

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## NORTH CAROLINA DEPARTMENT OF REVENUE

RALEIGH, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2022

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

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



**Beth A. Wood, CPA**  
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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
Ronald G. Penny, Secretary  
Department of Revenue

We have completed a financial statement audit of the North Carolina Department of Revenue for the year ended June 30, 2022, 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

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This report provides audited financial information on the North Carolina Department of Revenue (Department) and is designed to provide the information at a summarized departmental 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 two governmental funds and one fiduciary fund. The governmental funds are used to report all activity of the Department. The fiduciary fund is a custodial fund that reports local sales tax collections.

It is important to note that while the governmental fund financial statements report all the activity of the Department, most of the activity reported in the general fund is collections and disbursements in support of the State of North Carolina's general fund and is not a part of the budgeted activity of the Department. The distinctions between these activities are reflected in the company number. Company 99 reflects the State's overall general fund and Company 45 reflects the Department's budgeted activity.

Where some numbers need further explanation, additional detail is provided in supplementary schedules or "Notes to the Financial Statements" which are referenced next to the line item caption. Throughout the report, the term Department is used to refer to the governmental funds and the fiduciary fund combined, unless otherwise specifically stated.

**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 opinions 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, 2022 and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2022 for the Department's **governmental funds as a whole**.

**"B" Exhibits** present the Statement of Fiduciary Net Position as of June 30, 2022 and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2022 for the **fiduciary fund as a whole (represented by the Local Sales Tax Collection Fund)**.

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

**"C" Exhibit** presents the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis-Non-GAAP) for the **General Fund** (for the fiscal year ended June 30, 2022). This schedule has not been subjected to the same auditing procedures performed on the financial statements.

### **Supplementary Information:**

**“D” Exhibits** present the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund **by Company** (for fiscal year ended June 30, 2022).

**“E” Exhibit** presents the Statement of Collections (Cash Basis), which details certain tax revenues collected by the Department (for fiscal year ended June 30, 2022).

**“F” Exhibit** presents the Schedule of Aging of Taxes Receivable for unpaid taxes by tax type sorted by years outstanding (as of June 30, 2022).

**“G” Exhibit** presents the Schedule of Operating Expenditures by Purpose, or natural classification (agrees to total general fund expenditures on Exhibit A-2 for fiscal year ended June 30, 2022).

### **Required Information:**

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



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

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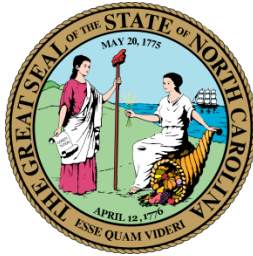
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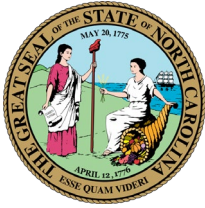
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# **INDEPENDENT AUDITOR'S REPORT**

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



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## **INDEPENDENT AUDITOR'S REPORT**

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Ronald G. Penny, Secretary  
and Management of the North Carolina Department of Revenue

### **Report on the Audit of the Financial Statements**

#### *Opinions*

We have audited the accompanying financial statements of the governmental funds and the fiduciary fund of the North Carolina Department of Revenue (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental funds and the fiduciary fund of the North Carolina Department of Revenue, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Carolina Department of Revenue and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Emphasis of Matter*

As discussed in Note 1, the financial statements of the North Carolina Department of Revenue are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Revenue. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2022, or the changes in its financial position for the years then ended in accordance



with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### *Responsibilities of Management for the Financial Statements*

The Department's 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023 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,

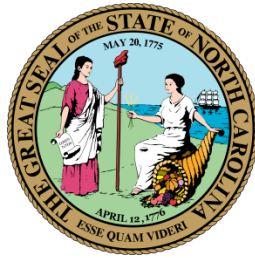
and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

April 28, 2023



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis section of the North Carolina Department of Revenue's (Department) financial report is provided as an overview of the financial performance of the governmental funds for the fiscal year ended June 30, 2022, with comparative information for the fiscal year ended June 30, 2021. 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 (General Fund and Special Revenue Fund) and the Fiduciary Fund (Local Sales Tax Collection Fund). The governmental funds' basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances, and notes to the financial statements. The fiduciary fund's basic financial statements consist of a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and notes to the financial statements.

#### **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 flow (revenues and expenditures) of the governmental funds.

#### **Fiduciary Fund:**

- The Statement of Fiduciary Net Position shows the amount of assets and liabilities that the Department holds for the benefit of parties outside of state government.
- The Statement of Changes in Fiduciary Net Position reflects the additions and deductions of funds held to and from parties outside of state government.

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 and includes the General Fund budgetary comparison schedule reconciling the statutory to the generally accepted accounting principles fund balance at fiscal year-end.

Other supplementary information includes the financial statements for the Governmental Funds, Statement of Collections, Schedule of Aging of the Taxes Receivable, as well as the Schedule of Operating Expenditures by Purpose.

## Governmental Funds

### Condensed Balance Sheets

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2022 and 2021:

	2022	2021	Increase (Decrease)
Assets	\$ 2,961,505,865	\$ 2,699,072,176	\$ 262,433,689
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 2,961,505,865	\$ 2,699,072,176	\$ 262,433,689
Liabilities	\$ 1,901,563,960	\$ 1,932,595,339	\$ (31,031,379)
Deferred Inflows of Resources	118,441,686	124,752,248	(6,310,562)
Fund Balance			
Nonspendable	4,751,732	3,949,181	802,551
Committed	61,740,823	39,790,913	21,949,910
Unassigned	875,007,664	597,984,495	277,023,169
Total Fund Balances	941,500,219	641,724,589	299,775,630
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,961,505,865	\$ 2,699,072,176	\$ 262,433,689

### Assets

Total assets increased by \$262.4 million during fiscal year 2022 due to a \$214.9 million increase in taxes receivable. Taxes receivable increased \$214.9 million from the prior fiscal year primarily due to an increase in delinquent taxes receivables as well as an increase in the amount estimated for individual income tax underpayments.

Delinquent taxes receivable increased \$104.9 million from the prior fiscal year due to an increase of \$101.8 million in individual income delinquent taxes receivable. Gross delinquent individual income taxes receivables increased \$389.7 million from the prior year due to an increase in final assessments billed to taxpayers for individual income tax owed during the 2022 fiscal year compared to the 2021 fiscal year as well as an increase in interest accrued.

The amount estimated for individual income tax underpayments increased \$85.8 million from the prior fiscal year. An estimate of underpayments is prepared at the end of each fiscal year to determine the amount of individual income taxes that are owed to the Department for the time period January to June. Underpayments occur when taxpayers either do not have enough taxes withheld from their salary or estimated payments made are not sufficient. Underpayments related to the first half of the fiscal year (July – December) are considered to be settled when tax returns are submitted by April 15<sup>th</sup>. These payments are considered final payments. To estimate the individual income taxes receivable related to underpayments, the Department collects final payments data for previous fiscal years and uses various trend models to project final payments expected to be received in the next fiscal year. Projected final payments for the 2023 fiscal year are for the 2022 tax year (January 2022 – December 2022). The Department adjusts the projected final payments by one-half because there is the assumption that only one-half of the final payments estimated to be received in the 2023 fiscal

year would have been earned by June 30, 2022 (in the time period of January 2022 – June 2022). The final payments estimated to be received in the 2023 fiscal year is also adjusted for any delinquent individual income taxes receivables that have also been accrued. Different trend models are used to perform the trend analysis and the Department chose the trend model whose amount in the prior fiscal year was closest to actual. The projected final payments amount for the 2023 fiscal year was significantly higher than the prior year ultimately resulting in an increased amount estimated for individual income tax underpayments.

### **Liabilities**

Total liabilities decreased by \$31.0 million compared to the prior fiscal year. The decrease is primarily due to decreases in intergovernmental payables of \$13.1 million, tax refunds payable of \$12.4 million, and unearned revenue of \$13.1 million from the prior fiscal year.

Intergovernmental payables decreased \$13.1 million from the prior fiscal year as a result of a decrease in amounts due to local governments and offset by an increase in amounts due to other state agencies.

Intergovernmental payables to local governments decreased \$25.9 million mainly because the amount accrued at fiscal year-end for the Medicaid hold harmless distribution due to local governments per General Statute 105-523 decreased. The amount accrued in the prior fiscal year was \$39.6 million and the amount accrued in the 2022 fiscal year was \$12.6 million, a decrease of \$27.0 million.

The Medicaid hold harmless distribution occurs twice a year – in March and August. The amount distributed in March is an estimate based on information provided to the Department from the Department of Health and Human Services. The actual amount less the amount distributed in March is paid out to local governments in August. This is the amount accrued as a payable at the end of the fiscal year. Although the amount accrued at the end of the 2022 fiscal year was significantly lower than the prior fiscal year, the total amount of the Medicaid hold harmless distribution for the 2022 fiscal year was higher than the prior fiscal year. This is discussed further in the Expenditures section below.

The amount due to other state agencies increased \$12.5 million from the prior fiscal year. A portion of this increase was due to a \$5.6 million increase in federal funds owed to the Office of State Budget and Management (OSBM). At the end of the prior fiscal year, the Department recorded a payable to OSBM of \$8.8 million for funds received but not spent for the Extra Child Grant Program. The amount recorded at the end of the 2022 fiscal year was \$14.4 million for federal State Fiscal Recovery Funds (SFRF) received but not spent for the Business Recovery Grant program and mainframe migration.

The amount due to other state agencies also increased an additional \$5.0 million because the amount collected on aviation gasoline and jet fuel increased. General Statute 105-164.44M requires the Department to transfer to the Highway Fund (Department of Transportation) the annual net proceeds of the tax collected on aviation and jet fuel under General Statute 105-164.4 within 75 days after the end of the fiscal year. The net amount collected and owed at the end of the 2022 fiscal year was \$5.0 million more than the prior fiscal year.

Tax refunds payable decreased \$12.4 million from the prior year primarily due to a decrease in corporate income tax revenues estimated to be refunded in some future period and offset by an increase in sales and use tax revenues estimated to be refunded in some future period.

Corporate income tax revenues estimated to be refunded in some future period are \$27.5 million less than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of corporate income taxes that will be refunded for amounts collected by the Department in excess of final tax liability during the time period January to June. Corporate income taxpayers can elect different income years and are generally required to make installment payments four times a year with the due date depending on the income year elected. Final payment of expected net tax liability is due when the tax return is due, even though corporate taxpayers often take a 6-month extension to file the return. The Department assumes that corporate income tax collections during the time period July to December and any refund requests associated with these collections have been applied or paid out by June 30. Collections for January to June that are not considered final are used as a base for the corporate income tax refunds payable estimate. To estimate the corporate income tax refunds payable on collections from January through June, the Department collects data of cash refunds to total collections for several years and uses various trend models to calculate a refund percentage. The refund percentage is applied to the base discussed above to estimate future cash refunds. The refund ratio calculated for the 2022 fiscal year was lower than in the prior fiscal year. The lower refund percentage caused a decrease in corporate income tax revenues estimated to be refunded in some future period.

Sales and use tax revenues estimated to be refunded in some future period increased \$15.2 million from the prior fiscal year. This is primarily due to sales and use tax refunds due to non-profits increasing from \$1.3 million to \$20 million. The amount due to non-profits can vary from year to year depending on if the amount requested for refund gets processed and paid prior to June 30th or not.

Unearned revenue decreased \$13.1 million from the prior year primarily due to a decrease in individual income tax overpayments estimated to be applied to some future tax period and offset by an increase in corporate income tax overpayments estimated to be applied to some future tax period.

Individual income taxpayers can elect to apply any overpayment to a future tax period. Individual income tax overpayments estimated to be applied to some future tax period are \$19.1 million less than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of individual income tax overpayments that will be applied to a future tax period. Amounts collected during the time period of January through June time period that are included in the calculation of the estimate are withholdings and estimated tax payments. Collections during the first half of the fiscal year (July – December) are usually considered to be settled when tax returns are submitted by April 15th and are applied or refunded prior to June 30. To estimate the individual income tax unearned revenue on collections from January through June, the Department calculates an applied refund percentage and applies it to the January to June collections to estimate overpayments that will be applied to a future tax period. The applied refund percentage calculated for the 2022 fiscal year was lower than in the prior fiscal year. The lower percentage caused a decrease in individual income tax overpayments estimated to be applied to a future tax period.

Corporate income taxpayers frequently elect to apply any overpayment to a future tax period. These amounts are considered unearned revenue. An estimate is prepared at the end of each fiscal year to determine the amount of corporate income tax that taxpayers will elect to apply to a future tax period. As with the tax refunds payable estimate, the Department assumes that corporate income tax collections during the time period July to December and any refund requests associated with these collections have been applied or paid out by June 30.



Collections for January to June that are not considered final are used as a base for the corporate income tax unearned revenue calculation. An applied refunds percentage is estimated by the Department and applied to the base. Unearned revenue due to corporate income tax increased \$10.5 million from the prior fiscal year due to an increase in corporate income tax collections for January to June 2022. Corporate income tax collections for January to June 2022 increased \$159.5 million from the same time period in the prior fiscal year. The increase in corporate tax revenues in North Carolina is consistent with the trend in the United States.

### **Deferred Inflows of Resources**

Deferred inflows of resources decreased \$6.3 million compared to the prior fiscal year due to a decrease in unavailable revenue. Unavailable revenue is the amount of taxes receivable that is not expected to be collected within a specified period after fiscal year-end. The majority of the unavailable revenues come from corporate income taxes, franchise taxes, and sales and use taxes. These amounts are deferred and recognized as revenues in the period that the amounts become available. Unavailable revenues for franchise taxes decreased \$10.6 million from the prior fiscal year due to a significant decrease in the taxes receivable for this tax type. Taxes receivable for franchise taxes decreased in the 2022 fiscal year due to the amount of adjustments on franchise tax collection cases increasing significantly. Adjustments increased significantly from the prior fiscal year due to an amended return filed by a corporation engaged in multistate business activity that changed its apportionment factor causing a reduction in the amount of franchise tax owed by the corporation.

### **Fund Balance**

Overall fund balance increased by \$299.8 million during fiscal year 2022. The increase is primarily attributable to an increase of \$277.0 million in the unassigned fund balance and an increase of \$21.9 million in the committed fund balance. The increase in the committed fund balance is due to the amount committed for Project Collect Tax, a collection assistance fee imposed by the General Assembly under General Statute 105-243.1. The fee is imposed on an overdue tax debt that remains unpaid 30 days or more after the fee notice is mailed to the taxpayer. The fee is a receipt of the Department and may be expended only pursuant to appropriation by the General Assembly. During the 2022 fiscal year, the Department collected \$58.6 million in collection assistance fees and expended \$38.0 million from the Project Collect fund. Therefore, \$20.6 million more was collected than expended during the 2022 fiscal year; hence, increasing fund balance.

The increase in unassigned fund balance is attributable to the overall current year activity - see further details on the following Statement of Revenues, Expenditures, and Changes in Fund Balances.

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

The following condensed statements show the governmental funds' resource flows at June 30, 2022 and 2021.

	2022	2021	Increase (Decrease)
Revenues:			
Tax Revenues	\$ 33,484,065,906	\$ 29,132,797,301	\$ 4,351,268,605
Revenues from Other State Agencies	299,354,213	386,632,603	(87,278,390)
Fees	4,148,059	3,764,265	383,794
Other Revenues	3,308,751	9,379,919	(6,071,168)
Total Revenues	33,790,876,929	29,532,574,088	4,258,302,841
Expenditures:			
Statutory Tax Distributions	780,731,766	762,792,117	17,939,649
Grants	288,214,502	381,269,918	(93,055,416)
Salaries and Benefits	116,203,464	110,889,069	5,314,395
Expenditures to Other State Agencies	2,284,886	2,349,083	(64,197)
Other Expenditures	52,530,274	50,239,886	2,290,388
Total Expenditures	1,239,964,892	1,307,540,073	(67,575,181)
Excess of Revenues Over Expenditures	32,550,912,037	28,225,034,015	4,325,878,022
Other Financing Sources (Uses)			
State Appropriations	109,930,590	87,953,327	21,977,263
Gain on Sale of Capital Assets	1,000	1,000	-
Transfers In	3,318,568	3,355,417	(36,849)
Transfers Out	(32,364,386,565)	(28,960,456,924)	(3,403,929,641)
Total Other Financing Sources (Uses)	(32,251,136,407)	(28,869,147,180)	(3,381,989,227)
Net Change in Fund Balance	299,775,630	(644,113,165)	943,888,795
Fund Balance - July 1	641,724,589	1,285,837,754	(644,113,165)
Fund Balance - June 30	\$ 941,500,219	\$ 641,724,589	\$ 299,775,630

**Tax Revenues**

Total tax revenues were \$33.5 billion at June 30, 2022, an increase of \$4.4 billion from the prior fiscal year. This increase is primarily due to an increase in net individual income tax revenues of \$2.5 billion and net sales and use tax revenues of \$1.2 billion.

**Individual Income Tax**

Individual income tax revenues on a modified accrual basis increased \$2.5 billion or 16.1% from the prior fiscal year. The majority of the increase can be attributed to an increase of \$1.7 billion in gross individual income tax collections on a cash basis. Gross individual income tax collections on a cash basis increased primarily due to an increase in withholding payments and final payments. Withholding payments increased over \$1 billion or 59.7% from the prior fiscal year. This can be attributed to the growth in wage and salary income in the 2022 fiscal year, as discussed below. Final payments increased almost \$560 million or 32.0% from the prior fiscal year. This is due to income from dividends, capital gains, and businesses during the 2021 tax year.

## **Sales and Use Tax**

Sales and use tax revenues on a modified accrual basis increased by \$1.2 billion or 12.3% from the prior fiscal year. This increase can be attributed to the growth in personal consumption expenditures. As discussed below, the strong growth in personal consumption expenditures during the 2022 fiscal year led to growth in sales and use tax. This is supported by an increase in gross sales and use tax collections on a cash basis by \$1.9 billion or 12.5% for the fiscal year over the prior fiscal year.

## **Revenues from Other State Agencies**

Revenues from Other State Agencies decreased \$87.3 million in the 2022 fiscal year as compared to the prior fiscal year. This decrease is primarily due to a decrease in the amount of revenues recorded by the Department for the Extra Credit Grant Program offset by an increase in the amount of revenues recorded by the Department from federal State Fiscal Recovery Funds.

On September 4, 2020, Governor Cooper, signed into law House Bill 1105 (Session Law 2020-97), an act to provide additional and revised uses for federal Coronavirus Relief Funds. Under this law \$440.5 million was allocated to the Department to administer the Extra Credit Grant Program. This program provided help to families with qualifying children in North Carolina by providing economic support to assist with virtual schooling and childcare costs during the COVID-19 pandemic. The Department recorded \$379.2 million less in revenues for the Extra Credit Grant Program in the 2022 fiscal year than in the prior fiscal year.

The 2021 Session of the North Carolina General Assembly enacted Session Law 2021-180 (Senate Bill 105), 2021 Current Operations Appropriations Act (2021 Appropriations Act), which provided \$2.3 million from federal State Fiscal Recovery Funds (SFRF) for a \$1,000 bonus for full-time Department employees with certain employees receiving an additional \$500 bonus. The Department was also authorized to create and administer the Business Recovery Grant Program (Program) to provide a one-time grant to businesses that suffered economic damage from the COVID-19 pandemic that meet certain conditions. The Department was allocated \$500 million from federal SFRF for the Program. The Act also provided \$2.5 million from federal SFRF for the migration of the Department's data from the Department of Information Technology's mainframe to IBM. The Department recorded \$291.6 million in revenues from SFRF for the Business Recovery Grant Program, bonuses, and the mainframe migration in the 2022 fiscal year. No revenues were recorded in the prior fiscal year.

## **Expenditures**

Total expenditures decreased \$67.6 million from the prior fiscal year primarily due to a decrease in grants of \$93.1 million, offset by increases in statutory tax distributions of \$17.9 million, and salaries and benefits of \$5.3 million.

The \$93.1 million decrease in grants is the net impact of the Extra Credit Grant Program ending and the Business Recovery Grant Program beginning. The majority of grants for the Extra Credit Grant Program were issued during the prior fiscal year. Extra Credit grants totaling \$377.3 million were issued in the prior fiscal year compared to \$242,540 in the 2022 fiscal year. The Department also expended \$288.0 million in grants for the Business Recovery Grant Program during the 2022 fiscal year.

Statutory tax distributions increased \$17.9 million from the prior fiscal year because Medicaid hold harmless distributions to local governments per General Statute 105-523 increased \$17.2 million. Local governments' sales and use tax revenue was reduced when General Statutes 105-515 through 105-520 under Article 44 of the North Carolina Revenue Laws were repealed effective October 1, 2009. In addition, the local governments' cost of administering the Medicaid program was reduced as the State assumed responsibility for the administration of Medicaid. The intent of General Statute 105-523 is that each county be held harmless from the exchange of a portion of the local sales and use taxes for the State's agreement to assume the responsibility for the non-administrative costs of Medicaid. The Department is charged with comparing the lost sales and use tax revenue to the lost cost of administering the Medicaid program for each county. If the lost revenue is higher than the lost cost, then a distribution is made to the county. The increase in Medicaid hold harmless distributions can be attributed to continued growth in sales and use tax revenues while the administrative costs of Medicaid growth is relatively slow in comparison.

The majority of increase in salaries and benefits can be attributed to salary increases and bonuses provided by the 2021 Appropriations Act (Session Law 2021-180). The amount appropriated to the Department in the Act included \$1.7 million from the general fund for salary increases for the Department's employees in the 2022 fiscal year. Also, as discussed previously, the Act provided \$2.3 million from federal State Fiscal Recovery Funds for a \$1,000 bonus for full-time Department employees with certain employees receiving an additional \$500 bonus.

### **Other Financing Sources (Uses)**

Total other financing uses increased \$3.4 billion from the prior fiscal year primarily due to an increase in the year-end transfer of net revenues to the Office of the State Controller. This transfer amount increased from \$28.8 billion to \$32.2 billion during fiscal year end 2022. This increase is attributable to the increase in tax revenues as discussed above. Tax revenues on a cash basis in the 2022 fiscal year increased \$3.4 billion from the prior fiscal year.

### **Budget Variations**

Data for the budget variances is presented in Schedule C-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) for the fiscal year ended June 30, 2022 of this report.

#### *Variances – Original and Final Budget:*

The final budgeted revenues were \$8.4 million less than the original budget. The majority of the decrease is due to a decrease in the final budget for revenues from other state agencies. The decrease in revenues from other state agencies of \$7.3 million was primarily due to the return of Coronavirus Relief Funds (CRF) to the Office of State Budget and Management (OSBM). The Department was allocated \$440,541,000 of CRF funds per Session Law 2020-97 for the Extra Credit Grant Program. The Department returned \$8.3 million of these funds in November 2021 to OSBM to be reallocated by the NC Pandemic Recovery Office (NCPRO) per Section 4.7.(a) of Session Law 2021-180.

The final budgeted expenditures increased \$23.5 million from the original budget. The increase is primarily due to an increase in the final budget for contracted personal services as well as a decrease in the final budget for salaries and benefits.

The final budgeted expenditures for contracted personal services were \$28.9 million more than the original budget. This is primarily due to an increase in the final budget for other information technology services. Other information technology services' budget increased \$21 million and was mainly due to a \$19.2 million revision for the Collections Case Management project and a \$1.4 million revision for the Fuel Tracking System project.

The final budget for salaries and benefits decreased \$8.6 million due to lapsed salary. Lapsed salary is the budgeted amount not expended for salary and associated benefits during the period in which a position is vacant. Lapsed salary was moved as allowed by General Statute 143C-6-9 to increase budgets for postage, claims and benefits, other information technology services, server support services, admin services, temporary agency services, miscellaneous contractual services, telephone services, and information technology equipment and software.

The final amount budgeted for other financing sources (uses) was \$1.9 million less than the original budget due to transfers to/from the State Reserve Fund not having an original budget. The net impact of these transfers increased the budget for other financing sources (uses) by \$1.6 million. See Note 1(O) for additional information regarding transfers to/from the State Reserve Fund.

This increase was offset by a \$3.5 million decrease in the final budget for Transfers to the State General Fund from the original budget. The amount budgeted to transfer to the State's General Fund equals the amount budgeted for tax revenues as total tax revenues anticipated to be collected are expected to be transferred to the General Fund. The decrease in the budget for state revenues was due to a change in individual income tax in Session Law 2022-6 that resulted in an expected decrease in collections.

*Variances – Final Budget and Actual Results:*

Actual total revenue collected was \$4.5 billion above budgeted revenue amounts. The increase is due to an increase in tax revenues. The significant increase in expected 2022 fiscal year revenue collections was primarily driven by individual income tax collections, including final and extension payments. Further, wage growth and the strong job market produced unexpected increases in individual income tax withholdings. Changes in the predicted timing of some individual income tax refunds also impacted the 2022 fiscal year revenue forecast. Sales and use tax and corporate income tax collections also significantly exceeded the previous forecast. Sales and use tax collections finished well ahead of forecast due to strong consumer spending and inflation. Corporate income tax collections had stronger than expected corporate profits.

Actual total expenditures were \$249.9 million less than budgeted expenditures during fiscal year 2022. Budgeted expenditures exceeded actual expenditures primarily because the Department spent \$242.4 million less on salaries and benefits, contracted personal services, and grants. The Department expended \$209.7 million less in grants than budgeted due to \$209.5 million of the amount budgeted for Business Recovery grants was not expended as of the end of the 2022 fiscal year.

The amount spent on contracted personal services was \$24.6 million less than budgeted primarily due to spending on other information technology services. The actual amount spent on other information technology services was \$21.7 million less than budgeted mainly due to there not being any expenditures for the Fuel Tracking System project and less than \$500,000

in expenditures for the Collections Case Management project. The combined budget for these projects was \$21.0 million.

The amount spent on salaries and benefits was \$8.1 million less than budgeted. Variances between the budgeted and actual expenditures for salaries and benefits are largely due to vacancies that are paid for from receipt supported funds.

Actual total other financing sources (uses) was \$4.7 billion above budgeted amounts primarily due to an increase in transfers to the State's general fund. Transfers to the State's general fund consist solely of the year-end transfer of net revenues to the Office of the State Controller. This increase is attributable to the increase in revenues as discussed above.

### **Future Outlook**

#### **General Operations**

Session Law 2022-74 of the 2022 Session of the North Carolina General Assembly was enacted in July 2022 to modify the 2021 Appropriations Act. Session Law 2022-74 increased the amount appropriated to the Department of Revenue for general operations for the fiscal year ending June 30, 2023 by \$2.8 million. Approximately 25% of this increase was because funds were provided for a 1% across-the-board salary increase for most employees, or an additional 2% across-the-board salary increase if the employee is paid based on an experience-based salary schedule or has a salary set in law. These increases are in addition to the 2.5% across-the-board salary increase already appropriated in Session Law 2021-180. Another 25% of the increase in the amount appropriated to the Department was due to funds provided for labor market salary adjustments to positions that are not paid based on an experienced-based salary schedule or have a salary set in law. The funds shall be used to address specific staffing issues by providing targeted salary increases to recruit and retain capable labor.

The remainder of the increase was due to an adjustment to funding for information technology rates in the amount of \$1.4 million based on the 2023 fiscal year approved Department of Information Technology rates. The increased amount reflects the net impact of the change in subscription rates and the change in service delivery rates.

#### **North Carolina Economic Conditions**

North Carolina's labor market has rebounded since the COVID-19 shutdown in the spring of 2020. The number of payroll jobs in North Carolina rebounded in the summer of 2020 and has increased steadily since then, according to data compiled by the Bureau of Labor Statistics. By June 2022, the unemployment rate had fallen to 3.4% and the number of nonfarm jobs exceeded 4.75 million. The number of nonfarm jobs has consistently exceeded the level in February 2019 since October 2021. In June 2022, there were 155,200 more jobs than in June 2021 and 480,100 more than in June 2020. North Carolina's labor force participation rate, however, has not rebounded completely. In February 2020, the labor force participation rate was estimated to be 61.3%, while this rate was 60.5% in June 2022. In this respect, North Carolina is doing slightly better than the national trend - the national labor force participation fell from 63.4% to 62.2% during this period.

As reported by the Bureau of Economic Analysis, North Carolina's personal income shows substantial growth during the 2021-2022 fiscal year. Personal income grew 4.7% during the fiscal year. Several federal programs that were designed to provide relief from the pandemic



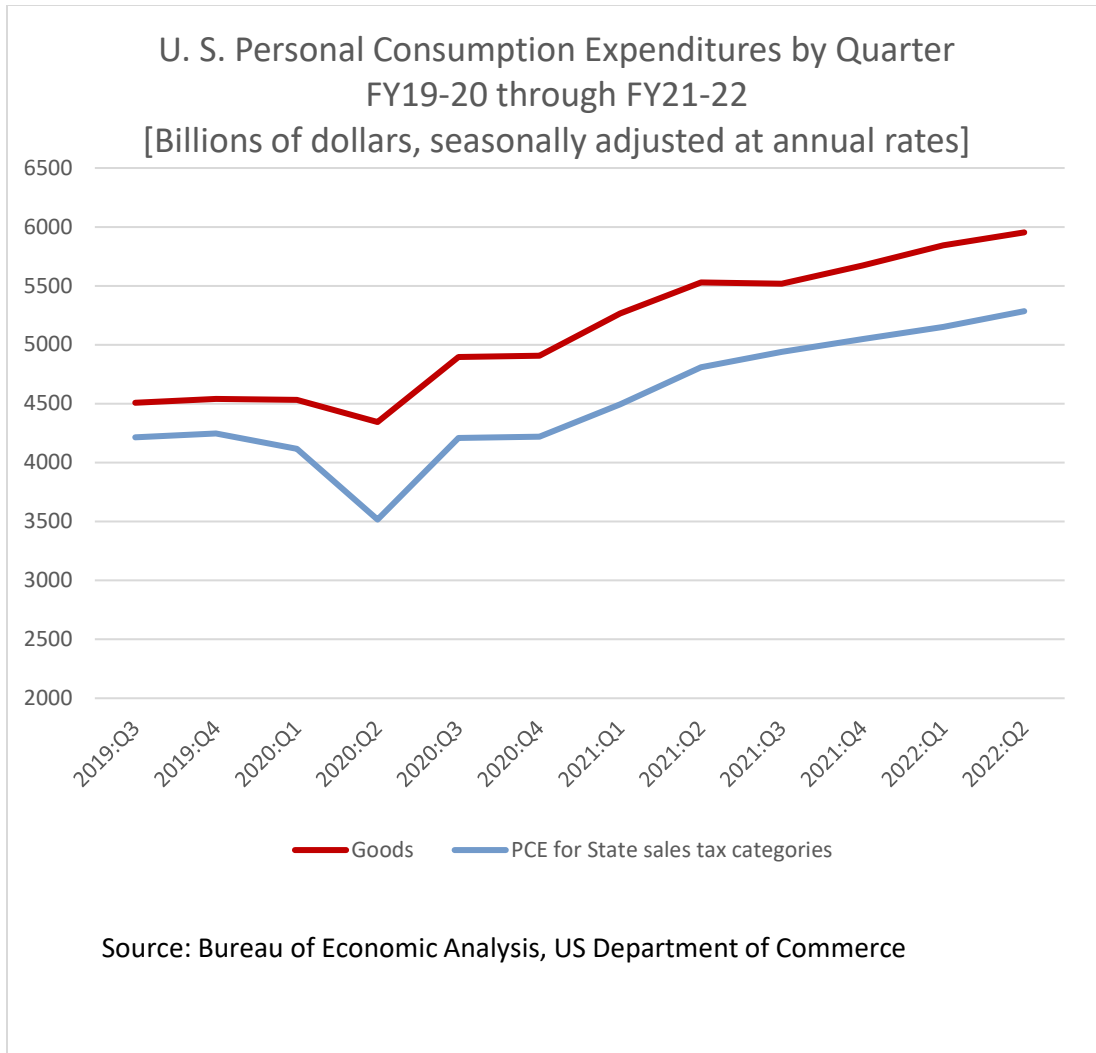
impacts to the economy helped elevate North Carolina's personal income amounts, especially in the first quarter of 2021. To a lesser extent, advance child tax credit payments increased personal income during the 2022 fiscal year.

Wage and salary income and personal consumption expenditures impact major sources of the State's tax revenues, such as personal income taxes and sales and use taxes, that increase (decrease) when incomes and spending increase (decrease).

Wage and salary income has grown in the 2022 fiscal year, supporting larger income tax withholding. National Bureau of Economic Analysis's data for wage and salary income indicates growth in the 2022 fiscal year of 11.7% over the prior fiscal year.

The State's income tax withholding remained strong throughout the 2022 fiscal year due to the rise in wages and salaries and the shift to higher-income workers. Even though North Carolina has a flat individual income tax rate, the withholding tables withhold a higher percentage of earnings for higher-income workers. Due to an increase in standard deduction amounts and a decrease in the tax rate for tax year 2022, withholding growth has been smaller in the last several months of the 2022 fiscal year.

National Bureau of Economic Analysis's data also shows continued strong growth in personal consumption expenditures during the 2022 fiscal year, leading to growth in sales and use taxes, as well as other State excise taxes. The National Bureau of Economic Analysis's data on national personal consumption expenditures during the last two fiscal years reflect the trend in North Carolina. This is useful in understanding the trend in sales & use taxes in North Carolina during the last two years. Higher prices have contributed to the increase in household expenditures.



Not all personal consumption spending is taxable under the sales & use tax. For example, North Carolina does not generally include services in the sales & use tax base. The above graph shows two series that are derived from the personal consumption expenditures data categories and are more consistent with the items taxed under the State's sales & use tax.<sup>1</sup> The trends indicate a drop in sales during the first and second calendar quarters of 2020 when the COVID-related shutdowns began. The growth since then reflects re-opening, especially after vaccinations became available to most Americans, as well as the effect of the last two rounds of economic impact payments by the federal government in the first quarter of 2021.

On a fiscal year basis, the Goods category in personal consumption expenditures was 11.6% higher in the 2022 fiscal year than in the prior fiscal year. The series with adjustments for categories in the North Carolina sales tax base was 15.2% higher. North Carolina sales & use tax collections reflected these trends.

<sup>1</sup> The series "PCE for State sales tax categories" attempts to include PCE major categories that are more consistent with the items taxed. This series is "Goods" less "motor vehicles and parts," "gasoline & other energy goods," and "food and beverages for home consumption" plus "recreation services" and "food services and accommodations."



## **Tax Changes**

### **Individual Income Tax**

Session Law 2021-180 (Senate Bill 105), 2021 Current Operations Appropriations Act (2021 Appropriations Act) lowered the individual income tax rate from 5.25% to 4.99% effective January 1, 2022. In addition, the tax rate will continue to decrease in subsequent tax years as indicated below:

<u>Tax Rate</u>	<u>Effective Date</u>
4.75%	January 1, 2023
4.60%	January 1, 2024
4.50%	January 1, 2025
4.25%	January 1, 2026
3.99%	January 1, 2027

In addition, the Act increased the standard deduction amounts to \$25,500 for married couples filing jointly, \$12,750 for single taxpayers, and \$19,125 for head of household. The Act also increased the child deduction by \$500 and expands the eligibility for the deduction to more families. It also conforms to the permanent 7.5% federal medical expense deduction threshold. These changes were effective for taxable years beginning on or after January 1, 2022.

The Act also exempts most military retirement income from taxation effective January 1, 2021.

Combined, the above tax law changes are expected to decrease individual income tax revenues by \$1.7 billion in fiscal year 2023. However, the full fiscal impact will not be realized until the changes are fully implemented in 2027, when the individual income tax rate drops to 3.99%.

The Act updates the State's adopted reference date to the federal Internal Revenue Code to April 1, 2021, and conforms to the permanent 7.5% federal medical expense deduction threshold and the deductibility of expenses using funds from forgiven Pandemic Protection Program (PPP) loans and from similar pandemic-related loan and grant programs. The cost of conforming to the medical expense threshold is included above. The cost of allowing PPP and similar loans to be deducted is limited to the two years of the 2021-2023 biennium. The deduction impacts individual income and corporate income taxes and is expected to reduce revenue by \$50 million in fiscal year 2023.

### **Corporate Income Tax**

The Act phases out the corporate income tax over six years beginning in tax year 2025. This change is projected to reduce corporate income tax revenue by \$60 million in its first year of implementation, but the full fiscal impact will not be realized until the changes are fully implemented in 2030, when the tax is eliminated.

### **Sales and Use Tax**

The Act amended General Statute 105-187.9(a) such that all taxes collected for short-term vehicle rentals at the rate of 5% and 8% shall be credited to the Highway Fund. The law previously required only \$10.0 million of the taxes collected to be credited to the Highway Fund. This change in law was effective for the 2022 fiscal year and was expected to decrease sales and use tax revenues by \$69.8 million in the 2022 fiscal year and is expected to decrease

sales and use tax revenues by \$74.6 million in the 2023 fiscal year. The actual amount of the transfer in the 2022 fiscal year was \$98.4 million, net decrease of \$88.4 million after accounting for \$10.0 million in previous fiscal year. Therefore, the decrease to sales and use tax revenues in the 2022 fiscal year was more than projected. The decrease in the 2023 fiscal year will most likely also be more than projected as the taxes collected for short-term vehicle rentals at the rate of 5% and 8% for the first half of the 2023 fiscal year is \$4.7 million more than the amount collected for the same period in the 2022 fiscal year.

Session Law 2022-74 (House Bill 103) amended General Statute 105-164.44M such that a portion of the net sales and use tax proceeds collected at the general rate must be transferred quarterly to the Highway Fund and the Highway Trust Fund. This change in law was effective for the 2023 fiscal year and is expected to decrease sales and use tax revenues by \$193.1 million in the 2022-2023 fiscal year. This tax law change will continue to impact sales and use tax revenues in future fiscal years up to \$684.8 million in the 2027 fiscal year. The percentages to be transferred are:

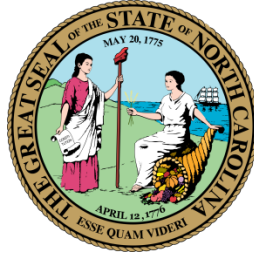
<b>Fiscal Year</b>	<b>% to Highway Fund</b>	<b>% to Highway Trust Fund</b>
2022-2023	2%	0%
2023-2024	1%	3%
2024-2025 and thereafter	1.5%	4.5%

### **Franchise Tax**

The Act simplifies the franchise tax base calculation and, for some taxpayers, reduces the amount of franchise tax due by eliminating the two tax bases calculated using property values. This change is effective for taxable years beginning on or after January 1, 2023 and is applicable to the calculation of franchise tax reported on the 2022 and later corporate income tax returns. This change will reduce fiscal year 2023 franchise tax revenue by approximately \$173.0 million in its first full year of implementation.

### **Tobacco Tax**

The Act subjects all cigar sales, whether sold online or in-person, to the existing rate of excise tax, which is 12.8% of the cost price per cigar. It also places a cap on the excise tax in the amount of 30¢ per cigar. This section is effective July 1, 2022 and applies to sales or purchases occurring on or after that date. These changes are expected to increase tobacco tax revenue by \$25.0 million annually beginning in fiscal year 2023.



# **FINANCIAL STATEMENTS**

**North Carolina Department of Revenue**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2022**

**Exhibit A-1**

	<b>General Fund<sup>1</sup></b>	<b>Special Revenue</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 2)	\$ 112,820,223	\$ 3,050,472	\$ 115,870,695
Receivables:			
Taxes Receivable, Net (Note 4)	2,815,922,342	5,491,707	2,821,414,049
Accounts Receivable, Net (Note 4)	6,929,296		6,929,296
Intergovernmental Receivables (Note 4)	12,435,865		12,435,865
Due from Other Funds (Note 13)	88,928		88,928
Inventories (Note 5)	4,751,732		4,751,732
Securities Held in Trust (Sureties)	15,300		15,300
<b>Total Assets</b>	<b>2,952,963,686</b>	<b>8,542,179</b>	<b>2,961,505,865</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	0	0	0
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 2,952,963,686</b>	<b>\$ 8,542,179</b>	<b>\$ 2,961,505,865</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities:			
Accounts Payable (Note 7)	\$ 9,423,124	\$ 0	\$ 9,423,124
Accrued Payroll	22,956		22,956
Intergovernmental Payables (Note 7)	186,571,762	1,883,591	188,455,353
Tax Refunds Payable (Note 7)	1,158,266,350		1,158,266,350
Due to Other Funds (Note 13)	38,492,099	88,928	38,581,027
Unearned Revenue	506,800,000		506,800,000
Funds Held for Others	15,150		15,150
<b>Total Liabilities</b>	<b>1,899,591,441</b>	<b>1,972,519</b>	<b>1,901,563,960</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue (Note 8)	113,283,853	5,157,833	118,441,686
<b>Total Deferred Inflows of Resources</b>	<b>113,283,853</b>	<b>5,157,833</b>	<b>118,441,686</b>
<b>FUND BALANCES (Note 11)</b>			
Nonspendable	4,751,732		4,751,732
Committed	60,328,996	1,411,827	61,740,823
Unassigned	875,007,664		875,007,664
<b>Total Fund Balances</b>	<b>940,088,392</b>	<b>1,411,827</b>	<b>941,500,219</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,952,963,686</b>	<b>\$ 8,542,179</b>	<b>\$ 2,961,505,865</b>

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

<sup>1</sup>See supplementary Schedules D-1 and D-3 for detailed information of each company within the General Fund.

**North Carolina Department of Revenue**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit A-2**

	General Fund <sup>1</sup>	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Tax Revenues	\$ 33,475,112,634	\$ 8,953,272	\$ 33,484,065,906
Services	2,686,053		2,686,053
Fees	4,148,059		4,148,059
Revenues from Other State Agencies (Note 12)	299,354,213		299,354,213
Miscellaneous Revenue	622,698		622,698
Total Revenues	33,781,923,657	8,953,272	33,790,876,929
<b>EXPENDITURES</b>			
Salaries and Benefits	116,203,464		116,203,464
Contracted Personal Services	22,996,500		22,996,500
Supplies and Materials	184		184
Travel	492,146		492,146
Communication	3,623,905		3,623,905
Utilities	115,576		115,576
Data Processing Services	1,898,310		1,898,310
Other Services	4,799,155	42,695	4,841,850
Claims and Benefits	235,954		235,954
Lease Expenditures:			
Principal Payments	2,527,148		2,527,148
Interest Payments	897,159		897,159
Other Fixed Charges	8,083,991		8,083,991
Capital Outlay	2,886,187		2,886,187
Grants	288,214,502		288,214,502
Insurance and Bonding	94,917		94,917
Statutory Tax Distributions	774,854,967	5,876,799	780,731,766
Expenditures to Other State Agencies (Note 12)	296,879	1,988,007	2,284,886
Other Expenditures	3,836,447		3,836,447
Total Expenditures	1,232,057,391	7,907,501	1,239,964,892
Excess of Revenues Over Expenditures	32,549,866,266	1,045,771	32,550,912,037
<b>OTHER FINANCING SOURCES (USES)</b>			
Gain on Sale of Capital Assets	1,000		1,000
Transfers to State Reserve Fund	(4,690,982)		(4,690,982)
Transfers from State Reserve Fund	2,560,588		2,560,588
Transfers In (Note 13)	757,980		757,980
Transfers Out (Note 13)	(32,358,937,603)	(757,980)	(32,359,695,583)
State Appropriations	109,930,590		109,930,590
Total Other Financing Sources (Uses)	(32,250,378,427)	(757,980)	(32,251,136,407)
Net Change in Fund Balances	299,487,839	287,791	299,775,630
Fund Balances - July 1	640,600,553	1,124,036	641,724,589
Fund Balances - June 30	\$ 940,088,392	\$ 1,411,827	\$ 941,500,219

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

<sup>1</sup>See supplementary Schedules D-2 and D-4 for detailed information of each company within the General Fund.

**North Carolina Department of Revenue**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund - Local Sales Tax Collection Fund**  
**Custodial Fund**  
**June 30, 2022**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents (Note 2)	\$ 884,587,971
Taxes Receivable	296,000,000
Due from Other Funds (Note 13)	<u>38,492,099</u>
Total Assets	<u>1,219,080,070</u>

**LIABILITIES**

Intergovernmental Payables	<u>1,219,080,070</u>
Total Liabilities	<u>1,219,080,070</u>

**NET POSITION**

Unrestricted	<u><u>\$ 0</u></u>
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The accompanying Department's notes to the financial statements are an integral part of this statement.

**North Carolina Department of Revenue**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund - Local Sales Tax Collection Fund**  
**Custodial Fund**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit B-2**

**ADDITIONS**

Sales and Use Tax Collections for Local Governments	<u>\$ 4,974,071,189</u>
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**DEDUCTIONS**

Payments of Sales and Use Tax to Local Governments	<u>4,974,071,189</u>
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Net Increase (Decrease) in Fiduciary Net Position	0
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Net Position - July 1	<u>0</u>
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Net Position - June 30	<u><u>\$ 0</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



# **NOTES TO THE FINANCIAL STATEMENT**



**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization** – The North Carolina Department of Revenue (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department was created to administer, enforce, and collect the taxes due to the State of North Carolina. The Department has approximately 1,300 employees and 12 service centers located throughout the state for walk-in assistance that offer a variety of services ranging from providing tax forms to answering questions.

The operations of the Department are led by the Secretary of Revenue, 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 *Annual Comprehensive Financial Report*.

The accompanying financial statements present all funds belonging to or under the stewardship of the Department. The Department's accounts and transactions are included in the State's *Annual Comprehensive Financial Report* as part of the State's governmental funds and fiduciary 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* and GASB Statement No. 84, *Fiduciary Activities*, require the presentation of government-wide and fund level financial statements. See below for a description of each fund. The financial statements presented are governmental fund and fiduciary 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 governmental funds and fiduciary funds, each displayed in separate exhibits. Throughout the report, the term Department is used to refer to the governmental funds and fiduciary fund combined, unless otherwise specifically noted.

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

**General Fund** – This fund is the Department's only major fund and its primary operating fund. The General Fund is made up of two sub-accounts, Company 99 and Company 45.

Company 99 is used to record tax collections on behalf of the State while Company 45 is used to record the Department's general operations. The General Fund accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services, which are administered by the Department and accounted for in the General Fund, include the administration, enforcement, and collection of taxes due to the State of North Carolina.

**Special Revenue Fund** – Authorized by the legislature under North Carolina General Statute 105-113.113, this fund accounts for the excise tax imposed on unauthorized substances. Once these proceeds are unencumbered, 75% of the proceeds are distributed to the state and local law enforcement agencies involved in the arrest and 25% are distributed to the General Fund of the State of North Carolina. This fund does not receive any appropriation from the General Assembly. The Special Revenue Fund is made up of Company 45 – Unauthorized Substance Tax.

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

**Local Sales Tax Collection Fund** – This fiduciary fund accounts for sales and use tax collections held on behalf of local governments in a pure custodial capacity. These assets belong to those local governments and are not considered to be assets or liabilities of the Department.

### 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 (an exception is individual income tax revenues, which the Department considers to be available if they are collected within 12 months after year-end). Expenditures are recorded when a liability is incurred, except for long-term leases, compensated absences, workers' compensation, and claims and judgments, 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.

**Fiduciary Fund** – Fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this

method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. These balances do not belong to the Department and are not considered assets or liabilities of the Department.

Nonexchange transactions, in which the Department receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes, fines, and forfeitures. 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, 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 undeposited receipts 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.

Taxes receivable for the governmental funds and fiduciary fund primarily consist of (1) taxes owed that are expected to be received in approximately 31 days of the year-end but have not been billed (with the exception of individual income taxes which is 12 months after year-end); (2) actual taxpayer assessed unpaid taxes less an allowance for uncollectible taxes; and (3) an estimate of under-withholding for individual income taxes for the first half of the calendar year.

Accounts receivable for the governmental funds primarily include amounts due from individuals and companies in connection with the Department's general business operations. Receivables are recorded net of estimated uncollectible amounts.

Intergovernmental receivables for the governmental funds include amounts due from state and local governments in connection with the Department's general business operations. Receivables are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

**G. Due from/to Other Funds** – Activities between the Department's funds are composed of amounts due from or due to other funds of the Department. All amounts are considered collectible; accordingly, no allowance for doubtful accounts has been recorded.

**H. Inventories** – Inventories, consisting of general supplies and materials, are valued at cost using the first-in, first-out (FIFO) method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

- I. **Payables** – Accounts payable for the governmental funds primarily include amounts due to individuals and companies in connection with the Department's general business operations.

Intergovernmental payables for the governmental funds and fiduciary fund include amounts due to local governments and law enforcement agencies primarily in connection with tax distributions.

Tax refunds payable for the governmental funds consist primarily of accrued income and sales and use tax refunds due to taxpayers. During the calendar year, the Department collects employee withholdings and taxpayers' payments for income taxes. At June 30, the Department estimates the amount it owes taxpayers for income tax overpayments during the preceding six months. Sales and use tax refund liabilities are also estimated at June 30.

- J. **Unearned Revenue** – Unearned revenue for the governmental funds represents the cumulative excess of cash received for various taxes that is to be applied in a future year.
- K. **Deferred Outflows/Inflows of Resources** – Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.
- L. **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 either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*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.

The Department has fund balance committed for the following purposes:

- **Project Collect Tax** – Collection assistance fee imposed by the General Assembly under General Statute 105-243.1. Fee is imposed on an overdue tax debt that remains unpaid 30 days or more after the fee notice is mailed to the tax payer. The proceeds of the fee must be deposited into a special account and must be applied to the costs of collecting overdue tax debts. The proceeds of the fee may be expended only pursuant to appropriation by the General Assembly.
- **Transaction Fees** – Imposed by the North Carolina General Assembly under General Statute 66-58.12. A transaction fee is charged on a tax transaction made via a merchant card. The proceeds derived from the fee may be expended only for e-commerce initiatives and projects.

- Operations and Maintenance for Tax Systems – Imposed by the General Assembly under House Bill 1473 to use funds to support the remediation and ongoing support and maintenance of the Tax Information Management System (TIMS) and the Integrated Tax Administration System (ITAS).
- Unauthorized Substance Tax – An excise tax is imposed by the General Assembly under General Statute 105-113.113 on unauthorized substances. When proceeds are unencumbered, 75% of the proceeds are distributed to state and local law enforcement agencies involved in the arrest. The remaining 25% of proceeds are distributed to the General Fund of the State of North Carolina.

*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 committed to those purposes.

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

**M. 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 *Annual Comprehensive Financial Report*.

**N. Statutory Tax Distributions** – Statutory Tax Distributions represent legislatively mandated amounts transferred to local governments or law enforcement agencies for their portion of tax collections for sales and use, white goods, scrap tire, solid waste, beverage, and unauthorized substances.

**O. 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. North Carolina 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.

At June 30, 2022, the governmental funds' Balance Sheet reported cash and cash equivalents of \$115,870,695. The fiduciary fund Statement of Fiduciary Net Position reported cash and cash equivalents of \$884,587,971 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 0.9 years as of June 30, 2022. 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, 2022. 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 June 30, 2022, the Department's cash and cash equivalents, valued at \$1,000,458,666, were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The 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 - RECEIVABLES

##### A. Taxes Receivable

Taxes receivable for the governmental funds at June 30, 2022, were as follows:

	Gross Taxes Receivable	Less Allowance for Uncollectible Taxes	Net Taxes Receivable
<b>General Fund:</b>			
Individual	\$ 444,700,000	\$ 0	\$ 444,700,000
Sales and Use Tax	580,000,000		580,000,000
Corporate	25,000,000		25,000,000
Underwithholding - Individual	868,300,000		868,300,000
Other	140,797,521		140,797,521
Delinquent Receivables:			
Individual	1,711,779,103	1,111,211,808	600,567,295
Sales and Use Tax	243,094,275	129,380,540	113,713,735
Corporate	57,419,323	30,070,035	27,349,288
Tobacco Products	10,771,733	10,038,754	732,979
Franchise	42,524,214	29,336,773	13,187,441
Estate	9,757,463	9,597,131	160,332
License and Excise	3,019,279	1,845,611	1,173,668
Alcoholic Beverage	266,882	215,429	51,453
Other	1,269,911	1,081,281	188,630
Total Delinquent Receivables	2,079,902,183	1,322,777,362	757,124,821
<b>Total</b>	<b>4,138,699,704</b>	<b>1,322,777,362</b>	<b>2,815,922,342</b>
<b>Special Revenue Fund:</b>			
Unauthorized Substance Tax	229,778,551	224,286,844	5,491,707
<b>Total Taxes Receivable</b>	<b>\$ 4,368,478,255</b>	<b>\$ 1,547,064,206</b>	<b>\$ 2,821,414,049</b>

Within the General Fund, the significant receivables not expected to be collected within one year at June 30, 2022 were \$1,293,753,538 of taxes receivable (gross).

See Exhibit F-1 for the Schedule of Aging of the Taxes Receivable at June 30, 2022.

**B. Accounts Receivable**

Accounts receivable for the governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>
<b>Accounts Receivable:</b>	
Gross Accounts Receivable	\$ 6,963,765
Less Allowance for Doubtful Accounts	<u>34,469</u>
<b>Total Accounts Receivable, Net</b>	<u><u>\$ 6,929,296</u></u>

**C. Intergovernmental Receivables**

Intergovernmental receivables for governmental funds at June 30, 2022, were as follows:

	<u>Gross Receivables</u>
<b>General Fund:</b>	
State Agencies - Payroll Taxes	\$ 9,340,793
Local Government Tax Distributions - Medicaid Hold Harmless	<u>3,095,072</u>
<b>Total Intergovernmental Receivables</b>	<u><u>\$ 12,435,865</u></u>

**NOTE 5 - INVENTORIES**

Inventories for governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>
<b>Inventories:</b>	
Postage	\$ 4,389,537
Other Office Materials/Supplies	<u>362,195</u>
<b>Total Inventories</b>	<u><u>\$ 4,751,732</u></u>

**NOTE 6 - CAPITAL ASSETS**

Capital assets, which include property, plant, and equipment, are reported as expenditures in governmental funds. Consequently, capital asset balances are not reported on the face of the governmental funds' financial statements.

Purchased capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at acquisition value at the date of the donation except that capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at the date of donation.

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



leased asset has a cost of \$10,000 or greater and an estimated useful life of more than one year. Right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the leased asset into service.

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>
Equipment	2-30 years
Computer Software	2-30 years

Amortization for right-to-use leased assets is computed using the straight-line method over the shorter of the lease term or the asset's estimated useful life, unless the lease contains a purchase option the Department is reasonably certain will be exercised. In those instances, the right-to-use leased asset is amortized over the asset's estimated useful life.

A summary of changes in the Department's capital assets for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (As Restated)	Increases	Decreases	Balance June 30, 2022
Capital Assets, Depreciable:				
Equipment <sup>1</sup>	\$ 11,989,769	\$ 514,019	\$ 606,640	\$ 11,897,148
Computer Software	28,303,731			28,303,731
Right-To-Use Leased Buildings <sup>2</sup>	30,463,825			30,463,825
Right-To-Use Leased Equipment <sup>2</sup>	41,041			41,041
<b>Total Capital Assets, Depreciable</b>	<b>70,798,366</b>	<b>514,019</b>	<b>606,640</b>	<b>70,705,745</b>
Less Accumulated Depreciation/Amortization for:				
Equipment <sup>1</sup>	5,262,434	468,432	598,022	5,132,844
Computer Software	10,551,369	1,406,850		11,958,219
Right-To-Use Leased Buildings <sup>2</sup>		2,735,753		2,735,753
Right-To-Use Leased Equipment <sup>2</sup>		20,520		20,520
<b>Total Accumulated Depreciation/Amortization</b>	<b>15,813,803</b>	<b>4,631,555</b>	<b>598,022</b>	<b>19,847,336</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>54,984,563</b>	<b>(4,117,536)</b>	<b>8,618</b>	<b>50,858,409</b>
<b>Capital Assets, Net</b>	<b>\$ 54,984,563</b>	<b>\$ (4,117,536)</b>	<b>\$ 8,618</b>	<b>\$ 50,858,409</b>

<sup>1</sup> The equipment account and related depreciation have been restated by \$29,464 and \$589 (respectively) due to prior year assets adjustments.

<sup>2</sup> The Right-To-Use Leased Buildings and Equipment accounts have been recorded pursuant to GASB Statement No. 87 requirements.

At year-end, the total amount of leased assets was \$30,504,866 and the related accumulated amortization was \$2,756,273.

## NOTE 7 - PAYABLES

### A. Accounts Payable

Accounts payable for the governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>
<b>Accounts Payable:</b>	
Accounts Payable	\$ 9,398,179
Due to Employees	24,945
<b>Total Accounts Payable</b>	<u>\$ 9,423,124</u>

### B. Intergovernmental Payables

Intergovernmental payables for the governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>
<b>Intergovernmental Payables:</b>		
Local Government Tax Distributions:		
Medicaid Hold Harmless	\$ 12,592,794	\$ 0
Alcoholic Beverage	4,625,870	
Real Estate Conveyance, White Goods Disposal, Scrap Tire Disposal, and Solid Waste Disposal	3,962,696	
Electricity	74,799,700	
Video Program	17,437,884	
Telecom	6,310,485	
Piped Natural Gas	5,772,260	
Unauthorized Substance		1,535,127
<b>Total to Local Governments</b>	<u>125,501,689</u>	<u>1,535,127</u>
Statutory Tax Distribution to the General Fund:		
White Goods Disposal	858,806	
Scrap Tire Disposal	4,717,148	
Solid Waste Disposal	2,057,155	
Unauthorized Substance		348,464
<b>Total to General Fund</b>	<u>7,633,109</u>	<u>348,464</u>
State Agencies:		
Department of Transportation - Aviation Fuel Taxes	11,306,263	
Department of Environmental Quality - Solid Waste Taxes	4,805,629	
Office of State Budget & Management - State Fiscal Recovery Funds	14,492,910	
Department of Information Technology - 911 Service Charges	3,356,535	
Department of Insurance - Unallocated Taxes	19,475,627	
<b>Total to State Agencies</b>	<u>53,436,964</u>	
<b>Total Intergovernmental Payables</b>	<u>\$ 186,571,762</u>	<u>\$ 1,883,591</u>

**C. Tax Refunds Payable**

Tax refunds payable for the governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>
<b>Tax Refunds Payable:</b>	
Individual	\$ 711,700,000
Sales and Use Tax	299,900,000
Corporate	146,600,000
Other	66,350
<b>Total Tax Refunds Payable</b>	<u>\$ 1,158,266,350</u>

**NOTE 8 - DEFERRED INFLOWS OF RESOURCES**

The various components of deferred inflows of resources for the governmental funds at June 30, 2022, were as follows:

	<u>Unavailable at June 30, 2021</u>	<u>Current Year Unavailable Increase</u>	<u>Prior Year Unavailable Earned in Current Year</u>	<u>Unavailable at June 30, 2022</u>
<b>General Fund:</b>				
Estate Taxes	\$ 64	\$ 160,332	\$ (64)	\$ 160,332
Gift Taxes	860	356	(860)	356
License Taxes	888,225	1,140,719	(888,225)	1,140,719
Tobacco Taxes	1,014,410	728,983	(1,014,410)	728,983
Beverage Taxes	48,437	51,453	(48,437)	51,453
Franchise Taxes	22,998,768	12,382,203	(22,998,768)	12,382,203
Sales & Use Taxes	62,543,720	71,940,750	(62,543,720)	71,940,750
Corporate Taxes	32,331,603	26,706,059	(32,331,603)	26,706,059
White Goods Taxes	5,396	13,824	(5,396)	13,824
Scrap Tire Taxes	23,952	11,636	(23,952)	11,636
Manufacturing Taxes	9,087	11,159	(9,087)	11,159
Solid Waste Taxes	11	5,551	(11)	5,551
Insurance Taxes	1,075,644	130,828	(1,075,644)	130,828
<b>Total</b>	<u>120,940,177</u>	<u>113,283,853</u>	<u>(120,940,177)</u>	<u>113,283,853</u>
<b>Special Revenue Fund:</b>				
Unauthorized Substance Taxes	3,812,071	5,157,833	(3,812,071)	5,157,833
<b>Total Deferred Inflows of Resources</b>	<u>\$ 124,752,248</u>	<u>\$ 118,441,686</u>	<u>\$ (124,752,248)</u>	<u>\$ 118,441,686</u>

**NOTE 9 - 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.

Noncurrent long-term liabilities include other long-term liabilities that will not be paid within the next fiscal year. Other long-term liabilities include claims and judgments payable, leases payable, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation liability.

**A. Claims and Judgments Payable** – The North Carolina Supreme Court ruled in *North Carolina School Boards Association v. Moore* that certain specified tax penalties collected from July 1, 1996 to June 30, 2005, must be paid to the State Civil Penalty and Forfeiture Fund for the benefit of public schools, rather than to the State's General Fund. The court found that the civil penalties collected during this time totaled \$767,814,048, of which \$585,741,703 represented amounts collected by the Department of Revenue (\$583,340,162 after deducting the costs of collection). The Supreme Court remanded the case to the Superior Court for implementation. The Superior Court issued an order requiring the prospective payments to commence effective July 1, 2005; however, compliance with the Superior Court's judgment is currently dependent on legislative action.

**B. Compensated Absences** – Employees of the Department are permitted to accumulate earned but unused vacation pay benefits. In the governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. When classifying the compensated absences into current and noncurrent for the long-term liabilities disclosure, leave is considered taken using a last-in, first-out (LIFO) method.

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.

**C. 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 2021 *Annual Comprehensive 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 14 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

**D. 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 2021 *Annual Comprehensive 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 15 for further information regarding the Department's policies for

recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

**E. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2022, is presented as follows:

	Balance July 1, 2021 (as Restated) <sup>1</sup>	Additions	Reductions	Balance June 30, 2022	Current Portion
<b>Governmental Funds</b>					
Other Long-Term Liabilities					
Claims and Judgments Payable	\$ 583,340,162	\$ 0	\$ 0	\$ 583,340,162	\$ 0
Leases Payable <sup>2</sup>	30,504,866		2,527,148	27,977,718	2,220,708
Employee Benefits:					
Compensated Absences	12,832,645	6,826,228	7,233,889	12,424,984	1,039,972
Net Pension Liability <sup>3</sup>	53,455,588		32,132,428	21,323,160	
Net Other Postemployment Benefits Liability <sup>4</sup>	104,931,626	17,600,715		122,532,341	
Workers' Compensation Liability <sup>5</sup>	10,000	11,792	2,132	19,660	10,000
<b>Total Other Long-Term Liabilities</b>	<b>\$ 785,074,887</b>	<b>\$ 24,438,735</b>	<b>\$ 41,895,597</b>	<b>\$ 767,618,025</b>	<b>\$ 3,270,680</b>

<sup>1</sup> The leases payable account has been recorded pursuant to GASB Statement No. 87 requirements.

<sup>2</sup> Additional information regarding leases payable is included in Note 10.

<sup>3</sup> Additional information regarding the net pension liability is included in Note 14.

<sup>4</sup> Additional information regarding the net other postemployment benefits liability is included in Note 15.

<sup>5</sup> Additional information regarding the workers' compensation liability is included in Note 16.

**NOTE 10 - LEASES**

The Department's leasing arrangements at June 30, 2022 are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liability June 30, 2022	Current Portion	Lease Terms in Years	Interest Rate <sup>1</sup>
Lessee:					
Right-to-Use Buildings	17	\$ 27,965,484	\$ 2,208,474	1 - 27	3.25%
Right-to-Use Equipment	1	12,234	12,234	1	3.25%
<b>Total</b>	<b>18</b>	<b>\$ 27,977,718</b>	<b>\$ 2,220,708</b>		

<sup>1</sup> Interest rate is imputed based on the bank prime rate.

**Lease Liability** – Measurement of the lease liability excluded the following variable payment amounts: 1) the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index) and 2) payments based on future performance or usage of the underlying assets. During the year, the Department did not recognize any variable payment amounts.

Future principal and interest lease payments as of June 30, 2022 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,220,708	\$ 875,384	\$ 3,096,092
2024	2,185,054	804,762	2,989,816
2025	2,159,274	732,571	2,891,845
2026	1,869,127	668,252	2,537,379
2027	1,756,311	608,127	2,364,438
2028-2032	7,390,983	2,270,199	9,661,182
2033-2037	4,964,957	1,285,491	6,250,448
2038-2042	3,237,160	578,785	3,815,945
2043-2047	1,924,994	211,081	2,136,075
2048-2052	269,150	2,818	271,968
<b>Total</b>	<b>\$ 27,977,718</b>	<b>\$ 8,037,470</b>	<b>\$ 36,015,188</b>

#### NOTE 11 - FUND BALANCE

The details of the fund balance classifications for the governmental funds at June 30, 2022, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
<b>Fund Balance:</b>			
Nonspendable:			
Inventories	\$ 4,751,732	\$ 0	\$ 4,751,732
Committed to:			
General Government			
Project Collect Tax	54,012,845		54,012,845
Transaction Fees	5,399,003		5,399,003
Operations and Maintenance for Tax Systems	115,607		115,607
Other Committed	801,541		801,541
Unauthorized Substance Tax		1,411,827	1,411,827
Unassigned	875,007,664		875,007,664
<b>Total Fund Balance</b>	<b>\$ 940,088,392</b>	<b>\$ 1,411,827</b>	<b>\$ 941,500,219</b>

**NOTE 12 - 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 year ended June 30, 2022, were as follows:

Revenues from Other State Agencies:		
	Purpose	Amount
<b>General Fund:</b>		
Department of Transportation	Motor Fuels Reimbursement	\$ 4,752,594
Department of Transportation	Fuel Tax Compliance Reimbursement	1,474,956
Department of Transportation	International Registration Plan Reimbursement	194,888
Department of Information Technology	Information Technology Security Positions	391,065
Department of Insurance	Insurance Reimbursement	223,683
Department of Agriculture and Consumer Services	Forestry Reimbursement	138,167
Office of State Budget and Management	Coronavirus Relief	544,859
Office of State Budget and Management	State Fiscal Recovery Funds	291,634,001
<b>Total Revenues from Other State Agencies</b>		<b>\$ 299,354,213</b>
<b>Expenditures to Other State Agencies:</b>		
	Purpose	Amount
<b>General Fund:</b>		
Department of Commerce	Job Development Investment Grants	\$ 296,879
<b>Total</b>		<b>296,879</b>
<b>Special Revenue Fund:</b>		
Statewide General Fund	25% Transfer to General Fund	1,988,007
<b>Total</b>		<b>1,988,007</b>
<b>Total Expenditures to Other State Agencies</b>		<b>\$ 2,284,886</b>

**NOTE 13 - INTERFUND BALANCES AND TRANSFERS****A. Interfund Balances**

Amounts due to/from other funds at June 30, 2022, were as follows:

	Due From Other Funds	
	General Fund	Fiduciary Fund - Local Governments
<b>Due To Other Funds</b>		
General Fund	\$ 0	\$ 38,492,099
Special Revenue	88,928	
<b>Total</b>	<b>\$ 88,928</b>	<b>\$ 38,492,099</b>

**B. Interfund Transfers**

Transfers in/out of other funds for the year ended June 30, 2022, consisted of the following:

	Transfers In			
	General Fund	State General Fund	Other State Funds	Total
<b>Transfers Out</b>				
General Fund	\$ 0	\$ 32,235,047,039	\$ 123,890,564	\$ 32,358,937,603
Special Revenue	757,980			757,980
<b>Total</b>	<u>\$ 757,980</u>	<u>\$ 32,235,047,039</u>	<u>\$ 123,890,564</u>	<u>\$ 32,359,695,583</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.

The Department made legislatively mandated transfers to other state funds for the year ended June 30, 2022, as follows: (1) \$87,059,635 to the Department of Public Instruction for the State Public School Fund per General Statute 105-164.44H, (2) \$30,776,843 to the Department of Insurance for Workers' Compensation and Volunteer Fire Department Funds per General Statute 105-228.5, and (3) \$6,054,086 to the Department of the State Treasurer to reimburse costs of Local Government Commission collections per General Statute 105-501.

The Department also had intrafund transfers from Company 99 to Company 45 for the year ended June 30, 2022, in the amount of \$64,111,902, which has been eliminated on the governmental funds financial statements. These General Fund transfers primarily consist of a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**NOTE 14 - RETIREMENT 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 9 to the financial statements, is not reported on the face of the governmental 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 membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

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. LEO's who complete 25 years of credible service with 15 years as an officer are eligible to retire with partial retirement benefits. 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. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Department's contractually-required contribution rate for the year ended June 30, 2022 was 16.38% of covered payroll. Plan members' contributions to the pension plan were \$4,785,450, and the Department's contributions were \$13,064,278 for the year ended June 30, 2022.

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 2021 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.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 are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*Methods Used to Value TSERS Investment:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, the 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 2021 *Annual Comprehensive Financial Report*.

*Net Pension Liability:* At June 30, 2022, the Department's proportionate share of the collective net pension liability was \$21,323,160. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Department's proportion of the net pension liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.45537%, which was an increase of 0.01293 from its proportion measured as of June 30, 2020, which was 0.44244%.

**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	12/31/2020
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

\* Salary increases include 3.25% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (the measurement date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
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 as part of a study conducted in 2016, 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, 2021 is 1.3%.

**Discount Rate:** The discount rate used to measure the total pension liability was 6.5% for the December 31, 2020 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, 2021 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage point higher (7.5%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
\$ 71,525,913	\$ 21,323,160	\$ (20,407,912)

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:*  
For the year ended June 30, 2022, the Department's proportionate share of the collective pension expense was \$6,819,673. At June 30, 2022, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to TSERS were from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 1,198,602	\$ 484,272
Changes of Assumptions	7,998,547	
Net Difference Between Projected and Actual Earnings on Plan Investments		26,419,661
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,516,109	187,052
Contributions Subsequent to the Measurement Date	13,064,278	
<b>Total</b>	<u>\$ 24,777,536</u>	<u>\$ 27,090,985</u>

The amount of \$13,064,278 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized as pension expense as follows:

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2023	\$ (1,831,869)
2024	(2,175,516)
2025	(3,267,539)
2026	(8,102,803)
2027	
<b>Total</b>	<u>\$ (15,377,727)</u>

**B. Defined Contribution Plan**

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No

costs are incurred by the Department except for a 5% employer contribution for the Department's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Department law enforcement officers for the year ended June 30, 2022, were \$106,531.

### **NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

Other postemployment benefit (OPEB) 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 OPEB liability, discussed in Note 9 to the financial statements, is not reported on the face of the governmental 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 2021 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

*Methods Used to Value Plan Investments:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2021 *Annual Comprehensive Financial Report*.

#### **B. Plan Descriptions**

##### **1. Health Benefits**

*Plan Administration:* The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan



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

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of 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 16. The plan options change when former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, 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. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the year ended June 30, 2022 was 6.29% of covered payroll. The Department's contributions to the RHBF were \$5,016,747 for the year ended June 30, 2022.

In fiscal year 2021, the State Health Plan (the Plan) transferred \$187 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was considered to be a nonemployer contributing entity contribution and was allocated among RHBF employers. For the year ended June 30, 2022, the contribution allocated to the Department was \$741,156.

## 2. Disability Income

*Plan Administration:* As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

*Benefits Provided:* Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within



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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

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

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the 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, 2022 was 0.09% of covered payroll. The Department's contributions to DIPNC were \$71,782 for the year ended June 30, 2022.

### C. Net OPEB Liability (Asset)

**Net OPEB Liability:** At June 30, 2022, the Department's proportionate share of the collective net OPEB liability for RHBF was \$122,532,341. The net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.39634%, which was an increase of 0.01808 from its proportion measured as of June 30, 2020, which was 0.37826%.

**Net OPEB Asset:** At June 30, 2022, the Department reported an asset of \$64,686 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2020, and update procedures were used to roll forward the total OPEB liability to June 30, 2021. The Department's proportion of the net OPEB asset was based on a projection of the present value of future salaries for the Department relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2021, the Department's proportion was 0.39602%, which was an increase of 0.01467 from its proportion measured as of June 30, 2020, which was 0.38135%.

**Actuarial Assumptions:** The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, 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, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

\* Salary increases include 3.25% inflation and productivity factor.

\*\* Investment rate of return is net of OPEB 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 or not disabled). The current mortality rates are based on published tables and studies that cover

significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through 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 projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2021 (the measurement 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 as part of a study conducted in 2016, 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, 2021 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been 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, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members. 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 (1.16%)	Current Discount Rate (2.16%)		1% Increase (3.16%)
RHBF Net OPEB Liability	\$	145,748,680	\$	122,532,341	\$ 103,727,041
		1% Decrease (2%)	Current Discount Rate (3%)		1% Increase (4%)
DIPNC Net OPEB Asset	\$	(40,842)	\$	(64,686)	\$ (86,744)

**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:

Net OPEB Liability (Asset)					
		1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)		1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF Net OPEB Liability	\$	99,229,335	\$	122,532,341	\$ 153,442,484
		1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)		1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC Net OPEB Asset	\$	(68,084)	\$	(64,686)	\$ (60,452)

**OPEB Expense:** For the year ended June 30, 2022, the Department recognized OPEB expense were as follows:

OPEB Plan	Amount
RHBF	\$ (935,186)
DIPNC	147,047
<b>Total OPEB Expense</b>	<b>\$ (788,139)</b>

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* At June 30, 2022, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 723,413	\$ 164,930	\$ 888,343
Changes of Assumptions	10,022,090	11,358	10,033,448
Net Difference Between Projected and Actual Earnings on Plan Investments		6,313	6,313
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	9,472,887	23,817	9,496,704
Contributions Subsequent to the Measurement Date	5,016,747	71,782	5,088,529
<b>Total</b>	<b>\$ 25,235,137</b>	<b>\$ 278,200</b>	<b>\$ 25,513,337</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 2,280,897	\$ -	\$ 2,280,897
Changes of Assumptions	29,778,022	23,484	29,801,506
Net Difference Between Projected and Actual Earnings on Plan Investments	62,680		62,680
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,392,423	4,504	2,396,927
<b>Total</b>	<b>\$ 34,514,022</b>	<b>\$ 27,988</b>	<b>\$ 34,542,010</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

<u>Year Ending June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2023	\$ (10,896,585)	\$ 47,136
2024	(4,659,532)	33,663
2025	(497,767)	42,243
2026	(889,719)	21,880
2027	2,647,971	10,483
Thereafter		23,025
<b>Total</b>	<b>\$ (14,295,632)</b>	<b>\$ 178,430</b>

## NOTE 16 - RISK MANAGEMENT

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

### A. Employee Benefit Plans

#### 1. State Health Plan

Department employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.



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

Short-term and long-term disability benefits are provided to 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 for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 15, 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 private insurance companies. 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 *Annual Comprehensive Financial Report*, issued by the Office of the State Controller.

#### NOTE 17 - PENDING LITIGATION AND CLAIMS

***Monarch Tax Credits, LLC v. North Carolina Department of Revenue (19 CVS 12647)*** – The plaintiff filed suit in the North Carolina Business Court asserting a variety of constitutional and statutory challenges to the Department's compliance efforts related to tax credits brokered by the plaintiff. The plaintiff seeks to void the Department's compliance efforts. The plaintiff has suggested its damages may exceed \$100 million. However, in the initial pleading, the plaintiff stated only that it has suffered damages "in an amount to be determined at trial, but in excess of \$5 million." It is reasonably possible that the plaintiff will prevail on one or more of their statutory or constitutional claims. The likelihood that the plaintiff will be able to recover the full amount of their suggested damages is remote.

#### NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 87, Leases*

*GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

*GASB Statement No. 99, Omnibus 2022*

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Because the Department reports only governmental funds, right-to-use leased assets and related lease liabilities are not reported on the face of the financial statements. See Note 6 and Note 9 for details related to lease assets and liabilities.

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

### **NOTE 19 - FUND BALANCE RESTATEMENT**

As of July 1, 2021, the Department implemented GASB Statement No. 87, *Leases*. Fund balance was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 6 and Note 9 for details on the restated balances related to capital assets and lease liabilities, respectively.



# **REQUIRED SUPPLEMENTARY INFORMATION**

**North Carolina Department of Revenue  
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, 2022**

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

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Tax Revenues <sup>1</sup>	\$ 27,560,300,000	\$ 27,556,800,000	\$ 32,296,516,504	\$ 4,739,716,504
Services	2,661,019	3,609,384	2,741,107	(868,277)
Fees	2,486,969	3,589,896	4,148,059	558,163
Revenues from Other State Agencies	513,747,533	506,482,478	304,998,788	(201,483,690)
Miscellaneous Revenue	564,283	899,157	188,160	(710,997)
Total Revenues	28,079,759,804	28,071,380,915	32,608,592,618	4,537,211,703
<b>EXPENDITURES</b>				
Salaries and Benefits	132,972,223	124,332,668	116,221,980	8,110,688
Contracted Personal Services	18,571,278	47,459,839	22,905,593	24,554,246
Supplies and Materials	996,382	1,291,101	1,141,784	149,317
Travel	1,634,093	752,072	477,871	274,201
Communication	3,756,622	4,302,845	3,585,229	717,616
Utilities	187,506	119,083	112,387	6,696
Data Processing Services	4,339,716	2,899,454	1,913,609	985,845
Other Services	5,449,870	7,078,455	4,404,623	2,673,832
Claims and Benefits	14,323	239,619	235,954	3,665
Other Fixed Charges	8,372,853	8,460,326	7,969,328	490,998
Capital Outlay	3,437,245	4,685,157	2,600,890	2,084,267
Grants	497,500,000	497,922,568	288,214,502	209,708,066
Insurance and Bonding	70,465	61,229	57,695	3,534
Expenditures to Other State Agencies	19,500	316,379	296,879	19,500
Other Expenditures	6,508,834	7,401,581	7,261,210	140,371
Total Expenditures	683,830,910	707,322,376	457,399,534	249,922,842
Excess Revenues Over Expenditures	27,395,928,894	27,364,058,539	32,151,193,084	4,787,134,545
<b>OTHER FINANCING SOURCES (USES)</b>				
Gain on Sale of Capital Assets	1,000	1,000	1,000	
Transfers to the State Reserve Fund		(4,690,982)	(4,690,982)	
Transfers from the State Reserve Fund		3,060,588	2,560,588	(500,000)
Transfers from Other Departments or Funds	2,157,984	2,207,971	2,233,462	25,491
Transfers to the State General Fund <sup>1</sup>	(27,560,300,000)	(27,556,800,000)	(32,235,047,039)	(4,678,247,039)
State Appropriations	110,492,405	110,492,405	109,930,590	(561,815)
Total Other Financing Sources (Uses)	(27,447,648,611)	(27,445,729,018)	(32,125,012,381)	(4,679,283,363)
Net Change in Fund Balance	(51,719,717)	(81,670,479)	26,180,703	107,851,182
Fund Balance - July 1	42,537,084	42,537,084	42,537,084	
Fund Balance - June 30	\$ (9,182,633)	\$ (39,133,395)	\$ 68,717,787	\$ 107,851,182

<sup>1</sup> The Department of Revenue is required to transfer net tax revenue to the State's general fund. Tax revenues are greater than the transfer to the State's general fund primarily due to the 20 percent collection assistance fee which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**North Carolina Department of Revenue**  
**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, 2022**

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

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2022 to the fund balance on a modified accrual basis (GAAP).

	<u>General Fund</u>
Fund Balance (Budgetary Basis) June 30, 2022	\$ 68,717,787
<u>Reconciling Adjustments:</u>	
<b>Basis Differences:</b>	
<b>Accrued Revenues:</b>	
Taxes Receivable	2,815,922,342
Less: Unearned Revenue	(506,800,000)
Accounts Receivable	6,929,296
Intergovernmental Receivable	12,435,865
Due from Other Funds	88,928
Total Accrued Revenues	<u>2,328,576,431</u>
<b>Accrued Expenditures:</b>	
Accounts Payable	(9,423,124)
Accrued Payroll	(22,956)
Intergovernmental Payables	(186,571,762)
Tax Refund Payable	(1,158,266,350)
Total Accrued Expenditures	<u>(1,354,284,192)</u>
Total Basis Differences	<u>974,292,239</u>
<b>Other Adjustments:</b>	
Undeposited Receipts	30,370,045
General Fund Tax Reserves	10,375,981
Undistributed E-911 Funds	3,356,410
Inventories	4,751,732
Securities Held in Trust (Sureties)	15,300
Due to Other Funds	(38,492,099)
Funds Held for Others	(15,150)
Unavailable Revenue	(113,283,853)
Total Other Adjustments	<u>(102,921,634)</u>
Fund Balance (GAAP Basis) June 30, 2022	<u>\$ 940,088,392</u>

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

**North Carolina Department of Revenue**  
**Notes to 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, 2022**

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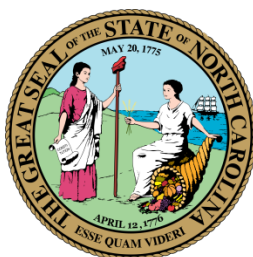
**A. Budgetary Process**

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

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

The *Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis-Non-GAAP) -General Fund*, 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.



# **SUPPLEMENTARY INFORMATION**

**North Carolina Department of Revenue**  
**Balance Sheet**  
**General Fund - Company 45**  
**June 30, 2022**

**Exhibit D-1**

**ASSETS**

Cash and Cash Equivalents	\$ 78,450,815
Accounts Receivable, Net	312,422
Due from Company 99 <sup>1</sup>	6,008,777
Due from Other Funds	88,928
Inventories	4,751,732
Securities Held in Trust (Sureties)	15,300
Total Assets	<u>89,627,974</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 89,627,974</u></u>

**LIABILITIES**

Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 8,227,785
Accrued Payroll	22,956
Intergovernmental Payables	17,849,445
Funds Held for Others	15,150
Total Liabilities	<u>26,115,336</u>

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<u>0</u>
-------------------------------------	----------

**FUND BALANCE**

Nonspendable	4,751,732
Committed	60,328,996
Unassigned	<u>(1,568,090)</u>
Total Fund Balance	<u>63,512,638</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 89,627,974</u></u>

Company 45 General Fund is used to record the Department's general operations.

<sup>1</sup>This account represents the resources owed to Company 45 from Company 99 which are eliminated on the governmental fund financial statements. These resources are owed to Company 45 primarily for a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.



**North Carolina Department of Revenue**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**General Fund - Company 45**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit D-2**

**REVENUES**

Services	\$ 2,686,053
Fees	4,148,059
Revenues from Company 99 <sup>1</sup>	64,111,902
Revenues from Other State Agencies	299,354,213
Miscellaneous Revenues	200,045
Total Revenues	<u>370,500,272</u>

**EXPENDITURES**

Salaries and Benefits	116,203,464
Contracted Personal Services	22,996,500
Supplies and Materials	184
Travel	492,146
Communication	3,623,905
Utilities	115,576
Data Processing Services	1,898,310
Other Services	4,799,155
Claims and Benefits	235,954
Lease Expenditures:	
Principal Payments	2,527,148
Interest Payments	897,159
Other Fixed Charges	8,083,991
Capital Outlay	2,886,187
Grants	288,214,502
Insurance and Bonding	94,917
Expenditures to Other State Agencies	296,879
Other Expenditures	3,836,447
Total Expenditures	<u>457,202,424</u>
Deficit of Revenues Under Expenditures	<u>(86,702,152)</u>

**OTHER FINANCING SOURCES (USES)**

Gain on Sale of Capital Assets	1,000
Transfers to State Reserve Fund	(4,690,982)
Transfers from State Reserve Fund	2,560,588
Transfers In	757,980
State Appropriations	109,930,590
Total Other Financing Sources (Uses)	<u>108,559,176</u>
Net Change in Fund Balances	21,857,024
Fund Balances - July 1	<u>41,655,614</u>
Fund Balances - June 30	<u>\$ 63,512,638</u>

Company 45 General Fund is used to record the Department's general operations.

<sup>1</sup>This account represents the flow of resources from Company 99 to Company 45 which are eliminated on governmental fund financial statements. These resource flows primarily consist of a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**North Carolina Department of Revenue**  
**Balance Sheet**  
**General Fund - Company 99**  
**June 30, 2022**

**Exhibit D-3**

**ASSETS**

Cash and Cash Equivalents	\$ 34,369,408
Receivables:	
Taxes Receivable, Net	2,815,922,342
Accounts Receivable, Net	6,616,874
Intergovernmental Receivables	12,435,865
Total Assets	<u>2,869,344,489</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<u>0</u>
--------------------------------------	----------

Total Assets and Deferred Outflows of Resources	<u><u>\$ 2,869,344,489</u></u>
-------------------------------------------------	--------------------------------

**LIABILITIES**

Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 1,195,339
Intergovernmental Payables	168,722,317
Tax Refunds Payable	1,158,266,350
Due to Company 45 <sup>1</sup>	6,008,777
Due to Other Funds	38,492,099
Unearned Revenue	506,800,000
Total Liabilities	<u>1,879,484,882</u>

**DEFERRED INFLOWS OF RESOURCES**

Unavailable Revenue	<u>113,283,853</u>
Total Deferred Inflows of Resources	<u>113,283,853</u>

**FUND BALANCE**

Unassigned	<u>876,575,754</u>
Total Fund Balance	<u>876,575,754</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 2,869,344,489</u></u>

Company 99 General Fund is used to record tax collections and distributions on behalf of the state.

<sup>1</sup>This account represents the resources owed to Company 45 from Company 99 which are eliminated on the governmental fund financial statements. These resources are owed to Company 45 primarily for a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**North Carolina Department of Revenue**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund - Company 99**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit D-4**

<b>REVENUES</b>	
Tax Revenues	\$ 33,475,112,634
Miscellaneous Revenues	422,653
Total Revenues	<u>33,475,535,287</u>
<b>EXPENDITURES</b>	
Statutory Tax Distributions	774,854,967
Expenditures to Company 45 <sup>1</sup>	<u>64,111,902</u>
Total Expenditures	<u>838,966,869</u>
Excess of Revenues Over Expenditures	<u>32,636,568,418</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers Out	<u>(32,358,937,603)</u>
Total Other Financing Sources (Uses)	<u>(32,358,937,603)</u>
Net Change in Fund Balance	277,630,815
Fund Balance - July 1	<u>598,944,939</u>
Fund Balance - June 30	<u>\$ 876,575,754</u>

Company 99 General Fund is used to record tax collections and distributions on behalf of the state.

<sup>1</sup>This account represents the flow of resources from Company 99 to Company 45 which are eliminated on the governmental fund financial statements. These resource flows primarily consist of a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**North Carolina Department of Revenue**  
**Statement of Collections (Cash Basis)**  
**General Fund - Company 99 and Special Revenue Fund - Company 45**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit E-1**

Source of Revenue	Gross Revenue	Refunds	Reserves for Local Government	Other Transfers	Net Revenue
<b>General Fund:</b>					
Estate Tax	\$ 173,009	\$ 0	\$ 0	\$ 0	\$ 173,009
Privilege License Tax	39,037,986	100,572		541,329	38,396,085
Tobacco Products Tax	295,262,333	54,265		43,637,755	251,570,313
Franchise Tax	922,722,794	24,994,043		9,446,116	888,282,635
Individual Income Tax	19,118,758,145	1,398,250,663		152,894,612	17,567,612,870
Sales and Use Tax	16,757,430,514	751,619,261	4,958,303,483	846,804,755	10,200,703,015
Alcoholic Beverage Tax	559,196,993	334,604	37,661,809	531	521,200,049
Gift Tax	40,183				40,183
Freight Car Lines Tax	274,004				274,004
Insurance Tax	1,073,658,142	8,457,870		92,856,809	972,343,463
Corporate Income Tax	1,810,329,287	178,135,888		6,354,748	1,625,838,651
Real Estate Conveyance Tax	152,826,301				152,826,301
White Goods Disposal Tax	8,082,349	20,539	3,769,091	393,710	3,899,009
Scrap Tire Disposal Tax	25,495,836	59,678	17,488,271	452,913	7,494,974
Manufacturing Tax	1,553,171	273,936		2,301	1,276,934
Solid Waste Disposal Tax	23,779,926	288	8,873,071	11,948,877	2,957,690
Miscellaneous Tax Receipts	157,989			135	157,854
Total	<u>\$ 40,788,778,962</u>	<u>\$ 2,362,301,607</u>	<u>\$ 5,026,095,725</u>	<u>\$ 1,165,334,591</u>	<u>\$ 32,235,047,039</u>
<b>Special Revenue Fund:</b>					
Unauthorized Substances Tax	<u>\$ 10,096,471</u>	<u>\$ 177,743</u>	<u>\$ 0</u>	<u>\$ 9,258,440</u>	<u>\$ 660,288</u>

The following table presents a reconciliation of tax revenues (cash basis) to tax revenues on a modified accrual basis (GAAP) at June 30, 2022.

	General Fund	Special Revenue
Tax Revenues (Cash Basis)		
June 30, 2022	\$ 32,235,047,039	\$ 660,288
<b>Reconciling Adjustments and Accruals:</b>		
Reserve for Local Government	67,792,241	
Other Transfers	891,192,154	9,257,195
Accrual Entries	248,434,188	(214,020)
Year-End Reclassification	32,647,012	(750,191)
<b>Tax Revenues (GAAP Basis)</b>		
June 30, 2022 (See Exhibit A-2)	<u>\$ 33,475,112,634</u>	<u>\$ 8,953,272</u>

**North Carolina Department of Revenue**  
**Schedule of Aging of Taxes Receivable**  
**General Fund - Company 99**  
**As of June 30, 2022**

**Exhibit F-1**

Tax Type	Delinquent Receivables (in years)				Total
	Less than 1	1 to 5	5 to 10	More than 10	
Individual	\$ 585,361,005	\$ 747,218,373	\$ 254,853,961	\$ 77,759,378	\$ 1,665,192,717
Corporate	16,454,581	37,978,000	1,443,593	293,776	56,169,950
Sales and Use	81,877,782	104,982,241	33,208,719	12,161,881	232,230,623
Franchise	19,181,570	20,995,906	1,050,422	200,578	41,428,476
Scrap Tire	187,348	198,645	174,975	19,264	580,232
White Goods	22,964	2,370	457		25,791
Manufacturing	57,753	12,370	13,280	538	83,941
Solid Waste	8,551				8,551
License and Excise	886,459	949,844	184,795	50,172	2,071,270
	<u>\$ 704,038,013</u>	<u>\$ 912,337,749</u>	<u>\$ 290,930,202</u>	<u>\$ 90,485,587</u>	<u>1,997,791,551</u>

**Reconciling Adjustments:**

**Non-Aged Tax Receivable Balances in Public Sector Revenue Management (PSRM):**

Tobacco Products	\$ 10,771,733	
Estate	9,757,463	
License and Excise	957,863	
Alcoholic Beverage	266,882	
Gift	355,672	
Insurance	175,305	
Total PSRM Receivables Balance		22,284,918

**Other Adjustments:**

Unposted Accrued Interest for June 30, 2022	66,211,164
July Adjustments	(6,385,450)

**Delinquent Receivables (Gross) - General Fund** \$ 2,079,902,183

**North Carolina Department of Revenue**  
**Schedule of Operating Expenditures by Purpose**  
**General Fund - Company 99 and Company 45**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit G-1**  
**Page 1 of 2**

**Expenditures Paid for Department Operations and Administration:**

Salaries and Benefits:

Employee Salaries	\$ 76,804,755
Law Enforcement Salaries	2,103,597
Temporary Wages	492,487
Overtime Wages	96,895
Board Member Compensation	102,050
Other Salary Expenses	1,849,397
Regular Retirement Contributions	17,872,218
Law Enforcement Retirement Contributions	595,187
Medical Insurance Contributions	8,630,139
Social Security Contributions	6,034,788
Longevity Pay	1,290,495
Employee Educational Expense	61,335
Unemployment Compensation Payments	10,909
Workers Compensation Medical Payments	2,133
Flexible Spending Savings	158,569
Short Term Disability Payments, Net of Refunds	73,022
Other Employee Benefits	25,488
Total Salaries and Benefits	<u>116,203,464</u>

Contracted Personal Services:

Other Information Technology Services	11,671,857
Temporary Agency and Administrative Services	8,251,484
Legal Services	307,661
Financial and Audit Services	377,095
Security Services	755,262
Janitorial and Waste Services	119,369
Miscellaneous Contractual Services	1,513,772
Total Contracted Personal Services	<u>22,996,500</u>

Supplies and Materials:

General Office Supplies	916,158
Data Processing Supplies	33,042
Other Supplies and Materials	(949,016)
Total Supplies and Materials	<u>184</u>

Travel:

Ground Transportation	356,100
Air Transportation	39,052
Lodging	72,110
Meals	24,004
Other Travel	880
Total Travel	<u>492,146</u>

Communication:

Telephone Service	2,095,084
Telecommunication Data Charges	1,073,046
Cellular Phone Services	412,870
Other Telephone Charges	42,905
Total Communication	<u>3,623,905</u>

Utilities:

Energy Services-Electrical	107,135
Other Utilities	8,441
Total Utilities	<u>115,576</u>

**North Carolina Department of Revenue**  
**Schedule of Operating Expenditures by Purpose**  
**General Fund - Company 99 and Company 45**  
**For the Fiscal Year Ended June 30, 2022**

**Exhibit G-1**  
**Page 2 of 2**

**Expenditures Paid for Department Operations and Administration (Continued):**

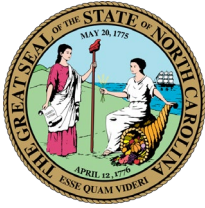
Data Processing Services	1,898,310
Other Services:	
Postage and Delivery	3,837,477
Printing and Binding	356,269
Other Services	605,409
Total Other Services	4,799,155
Claims and Benefits:	
Law Enforcement Separation Allowance	235,954
Lease Expenditures:	
Principal Payments	2,527,148
Interest Payments	897,159
Total Lease Expenditures	3,424,307
Other Fixed Charges:	
Computer Software Maintenance Agreements	6,784,840
Computer Hardware Maintenance Agreements	423,189
Other Equipment Maintenance Agreements	253,688
Membership Dues and Subscriptions	537,448
Other Fixed Charges	84,826
Total Other Fixed Charges	8,083,991
Capital Outlay:	
Computer Software	1,864,504
Computer Hardware	876,287
Office Furniture	140,951
Office Equipment	2,745
Other Capital Outlays	1,700
Total Capital Outlay	2,886,187
Grants:	
Formula Grants to Nongovernmental Organizations	287,971,962
Others Aids and Grants to Individuals	242,540
Total Grants	288,214,502
Insurance and Bonding	94,917
Expenditures to Other State Agencies	296,879
Other Expenditures:	
Office and Communication Equipment Rents and Leases	24,144
Other Rents and Leases	3,645
Electronic Payment Processing Fees	3,803,330
Other Operating Expenses	5,328
Total Other Expenditures	3,836,447
Total Expenditures Paid for Department Operations and Administration	457,202,424
<b><u>Expenditures Paid by the Department Pursuant to Statutory Tax Allocations:</u></b>	
Expenditures Paid to Local Governments Pursuant to Statutory Tax Allocations	774,854,967
Total General Fund Expenditures	\$ 1,232,057,391



# **INDEPENDENT AUDITOR'S REPORT**



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



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

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

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Ronald G. Penny, Secretary  
and Management of the North Carolina Department of Revenue

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental funds and the fiduciary fund of the North Carolina Department of Revenue (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 28, 2023.

As discussed in Note 1, the financial statements of the North Carolina Department of Revenue are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Revenue. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2022, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

April 28, 2023

# ORDERING INFORMATION

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For additional information contact the  
North Carolina Office of the State Auditor at:

**919-807-7666**



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This audit required 1,775 hours at an approximate cost of \$213,000, including costs associated with the report on the Department's statewide financial statement audit procedures.