	17,136	2,166,073	2,290,413
Restricted for:				
Expendable:				
Specific Purposes	3,889	1,481	5,370	22,685
Unrestricted	13,859,701	(503,753)	13,355,948	9,574,486
Total Net Position	\$ 16,012,527	\$ (485,136)	\$ 15,527,391	\$ 11,887,584

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, 2019 (With Comparative Totals for June 30, 2018)

Exhibit B-2

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2019	Total Proprietary Funds 2018
OPERATING REVENUES				
Sales and Services	\$ 1,217	\$ 95	\$ 1,312	\$ 1,328
Fees, Licenses, and Fines	19,048,229	1,695,801	20,744,030	21,031,699
Student Tuition and Fees		19,616	19,616	20,241
Miscellaneous Income	16,227	59,897	76,124	99,677
Total Operating Revenues	19,065,673	1,775,409	20,841,082	21,152,945
OPERATING EXPENSES				
Salaries and Benefits	3,207,724	1,280,244	4,487,968	4,836,352
Contracted Personal Services	10,975,583	270,780	11,246,363	10,666,819
Supplies and Materials	421,057	38,219	459,276	208,044
Depreciation	119,113	5,227	124,340	122,311
Travel	29,843	26,675	56,518	58,182
Communication	33,438	14,781	48,219	48,130
Utilities	42,808		42,808	39,128
Data Processing Services	51,612	28,000	79,612	110,554
Other Services	167,112	26,794	193,906	195,024
Other Fixed Charges	68,217	12,286	80,503	129,633
Grants, Aid, and Subsidies		7,749	7,749	
Insurance and Bonding	157	19	176	214
Other Expenses	350,132	139,933	490,065	422,518
Total Operating Expenses	15,466,796	1,850,707	17,317,503	16,836,909
Operating Income (Loss)	3,598,877	(75,298)	3,523,579	4,316,036
NONOPERATING REVENUES (EXPENSES)				
Noncapital Grants	82,022		82,022	52,356
Noncapital Grant Expenses				(30,750)
Investment Earnings		34,206	34,206	27,347
Total Nonoperating Revenues (Expenses)	82,022	34,206	116,228	48,953
Increase (Decrease) in Net Position	3,680,899	(41,092)	3,639,807	4,364,989
NET POSITION				
Net Position - July 1	12,331,628	(444,044)	11,887,584	7,522,595
Net Position - June 30	\$ 16,012,527	\$ (485,136)	\$ 15,527,391	\$ 11,887,584

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

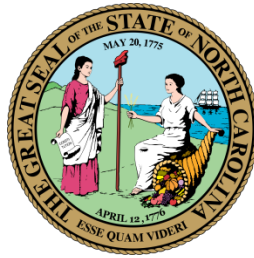
For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)

Exhibit B-3

	ABC Commission	Other Proprietary Funds (1)	Total Proprietary Funds 2019	Total Proprietary Funds 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 18,966,538	\$ 1,775,379	\$ 20,741,917	\$ 21,117,862
Payments to Employees and Fringe Benefits	(3,265,376)	(1,313,327)	(4,578,703)	(4,162,304)
Payments to Vendors and Suppliers	(11,161,274)	(539,898)	(11,701,172)	(12,151,572)
Payments for Grants, Aid, and Subsidies		(7,749)	(7,749)	
Net Cash Provided (Used) by Operating Activities	4,539,888	(85,595)	4,454,293	4,803,986
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Noncapital Grants	82,022		82,022	52,356
Noncapital Grant Disbursements				(30,750)
Net Cash Provided by Noncapital Financing Activities	82,022	0	82,022	21,606
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets				(18,385)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings		36,776	36,776	26,746
Net Increase (Decrease) in Cash and Cash Equivalents	4,621,910	(48,819)	4,573,091	4,833,953
Cash and Cash Equivalents - July 1	14,666,112	2,010,102	16,676,214	11,842,261
Cash and Cash Equivalents - June 30	\$ 19,288,022	\$ 1,961,283	\$ 21,249,305	\$ 16,676,214
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 3,598,877	\$ (75,298)	\$ 3,523,579	\$ 4,316,036
Adjustments to Reconcile Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	119,113	5,227	124,340	122,311
Changes in Assets and Deferred Outflows of Resources:				
Accounts Receivable	(6,569)		(6,569)	2,302
Intergovernmental Receivables	(85,072)		(85,072)	3,383
Due from Other Funds				557
Inventories	(345)	6,043	5,698	(10,556)
Net Other Postemployment Benefits Asset	5,177	2,296	7,473	(1,339)
Deferred Outflows Related to Pensions	(166,834)	(33,860)	(200,694)	228,980
Deferred Outflows Related to Other Postemployment Benefits	135,663	116,899	252,562	(1,284,835)
Changes in Liabilities and Deferred Inflows of Resources:				
Accounts Payable and Accrued Liabilities	986,022	(3,907)	982,115	(210,149)
Due to Other Funds	68	10,564	10,632	(57,305)
Net Pension Liability	135,894	4,293	140,187	(21,072)
Net Other Postemployment Benefits Liability	(1,136,756)	(604,249)	(1,741,005)	(658,965)
Compensated Absences	93,527	12,339	105,866	47,465
Deferred Inflows Related to Pensions	55,141	44,480	99,621	(33,607)
Deferred Inflows Related to Other Postemployment Benefits	805,982	429,578	1,235,560	2,360,780
Net Cash Provided (Used) by Operating Activities	\$ 4,539,888	\$ (85,595)	\$ 4,454,293	\$ 4,803,986

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. Throughout the report, the term Department is used to refer to the governmental funds and proprietary funds combined, unless otherwise specifically noted.

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

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 workers' compensation, which are recognized as expenditures when payment is due. Pension and other postemployment benefit (OPEB) 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 Department's Notes to the Financial Statements.

Proprietary Funds - Proprietary fund financial statements have been 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), state appropriations, 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 flow through 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 from suppliers to the ABC Commission and amounts due from fees, licenses, and fines to the Other Proprietary Funds. 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 receivables also include amounts due from local governments in connection with housing inmates (safekeepers) and security services provided by the State Bureau of Investigation. Intergovernmental receivables for the proprietary funds include amounts due from the local ABC boards for bailments and surcharges to the ABC Commission. 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 cost method. Finished goods and merchandise for resale are valued at the lower of cost or market. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

- H. Capital Assets** - Capital assets, which include property, plant, and equipment, are reported as expenditures in the governmental funds. Consequently, capital asset balances are not reported on the face of the governmental funds' financial statements, but are reported in Note 6 of the Department's Notes to the Financial Statements. Capital assets are reported on the face of the proprietary fund financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation except that capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at the date of donation.

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

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 Services Payable** - Medical services payable primarily consists of amounts due to the provider for medical services provided to inmates in the current fiscal year. The payable also consists of amounts due to staffing agencies for nurses and physicians who provided medical services.
- 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 governmental funds' financial statements, but are disclosed in Note 7 of the Department's Notes to the Financial Statements. Long-term liabilities for the proprietary funds are reported on the face of the proprietary funds' financial statements and disclosed in Note 7.

Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay

cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation liability.

Net Pension Liability - The net pension liability represents the Department's proportionate share of the collective net pension liability reported in the State of North Carolina's 2018 *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.

Net OPEB Liability - The net OPEB liability represents the Department's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2018 *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.

Compensated Absences - Employees of the Department are permitted to accumulate earned but unused vacation pay benefits. In the proprietary funds, all vacation pay is accrued when incurred. When determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In the governmental 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. This liability is reported in Note 7 of the Department's Notes to the Financial Statements.

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 subject to the limitation on annual leave

carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Department 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.

- M. 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 OPEB.

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 OPEB.

N. Fund Balance/Net Position

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

Nonspendable Fund Balance - These amounts cannot be spent because they are not in a spendable form, mainly inventories.

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

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

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

if expenditures incurred for specific purposes exceeded the amounts restricted 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.

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.

Expendable Restricted Net Position - 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 Net Position - 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.

- O. 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*.
- P. Revenues and Expenses** - The proprietary funds classify revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues

and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as fees, licenses, and fines. 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.

- Q. Transfers from/to State Reserve Fund** - These transfers are for funds obligated in the current year, but not spent at year-end, that will be carried forward to the next fiscal year. The Department must obtain authorization from the Office of State Budget and Management (OSBM) to carry forward funds. At year-end, these funds are transferred to the State Reserve Fund and held by the North Carolina Office of the State Controller until approval is granted from OSBM to return the funds to the Department in the next fiscal year.

NOTE 2 - DEPOSITS

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

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 \$1,339,284. As of June 30, 2019, \$874,088 of the Department's bank balances was exposed to custodial credit risk as uninsured and uncollateralized. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2019, the Department's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

At June 30, 2019, the governmental funds' Balance Sheet also included cash and cash equivalents of \$254,205,844. The proprietary funds' Statement of Net

Position reported cash and cash equivalents of \$21,209,759 for the same date. These amounts represent the Department's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal oversight other than that of the legislative body) had a weighted average maturity of 1.3 years as of June 30, 2019. Assets and shares of the STIF are valued at fair value.

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

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Department's investments are recorded at fair value as of June 30, 2019. 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, the Department's cash and cash equivalents, valued at \$275,415,603, were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 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, 2019 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Due from Employees	\$ 2,696,615	\$ 1,626,628	\$ 1,069,987
SBI Security Services	77,890	2,722	75,168
State Highway Patrol	38,938		38,938
Other	22,294	8,872	13,422
Total	<u>2,835,737</u>	<u>1,638,222</u>	<u>1,197,515</u>
Correction Enterprises Fund:			
Sales	<u>302,863</u>	<u>1,847</u>	<u>301,016</u>
Total Accounts Receivable	<u><u>\$ 3,138,600</u></u>	<u><u>\$ 1,640,069</u></u>	<u><u>\$ 1,498,531</u></u>

Accounts receivable for the proprietary funds at June 30, 2019 were as follows:

	Amount
Proprietary Funds:	
ABC Commission:	
Special Services	<u>\$ 416,205</u>
Other Proprietary Funds:	
Fees, Licenses, and Fines	<u>39,545</u>
Total Accounts Receivable	<u><u>\$ 455,750</u></u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables for the governmental funds at June 30, 2019 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Federal Government	\$ 48,616,193	\$ 0	\$ 48,616,193
U.S. States and Territories	3,522,914		3,522,914
Local Government:			
Safekeepers	2,954,246	487,255	2,466,991
Juvenile Detention	1,022,526		1,022,526
SBI-Concealed Weapon Permits	503,355		503,355
SBI-Criminal History Record Information	36,559	643	35,916
Other	330,973	2,885	328,088
Total	56,986,766	490,783	56,495,983
Correction Enterprises Fund:			
Federal Government	85,960		85,960
U.S. States and Territories	1,337		1,337
Sales and Services to Local Government	462,635	572	462,063
Total	549,932	572	549,360
Total Intergovernmental Receivables	\$ 57,536,698	\$ 491,355	\$ 57,045,343

Intergovernmental receivables for the proprietary funds at June 30, 2019 were as follows:

	Amount
Proprietary Funds:	
ABC Commission:	
ABC Board Surcharge	\$ 789,642
ABC Board Bailment	918,808
Military Surcharge	16,608
Military Bailment	19,565
Total Intergovernmental Receivables	\$ 1,744,623

NOTE 6 - CAPITAL ASSETS

A summary of changes in the governmental funds' capital assets for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Governmental Funds				
Capital Assets, Nondepreciable:				
Land	\$ 23,727,945	\$ 104,170	\$ 10,000	\$ 23,822,115
Construction in Progress	36,500,756	27,200,692	20,127,140	43,574,308
Literature	29,204			29,204
Total Capital Assets, Nondepreciable	60,257,905	27,304,862	20,137,140	67,425,627
Capital Assets, Depreciable:				
Buildings	1,885,036,986	14,107,752	1,598,473	1,897,546,265
Equipment	319,651,120	42,094,630	18,480,341	343,265,409
General Infrastructure	159,722,621	2,686,984	172,371	162,237,234
Computer Software	1,337,766			1,337,766
Total Capital Assets, Depreciable	2,365,748,493	58,889,366	20,251,185	2,404,386,674
Less Accumulated Depreciation/Amortization for:				
Buildings	626,948,095	35,843,628	685,856	662,105,867
Equipment	144,150,835	15,397,667	8,861,746	150,686,756
General Infrastructure	51,784,434	3,461,640	116,829	55,129,245
Computer Software	606,053	63,795		669,848
Total Accumulated Depreciation/Amortization	823,489,417	54,766,730	9,664,431	868,591,716
Total Capital Assets, Depreciable, Net	1,542,259,076	4,122,636	10,586,754	1,535,794,958
Capital Assets, Net	\$ 1,602,516,981	\$ 31,427,498	\$ 30,723,894	\$ 1,603,220,585

A summary of changes in the proprietary funds' capital assets for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Proprietary Funds				
Capital Assets, Nondepreciable:				
Land	\$ 550,407	\$ 0	\$ 0	\$ 550,407
Total Capital Assets, Nondepreciable	550,407			550,407
Capital Assets, Depreciable:				
Buildings	5,242,120			5,242,120
Machinery and Equipment	259,292			259,292
General Infrastructure	30,000			30,000
Total Capital Assets, Depreciable	5,531,412			5,531,412
Less Accumulated Depreciation for:				
Buildings	3,617,062	104,842		3,721,904
Machinery and Equipment	144,344	19,498		163,842
General Infrastructure	30,000			30,000
Total Accumulated Depreciation	3,791,406	124,340		3,915,746
Total Capital Assets, Depreciable, Net	1,740,006	(124,340)		1,615,666
Capital Assets, Net	\$ 2,290,413	\$ (124,340)	\$ 0	\$ 2,166,073

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, 2019, is presented as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Governmental Funds					
Long-Term Debt					
Notes from Direct Borrowings	\$ 12,724,693	\$ 0	\$ 1,101,073	\$ 11,623,620	\$ 1,157,405
Other Long-Term Liabilities					
Employee Benefits:					
Compensated Absences	144,257,312	107,104,487	81,277,806	170,083,993	11,174,521
Net Pension Liability	552,005,031	143,698,262		695,703,293	
Net OPEB Liability	1,990,535,287		254,238,776	1,736,296,511	
Workers' Compensation Liability	288,840,188	35,436,301	27,221,399	297,055,090	34,730,940
Total Other Long-Term Liabilities	2,975,637,818	286,239,050	362,737,981	2,899,138,887	45,905,461
Total Long-Term Liabilities	\$ 2,988,362,511	\$ 286,239,050	\$ 363,839,054	\$ 2,910,762,507	\$ 47,062,866
Proprietary Funds					
Employee Benefits:					
Compensated Absences	\$ 428,547	\$ 374,410	\$ 268,544	\$ 534,413	\$ 35,111
Net Pension Liability	1,883,220	140,187		2,023,407	
Net OPEB Liability	6,790,909		1,741,005	5,049,904	
Total Long-Term Liabilities	\$ 9,102,676	\$ 514,597	\$ 2,009,549	\$ 7,607,724	\$ 35,111

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

Additional information regarding the net OPEB liability is included in Note 13.

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

B. Notes from Direct Borrowings - The Department was indebted for notes from direct borrowings 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, 2019	Principal Outstanding June 30, 2019
Energy Efficiency	Banc of America Public Capital Corp	2.53%	12/15/2027	\$ 15,801,217	\$ 4,177,597	\$ 11,623,620

The annual requirements to pay principal and interest on notes from direct borrowings at June 30, 2019, are as follows:

Fiscal Year	Principal	Interest
2020	\$ 1,157,405	\$ 282,595
2021	1,215,174	252,826
2022	1,275,424	221,575
2023	1,338,221	188,779
2024	1,402,617	154,383
2025-2029	5,234,779	245,756
Total Requirements	\$ 11,623,620	\$ 1,345,914

- C. Terms of Debt Agreements** - The Department's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Notes from Direct Borrowings - This agreement contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) amounts in the Acquisition Fund are insufficient to pay such amounts, (2) an obligation in the stated amount of disbursement request has not been incurred by the Department, (3) the Project is not insured in accordance with the Installment Financing Agreement, or (4) the Department fails to perform any warranty and covenant set forth in the Installment Financing Agreement.

Upon the occurrence of any event of default, such as amounts in the Acquisition Fund are insufficient, the Department shall provide any balance of the funds needed to complete the acquisition of the Project. Also, the Acquisition Fund could be terminated if the Lender gives written notice of the occurrence of a default or termination of the Installment Financing Agreement. Failure of submitting true and accurate invoices for reimbursement could result in denial of reimbursement request submitted by the Department.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Department entered into operating leases for copiers, equipment, and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2019:

<u>Fiscal Year</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
2020	\$ 8,781,519	\$ 88,802
2021	7,264,135	89,865
2022	3,908,711	45,031
2023	3,348,648	
2024	2,955,626	
2025-2029	2,168,921	
Total Minimum Lease Payments	<u>\$ 28,427,560</u>	<u>\$ 223,698</u>

Rental expense for all operating leases during the year was \$24,684,083.

NOTE 9 - FUND BALANCE/NET POSITION

A. Fund Balance

The details of the fund balance classifications for the governmental funds at June 30, 2019 were as follows:

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total
Fund Balance:					
Nonspendable:					
Inventories	\$ 39,162,460	\$ 16,633,942	\$ 0	\$ 2,022,219	\$ 57,818,621
Other	348,986				348,986
Restricted for:					
Federal Grants and Federal Drug Forfeiture Funds	14,845,872				14,845,872
National Guard Funds	215,196				215,196
Committed to:					
State Misdemeanant Confinement	20,823,497				20,823,497
Emergency Management	1,327,277				1,327,277
Law Enforcement	44,488				44,488
LiDAR Topographical Map	1,984,213				1,984,213
Geodetic Survey Contracts	26,405				26,405
Disaster Recovery Funds	57,691,494				57,691,494
Interstate Compact Fee	490,383				490,383
Correction Enterprises		13,872,213			13,872,213
Welfare of Inmates				3,322,342	3,322,342
Capital Projects			95,123,194		95,123,194
Unassigned	(14,218,182)		(703,918)		(14,922,100)
Total Fund Balance	\$ 122,742,089	\$ 30,506,155	\$ 94,419,276	\$ 5,344,561	\$ 253,012,081

B. Net Position

The deficit in unrestricted net position for the Other Proprietary Funds of \$503,753 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 OPEB liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Other Proprietary Funds:			
Deferred Outflows Related to Pensions	\$ 363,405	\$ 0	\$ 363,405
Deferred Outflows Related to OPEB		488,764	488,764
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	558,181		558,181
Net OPEB Liability		1,393,077	1,393,077
Deferred Inflows Related to Pensions	65,127		65,127
Deferred Inflows Related to OPEB		1,123,779	1,123,779
Net Effect on Unrestricted Net Position	\$ (259,903)	\$ (2,028,092)	\$ (2,287,995)

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 governmental funds for the fiscal year ended June 30, 2019 consisted of the following:

Transfers Out	Transfers In				Total
	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	
General Fund	\$ 0	\$ 201,600	\$ 3,227,981	\$ 0	\$ 3,429,581
Correction Enterprises Fund	2,369,535		2,092,000		4,461,535
Capital Projects Fund		452,534		15,707	468,241
Welfare Fund	1,146,331				1,146,331
Total	<u>\$ 3,515,866</u>	<u>\$ 654,134</u>	<u>\$ 5,319,981</u>	<u>\$ 15,707</u>	<u>\$ 9,505,688</u>

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, 2019 were as follows:

Revenues from Other State Agencies:

	Purpose	Amount
General Fund:		
Office of State Budget and Management	Disaster Recovery Funds	\$ 561,516,753
Department of Transportation	Motor Carrier Enforcement Grant	10,336,788
	Specialty License Plate Revenue (National Guard)	83,481
Department of State Treasurer	Floodplain Mapping Register of Deeds	3,755,324
North Carolina Lottery	Funds for ALE Branch Gambling Enforcement	2,100,000
Office of the State Controller-Statewide Reserve	Funds to Reward Citizen for Case-Related Information	5,000
Total		<u>577,797,346</u>
Capital Projects Fund:		
Office of State Controller	General Repairs and Maintenance	448,395
Office of State Budget & Management	Capital Facility Costs from Issuance of Debt	7,422,299
Total		<u>7,870,694</u>
Total Revenues from Other State Agencies		<u>\$ 585,668,040</u>

NOTES TO THE FINANCIAL STATEMENTS

Expenditures to Other State Agencies:

	Purpose	Amount
General Fund:		
North Carolina General Fund	Revenues Collected under G.S. 18B-902	\$ 25,470,220
	Transfer to Support Annual Appropriations	1,000,000
	Excess Surplus Property Receipts per G.S. 143-64	106,200
Department of Agriculture	Fire Disaster Funds	6,508,167
	Hurricane Florence Recovery per S. L. 2018-136-138	174,247,295
Department of Health and Human Services	Fixed Nuclear Assessment per G.S. 166A-A29	335,911
	Hurricane Florence Recovery per S. L. 2018-136-138	9,750,775
Department of Administration	Purchase of Motor Fleet Vehicles for Departmental Use	991,480
Department of Public Instruction	Hurricane Florence Recovery per S. L. 2018-136-138	89,044,839
Office of State Budget and Management	Hurricane Florence Recovery per S. L. 2018-136-138	30,000,000
Department of Transportation	Hurricane Florence Recovery per S. L. 2018-136-138	65,000,000
Department of Environmental Quality	Hurricane Florence Recovery per S. L. 2018-136-138	11,931,677
Community Colleges	Pamlico Recidivism Project	360,440
	Hurricane Florence Recovery per S. L. 2018-136-138	12,549,532
	Program Start up Funds for Small Colleges	50,000
Total		<u>427,346,536</u>
Correction Enterprise Fund:		
North Carolina General Fund	Transfer to Support Annual Appropriations	<u>500,000</u>
Capital Project Fund:		
Department of Transportation	Transfer of Appropriation for the State Highway Patrol\Division of Motor Vehicles Office Building and Garage	<u>1,917,993</u>
Total Expenditures to Other State Agencies		<u>\$ 429,764,529</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 funds' financial statements. However, the net pension liability for proprietary funds is reported on the face of the proprietary funds' financial statements.

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Department's contractually-required contribution rate for the year ended June 30, 2019 was 12.29% of covered payroll. Employee contributions to the pension plan were \$65,453,484, and the Department's contributions were \$134,070,552 for the year ended June 30, 2019. Of this amount, the proprietary funds contributed \$410,600.

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

Methods Used to Value TSERS Investments: 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 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 2018 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2019, the Department reported a liability of \$697,726,700 for its proportionate share of the collective net pension liability. Of this amount, the proprietary funds reported \$2,023,407. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. 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, 2018, the Department's proportion was 7.00804%, which was an increase of 0.02723 from its proportion measured as of June 30, 2017, which was 6.98081%. Of this proportion, the proprietary funds' share was 0.02033% which was a decrease of 0.00340 from its proportion measured as of June 30, 2017, which was 0.02373%.

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	12/31/2017
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* 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, 2017 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, 2018 (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, 2018 is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.20% to 7.00% for the December 31, 2017 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, 2018 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	Net Pension Liability		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department as a Whole	\$ 1,330,683,061	\$ 697,726,700	\$ 166,613,628
Proprietary Funds	\$ 3,860,250	\$ 2,023,407	\$ 483,338

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2019, the Department's proportionate share of the collective pension expense was \$162,569,831. Of this amount, the proprietary funds recognized \$457,009. At June 30, 2019, 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	\$ 50,920,559	\$ 7,002,153	\$ 147,669	\$ 20,307
Changes of Assumptions	140,015,804		406,046	
Net Difference Between Projected and Actual Earnings on Plan Investments	66,493,475		192,831	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	8,986,197	776,295	95,347	149,511
Contributions Subsequent to the Measurement Date	134,070,552		410,600	
Total	\$ 400,486,587	\$ 7,778,448	\$ 1,252,493	\$ 169,818

The amounts of \$134,070,552 and \$410,600 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, 2020. 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:

<u>Year Ended June 30:</u>	Department as a Whole	Proprietary Funds
2020	\$ 150,971,463	\$ 423,374
2021	95,705,805	263,103
2022	13,181,330	(10,860)
2023	(1,221,011)	(3,542)
Total	\$ 258,637,587	\$ 672,075

B. Single-Employer, Defined Benefit Plan

1. Special Separation Allowance

Plan Administration: The Department provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statute 135-1(11c) or General Statute 143-166.30(a)(4) that were employed by the Department and retired on a basic service retirement under the provisions of General Statute 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 North Carolina 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, 2019, the Department paid \$12,848,465 for 749 retired law enforcement officers.

Additional detailed information about the SSA is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <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

the 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 2019 *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.

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, 2019 were \$10,865,501.

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 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 <https://www.osc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are

recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment 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 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 2018 *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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the 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 North Carolina General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the year ended June 30, 2019 was 6.27% of covered payroll. The Department's contributions to the RHBF were

\$68,398,890 for the year ended June 30, 2019. Of this amount, the proprietary funds contributed \$209,476.

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 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 North Carolina General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2019 was 0.14% of covered payroll. The Department's contributions to DIPNC were \$1,527,248 for the year ended June 30, 2019. Of this amount, the proprietary funds contributed \$4,677.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2019, the Department reported a liability of \$1,741,346,415 for its proportionate share of the collective net OPEB liability for RHBf. Of that amount, the proprietary funds reported \$5,049,904. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. 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, 2018, the Department's proportion was 6.11254%, which was an increase of 0.02065 from its proportion measured as of June 30, 2017, which was 6.09189%. Of this proportion, the proprietary funds' share was 0.01773%, which was a decrease of 0.00298 from its proportion measured as of June 30, 2017, which was 0.02071%.

Net OPEB Asset: At June 30, 2019, the Department reported an asset of \$1,851,779 for its proportionate share of the collective net OPEB asset for DIPNC. Of this amount, the proprietary funds reported \$5,370. The net OPEB asset was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB liability to June 30, 2018. 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, 2018, the Department's proportion was 6.09619%, which was a decrease of 0.08411 from its proportion measured as of June 30, 2017, which was 6.18030%. Of this proportion, the proprietary funds' share was 0.01768% which was a decrease of 0.00333 from its proportion measured as of June 30, 2017, which was 0.02101%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2018 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2017	12/31/2017
Inflation	3.00%	3.00%
Salary Increases*	8.10% grading down to 3.50% depending on employee class	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	7.25% grading down to 5.00% by 2027	N/A
Healthcare Cost Trend Rate - Medicare Advantage	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, 2018.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2018 (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, 2018 was 1.5%.

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, 2017 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumption) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.87%. 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 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

The discount rate used to measure the total OPEB liability 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 liability.

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 (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
RHBF Net OPEB Liability:			
Department as a Whole	\$ 2,057,424,668	\$ 1,741,346,415	\$ 1,487,985,392
Proprietary Funds	\$ 5,967,755	\$ 5,049,904	\$ 4,316,042
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC Net OPEB Asset:			
Department as a Whole	\$ (1,418,888)	\$ (1,851,779)	\$ (2,267,051)
Proprietary Funds	\$ (4,115)	\$ (5,370)	\$ (6,575)

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 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 7.25%, Med. Advantage - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 8.25%, Med. Advantage - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability:			
Department as a Whole	\$ 1,436,569,823	\$ 1,741,346,415	\$ 2,141,470,626
Proprietary Funds	\$ 4,166,907	\$ 5,049,904	\$ 6,211,538
	1% Decrease (5.50% grading down to 4.00% in 2024)	Current Healthcare Cost Trend Rates (6.50% grading down to 5.00% in 2024)	1% Increase (7.50% grading down to 6.00% in 2024)
DIPNC Net OPEB Asset:			
Department as a Whole	\$ (1,857,143)	\$ (1,851,779)	\$ (1,846,719)
Proprietary Funds	\$ (5,386)	\$ (5,370)	\$ (5,356)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the Department's proportionate share of the collective OPEB expense was \$6,726,813 for RHBF and \$175,567 for DIPNC. Of these amounts, the proprietary funds recognized OPEB expense of \$27,411 for RHBF and \$535 for DIPNC. At June 30, 2019, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 3,230,249	\$ 3,230,249	\$ 0	\$ 9,368	\$ 9,368
Changes of Assumptions		349,677	349,677		1,014	1,014
Net Difference Between Projected and Actual Earnings on Plan Investments	187,277	1,442,176	1,629,453	543	4,183	4,726
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	123,147,283	211,377	123,358,660	1,019,338	3,078	1,022,416
Contributions Subsequent to the Measurement Date	68,398,890	1,527,248	69,926,138	209,476	4,677	214,153
Total	\$ 191,733,450	\$ 6,760,727	\$ 198,494,177	\$ 1,229,357	\$ 22,320	\$ 1,251,677

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	\$ 119,080,948	\$ 0	\$ 119,080,948	\$ 345,335	\$ 0	\$ 345,335
Changes of Assumptions	754,391,463		754,391,463	2,187,735		2,187,735
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions				1,062,505	765	1,063,270
Total	\$ 873,472,411	\$ 0	\$ 873,472,411	\$ 3,595,575	\$ 765	\$ 3,596,340

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, 2020. 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
2020	\$ (172,236,333)	\$ 1,295,072	\$ (546,433)	\$ 3,782
2021	(172,236,333)	1,294,888	(546,433)	3,784
2022	(172,236,333)	917,622	(546,433)	3,071
2023	(172,050,131)	713,704	(545,894)	2,480
2024	(61,378,721)	506,190	(390,501)	1,878
Thereafter		506,003		1,883
Total	\$ (750,137,851)	\$ 5,233,479	\$ (2,575,694)	\$ 16,878

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans**1. State Health Plan**

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer 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 \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year 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, 2019, 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.

Buffkin v. Hooks - The American Civil Liberties Union (ACLU) of North Carolina and North Carolina Prisoner Legal Services, Inc., filed this class action on June 15, 2018, on behalf of three named individual offenders infected with hepatitis-C (HCV) against the Department and four individual state employees, including the Secretary of the Department. The suit seeks class certification for “all current and future prisoners in the Department’s custody who have or will have chronic hepatitis-C virus and have not been treated with direct-acting antiviral drugs.” The plaintiffs seek relief in the form of a declaratory judgment that the Department’s policy for treating inmates infected with HCV violates the Eighth Amendment, and that failure to screen all persons in the Department for the virus violates the Eighth Amendment and the Americans with Disabilities Act. To that end, plaintiffs are requesting injunctive relief from the court ordering the Department to (1) formulate and implement an HCV treatment policy that meets the current standard of medical care, including identifying and monitoring persons with HCV; (2) treat the class members with appropriate direct-acting antiviral drugs; and (3) provide named plaintiffs and class members with an appropriate and accurate assessment of their level of fibrosis or cirrhosis, counseling on drug interactions, and ongoing medical care for complications and symptoms of HCV. The three individual plaintiffs are seeking compensatory and punitive damages. If plaintiffs are successful in their suit, defendants may be responsible for costs and attorneys’ fees.

Plaintiffs moved for class certification, which was granted March 20, 2019. Plaintiffs also moved for preliminary injunctive relief, which was denied through the same March 20 Order. The parties are currently engaged in

the discovery process. Ranges of infected inmate populations vary greatly from state to state. More than 30,000 inmates are incarcerated in North Carolina prisons, with more than 30,000 being introduced into the system each year. If the certified class is successful in the litigation, potential costs of complying with the injunctive relief ordered could exceed \$200 million.

C. Construction and Other Commitments

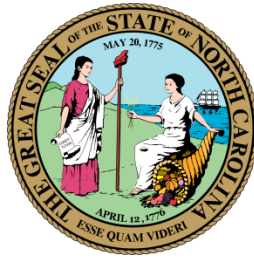
The Department has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. As of June 30, 2019, the Department had commitments of \$18,218,499 related to construction and improvements of state government facilities, primarily within the Capital Projects Fund.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2019, the Department implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

GASB Statement No. 88 improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It defines debt for purposes of disclosure in notes to financial statements and requires disclosure of additional essential information, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events with finance-related consequences or significant subjective acceleration clauses. Additionally, this Statement requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.



REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Department of Public Safety
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2019

Schedule C-1

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Funds	\$ 145,493,315	\$ 617,562,734	\$ 342,537,657	\$ (275,025,077)
Contributions, Gifts, and Grants	5,681,034	18,480,586	9,437,650	(9,042,936)
Sales and Services	14,112,683	25,077,777	20,982,473	(4,095,304)
Fees, Licenses, and Fines	10,479,876	12,782,388	40,889,758	28,107,370
Rental and Lease of Property	84,474	114,549	111,949	(2,600)
Investment Earnings	82,128	335,509	347,928	12,419
Student Tuition and Fees	37,705	98,690	98,690	
Miscellaneous Income	8,535,784	14,176,022	13,913,300	(262,722)
Total Revenues	184,506,999	688,628,255	428,319,405	(260,308,850)
EXPENDITURES				
Salaries and Benefits	1,593,693,189	1,567,685,811	1,550,006,000	17,679,811
Contracted Personal Services	128,671,703	252,014,624	218,053,179	33,961,445
Contracted Medical Services	119,623,043	127,468,219	127,448,108	20,111
Supplies and Materials	153,561,329	174,654,633	169,740,114	4,914,519
Purchases for Resale	235,523	4,306	4,305	1
Travel	3,763,334	7,335,840	5,930,707	1,405,133
Communication	12,729,492	10,651,938	10,452,236	199,702
Utilities	53,893,120	55,056,798	54,697,208	359,590
Data Processing Services	7,731,376	20,937,941	20,070,164	867,777
Other Services	12,471,363	12,746,928	12,265,765	481,163
Claims and Benefits	8,937,518	12,866,314	12,866,309	5
Debt Service:				
Principal Retirement	993,558	1,101,073	1,101,073	
Interest and Fees	363,443	310,928	310,927	1
Other Fixed Charges	6,266,471	10,219,885	10,033,563	186,322
Capital Outlay	63,221,833	88,371,964	77,870,623	10,501,341
Grants, State Aid, and Subsidies	293,685,594	623,047,141	355,540,601	267,506,540
Insurance and Bonding	3,044,983	3,948,613	3,910,885	37,728
Other Expenditures	25,860,177	81,230,162	15,715,404	65,514,758
Total Expenditures	2,488,747,049	3,049,653,118	2,646,017,171	403,635,947
Excess of Revenues Over (Under) Expenditures	(2,304,240,050)	(2,361,024,863)	(2,217,697,766)	143,327,097
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	2,990,701	3,073,904	3,110,305	36,401
Insurance Recoveries	657,100	793,310	793,309	(1)
Transfers from Other Departments or Funds	948,250,255	973,697,581	722,266,033	(251,431,548)
Transfers to Other Departments or Funds	(742,165,135)	(767,845,369)	(569,698,442)	198,146,927
Appropriations	2,076,604,876	2,076,604,876	2,076,604,876	
Total Other Financing Sources	2,286,337,797	2,286,324,302	2,233,076,081	(53,248,221)
Net Change in Fund Balance	(17,902,253)	(74,700,561)	15,378,315	90,078,876
Fund Balance - July 1	120,804,350	120,804,350	120,804,350	
Fund Balance - June 30	\$ 102,902,097	\$ 46,103,789	\$ 136,182,665	\$ 90,078,876

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

General Fund	
Fund Balance (Budgetary Basis) June 30, 2019	\$ 136,182,665
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Revenues:	
Receivables	62,132,026
Accrued Expenditures:	
Payables	(114,735,062)
Total Basis Differences	(52,603,036)
Other Adjustments:	
Inventories	39,162,460
Fund Balance (GAAP Basis) June 30, 2019	\$ 122,742,089

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

North Carolina Department of Public Safety
Required Supplementary Information
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, 2019

Schedule C-2

	Budgeted Amounts		Actual	Favorable
	Original	Final	(Cash Basis)	(Unfavorable)
REVENUES				
Sales and Services	\$ 92,154,859	\$ 91,029,530	\$ 87,673,041	\$ (3,356,489)
Rental and Lease of Property	622,997	609,072	384,839	(224,233)
Miscellaneous Income	123,400	136,086	110,624	(25,462)
Total Revenues	92,901,256	91,774,688	88,168,504	(3,606,184)
EXPENDITURES				
Salaries and Benefits	29,067,182	25,853,030	25,853,022	8
Contracted Personal Services	438,202	928,164	928,159	5
Supplies and Materials	5,414,807	5,350,098	5,350,090	8
Purchases for Resale	44,913,270	44,243,149	44,243,148	1
Travel	422,777	279,031	279,028	3
Communication	105,583	180,668	180,667	1
Utilities	3,052,246	2,799,602	2,799,601	1
Data Processing Services	2,390	551,864	551,863	1
Other Services	1,587,484	2,179,944	2,179,940	4
Other Fixed Charges	542,772	548,101	548,098	3
Capital Outlay	3,227,700	6,109,697	6,109,689	8
Insurance and Bonding	531,289	530,064	530,064	
Other Expenditures	1,053,683	1,121,738	1,121,737	1
Total Expenditures	90,359,385	90,675,150	90,675,106	44
Excess of Revenues Over (Under) Expenditures	2,541,871	1,099,538	(2,506,602)	(3,606,140)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	82,687	26,186	29,928	3,742
Transfers In	201,600	201,600	654,134	452,534
Transfers Out	(2,826,158)	(4,970,042)	(4,961,535)	8,507
Total Other Financing Uses	(2,541,871)	(4,742,256)	(4,277,473)	464,783
Net Change in Fund Balance		(3,642,718)	(6,784,075)	(3,141,357)
Fund Balance - July 1	20,940,254	20,940,254	20,940,254	
Fund Balance - June 30	\$ 20,940,254	\$ 17,297,536	\$ 14,156,179	\$ 3,141,357

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

	Correction
	Enterprises Fund
Fund Balance (Budgetary Basis) June 30, 2019	\$ 14,156,179
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Revenues:	
Receivables	4,350,632
Accrued Expenditures:	
Payables	(4,634,598)
Total Basis Differences	(283,966)
Other Adjustments:	
Inventories	16,633,942
Fund Balance (GAAP Basis) June 30, 2019	\$ 30,506,155

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

North Carolina Department of Public Safety
Required Supplementary Information
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, 2019

Schedule C-3

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Investment Earnings	\$ 1,091	\$ 2,508	\$ 3,644	\$ 1,136
Sales and Services	36,089,031	38,946,799	38,654,678	(292,121)
Rental and Lease of Property	6,000	6,500	5,500	(1,000)
Contributions, Gifts, and Grants	106,078	108,877	109,377	500
Miscellaneous Income	5,814,282	1,649,411	1,672,207	22,796
Total Revenues	42,016,482	40,714,095	40,445,406	(268,689)
EXPENDITURES				
Salaries and Benefits	2,399,932	1,051,616	1,048,061	3,555
Contracted Personal Services	642,589	1,808,932	1,742,993	65,939
Supplies and Materials	3,367,457	3,399,546	2,715,644	683,902
Purchases for Resale	31,493,513	32,385,118	31,567,684	817,434
Travel	18,706	500	499	1
Communication	52,700			
Utilities	125,844	186,546	186,160	386
Other Services	141,735	140,800	99,499	41,301
Other Fixed Charges	243,764	210,322	196,376	13,946
Capital Outlay	1,523,437	970,201	893,530	76,671
Insurance and Bonding		3,090	3,090	
Other Expenditures	1,106,823	1,690,507	1,654,045	36,462
Total Expenditures	41,116,500	41,847,178	40,107,581	1,739,597
Excess of Revenues Over (Under) Expenditures	899,982	(1,133,083)	337,825	1,470,908
OTHER FINANCING SOURCES (USES)				
Transfers In	6,263,907	9,271,161	9,291,040	19,879
Transfers Out	(7,563,962)	(10,430,712)	(10,421,664)	9,048
Total Other Financing Uses	(1,300,055)	(1,159,551)	(1,130,624)	28,927
Net Change in Fund Balance	(400,073)	(2,292,634)	(792,799)	1,499,835
Fund Balance - July 1	5,511,554	5,511,554	5,511,554	
Fund Balance - June 30	\$ 5,111,481	\$ 3,218,920	\$ 4,718,755	\$ 1,499,835

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2019 to the fund balance on a modified accrual basis (GAAP).

	Welfare Fund
Fund Balance (Budgetary Basis) June 30, 2019	\$ 4,718,755
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Expenditures:	
Payables	(1,396,413)
Other Adjustments:	
Inventories	2,022,219
Fund Balance (GAAP Basis) June 30, 2019	\$ 5,344,561

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, 2019

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 Six Fiscal Years*

Schedule C-4

Teachers' and State Employees' Retirement System	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	0.02033%	0.02373%	0.02072%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 2,023,407	\$ 1,883,220	\$ 1,904,292
Covered Payroll	\$ 3,057,511	\$ 3,129,194	\$ 3,129,442
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	66.18%	60.18%	60.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%
	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.02108%	0.02078%	0.02115%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 776,917	\$ 243,640	\$ 1,283,984
Covered Payroll	\$ 3,021,054	\$ 2,890,271	\$ 2,751,580
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.72%	8.43%	46.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 Six Fiscal Years

Schedule C-5

Teachers' and State Employees' Retirement System	2019	2018	2017
Contractually Required Contribution	\$ 410,600	\$ 329,600	\$ 312,294
Contributions in Relation to the Contractually Determined Contribution	410,600	329,600	312,294
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 3,340,924	\$ 3,057,511	\$ 3,129,194
Contributions as a Percentage of Covered Payroll	12.29%	10.78%	9.98%
	2016	2015	2014
Contractually Required Contribution	\$ 286,344	\$ 276,426	\$ 251,164
Contributions in Relation to the Contractually Determined Contribution	286,344	276,426	251,164
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 3,129,442	\$ 3,021,054	\$ 2,890,271
Contributions as a Percentage of Covered Payroll	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
Last Ten Fiscal Years

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
Teachers' and State Employees' Retirement System	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

Changes of Assumptions: 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. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

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 2018 *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 Three Fiscal Years*

Schedule C-6

Retiree Health Benefit Fund	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.01773%	0.02071%	0.01712%
Proportionate Share of Collective Net OPEB Liability	\$ 5,049,904	\$ 6,790,909	\$ 7,449,874
Covered Payroll	\$ 3,057,511	\$ 3,129,194	\$ 3,129,442
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	165.16%	217.02%	238.06%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Asset	0.01768%	0.02101%	0.01852%
Proportionate Share of Collective Collective Net OPEB Asset	\$ 5,370	\$ 12,843	\$ 11,504
Covered Payroll	\$ 3,057,511	\$ 3,129,194	\$ 3,129,442
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.41%	0.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	108.47%	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended.

*The amounts presented for each fiscal year were determined as of the prior fiscal year 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 Three Fiscal Years**

Schedule C-7

Retiree Health Benefit Fund	2019	2018	2017
Contractually Required Contribution	\$ 209,476	\$ 184,980	\$ 181,806
Contributions in Relation to the Contractually Determined Contribution	209,476	184,980	181,806
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 3,340,924	\$ 3,057,511	\$ 3,129,194
Contributions as a Percentage of Covered Payroll	6.27%	6.05%	5.81%
Disability Income Plan of North Carolina	2019	2018	2017
Contractually Required Contribution	\$ 4,677	\$ 4,280	\$ 11,891
Contributions in Relation to the Contractually Determined Contribution	4,677	4,280	11,891
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 3,340,924	\$ 3,057,511	\$ 3,129,194
Contributions as a Percentage of Covered Payroll	0.14%	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
Last Ten Fiscal Years

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.

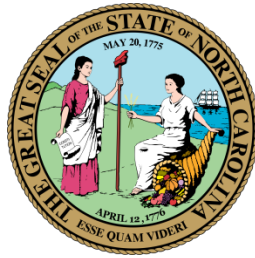
Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer 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 2018, for the December 31, 2017 actuarial valuation, the discount rate for the RHBF was updated to 3.87% and the medical and prescription drug claims cost were changed based on most recent experience. Enrollment assumptions were updated to model expected migrations among RHBF plan options and trend assumptions for the RHBF include contribution changes for the 2019 period as those amounts have been finalized.

Additionally, the December 31, 2017 DIPNC actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2018 *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, 2019 (With Comparative Totals for June 30, 2018)

Schedule D-1

	Administration (1)	Adult Correction and Juvenile Justice (2)	Law Enforcement (3)	National Guard (4)	Emergency Management (5)	Total Divisions 2019	Total Divisions 2018
REVENUES							
Federal Funds	\$ 67,064,133	\$ 3,124,464	\$ 1,396,363	\$ 37,194,924	\$ 262,647,320	\$ 371,427,204	\$ 180,355,756
Local Funds				3,875		3,875	10,535
Investment Earnings	187,194	17,873	158,359	7,673		371,099	174,539
Sales and Services	100,000	76,293,717	14,074,901	364,837	5,553,368	96,386,823	93,246,522
Intragovernmental Sales and Services		50,953,849				50,953,849	53,794,408
Rental and Lease of Property		376,807	111,949	138,840		627,596	696,764
Fees, Licenses, and Fines	26,716,750	3,171,269	6,918,575		3,821,262	40,627,856	40,914,029
Student Tuition and Fees			98,690			98,690	55,385
Contributions, Gifts, and Grants		2,135,371	2,945,445	244,527	1,853,725	7,179,068	7,841,327
Revenues from Other State Agencies	3,410,648	3,242,439	12,441,788	1,301,089	565,272,076	585,668,040	42,770,154
Miscellaneous Income	2,194	13,397,062	359,578	231,164	906,873	14,896,871	14,671,046
Total Revenues	97,480,919	152,712,851	38,505,648	39,486,929	840,054,624	1,168,240,971	434,530,465
EXPENDITURES							
Salaries and Benefits	48,003,149	1,242,677,239	240,562,634	14,743,745	24,096,546	1,570,083,313	1,507,899,037
Contracted Personal Services	14,853,165	97,006,337	14,678,893	7,437,507	102,060,771	236,036,673	129,436,624
Contracted Medical Services		126,399,035	439,919	45,065		126,884,019	121,056,757
Supplies and Materials	848,727	151,503,097	15,409,172	2,454,849	1,358,761	171,574,606	169,319,753
Purchases for Resale		74,525,116				74,525,116	77,770,422
Travel	210,026	2,252,096	1,263,531	202,627	2,384,469	6,312,749	4,460,002
Communication	318,789	5,087,338	3,534,687	1,184,282	244,432	10,369,528	11,223,244
Utilities	368,905	51,148,669	1,071,001	4,447,138	38,031	57,073,744	57,017,435
Data Processing Services	5,747,838	14,724,133	2,083,272	83,572	390,646	23,029,461	20,333,418
Other Services	455,070	9,883,533	1,662,449	2,516,183	139,264	14,656,499	13,949,130
Claims and Benefits		17,844	12,848,465			12,866,309	12,269,884
Debt Service:							
Principal Retirement		1,165,947				1,165,947	882,792
Interest and Fees		315,633				315,633	346,981
Other Fixed Charges	784,606	6,418,453	2,835,728	494,411	341,599	10,874,797	13,119,549
Capital Outlay	4,120,089	45,099,275	45,232,013	16,574,560	2,934,528	113,960,465	88,629,514
Grants, State Aid, and Subsidies	68,696,704	22,740,378		83,482	279,813,482	371,334,046	174,987,374
Insurance and Bonding	148,768	2,461,664	1,615,095	82,272	121,376	4,429,175	3,069,058
Expenditures to Other State Agencies	25,576,420	2,901,919	1,917,993		399,368,197	429,764,529	32,280,040
Other Expenditures	2,080,669	20,519,067	6,009,952	457,158	4,142,617	33,209,463	29,324,369
Total Expenditures	172,212,925	1,876,846,773	351,164,804	50,806,851	817,434,719	3,268,466,072	2,467,375,383
Excess of Revenues Over (Under) Expenditures	(74,732,006)	(1,724,133,922)	(312,659,156)	(11,319,922)	22,619,905	(2,100,225,101)	(2,032,844,918)
OTHER FINANCING SOURCES (USES)							
Sale of Capital Assets	14	391,363	2,626,560	2,028	80,959	3,100,924	3,856,312
Insurance Recoveries		476,838	714,824		74,686	1,266,348	1,623,047
Transfers In	1,175,946	5,101,761		3,227,981		9,505,688	7,806,729
Transfers Out		(6,277,707)		(3,227,981)		(9,505,688)	(7,806,729)
Transfers to State Reserve Fund	(2,602,417)	(2,811,183)	(2,072,153)	(280,112)	(373,171)	(8,139,036)	(9,495,846)
Transfers from State Reserve Fund	3,149,385	4,909,656	1,055,455	20,967	360,382	9,495,845	14,882,274
Appropriations	73,745,620	1,711,417,446	297,485,899	27,440,827	8,027,477	2,118,117,269	2,053,379,685
Total Other Financing Sources (Uses)	75,468,548	1,713,208,174	299,810,585	27,183,710	8,170,333	2,123,841,350	2,064,245,472
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 736,542	\$ (10,925,748)	\$ (12,848,571)	\$ 15,863,788	\$ 30,790,238	\$ 23,616,249	\$ 31,400,554

- (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.

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, 2019 (With Comparative Totals for June 30, 2018)

	Controller's Office	Information Technology	Human Resources	Central Engineering
REVENUES				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services				
Fees, Licenses, and Fines				
Revenues from Other State Agencies				
Miscellaneous Income	37	380	152	102
Total Revenues	37	380	152	102
EXPENDITURES				
Salaries and Benefits	4,599,037	7,594,587	9,069,429	8,920,916
Contracted Personal Services	1,668,900	6,367,997	828,355	253,357
Supplies and Materials	48,612	90,725	118,377	14,050
Travel	90	36,033	28,071	9,439
Communication	4,621	134,555	42,148	21,843
Utilities	45,151	34,841		13,042
Data Processing Services	81,992	5,380,428	76,847	70,964
Other Services	50,769	30,882	24,373	33,742
Other Fixed Charges	21,208	538,072	41,175	12,330
Capital Outlay	25,618	317,518	32,349	39,843
Grants, State Aid, and Subsidies				
Insurance and Bonding		17,500	130,557	
Expenditures to Other State Agencies				
Other Expenditures	368,245	344,461	417,319	282,399
Total Expenditures	6,914,243	20,887,599	10,809,000	9,671,925
Excess of Revenues Over (Under) Expenditures	(6,914,206)	(20,887,219)	(10,808,848)	(9,671,823)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets				
Transfers In				
Transfers Out				
Transfers to State Reserve Fund		(17,207)	(5,016)	
Transfers from State Reserve Fund				
Appropriations	7,041,370	17,519,208	10,900,639	9,667,508
Total Other Financing Sources (Uses)	7,041,370	17,502,001	10,895,623	9,667,508
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 127,164	\$ (3,385,218)	\$ 86,775	\$ (4,315)

Schedule E-1

Governor's Crime Commission	Victim Services	ABC Board Non Tax	Other	Total Administration 2019	Total Administration 2018
\$ 64,098,706 187,194	\$ 2,965,427	\$ 0	\$ 0	\$ 67,064,133	\$ 52,430,139
				187,194	71,832
	193,100	26,523,650	100,000	100,000	100,000
			3,410,648	26,716,750	25,937,562
	23		1,500	3,410,648	3,238,590
				2,194	6,506
64,285,900	3,158,550	26,523,650	3,512,148	97,480,919	81,784,629
1,678,058	1,349,944		14,791,178	48,003,149	50,774,833
611,425	1,781,447		3,341,684	14,853,165	7,326,852
52,871	9,446		514,646	848,727	774,185
70,038	8,743		57,612	210,026	155,410
39,067	7,494		69,061	318,789	382,143
1,435			274,436	368,905	385,610
27,333	6,434		103,840	5,747,838	1,934,028
33,438	26,231		255,635	455,070	526,735
40,402	6,741		124,678	784,606	734,877
54,882	5,810		3,644,069	4,120,089	4,704,602
60,442,888	7,928,816		325,000	68,696,704	56,612,260
29	19		663	148,768	132,605
		25,470,220	106,200	25,576,420	25,040,440
226,593	2,556		439,096	2,080,669	2,066,688
63,278,459	11,133,681	25,470,220	24,047,798	172,212,925	151,551,268
1,007,441	(7,975,131)	1,053,430	(20,535,650)	(74,732,006)	(69,766,639)
14				14	38
	614,585		561,361	1,175,946	1,329,428
					(225,000)
(12,815)	(2,007,777)		(559,602)	(2,602,417)	(3,149,384)
1,291,313	996,242		861,830	3,149,385	4,444,488
953,407	6,468,022		21,195,466	73,745,620	67,340,846
2,231,919	6,071,072	0	22,059,055	75,468,548	69,740,416
\$ 3,239,360	\$ (1,904,059)	\$ 1,053,430	\$ 1,523,405	\$ 736,542	\$ (26,223)

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, 2019 (With Comparative Totals for June 30, 2018)

Schedule F-1

	Adult Correction (1)	Juvenile Justice (2)	Correction Enterprises	Total Adult Correction and Juvenile Justice 2019	Total Adult Correction and Juvenile Justice 2018
REVENUES					
Federal Funds	\$ 2,921,375	\$ 203,089	\$ 0	\$ 3,124,464	\$ 1,658,493
Investment Earnings	14,229	3,644		17,873	8,881
Sales and Services	39,141,455	81,308	37,070,954	76,293,717	76,881,434
Intragovernmental Sales and Services			50,953,849	50,953,849	53,794,408
Rental and Lease of Property	5,500		371,307	376,807	423,110
Fees, Licenses, and Fines	3,171,269			3,171,269	3,589,692
Contributions, Gifts, and Grants	816,310	1,319,061		2,135,371	1,965,934
Revenues from Other State Agencies	3,038,011	204,428		3,242,439	3,201,614
Miscellaneous Income	13,290,033	9,386	97,643	13,397,062	14,069,638
Total Revenues	62,398,182	1,820,916	88,493,753	152,712,851	155,593,204
EXPENDITURES					
Salaries and Benefits	1,140,712,105	76,095,528	25,869,606	1,242,677,239	1,202,394,074
Contracted Personal Services	71,093,711	24,863,073	1,049,553	97,006,337	88,688,311
Contracted Medical Services	124,811,015	1,588,020		126,399,035	120,607,075
Supplies and Materials	143,791,103	2,327,289	5,384,705	151,503,097	149,593,627
Purchases for Resale	30,970,725		43,554,391	74,525,116	77,770,422
Travel	1,649,471	319,595	283,030	2,252,096	2,348,898
Communication	4,184,697	732,963	169,678	5,087,338	5,856,417
Utilities	47,518,384	789,451	2,840,834	51,148,669	51,084,272
Data Processing Services	12,955,245	1,238,365	530,523	14,724,133	16,245,280
Other Services	7,377,522	312,392	2,193,619	9,883,533	10,141,967
Claims and Benefits	17,844			17,844	19,770
Debt Service:					
Principal Retirement	1,165,947			1,165,947	882,792
Interest and Fees	315,633			315,633	346,981
Other Fixed Charges	5,625,718	214,343	578,392	6,418,453	5,923,944
Capital Outlay	34,725,062	3,213,064	7,161,149	45,099,275	33,169,726
Grants, State Aid, and Subsidies	5,000	22,735,378		22,740,378	22,057,479
Insurance and Bonding	1,901,264	30,636	529,764	2,461,664	1,309,195
Expenditures to Other State Agencies	1,410,440	991,479	500,000	2,901,919	2,220,398
Other Expenditures	17,167,908	2,229,401	1,121,758	20,519,067	18,920,522
Total Expenditures	1,647,398,794	137,680,977	91,767,002	1,876,846,773	1,809,581,150
Excess of Revenues Under Expenditures	(1,585,000,612)	(135,860,061)	(3,273,249)	(1,724,133,922)	(1,653,987,946)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	338,041	26,665	26,657	391,363	571,063
Insurance Recoveries	476,838			476,838	518,496
Transfers In	2,842,863	7,764	2,251,134	5,101,761	2,978,997
Transfers Out	(1,355,874)	(7,764)	(4,914,069)	(6,277,707)	(4,083,425)
Transfers to State Reserve Fund	(2,691,020)	(120,163)		(2,811,183)	(4,909,657)
Transfers from State Reserve Fund	4,681,463	228,193		4,909,656	2,574,272
Appropriations	1,569,302,691	142,114,755		1,711,417,446	1,676,212,307
Total Other Financing Sources (Uses)	1,573,595,002	142,249,450	(2,636,278)	1,713,208,174	1,673,862,053
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (11,405,610)</u>	<u>\$ 6,389,389</u>	<u>\$ (5,909,527)</u>	<u>\$ (10,925,748)</u>	<u>\$ 19,874,107</u>

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

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

North Carolina Department of Public Safety
Schedule of Revenues and Expenditures
Governmental Funds - Sub-Division of Adult Correction by Function
For the Fiscal Year Ended June 30, 2019 (With Comparative Totals for June 30, 2018)

Schedule F-2

	Prisons (1)	Community Corrections (2)	Other	Total Adult Correction 2019	Total Adult Correction 2018
REVENUES					
Federal Funds	\$ 2,747,197	\$ 174,178	\$ 0	\$ 2,921,375	\$ 668,202
Investment Earnings		14,229		14,229	5,827
Sales and Services	39,005,246		136,209	39,141,455	40,380,257
Rental and Lease of Property		5,500		5,500	6,500
Fees, Licenses, and Fines	2,666,343	493,802	11,124	3,171,269	3,589,692
Contributions, Gifts, and Grants	635,913	29,388	151,009	816,310	726,933
Revenues from Other State Agencies	2,966,180	71,831		3,038,011	3,198,712
Miscellaneous Income	12,947,286	6,953	335,794	13,290,033	13,929,913
Total Revenues	60,968,165	795,881	634,136	62,398,182	62,506,036
EXPENDITURES					
Salaries and Benefits	952,536,006	171,950,888	16,225,211	1,140,712,105	1,102,718,068
Contracted Personal Services	49,630,210	20,732,581	730,920	71,093,711	64,868,175
Contracted Medical Services	124,633,057	177,958		124,811,015	119,058,318
Supplies and Materials	139,578,837	3,713,414	498,852	143,791,103	143,207,438
Purchases for Resale	30,970,725			30,970,725	33,225,420
Travel	943,299	265,074	441,098	1,649,471	1,617,171
Communication	1,914,627	2,147,302	122,768	4,184,697	4,871,102
Utilities	46,974,773	305,632	237,979	47,518,384	47,310,355
Data Processing Services	9,608,087	3,319,273	27,885	12,955,245	14,133,983
Other Services	6,883,429	300,382	193,711	7,377,522	8,198,133
Claims and Benefits		17,844		17,844	19,770
Debt Service:					
Principal Retirement	1,165,947			1,165,947	882,792
Interest and Fees	315,633			315,633	346,981
Other Fixed Charges	4,482,552	397,539	745,627	5,625,718	5,291,755
Capital Outlay	32,161,511	2,009,708	553,843	34,725,062	26,582,918
Grants, State Aid, and Subsidies		5,000		5,000	
Insurance and Bonding	1,898,718	2,343	203	1,901,264	884,432
Expenditures to Other State Agencies	1,410,440			1,410,440	1,714,024
Other Expenditures	7,034,845	9,103,415	1,029,648	17,167,908	15,571,261
Total Expenditures	1,412,142,696	214,448,353	20,807,745	1,647,398,794	1,590,502,096
Excess of Revenues Under Expenditures	(1,351,174,531)	(213,652,472)	(20,173,609)	(1,585,000,612)	(1,527,996,060)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	322,918		15,123	338,041	533,400
Insurance Recoveries	4,968	53,068	418,802	476,838	43,496
Transfers In	2,766,771		76,092	2,842,863	2,265,060
Transfers Out	(1,355,874)			(1,355,874)	(1,352,095)
Transfers to State Reserve Fund	(2,375,858)	(280,736)	(34,426)	(2,691,020)	(4,681,464)
Transfers from State Reserve Fund	4,517,550		163,913	4,681,463	2,391,591
Appropriations	1,336,901,015	212,805,376	19,596,300	1,569,302,691	1,536,192,826
Total Other Financing Sources (Uses)	1,340,781,490	212,577,708	20,235,804	1,573,595,002	1,535,392,814
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (10,393,041)	\$ (1,074,764)	\$ 62,195	\$ (11,405,610)	\$ 7,396,754

(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, 2019 (With Comparative Totals for June 30, 2018)

	Prisons Management	Prisons Custody and Security	Prisons Food and Clothing	Prisons General, Mental, Dental, and Pharmacy
REVENUES				
Federal Funds	\$ 0	\$ 2,016,157	\$ 0	\$ 0
Sales and Services			1,124,237	
Fees, Licenses, and Fines		2,242,578		423,765
Contributions, Gifts, and Grants			106,978	
Revenues from Other State Agencies		623,174		2,343,006
Miscellaneous Income		3,160,254	1,158,689	6,963,234
Total Revenues	0	8,042,163	2,389,904	9,730,005
EXPENDITURES				
Salaries and Benefits	11,841,723	717,067,254	24,790,275	134,882,642
Contracted Personal Services	182,348	34,987,032	4,480,626	5,011,820
Contracted Medical Services		1,006,361		123,467,292
Supplies and Materials	212,997	20,149,832	60,262,989	55,697,622
Purchases for Resale				
Travel	32,099	859,724		307
Communication	109,970	1,762,733		10,898
Utilities	21,891	45,916,300		
Data Processing Services	34,423	9,309,159		6,549
Other Services	29,489	3,209,997	282,217	240,101
Debt Service:				
Principal Retirement		1,101,073		
Interest and Fees		310,927		
Other Fixed Charges	46,614	2,999,706	18,456	1,111,848
Capital Outlay	72,383	26,619,861	1,406,140	2,931,603
Insurance and Bonding		1,443,585		451,862
Expenditures to Other State Agencies		1,000,000		
Other Expenditures	379,145	3,865,973	974,079	392,801
Total Expenditures	12,963,082	871,609,517	92,214,782	324,205,345
Excess of Revenues Under Expenditures	(12,963,082)	(863,567,354)	(89,824,878)	(314,475,340)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets		322,918		
Insurance Recoveries		4,968		
Transfers In		495,000	2,263,828	
Transfers Out			(201,600)	
Transfers to State Reserve Fund	(5,970)	(1,707,023)	(195,129)	(454,213)
Transfers from State Reserve Fund		4,372,799		111,282
Appropriations	12,981,002	851,101,110	86,727,009	315,605,412
Total Other Financing Sources (Uses)	12,975,032	854,589,772	88,594,108	315,262,481
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 11,950	\$ (8,977,582)	\$ (1,230,770)	\$ 787,141

Schedule F-3

Prisons Education and Corrective Programs	Alcoholism and Chemical Dependence	Other	Total Prisons 2019	Total Prisons 2018
\$ 731,040	\$ 0	\$ 0	\$ 2,747,197	\$ 485,081
		37,881,009	39,005,246	40,197,940
528,935			2,666,343	3,172,539
			635,913	644,003
			2,966,180	3,198,712
15		1,665,094	12,947,286	13,618,670
1,259,990	0	39,546,103	60,968,165	61,316,945
56,658,394	5,869,180	1,426,538	952,536,006	919,626,189
3,042,799	155,851	1,769,734	49,630,210	46,194,426
159,404			124,633,057	118,782,177
295,790	118,941	2,840,666	139,578,837	140,052,331
		30,970,725	30,970,725	33,225,420
49,280	1,153	736	943,299	1,016,730
14,451	16,061	514	1,914,627	2,084,134
750,491	3,321	282,770	46,974,773	46,799,728
71,608	186,348		9,608,087	10,771,900
2,925,031	2,273	194,321	6,883,429	7,773,811
		64,874	1,165,947	882,792
		4,706	315,633	346,981
16,960	34,341	254,627	4,482,552	4,365,377
37,344	53,829	1,040,351	32,161,511	25,015,579
	181	3,090	1,898,718	881,498
410,440			1,410,440	1,522,160
52,886	57,815	1,312,146	7,034,845	7,294,659
64,484,878	6,499,294	40,165,798	1,412,142,696	1,366,635,892
(63,224,888)	(6,499,294)	(619,695)	(1,351,174,531)	(1,305,318,947)
			322,918	322,918
			4,968	1,251
		7,943	2,766,771	2,265,060
		(1,154,274)	(1,355,874)	(1,352,095)
(6,289)	(7,234)		(2,375,858)	(4,517,551)
		33,469	4,517,550	2,249,720
63,208,531	6,404,575	873,376	1,336,901,015	1,317,028,301
63,202,242	6,397,341	(239,486)	1,340,781,490	1,315,997,604
\$ (22,646)	\$ (101,953)	\$ (859,181)	\$ (10,393,041)	\$ 10,678,657

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, 2019 (With Comparative Totals for June 30, 2018)

Schedule F-4

	Regular Supervision	Community Supervision	Electronic Monitoring	Judicial Services	Other	Total Community Corrections 2019	Total Community Corrections 2018
REVENUES							
Federal Funds	\$ 0	\$ 174,178	\$ 0	\$ 0	\$ 0	\$ 174,178	\$ 183,121
Local Funds							
Investment Earnings					14,229	14,229	5,827
Sales and Services							100
Intragovernmental Sales and Services							
Rental and Lease of Property					5,500	5,500	6,500
Fees, Licenses, and Fines			199,802		294,000	493,802	417,153
Student Tuition and Fees							
Contributions, Gifts, and Grants					29,388	29,388	82,930
Revenues from Other State Agencies		71,831				71,831	
Miscellaneous Income					6,953	6,953	269
Total Revenues	0	246,009	199,802	0	350,070	795,881	695,900
EXPENDITURES							
Salaries and Benefits	149,647,475	7,122,613	243,690	12,388,610	2,548,500	171,950,888	168,260,791
Contracted Personal Services	1,287,614	11,862,461	7,580,482	1,831	193	20,732,581	17,981,217
Contracted Medical Services		177,958				177,958	276,141
Supplies and Materials	3,202,220	476,373	1,670	7,482	25,669	3,713,414	2,358,515
Travel	172,547	57,211			35,316	265,074	243,617
Communication	2,057,562	22,305	1,468	41,567	24,400	2,147,302	2,661,346
Utilities	34,759	230,625	220		40,028	305,632	288,057
Data Processing Services	3,285,812	30,828			2,633	3,319,273	3,293,164
Other Services	261,483	29,633	70	425	8,771	300,382	270,109
Claims and Benefits				17,844		17,844	19,770
Other Fixed Charges	338,191	15,691	16	2,296	41,345	397,539	219,592
Capital Outlay	1,662,083	283,401	535	28,971	34,718	2,009,708	1,356,362
Grants, State Aid, and Subsidies		5,000				5,000	
Insurance and Bonding	2,343					2,343	2,705
Other Expenditures	8,745,969	39,392	16,295		301,759	9,103,415	7,340,970
Total Expenditures	170,698,058	20,353,491	7,844,446	12,489,026	3,063,332	214,448,353	204,572,356
Excess of Revenues Under Expenditures	(170,698,058)	(20,107,482)	(7,644,644)	(12,489,026)	(2,713,262)	(213,652,472)	(203,876,456)
OTHER FINANCING SOURCES (USES)							
Insurance Recoveries	53,068					53,068	
Transfers to State Reserve Fund	(280,736)					(280,736)	
Transfers from State Reserve Fund							132,091
Appropriations	171,361,763	19,174,213	6,971,112	12,488,117	2,810,171	212,805,376	202,497,843
Total Other Financing Sources (Uses)	171,134,095	19,174,213	6,971,112	12,488,117	2,810,171	212,577,708	202,629,934
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 436,037	\$ (933,269)	\$ (673,532)	\$ (909)	\$ 96,909	\$ (1,074,764)	\$ (1,246,522)

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, 2019 (With Comparative Totals for June 30, 2018)

	Detention Center Services	Development Center Services	Treatment Services	Education Services
REVENUES				
Federal Funds	\$ 0	\$ 0	\$ 0	\$ 0
Investment Earnings				
Sales and Services	42,429	38,879		
Contributions, Gifts, and Grants	180,460	408,609		620,615
Revenues from Other State Agencies		204,428		
Miscellaneous Income	1,367	2,043	670	509
Total Revenues	224,256	653,959	670	621,124
EXPENDITURES				
Salaries and Benefits	6,715,154	12,652,363	13,921,637	5,277,985
Contracted Personal Services	1,794,912	449,919	423,282	441,053
Contracted Medical Services	20,781		1,567,049	
Supplies and Materials	237,919	1,001,010	373,091	75,981
Travel	17,416	29,271	20,631	63,902
Communication	23,897	79,376	16,690	9,284
Utilities	127,773	591,676	4,867	8,650
Data Processing Services	102,817	203,710	115,069	45,325
Other Services	38,260	88,231	10,331	49,094
Other Fixed Charges	6,583	58,442	11,630	6,268
Capital Outlay	54,131	2,513,212	14,636	106,494
Grants, State Aid, and Subsidies				
Insurance and Bonding	5,161	16,578	186	59
Expenditures to Other State Agencies				
Other Expenditures	50,680	107,698	19,441	15,491
Total Expenditures	9,195,484	17,791,486	16,498,540	6,099,586
Excess of Revenues Under Expenditures	(8,971,228)	(17,137,527)	(16,497,870)	(5,478,462)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	811	4,487		
Transfers In				
Transfers Out		(7,764)		
Transfers to State Reserve Fund		(34,653)		
Transfers from State Reserve Fund	3,034	34,743		
Appropriations	9,126,009	23,793,166	16,445,066	5,306,218
Total Other Financing Sources (Uses)	9,129,854	23,789,979	16,445,066	5,306,218
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 158,626	\$ 6,652,452	\$ (52,804)	\$ (172,244)

Schedule F-5

Community Program Services	Juvenile Crime Prevention Council	Juvenile Court Services	Juvenile Justice Other	Total Juvenile Justice 2019	Total Juvenile Justice 2018
\$ 0	\$ 0	\$ 0	\$ 203,089	\$ 203,089	\$ 990,291
			3,644	3,644	3,054
				81,308	181,122
			109,377	1,319,061	1,239,001
				204,428	2,902
1,674		155	2,968	9,386	3,928
1,674	0	155	319,078	1,820,916	2,420,298
1,799,438		32,674,287	3,054,664	76,095,528	73,903,436
20,160,318		547,277	1,046,312	24,863,073	23,377,786
			190	1,588,020	1,548,757
32,775		486,950	119,563	2,327,289	1,820,227
14,494		126,881	47,000	319,595	393,616
24,757		558,849	20,110	732,963	850,909
42,770		13,715		789,451	777,824
25,423		619,927	126,094	1,238,365	1,269,519
12,645		46,082	67,749	312,392	327,936
2,213		74,556	54,651	214,343	118,898
85,911		233,017	205,663	3,213,064	878,134
	22,735,378			22,735,378	22,057,479
20		458	8,174	30,636	31,510
		826,000	165,479	991,479	6,374
119,308		1,241,808	674,975	2,229,401	2,334,483
22,320,072	22,735,378	37,449,807	5,590,624	137,680,977	129,696,888
(22,318,398)	(22,735,378)	(37,449,652)	(5,271,546)	(135,860,061)	(127,276,590)
			21,367	26,665	8,206
			7,764	7,764	
				(7,764)	
		(36,296)	(49,214)	(120,163)	(228,193)
		3,988	186,428	228,193	182,681
22,188,982	22,440,512	37,575,089	5,239,713	142,114,755	140,019,481
22,188,982	22,440,512	37,542,781	5,406,058	142,249,450	139,982,175
\$ (129,416)	\$ (294,866)	\$ 93,129	\$ 134,512	\$ 6,389,389	\$ 12,705,585

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, 2019 (With Comparative Totals for June 30, 2018)

Schedule G-1

	State Capital Police	State Highway Patrol	Alcohol Law Enforcement	State Bureau of Investigation	Other	Total Law Enforcement 2019	Total Law Enforcement 2018
REVENUES							
Federal Funds	\$ 0	\$ 508,273	\$ 0	\$ 888,090	\$ 0	\$ 1,396,363	\$ 1,597,615
Investment Earnings		25,050	65,750	67,559		158,359	91,275
Sales and Services	3,869,469	1,871,673	532,200	7,797,713	3,846	14,074,901	13,893,703
Rental and Lease of Property		111,949				111,949	97,304
Fees, Licenses, and Fines		194,766	176,991	6,546,818		6,918,575	7,221,863
Student Tuition and Fees		98,690				98,690	55,385
Contributions, Gifts, and Grants		1,677,053	289,344	979,048		2,945,445	5,033,548
Revenues from Other State Agencies		10,336,788	2,100,000	5,000		12,441,788	11,337,770
Miscellaneous Income	46	47,913	241,483	68,010	2,126	359,578	395,465
Total Revenues	3,869,515	14,872,155	3,405,768	16,352,238	5,972	38,505,648	39,723,928
EXPENDITURES							
Salaries and Benefits	5,129,754	186,676,887	9,979,391	35,111,041	3,665,561	240,562,634	227,336,499
Contracted Personal Services	59,108	1,867,088	117,096	1,381,216	11,254,385	14,678,893	10,688,218
Contracted Medical Services		338,804	7,610	93,505		439,919	410,634
Supplies and Materials	134,986	12,435,658	781,817	1,413,610	643,101	15,409,172	16,100,768
Travel	704	679,017	58,387	520,955	4,468	1,263,531	1,088,418
Communication	17,010	2,832,783	134,536	487,641	62,717	3,534,687	3,296,733
Utilities	1,758	475,461		136,580	457,202	1,071,001	1,047,780
Data Processing Services	15,490	912,651	76,742	1,074,975	3,414	2,083,272	1,949,301
Other Services	7,581	594,483	67,234	917,533	75,618	1,662,449	1,493,448
Claims and Benefits	141,259	10,403,804	624,046	1,566,373	112,983	12,848,465	12,250,114
Other Fixed Charges	30,729	1,641,474	27,082	1,136,196	247	2,835,728	5,688,974
Capital Outlay	105,052	25,464,174	996,216	4,566,534	14,100,037	45,232,013	35,734,544
Insurance and Bonding	80	1,014,216	36,592	140,941	423,266	1,615,095	1,519,890
Expenditures to Other State Agencies		1,917,993				1,917,993	2,274,269
Other Expenditures		337,503	88,109	5,394,808	189,532	6,009,952	5,661,916
Total Expenditures	5,643,511	247,591,996	12,994,858	53,941,908	30,992,531	351,164,804	326,541,506
Excess of Revenues Under Expenditures	(1,773,996)	(232,719,841)	(9,589,090)	(37,589,670)	(30,986,559)	(312,659,156)	(286,817,578)
OTHER FINANCING SOURCES (USES)							
Sale of Capital Assets	773	2,495,270	82,035	40,691	7,791	2,626,560	3,204,802
Insurance Recoveries		678,507	24,325	11,992		714,824	860,820
Transfers to State Reserve Fund		(185,601)	(164,195)	(1,722,357)		(2,072,153)	(1,055,458)
Transfers from State Reserve Fund		716,018	19,549	319,888		1,055,455	7,863,514
Appropriations	1,679,586	227,292,219	9,302,858	44,737,739	14,473,497	297,485,899	273,863,559
Total Other Financing Sources (Uses)	1,680,359	230,996,413	9,264,572	43,387,953	14,481,288	299,810,585	284,737,237
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (93,637)	\$ (1,723,428)	\$ (324,518)	\$ 5,798,283	\$ (16,505,271)	\$ (12,848,571)	\$ (2,080,341)

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, 2019
(With Comparative Totals for June 30, 2018)

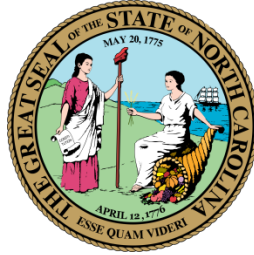
Schedule H-1

	Army Guard	Air Guard	Youth Programs	Other	Total National Guard 2019	Total National Guard 2018
REVENUES						
Federal Funds	\$ 25,934,176	\$ 4,312,502	\$ 6,948,246	\$ 0	\$ 37,194,924	\$ 33,779,098
Local Funds				3,875	3,875	10,535
Investment Earnings	730			6,943	7,673	2,551
Sales and Services	89,885		4,313	270,639	364,837	242,825
Rental and Lease of Property				138,840	138,840	176,350
Contributions, Gifts, and Grants	43,225		201,302		244,527	256,168
Revenues from Other State Agencies	1,217,607			83,482	1,301,089	881,623
Miscellaneous Income	5,112	2,101	192,214	31,737	231,164	190,395
Total Revenues	27,290,735	4,314,603	7,346,075	535,516	39,486,929	35,539,545
EXPENDITURES						
Salaries and Benefits	4,541,463	2,917,104	5,919,153	1,366,025	14,743,745	13,577,560
Contracted Personal Services	4,850,033	949,061	1,240,012	398,401	7,437,507	7,108,468
Contracted Medical Services		9,900	35,165		45,065	39,048
Supplies and Materials	1,047,402	170,986	1,162,292	74,169	2,454,849	2,187,370
Travel	65,836	8,316	104,932	23,543	202,627	140,048
Communication	1,125,711		52,057	6,514	1,184,282	1,475,046
Utilities	3,450,969	617,402	211,909	166,858	4,447,138	4,465,330
Data Processing Services	60,835		22,696	41	83,572	28,243
Other Services	2,124,927		330,399	60,857	2,516,183	1,669,715
Other Fixed Charges	446,458	19,230	28,723		494,411	321,031
Capital Outlay	15,171,903	48,554	220,210	1,133,893	16,574,560	13,747,558
Grants, State Aid, and Subsidies				83,482	83,482	79,380
Insurance and Bonding	28,607	2,850		50,815	82,272	49,382
Other Expenditures	192,234		69,883	195,041	457,158	519,682
Total Expenditures	33,106,378	4,743,403	9,397,431	3,559,639	50,806,851	45,407,861
Excess of Revenues Under Expenditures	(5,815,643)	(428,800)	(2,051,356)	(3,024,123)	(11,319,922)	(9,868,316)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets			1,236	792	2,028	8,572
Insurance Recoveries						32,499
Transfers In	3,227,981				3,227,981	3,498,304
Transfers Out	(3,227,981)				(3,227,981)	(3,498,304)
Transfers to State Reserve Fund			(5,229)	(274,883)	(280,112)	(20,966)
Transfers from State Reserve Fund	20,967				20,967	
Appropriations	20,080,986	722,500	3,387,372	3,249,969	27,440,827	11,465,954
Total Other Financing Sources (Uses)	20,101,953	722,500	3,383,379	2,975,878	27,183,710	11,486,059
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 14,286,310	\$ 293,700	\$ 1,332,023	\$ (48,245)	\$ 15,863,788	\$ 1,617,743

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, 2019
(With Comparative Totals for June 30, 2018)

Schedule I-1

	Emergency Management Performance Grant	Disaster Response and Recovery	Homeland Security	Geospatial	Office of Recovery and Resiliency	Other	Total Emergency Management 2019	Total Emergency Management 2018
REVENUES								
Federal Funds	\$ 9,152,442	\$ 238,732,598	\$ 6,504,744	\$ 5,836,118	\$ 9,920	\$ 2,411,498	\$ 262,647,320	\$ 90,890,411
Sales and Services	324,709			5,228,659			5,553,368	2,128,560
Fees, Licenses, and Fines	3,605,290			215,972			3,821,262	4,164,912
Contributions, Gifts, and Grants	56,560			29,050	1,768,115		1,853,725	585,677
Revenues from Other State Agencies	5,476,743	97,109,829		3,755,324	458,930,180		565,272,076	24,110,557
Miscellaneous Income	7,146	385	917	1,103	897,294	28	906,873	9,042
Total Revenues	18,622,890	335,842,812	6,505,661	15,066,226	461,605,509	2,411,526	840,054,624	121,889,159
EXPENDITURES								
Salaries and Benefits	7,340,502	9,564,464	691,400	4,272,612	1,785,476	442,092	24,096,546	13,816,071
Contracted Personal Services	3,780,010	71,040,771	3,583	11,081,667	15,260,138	894,602	102,060,771	15,624,775
Supplies and Materials	762,477	508,121	2,301	65,896	17,959	2,007	1,358,761	663,803
Travel	87,547	2,181,116	37,125	44,893	29,301	4,487	2,384,469	727,228
Communication	163,679	41,896	4,744	20,944	11,606	1,563	244,432	212,905
Utilities	38,031						38,031	34,443
Data Processing Services	238,577		7,309	92,652	45,974	6,134	390,646	176,566
Other Services	101,684	10,746	1,348	15,945	9,463	78	139,264	117,265
Other Fixed Charges	112,682	594	558	226,712	729	324	341,599	450,723
Capital Outlay	2,349,188	67,108	10,992	354,515	148,635	4,090	2,934,528	1,273,084
Grants, State Aid, and Subsidies	6,123,103	210,619,936	5,602,245		55,391,924	2,076,274	279,813,482	96,238,255
Insurance and Bonding	89,243		10	32,100	21	2	121,376	57,986
Expenditures to Other State Agencies	335,911	6,508,167			392,524,119		399,368,197	2,744,933
Other Expenditures	883,290	3,023,957	5,202	138,562	80,786	10,820	4,142,617	2,155,561
Total Expenditures	22,405,924	303,566,876	6,366,817	16,346,498	465,306,131	3,442,473	817,434,719	134,293,598
Excess of Revenues Over (Under) Expenditures	(3,783,034)	32,275,936	138,844	(1,280,272)	(3,700,622)	(1,030,947)	22,619,905	(12,404,439)
OTHER FINANCING SOURCES (USES)								
Sale of Capital Assets	80,959						80,959	71,837
Insurance Recoveries	74,686						74,686	211,232
Transfers to State Reserve Fund	(373,171)						(373,171)	(360,381)
Transfers from State Reserve Fund	360,382						360,382	
Appropriations	4,075,960	(2,170)	278,795	1,065,451	1,771,953	837,488	8,027,477	24,497,019
Total Other Financing Sources (Uses)	4,218,816	(2,170)	278,795	1,065,451	1,771,953	837,488	8,170,333	24,419,707
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 435,782	\$ 32,273,766	\$ 417,639	\$ (214,821)	\$ (1,928,669)	\$ (193,459)	\$ 30,790,238	\$ 12,015,268



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**

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, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 24, 2020.

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, 2019, 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

March 24, 2020

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