

# North Carolina Department of Revenue

Raleigh, NC



## Financial Statement Audit Report

For the Year Ended June 30, 2024

State Auditor  
Dave Boliek

*A Constitutional Office of the  
State of North Carolina*





## North Carolina Office of the State Auditor

Dave Boliek, State Auditor

# Auditor's Transmittal

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The Honorable Josh Stein, Governor  
The Honorable Phil Berger, President Pro Tempore  
The Honorable Destin Hall, Speaker of the House  
Honorable Members of the North Carolina General Assembly  
McKinley Wooten, Jr., Secretary

Taxes collected in North Carolina flow through the Department of Revenue. As the Department noted in the Management's Discussion and Analysis section of our financial statement audit, total tax revenues were \$32.7 billion for the fiscal year ended June 30, 2024. It's important that proper financial controls are in place when dealing with such large sums of tax dollars.

Through financial audits of North Carolina entities and organizations, the North Carolina Office of the State Auditor assesses whether the records prepared by these entities and organizations are materially correct. Our audit of the Department of Revenue's financial records show no material errors for the year ended June 30, 2024. The audited statements make for a clean opinion and can be relied upon by management.

I'd like to thank Department of Revenue staff and leadership for their willingness to work with our team as we conducted this financial statement audit.

Respectfully submitted,

Dave Boliek  
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, 2024, and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal year ended June 30, 2024, for the Department's **governmental funds as a whole**.

**"B" Exhibits** present the Statement of Fiduciary Net Position as of June 30, 2024, and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2024, 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, 2024). 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, 2024).

**“E” Exhibit** presents the Schedule of Aging of Taxes Receivable for unpaid taxes by tax type sorted by years outstanding (as of June 30, 2024).

**“F” 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, 2024).

### **Required Information:**

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



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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **Independent Auditor's Report**



## North Carolina Office of the State Auditor

Dave Boliek, State Auditor

# Independent Auditor's Report

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McKinley Wooten, Jr., Secretary  
and Management of the North Carolina Department of Revenue

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

#### *Opinions*

We have audited 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, 2024, 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 fiduciary fund of the North Carolina Department of Revenue, as of June 30, 2024, 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 to the financial statements, 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, 2024, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our 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 the 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 May 30, 2025 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.



Dave Boliek  
State Auditor

Raleigh, North Carolina

May 30, 2025



# **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, 2024, with comparative information for the fiscal year ended June 30, 2023. 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 fund's 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 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 fund's 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 schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Other supplementary information includes the financial statements for the Governmental Funds, 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, 2024 and 2023:

	2024	2023	Increase (Decrease)
Assets	\$ 3,296,194,615	\$ 3,072,136,449	\$ 224,058,166
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 3,296,194,615	\$ 3,072,136,449	\$ 224,058,166
Liabilities	\$ 2,382,450,782	\$ 1,925,336,457	\$ 457,114,325
Deferred Inflows of Resources	98,923,559	130,330,803	(31,407,244)
Fund Balance			
Nonspendable	5,341,189	6,267,672	(926,483)
Committed	96,551,397	71,333,905	25,217,492
Unassigned	712,927,688	938,867,612	(225,939,924)
Total Fund Balances	814,820,274	1,016,469,189	(201,648,915)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 3,296,194,615	\$ 3,072,136,449	\$ 224,058,166

### Assets

Total assets increased by \$224.1 million during fiscal year 2024 due to a \$202.4 million increase in taxes receivable. Taxes receivable increased \$202.4 million from the prior fiscal year primarily due to an increase in the amount estimated for individual income tax underpayments.

The amount estimated for individual income tax underpayments increased \$278.5 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 15th. 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 2025 fiscal year are for the 2024 tax year (January 2024 – December 2024). 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 2025 fiscal year would have been earned by June 30, 2024 (in the time period of January 2024 – June 2024). The final payments estimated to be received in the 2025 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 2025 fiscal year was significantly higher than the prior year ultimately resulting in an increased amount estimated for individual income tax underpayments.

**Liabilities**

Total liabilities increased by \$457.1 million compared to the prior fiscal year. The increase is primarily due to increases in tax refunds payable of \$385.2 million and unearned revenue of \$69.7 million from the prior fiscal year.

Tax refunds payable increase of \$385.2 million is primarily due to the increase in individual income tax revenues estimated to be refunded in some future period.

Individual income tax revenues estimated to be refunded in some future periods are \$312.4 million more than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of individual 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. Amounts collected during this 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 refunded prior to June 30. To estimate the individual 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 January to June collections to estimate future cash refunds.

The amount estimated for individual income tax revenue refunds increased from the prior fiscal year because the refund percentage calculated increased. The percentage increased due to a significant increase in the standard deduction in the 2022 tax year which has resulted in individual income tax refunds being higher than in prior years.

Unearned revenue increased \$69.7 million from the prior fiscal year primarily due to an increase in corporate income tax overpayments estimated to be applied to some future tax period.

Corporate income taxpayer's 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. 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 \$66.8 million from the prior fiscal year due to an increase in corporate income tax collections for January to June 2024. Corporate income tax collections for January to June 2024 increased \$185.4 million from the same time period in the prior fiscal year.

**Deferred Inflows of Resources**

Deferred inflows of resources decreased \$31.4 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. The unavailable revenue decrease can be attributed to an increase in the

amount calculated for the uncollectible percentage that was applied to delinquent tax receivables for corporate income taxes, franchise taxes, and sales and use taxes.

### **Fund Balance**

Overall fund balance decreased by \$201.6 million during fiscal year 2024. The decrease is primarily attributable to a decrease of \$225.9 million in the unassigned fund balance offset by an increase of \$25.2 million in the committed fund balance. The increase in the committed fund balance is due to the amount committed for the Tax Modernization Project. The General Assembly appropriated to the Department \$25 million in Session Law 2023-134 (House Bill 259) for the modernized integrated tax system replacement project. The Department was authorized to transfer the funds to a new fund code from the 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 2024 fiscal year, the Department collected \$66.5 million in collection assistance fees and expended \$68.8 million from the Project Collect fund, including the \$25 million transferred for the Tax Modernization Project. A nominal amount of the \$25 million was spent on the project during the 2024 fiscal year. Therefore, the majority of the \$25 million was still remaining in fund balance at the end of the fiscal year.

The decrease 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, 2024 and 2023.

	2024	2023	Increase (Decrease)
Revenues:			
Tax Revenues	\$ 32,747,660,716	\$ 33,277,865,893	\$ (530,205,177)
Revenues from Other State Agencies	17,022,410	213,756,824	(196,734,414)
Fees	5,130,313	4,129,357	1,000,956
Other Revenues	5,377,975	4,366,806	1,011,169
Total Revenues	32,775,191,414	33,500,118,880	(724,927,466)
Expenditures:			
Statutory Tax Distributions	785,812,910	848,870,592	(63,057,682)
Grants	4,716,684	204,893,876	(200,177,192)
Salaries and Benefits	125,144,069	120,539,796	4,604,273
Expenditures to Other State Agencies	19,012,128	2,524,657	16,487,471
Other Expenditures	74,858,625	55,089,163	19,769,462
Total Expenditures	1,009,544,416	1,231,918,084	(222,373,668)
Excess of Revenues Over Expenditures	31,765,646,998	32,268,200,796	(502,553,798)
Other Financing Sources (Uses)			
Proceeds from Leases and Subscriptions	7,635,324	1,062,786	6,572,538
State Appropriations	117,198,822	115,688,205	1,510,617
Gain on Sale of Capital Assets	1,000	1,000	-
Transfers In	6,126,011	5,459,737	666,274
Transfers Out	(32,098,257,070)	(32,317,408,928)	219,151,858
Total Other Financing Sources (Uses)	(31,967,295,913)	(32,195,197,200)	227,901,287
Net Change in Fund Balance	(201,648,915)	73,003,596	(274,652,511)
Fund Balance - July 1	1,016,469,189	941,500,219	74,968,970
Restatement	-	1,965,374	(1,965,374)
Fund Balance - June 30	\$ 814,820,274	\$ 1,016,469,189	\$ (201,648,915)

### Tax Revenues

Total tax revenues were \$32.7 billion for the fiscal year ended June 30, 2024, a decrease of \$530.2 million from the prior fiscal year. This decrease is due to decreases in net individual income, corporate income, and franchise tax revenues offset by increases in net insurance and sports wagering tax revenues.

### Individual Income Tax

Individual income tax revenues on a modified accrual basis decreased \$335.4 million or 2.0% from the prior fiscal year. The majority of the decrease can be attributed to a decrease in net individual income tax collections on a cash basis and a decrease in revenues estimated to be collected on delinquent individual income tax receivables compared to the prior year.

Although gross delinquent individual income tax receivables increased by almost \$300 million in the 2024 fiscal year, the revenues estimated to be collected decreased by \$102.7 million. This is

because the percentage of the gross amount that was estimated to be uncollectible was approximately 9.0% higher than in the prior fiscal year.

Individual income tax collections on a cash basis decreased \$184.2 million due to legislative tax law changes that impacted withholding amounts for tax years 2023 and 2024. Session Law 2021-180 (Senate Bill 105) lowered the individual income tax rate from 4.99% to 4.75% effective January 1, 2023 and the Current Operations Appropriations Act of 2023, Session Law 2023-134 (House Bill 259) lowered it to 4.50% effective January 1, 2024. While the reduction in the personal income tax rate slowed revenue growth in the 2024 fiscal year, the impact would have been greater had the size of the tax base not outweighed the effect of the lower tax rate. As noted below, withholding tax collections increased in the 2024 fiscal year compared to the prior fiscal year which reflects the strength of the labor market. Additionally, revenues from non-withholding payments, such as estimated and final payments from business filers, most likely contributed to individual income net tax collections not being more impacted by the tax rate changes due to an accounting change discussed in the Corporate Income Tax section below which reclassified revenue previously accounted for as corporate income to individual income tax.

### **Corporate Income Tax**

Corporate income tax revenues on a modified accrual basis decreased \$216.2 million or 12.5% from the prior fiscal year. This decrease is mainly due to a shift in business tax collections from corporate income tax to individual income tax. Historically, personal income taxes paid by a corporate entity, such as an S-corporation on behalf of nonresident shareholders, have been recorded as corporate income tax. However, the Department is now transferring these revenues from corporate income tax to properly account for them as individual income tax. While the net impact on overall General Fund revenue is zero, the impact on corporate income tax is a reduction in tax collections.

### **Franchise Tax**

Franchise tax revenues on a modified accrual basis decreased \$105.8 million or 12.5% from the prior fiscal year. The decrease can be attributed to a decrease in net franchise tax collections on a cash basis due to legislation passed in the 2021 Appropriations Act that simplified the franchise tax base calculation and, for some taxpayers, reduced the amount of franchise tax due by eliminating the two tax bases calculated using property values. This change became effective for taxable years beginning on or after January 1, 2023 and was applicable to the calculation of franchise tax reported on the 2022 and later corporate income tax returns.

### **Insurance Tax**

Insurance tax revenues on a modified accrual basis increased by \$74.4 million or 6.4% from the prior fiscal year. The increase can be attributed to an increase in net insurance tax collections on a cash basis and can be attributed to several tax law changes as explained below.

Session Law 2023-134 decreased the percentage rate to be used in calculating the insurance regulatory charge for the 2024 and 2025 tax years from 6.5% to 2%. Projections indicated that insurance tax would decrease by \$35.7 million in the 2024 fiscal year as a result of this law change. However, Session Law 2023-7, an act to provide North Carolina citizens with greater access to healthcare options, was signed into law March 27, 2023. As a result of Session Law 2023-7, the Joint Conference Committee Report on the Current Operations Appropriations Act of 2023 for House Bill 259 (Committee Report) projected an increase in gross premiums tax revenue

of \$101.5 million in the 2024 fiscal year from Medicaid Prepaid Health Plans (PHPs) due to increased payments to PHPs for hospital reimbursements and due to anticipated enrollment increases in Medicaid managed care. In addition, the Committee Report projected a decrease in gross premiums tax revenue of \$39.4 million in the 2024 fiscal year from tailored plan PHPs due to a delay in the start date from October 1, 2023 to July 1, 2024. The net projected impact of these law changes on insurance tax was an increase of \$26.4 million. The additional increase can be attributed to growth in premiums for property and auto insurance as noted in the North Carolina Consensus Forecast - April 2024 Revision Summary that was prepared by the Fiscal Research Division of the North Carolina General Assembly.

### **Sports Wagering Tax**

Sports wagering tax revenues on a modified accrual basis increased \$45.6 million from the prior fiscal year due to sports wagering as authorized by Session Law 2023-42 (House Bill 347) going live on March 11, 2024. Session Law 2023-42, enacted June 14, 2023, authorizes, regulates, and taxes sports wagering in North Carolina.

The Lottery Commission is responsible for issuing licenses to interactive sports wagering operators and the Department of Revenue is responsible for collecting the tax imposed by this legislation. A tax at the rate of eighteen percent (18%) is imposed on each interactive sports wagering operator for the privilege of being licensed under Article 9 of Chapter 18C of the North Carolina General Statutes and applies to the gross wagering revenue of the interactive sports wagering operator. The tax revenue collected, less the Department's cost of administering the tax and reimbursement to the Lottery Commission for administrative expenses, is earmarked in the following priority:

- Two million (\$2,000,000) annually to the Department of Health and Human Services for gambling addiction education and treatment programs.
- One million (\$1,000,000) annually to North Carolina Amateur Sports to expand opportunities for persons up to age 18 to engage in youth sports, which shall be distributed through a grant program.
- Three hundred thousand (\$300,000) annually shall be appropriated to thirteen (13) specific UNC Systems Universities to support collegiate athletic departments.
- One million (\$1,000,000) annually to the North Carolina Youth Outdoor Engagement Commission for grants.
- Of the remaining proceeds, as follows:
  - Twenty percent (20%) annually to be distributed equally among the thirteen (13) specific UNC Systems Universities noted above to support collegiate athletic department, not to supplant general funding to that institution.
  - Thirty percent (30%) annually to the North Carolina Major Events, Games, and Attractions Fund established under G.S. 143B-437.112.
  - Fifty percent (50%) annually to the General Fund.

### **Revenues from Other State Agencies**

Revenues from Other State Agencies decreased \$196.7 million in the 2024 fiscal year as compared to the 2023 fiscal year. This decrease is primarily due to a decrease in the amount of revenue recorded by the Department from federal State Fiscal Recovery Funds.

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 authorized the Department 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 State Fiscal Recovery Funds (SFRF) for the Program. House Bill 243, an act to make technical, clarifying, and other modifications to the 2021 Appropriations Act and to other legislation, modified the eligibility conditions for a business to be eligible for a business recovery grant and adjusted language such that the Department had authority to reopen grants for a second round of applications. The Department recorded \$203.7 million in revenues from SFRF for the Business Recovery Grant Program in the 2023 fiscal year due to the second round of grants being authorized. Very little grant activity occurred in the 2024 fiscal year.

### **Expenditures**

Total expenditures decreased \$222.4 million from the prior year primarily due to a decrease in grants of \$200.2 million.

The \$200.2 million decrease in grants is the result of the majority of the \$500 million authorized to be spent from SFRF funding for the Business Recovery Grant Program being expended during the 2022 and 2023 fiscal years. The Department expended \$288.0 million and \$204.9 million in grants for the Business Recovery Grant Program during the 2022 and 2023 fiscal years, respectively. Less than \$5 million was disbursed in grants during the 2024 fiscal year.

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

Total other financing sources (uses) decreased \$227.9 million from the prior year primarily due to a decrease in the year-end transfer of net revenues to the Office of the State Controller. This transfer amount decreased from \$32.2 billion to \$32.0 billion during fiscal year end 2024. This decrease is due to tax revenues on a cash basis in the 2024 fiscal year decreasing by \$223.9 million from the prior year and is explained by the net decrease in tax revenues discussed above. Franchise, individual income, and corporate income tax revenue on a cash basis decreased from the prior year by \$106.6 million, \$199.6 million, and \$82.7 million, respectively, and insurance and sports wagering tax revenue on a cash basis increased from the prior year by \$52.1 million and \$16.9 million, respectively. Sales and use tax revenues on a cash basis also increased from the prior fiscal year by \$104.6 million dollars. This is due to a continuation of positive growth in consumption expenditures during the 2024 fiscal year, although the rate of growth has slowed.

### **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, 2024 of this report.

*Variances – Original and Final Budget:*

The final budgeted revenues were \$7.5 million more than the original budget. The majority of the increase is due to an increase of \$5 million in the final budget for revenues from other state agencies. The budget for revenues from other state agencies increased \$2.5 million for SFRF funding to be received from the Office of State Budget and Management (OSBM) for the Business Recovery Grant Program. In March 2024, the OSBM, under the authority of Session Law 2021-180 Section 4.9(e), allocated the Department \$1.1 million in additional SFRF funding to replace the Department's mail opening machine (auto-extractor) and to pay for an upgrade to the Department's BancTec Pay Courier software and equipment. Revenues from other state agencies budget was increased by \$1.1 million for these items. Finally, the budget was increased for the Fuel Tracking System upgrade project by \$1.3 million. The Department of Transportation reimburses the Department for the cost of this project.

The final budgeted expenditures increased \$20.1 million from the original budget. The increase is primarily due to an increase in the final budget for contracted personal services, capital outlay, grants, and expenditures to other state agencies offset by a decrease in the final budget for salaries and benefits.

The final budgeted expenditures for contracted personal services were \$17.2 million more than the original budget. This is primarily due to increases in the final budgets for legal services, other information technology services, and temporary agency services. The final budget for legal services was increased from the prior fiscal year by \$4.2 million primarily due to the settlement of the Monarch Tax Credits lawsuit (see Note 17 in the Department's 2022 Fiscal Year audited financial statements for more information regarding this lawsuit). Other information technology services' budget increased \$3.4 million primarily due to budget revisions for the following projects: the Fuel Tracking System, the Document Management System, and the BancTec Pay Courier Upgrade. The other information technology services' budget was also increased by amounts originally budgeted as salaries and benefits. The final budgeted expenditures for capital outlay were \$6.8 million more than the original budget. This is primarily due to increases in the final budgets for computer and printer equipment, server equipment, and computer and server software. The budgets were increased by amounts originally budgeted as salaries and benefits that were moved to these information technology equipment and software budgets. The final budget for office equipment was also increased \$700 thousand due to budget revision for the Auto Extractor project.

The final budget for salaries and benefits decreased \$10.8 million. In addition to the amounts moved to the other information technology services and information technology equipment and software budgets, amounts originally budgeted as salaries and benefits were moved to primarily increase budgets for information technology maintenance agreements, manage server support services, temporary agency services, and miscellaneous contractual services.

The final budgeted expenditures for grants were \$4.8 million more than the original budget. This is primarily due to a budget revision to increase the budget by the \$3.4 million that was remaining to be spent on the Business Recovery grant program at the end of the prior fiscal year. In addition, a budget revision was prepared to increase the budget by \$1 million for the sports wagering grant to be distributed to the North Carolina Amateur Sports as a grant for the purpose set forth in Session Law 2023-42.

The final budgeted expenditures for Expenses to Other State Agencies were \$3.5 million more than the original budget. This is primarily due to a budget revision to increase the budget by

\$2.9 million to budget Business Recovery Grant funds that were returned to the Office of State Budget and Management.

The final amount budgeted for other financing sources (uses) was \$5.7 million less than the original budget primarily due to transfers from the State Reserve Fund not having an original budget. The impact of these transfers decreased the budget for other financing sources (uses) by \$5.6 million. See Note 1(O) for additional information regarding transfers to/from the State Reserve Fund.

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

Actual total revenue collected was \$35.9 million above budgeted revenue amounts. The increase is primarily due to an increase in tax revenues of \$40.3 million offset by a decrease in revenues from other state agencies of \$4.1 million. The increase in expected 2024 fiscal year tax revenue collections was due to higher-than-expected individual income tax and sales and use tax collections. Individual income tax collections were larger than expected because the growth in the labor force was higher than anticipated. Revenue during the 2024 fiscal year from withholdings was consistently above targets, reflecting the strength of the labor market. While the individual income tax rate was statutorily reduced from 4.75% in calendar year 2023 to 4.5% in calendar year 2024, the growth in the size of the tax base outweighed the effect of a lower rate, leading to a net increase in collections. Revenue collected for sales and use tax was also above forecasted targets throughout the year. The forecast anticipated that higher inflation would decrease consumer spending; however, sales and use collections are higher than expected due to additional retail sales driven by the strong labor market.

The actual amount received in revenues from other state agencies was \$4.1 million less than the final budget primarily due to \$1.1 million budgeted for SFRF projects (auto-extractor and BancTec Pay Courier upgrade, discussed above) not being spent during the 2024 fiscal year. Revenues for the SFRF projects are only requested from the Office of State Budget and Management when the funds are needed to pay expenditures. In addition, \$1.1 million of the Fuel Tracking System Project budget and almost \$500,000 of the IFTA Consortium Project budget were not spent during the fiscal year. Revenues are received for these projects on a reimbursement basis from the Department of Transportation.

Actual total expenditures were \$28.0 million less than budgeted expenditures during fiscal year end 2024. Budgeted expenditures exceeded actual expenditures primarily due to the Department spending \$35.2 million less on salaries and benefits and contracted personal services. In addition, the Department spent \$13.1 more than budgeted on expenditures to other state agencies.

The amount spent on contracted personal services was \$28.3 million less than budgeted primarily due to spending on other information technology services. The actual amount spent on other information technology services was \$27.4 million less than budgeted mainly due to only a nominal amount being spent from the \$25 million budgeted for the Tax System Modernization Project. In addition, \$1.1 million budgeted for the Fuel Tracking System Project and \$399,795 budgeted for the BancTec Pay Courier Upgrade Project were not spent.

The amount spent on salaries and benefits was \$6.9 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.



The amount spent on expenditures to other state agencies was more than budgeted due to sports wagering that went live March 11, 2024. As discussed above, from the sports wagering tax revenue collected, less the Department's cost of administering the tax, the Department is statutorily required to reimburse the Lottery Commission for administrative expenses and to transfer funds to state agencies earmarked for specific programs identified within the legislation. The amount transferred to other state agencies for sports wagering was \$13.2 million.

Actual total other financing sources (uses) was \$43.0 million less than budgeted amounts primarily due to a decrease 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 impacts on revenues as discussed above.

## **Future Outlook**

### **General Operations**

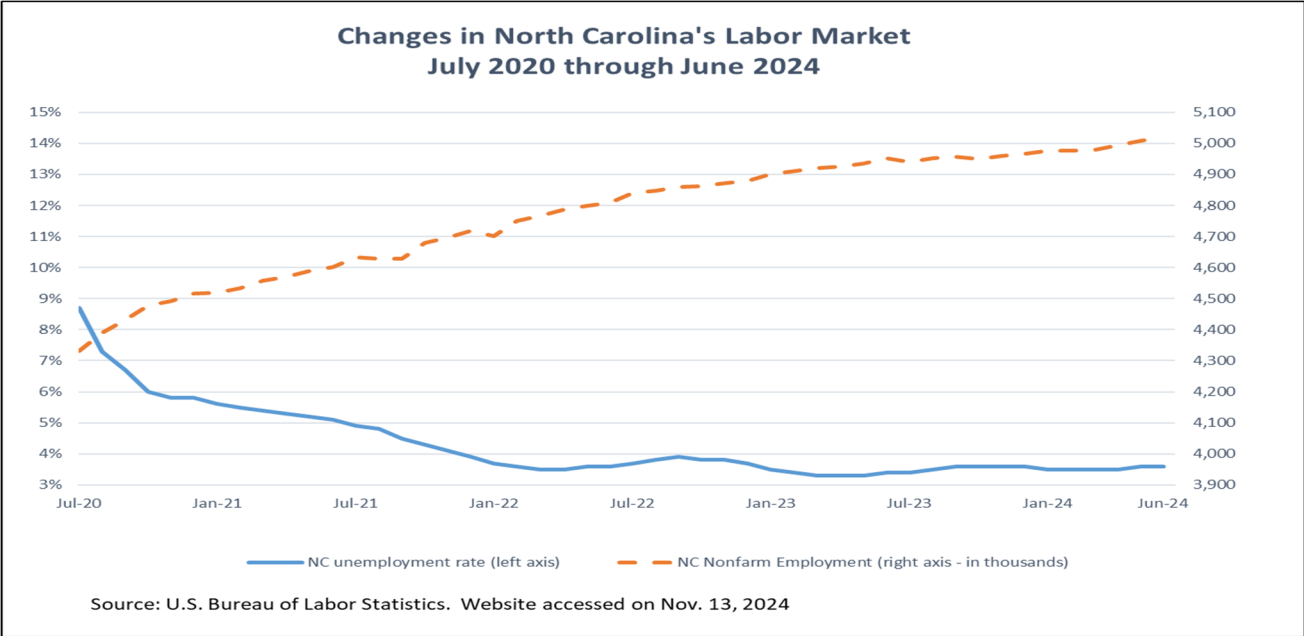
Session Law 2023-134 (House Bill 259) of the 2023 Session of the North Carolina General Assembly was enacted in September 2023 for the fiscal years 2024 and 2025. There was not any additional legislation passed in the 2024 session of the General Assembly that modified Session Law 2023-134 that impacted the Department of Revenue. Session Law 2023-134 increased the amount of net appropriations to the Department of Revenue for general operations for the fiscal year ending June 30, 2025 by \$5.9 million. Virtually all of this increase was for the provision of an across-the-board salary increase of 3% for most employees as well as additional funds allocated to provide funding for labor market salary adjustments to certain positions to address specific staffing issues by providing targeted salary increases to recruit and retain capable labor. The Session Law also eliminated 10.74 appropriated positions and reduced the Department's Information Technology budget a little over \$500,000 to reflect the net impact of the change in the Department of Information Technology subscription rates and service delivery rates. The Session Law also budgeted \$1 million from sports wagering receipts to be distributed to the North Carolina Amateur Sports as a grant for the purpose set forth in Session Law 2023-42.

The General Assembly appropriated an additional \$25 million to the Department in Session Law 2023-134 for the modernized integrated tax system replacement project for the 2025 fiscal year. The Department was authorized to transfer the funds to a new fund code from the Project Collect Tax, a collection assistance fee imposed by the General Assembly under General Statute 105-243.1.

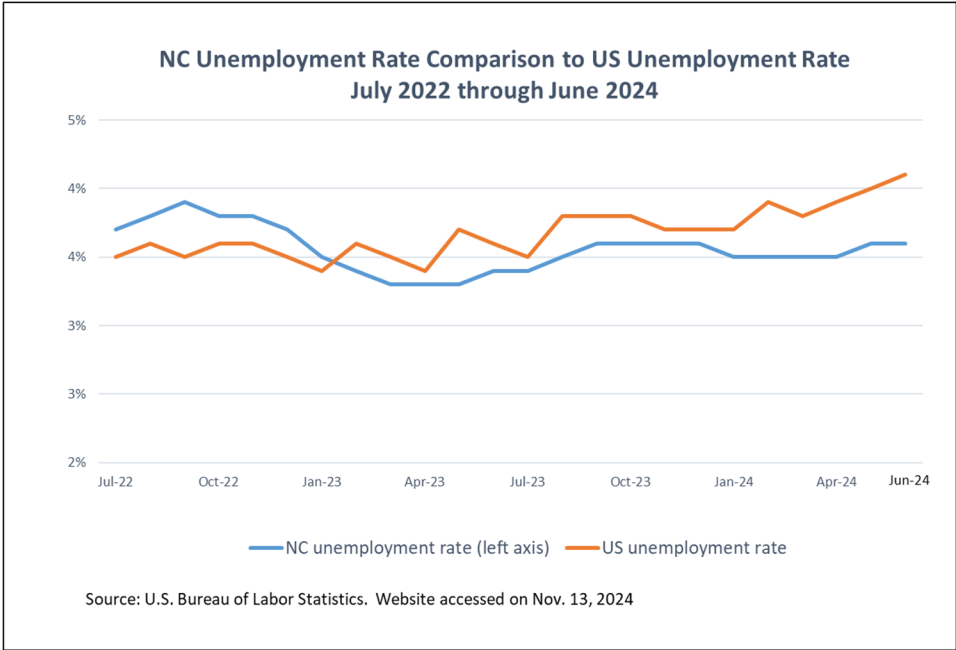
### **North Carolina Economic Conditions**

North Carolina's labor market continued to grow through June 2024. The number of payroll jobs in North Carolina has increased steadily since the pandemic shutdown in 2020, according to data compiled by the Bureau of Labor Statistics. By March 2023, the seasonally adjusted unemployment rate had fallen to 3.3% and has been in the range of 3.3% to 3.6% through June 2024. The number of nonfarm jobs was over 5 million in June 2024. In June 2024, there were 67,200 more jobs than in June 2023 and 211,400 more than in June 2022. The trend annualized growth rate for employment was 1.4% during the 2024 fiscal year, which slowed from the prior year.

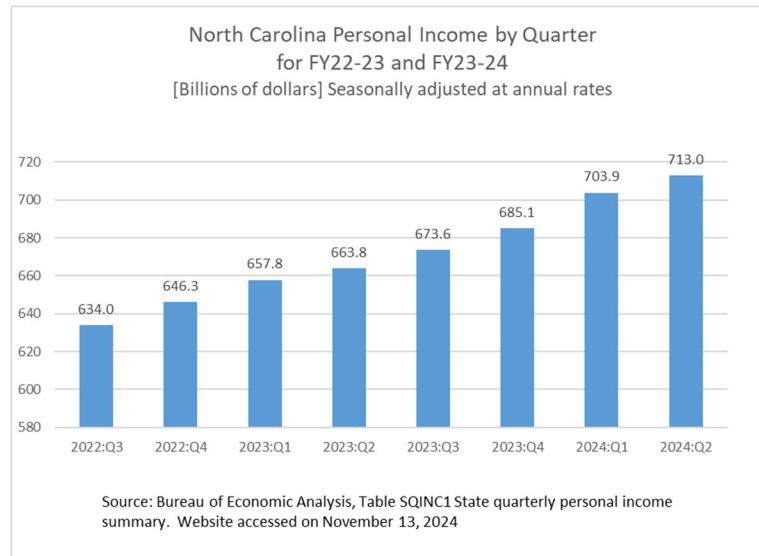




North Carolina's unemployment rate has been consistently below the unemployment rate for the United States since January 2023.



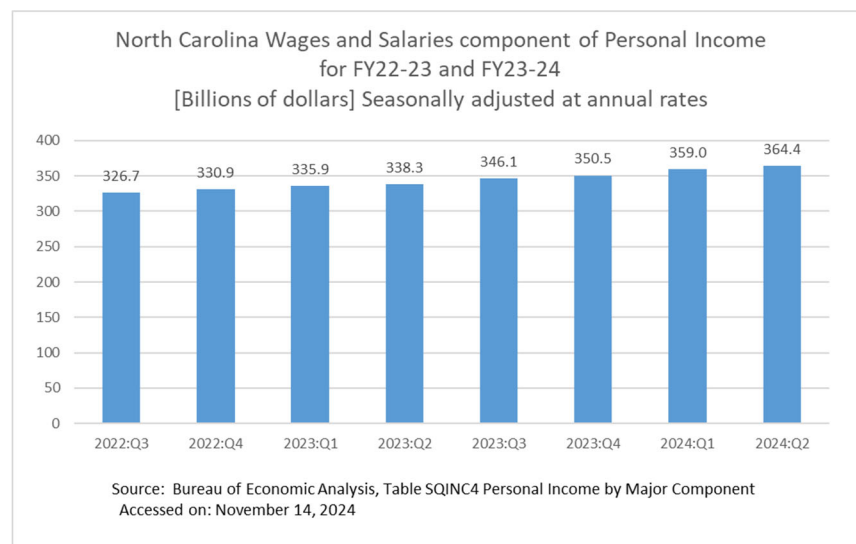
As reported by the Bureau of Economic Analysis, North Carolina's personal income shows substantial growth during the 2024 fiscal year. This is shown in the graph below, which includes amounts for the prior fiscal year. Personal income grew 6.7% during the fiscal year.



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).

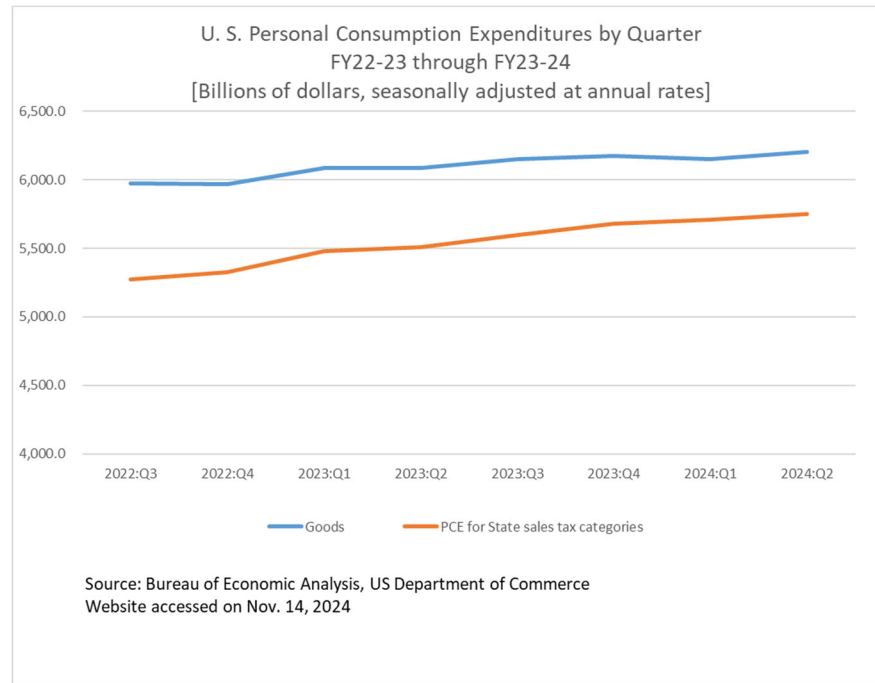
Wage and salary income grew in the 2024 fiscal year, supporting larger income tax withholding. The Bureau of Economic Analysis's data for North Carolina wages and salaries indicates growth in the 2024 fiscal year of 6.6% over the prior fiscal year.

Despite this growth in wages and salaries, withholding tax collections increased by only 3.6% in the 2024 fiscal year compared to the prior fiscal year. This was due in large part to decreases in the tax rate for tax years 2023 and 2024. The tax rate decreased from 4.99% in 2022 to 4.75% in 2023 and then again to 4.5% in 2024.



The National Bureau of Economic Analysis's data shows that personal consumption expenditures grew more slowly during the 2024 fiscal year, leading to slower 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 continuation of positive growth in consumption expenditures, although the rate of growth has slowed.

On a fiscal year basis, the Goods category in personal consumption expenditures was 2.3% higher in the 2024 fiscal year than in the prior fiscal year. The series with adjustments for categories in the North Carolina sales tax base was 5.3% higher. North Carolina sales & use tax collections reflected these trends. However, net sales & use tax revenues did not reflect this growth due to transfers to the Highway Fund and Highway Trust Fund as authorized by General Statute 105-164.44M(b) as well as larger refunds in the 2024 fiscal year compared to the prior fiscal year.

<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**

The individual income tax rate will continue to decrease in subsequent tax years as indicated below per Session Law 2023-134:

<u>Tax Rate</u>	<u>Effective Date</u>
4.25%	January 1, 2025
3.99%	January 1, 2026

Session Law 2023-134 also set individual income tax rate reduction triggers. If the total General Fund revenue in a fiscal year exceeds the trigger indicated in the session law for that fiscal year, then the applicable tax rate for the indicated and subsequent tax years shall be equal to the greater of (i) the prior taxable year's rate decreased by one-half percentage point (0.50%) or (ii) two and forty-nine hundredths' percent (2.49%). Total General Fund revenue is the amount stated in the final accounting of total General Fund Reverting Net Tax and Non-Tax Revenues for the fiscal year, as reported by the Office of the State Controller in August following the end of the fiscal year.

The reduction of the individual income tax rate for tax year 2025 is expected to decrease individual income tax revenues by \$619.5 million in fiscal year 2024-2025. However, the full fiscal impact of the tax rate changes noted above will not be realized until the changes are fully implemented in 2026, when the individual income tax rate drops to 3.99% or when the individual income tax rate reduction triggers are met.

### **Corporate Income Tax**

Session Law 2021-180 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**

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 has been in effect since the 2023 fiscal year and will continue to impact sales and use tax revenues in future fiscal years and is expected to decrease sales and use tax revenues in the 2025 fiscal year by \$711.0 million. The percentages that have been transferred or that will be transferred are:

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

### Franchise Tax

Session Law 2023-134 and Session Law 2024-1 set a cap on franchise tax for the first one million dollars (\$1,000,000) of its tax base for C Corporations. As enacted, the new franchise tax rate for C Corporations will be \$1.50 per one thousand dollars (\$1,000) of the corporation's franchise tax base, with a maximum of \$500 on the first one million dollars (\$1,000,000) of its tax base. There will still be a minimum tax of \$200. After the first one million dollars of the tax base, the rate continues at \$1.50 per one thousand dollars. This cap is effective for taxable years beginning on or after January 1, 2025, and is applicable to the calculation of franchise tax on the 2024 and later corporate income tax return. This change is projected to reduce franchise tax revenue by \$13.8 million in the 2025 fiscal year.

### Insurance Tax

Insurance tax revenues are projected to continue to increase due to Session Laws 2023-7 and 2023-134 in fiscal year 2025. The net projected increase is \$53.0 million.

### Sports Wagering Tax

The estimated total tax revenue for sports wagering tax as well as the estimated amount the General Fund is earmarked to receive from these revenues is shown in the table below.

(\$ in millions)

<b><u>Estimated Revenue</u></b>	<b><u>FY 2024-25</u></b>	<b><u>FY 2025-26</u></b>	<b><u>FY 2026-27</u></b>	<b><u>FY 2027-28</u></b>
Sports Wagering Tax	\$64.6	\$83.5	\$96.3	\$100.6
General Fund	\$28.1	\$36.3	\$42.7	\$44.8

### Disaster Recovery – Tax Relief

On September 28, 2024, President Joseph R. Biden approved an emergency major disaster declaration for the State of North Carolina due to the impacts of Hurricane Helene. On October 1, 2024, the Internal Revenue Service (IRS) announced tax relief for certain taxpayers affected by Hurricane Helene. The federal tax relief gives affected taxpayers until May 1, 2025, to file various federal individual and business tax returns and make tax payments.

As a result, on October 4, 2024, the Department of Revenue announced State tax relief for taxpayers impacted by Hurricane Helene. Excluding certain exceptions, the relief provided that the Department will remove certain penalties assessed against the taxpayers impacted for licenses, returns, or payments due on September 25, 2024, through May 1, 2025, if the license is obtained, the return is filed, or the tax is paid by May 1, 2025.

On October 10, 2024, Governor Roy Cooper signed Session Law 2024-51, which specifically identified the counties within North Carolina eligible for disaster relief. On October 15, 2024, FEMA added twelve additional counties to the list of North Carolina counties adversely affected by Hurricane Helene. Therefore, these additional counties are also eligible for disaster relief.

Session Law 2024-51 authorizes the Secretary of Revenue to waive the accrual of interest from September 25, 2024, through May 1, 2025, on an underpayment of tax imposed on a franchise, corporate income, or individual income tax return, including a partnership and estate and trust tax return, due on September 25, 2024, through May 1, 2025, for a taxpayer that resides or is located in a county eligible for disaster relief. The relief from accrual of interest includes interest imposed for underpayment of estimated income tax. In addition, the law provides additional time for eligible partnerships and S corporations to make the election to have the partnership or S Corporation pay North Carolina income tax for tax year 2023. The election will be considered timely on an annual return due after September 25, 2024, and before May 1, 2025, if the election is made on a return filed on or before May 1, 2025.

Session Law 2024-51 also authorizes the Secretary of Revenue to waive interest on the underpayment of sales and use tax as described below by a taxpayer whose principal place of business is located in a county eligible for disaster relief:

- Monthly Return for September 2024 if payment is made on or before November 20, 2024.
- Monthly Return for October 2024 if payment is made on or before December 20, 2024.
- Quarterly Return for 3<sup>rd</sup> Quarter Ending September 30, 2024 if payment is made on or before November 30, 2024.

The Secretary of Revenue is also authorized by Session Law 2024-51 to waive interest on the underpayment of withholding tax as described below by a taxpayer located in a county eligible for disaster relief:

- Monthly Return for September 2024 if payment is made on or before November 15, 2024.
- Monthly Return for October 2024 if payment is made on or before December 15, 2024.
- Quarterly Return for 3<sup>rd</sup> Quarter Ending September 30, 2024 if payment is made on or before November 30, 2024.

On April 17, 2025, the IRS announced that due to the lingering effects of Hurricane Helene on North Carolina, they would further postpone until September 25, 2025, certain tax filing and payment deadlines for affected taxpayers.

As a result, the Department announced additional State tax relief for taxpayers affected by Hurricane Helene. Excluding certain exceptions, the relief provided that the Department will remove certain penalties assessed against the taxpayers impacted for licenses, returns, or payments due on September 25, 2024, through September 25, 2025, if the license is obtained, the return is filed, or the tax is paid by September 25, 2025.

The Department cannot waive interest except when authorized by the North Carolina General Assembly. As a result, the additional State tax relief by the Department does not modify the Secretary's authority to waive interest that accrues on an underpayment of tax imposed on a franchise, corporate income, or individual income tax return from September 25, 2024, through May 1, 2025, as authorized by Session Law Session Law 2024-51 (discussed above).

The extension of tax due dates past fiscal year end most likely will not significantly impact the 2025 or 2026 fiscal years' tax revenues. While some taxpayers may choose to wait until

September 2025 to file and pay their taxes, review of final payments for individual income tax received as of May 14, 2025 does not indicate that final payments are significantly low for the 2025 fiscal year. While the additional State tax relief may remove penalties, it does not waive interest. This most likely is a factor in why final payments are not significantly lower.





# Financial Statements

**North Carolina Department of Revenue**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2024**

**Exhibit A-1**

	General Fund <sup>1</sup>	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 2)	\$ 112,941,308	\$ 2,998,697	\$ 115,940,005
Receivables:			
Taxes Receivable, Net (Note 4)	3,149,743,666	8,149,379	3,157,893,045
Accounts Receivable, Net (Note 4)	5,746,986		5,746,986
Intergovernmental Receivables (Note 4)	11,181,108		11,181,108
Due from Other Funds (Note 10)	76,982		76,982
Inventories (Note 5)	5,341,189		5,341,189
Securities Held in Trust (Sureties)	15,300		15,300
Total Assets	<u>3,285,046,539</u>	<u>11,148,076</u>	<u>3,296,194,615</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,285,046,539</u>	<u>\$ 11,148,076</u>	<u>\$ 3,296,194,615</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities:			
Accounts Payable (Note 6)	\$ 8,895,447	\$ 0	\$ 8,895,447
Accrued Payroll	30,654		30,654
Intergovernmental Payables (Note 6)	203,300,382	2,294,244	205,594,626
Tax Refunds Payable (Note 6)	1,544,482,477		1,544,482,477
Due to Other Funds (Note 10)	28,748,580	76,982	28,825,562
Unearned Revenue	594,600,000		594,600,000
Funds Held for Others	22,016		22,016
Total Liabilities	<u>2,380,079,556</u>	<u>2,371,226</u>	<u>2,382,450,782</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue (Note 7)	<u>91,103,512</u>	<u>7,820,047</u>	<u>98,923,559</u>
Total Deferred Inflows of Resources	<u>91,103,512</u>	<u>7,820,047</u>	<u>98,923,559</u>
<b>FUND BALANCES</b> (Note 8)			
Nonspendable	5,341,189		5,341,189
Committed	95,594,594	956,803	96,551,397
Unassigned	712,927,688		712,927,688
Total Fund Balances	<u>813,863,471</u>	<u>956,803</u>	<u>814,820,274</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,285,046,539</u>	<u>\$ 11,148,076</u>	<u>\$ 3,296,194,615</u>

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, 2024**

**Exhibit A-2**

	General Fund <sup>1</sup>	Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Tax Revenues	\$ 32,738,055,799	\$ 9,604,917	\$ 32,747,660,716
Services	3,374,357		3,374,357
Fees	5,130,313		5,130,313
Revenues from Other State Agencies (Note 9)	17,022,410		17,022,410
Miscellaneous Revenue	2,003,618		2,003,618
Total Revenues	32,765,586,497	9,604,917	32,775,191,414
<b>EXPENDITURES</b>			
Salaries and Benefits	125,144,069		125,144,069
Contracted Personal Services	31,402,929		31,402,929
Travel	938,464		938,464
Communication	3,716,901		3,716,901
Utilities	122,140		122,140
Data Processing Services	2,198,625		2,198,625
Other Services	3,256,605	68,235	3,324,840
Claims and Benefits	202,957		202,957
Lease Expenditures:			
Principal Payments	2,220,843		2,220,843
Interest Payments	884,865		884,865
Subscription (SBITAS) Expenditures:			
Principal Payments	2,987,703		2,987,703
Interest Payments	166,481		166,481
Other Fixed Charges	7,808,208		7,808,208
Capital Outlay	14,008,135		14,008,135
Grants	4,716,684		4,716,684
Insurance and Bonding	65,435		65,435
Statutory Tax Distributions	779,136,696	6,676,214	785,812,910
Expenditures to Other State Agencies (Note 9)	16,629,795	2,382,333	19,012,128
Other Expenditures	4,810,099		4,810,099
Total Expenditures	1,000,417,634	9,126,782	1,009,544,416
Excess of Revenues Over Expenditures	31,765,168,863	478,135	31,765,646,998
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Leases	2,713,214		2,713,214
Proceeds from Subscriptions (SBITAS)	4,922,110		4,922,110
Gain on Sale of Capital Assets	1,000		1,000
Transfers to State Reserve Fund	(163,054)		(163,054)
Transfers from State Reserve Fund	5,404,521		5,404,521
Transfers In (Note 10)	721,490		721,490
Transfers Out (Note 10)	(32,097,372,526)	(721,490)	(32,098,094,016)
State Appropriations	117,198,822		117,198,822
Total Other Financing Sources (Uses)	(31,966,574,423)	(721,490)	(31,967,295,913)
Net Change in Fund Balances	(201,405,560)	(243,355)	(201,648,915)
Fund Balances - July 1	1,015,269,031	1,200,158	1,016,469,189
Fund Balances - June 30	\$ 813,863,471	\$ 956,803	\$ 814,820,274

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, 2024**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents (Note 2)	\$ 927,104,878
Taxes Receivable	291,300,000
Due from Other Funds (Note 10)	<u>28,748,580</u>
Total Assets	<u>1,247,153,458</u>

**LIABILITIES**

Intergovernmental Payables	<u>1,247,153,458</u>
Total Liabilities	<u>1,247,153,458</u>

**NET POSITION**

Unrestricted	<u><u>\$ 0</u></u>
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The accompanying 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, 2024**

**Exhibit B-2**

**ADDITIONS**

Sales and Use Tax Collections for Local Governments	<u>\$ 5,561,797,193</u>
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**DEDUCTIONS**

Payments of Sales and Use Tax to Local Governments	<u>5,561,797,193</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 Statements

### 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, long-term subscriptions, 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.

**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 taxpayer. 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, 2024, the governmental funds' Balance Sheet reported cash and cash equivalents of \$115,940,005. The fiduciary fund Statement of Fiduciary Net Position reported cash and cash equivalents of \$927,104,878 for the same date. These amounts represent the Department's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal oversight other than that of the legislative body) had a weighted average maturity of 1.4 years as of June 30, 2024. 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, 2024. 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, 2024, the Department's cash and cash equivalents, valued at \$1,043,044,883, 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, 2024 were as follows:

	Gross Taxes Receivable	Less Allowance for Uncollectible Taxes	Net Taxes Receivable
<b>General Fund:</b>			
Individual	\$ 463,000,000	\$ 0	\$ 463,000,000
Sales and Use Tax	583,200,000		583,200,000
Corporate	65,900,000		65,900,000
Underwithholding - Individual	1,287,400,000		1,287,400,000
Other	143,003,314		143,003,314
Delinquent Receivables:			
Individual	2,150,699,390	1,670,119,100	480,580,290
Sales and Use Tax	324,738,475	240,579,869	84,158,606
Corporate	91,603,731	69,251,033	22,352,698
Tobacco Products	12,959,359	12,034,848	924,511
Franchise	60,528,009	43,824,844	16,703,165
License and Excise	4,181,006	2,973,587	1,207,419
Alcoholic Beverage	944,610	757,858	186,752
Other	2,197,185	1,070,274	1,126,911
Total Delinquent Receivables	2,647,851,765	2,040,611,413	607,240,352
<b>Total</b>	<b>5,190,355,079</b>	<b>2,040,611,413</b>	<b>3,149,743,666</b>
<b>Special Revenue Fund:</b>			
Unauthorized Substance Tax	332,627,698	324,478,319	8,149,379
<b>Total Taxes Receivable</b>	<b>\$ 5,522,982,777</b>	<b>\$ 2,365,089,732</b>	<b>\$ 3,157,893,045</b>

Within the General Fund, the significant receivables not expected to be collected within one year at June 30, 2024 were \$1,589,304,405 of taxes receivable (gross).

See Exhibit E-1 for the Schedule of Aging of the Taxes Receivable at June 30, 2024.

**B. Accounts Receivable**

Accounts receivable for the governmental funds at June 30, 2024 were as follows:

	<u>General Fund</u>
<b>Accounts Receivable:</b>	
Gross Accounts Receivable	\$ 5,778,399
Less Allowance for Doubtful Accounts	<u>31,413</u>
<b>Total Accounts Receivable, Net</b>	<u><u>\$ 5,746,986</u></u>

**C. Intergovernmental Receivables**

Intergovernmental receivables for governmental funds at June 30, 2024 were as follows:

	<u>Gross Receivables</u>
<b>General Fund:</b>	
State Agencies - Payroll Taxes	\$ 11,143,877
Department of Information Technology - Information Technology Security Positions	<u>37,231</u>
<b>Total Intergovernmental Receivables</b>	<u><u>\$ 11,181,108</u></u>

**Note 5 - Inventories**

Inventories for governmental funds at June 30, 2024 were as follows:

	<u>General Fund</u>
<b>Inventories:</b>	
Postage	\$ 5,145,831
Other Office Materials/Supplies	<u>195,358</u>
<b>Total Inventories</b>	<u><u>\$ 5,341,189</u></u>

**Note 6 - Payables****A. Accounts Payable**

Accounts payable for the governmental funds at June 30, 2024 were as follows:

	<u>General Fund</u>
<b>Accounts Payable:</b>	
Accounts Payable	\$ 8,648,175
Due to Employees	<u>247,272</u>
<b>Total Accounts Payable</b>	<u><u>\$ 8,895,447</u></u>



## B. Intergovernmental Payables

Intergovernmental payables for the governmental funds at June 30, 2024 were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>
<b>Intergovernmental Payables:</b>		
Local Government Tax Distributions:		
Medicaid Hold Harmless	\$ 30,788,595	\$ 0
Alcoholic Beverage	9,764,576	
Real Estate Conveyance, White Goods Disposal, Scrap Tire Disposal, and Solid Waste Disposal	4,037,201	
Electricity	89,570,141	
Video Program	13,701,218	
Telecom	5,760,107	
Piped Natural Gas	4,942,188	
Unauthorized Substance		1,383,827
<b>Total to Local Governments</b>	<u>158,564,026</u>	<u>1,383,827</u>
Statutory Tax Distribution to the General Fund:		
White Goods Disposal	1,052,802	
Scrap Tire Disposal	4,969,461	
Solid Waste Disposal	2,277,742	
Unauthorized Substance		910,417
<b>Total to General Fund</b>	<u>8,300,005</u>	<u>910,417</u>
State Agencies:		
Department of Transportation - Aviation Fuel Taxes	13,130,985	
Department of Transportation - Highway & Highway Trust Funds	3,758,340	
Department of Environmental Quality - Solid Waste Taxes	5,038,677	
Office of State Budget and Management - State Fiscal Recovery Funds	122,067	
Department of Information Technology - 911 Service Charges	1,630,021	
Department of Insurance - Unallocated Taxes	12,756,261	
<b>Total to State Agencies</b>	<u>36,436,351</u>	
<b>Total Intergovernmental Payables</b>	<u>\$ 203,300,382</u>	<u>\$ 2,294,244</u>

## C. Tax Refunds Payable

Tax refunds payable for the governmental funds at June 30, 2024 were as follows:

	<u>General Fund</u>
<b>Tax Refunds Payable:</b>	
Individual	\$ 1,088,000,000
Sales and Use Tax	319,000,000
Corporate	136,500,000
Other	982,477
<b>Total Tax Refunds Payable</b>	<u>\$ 1,544,482,477</u>



## Note 7 - Deferred Inflows of Resources

The various components of deferred inflows of resources for the governmental funds at June 30, 2024 were as follows:

	Unavailable at June 30, 2023	Current Year Unavailable Increase	Prior Year Unavailable Earned in Current Year	Unavailable at June 30, 2024
<b>General Fund:</b>				
Estate Taxes	\$ 75,216	\$ 0	\$ (75,216)	\$ 0
License Taxes	1,100,310	1,152,135	(1,100,310)	1,152,135
Tobacco Taxes	750,922	924,511	(750,922)	924,511
Beverage Taxes	31,970	186,341	(31,970)	186,341
Franchise Taxes	20,402,243	15,341,046	(20,402,243)	15,341,046
Sales and Use Taxes	70,594,472	51,041,507	(70,594,472)	51,041,507
Corporate Taxes	29,447,223	21,343,371	(29,447,223)	21,343,371
White Goods Taxes	36,421	113,847	(36,421)	113,847
Scrap Tire Taxes	184,173	271,749	(184,173)	271,749
Manufacturing Taxes	53,393	10,661	(53,393)	10,661
Solid Waste Taxes	330,136	23,387	(330,136)	23,387
Insurance Taxes	1,062,374	694,957	(1,062,374)	694,957
<b>Total</b>	<b>124,068,853</b>	<b>91,103,512</b>	<b>(124,068,853)</b>	<b>91,103,512</b>
<b>Special Revenue Fund:</b>				
Unauthorized Substance Taxes	6,261,950	7,820,047	(6,261,950)	7,820,047
<b>Total Deferred Inflows of Resources</b>	<b>\$ 130,330,803</b>	<b>\$ 98,923,559</b>	<b>\$ (130,330,803)</b>	<b>\$ 98,923,559</b>

## Note 8 - Fund Balance

The details of the fund balance classifications for the governmental funds at June 30, 2024 were as follows:

	General Fund	Special Revenue	Total
<b>Fund Balance:</b>			
Nonspendable:			
Inventories	\$ 5,341,189	\$ 0	\$ 5,341,189
Committed to:			
General Government			
Project Collect Tax	64,948,171		64,948,171
Transaction Fees	5,214,584		5,214,584
Operations and Maintenance for Tax Systems	24,845,607		24,845,607
Other Committed	586,232		586,232
Unauthorized Substance Tax		956,803	956,803
Unassigned	712,927,688		712,927,688
<b>Total Fund Balance</b>	<b>\$ 813,863,471</b>	<b>\$ 956,803</b>	<b>\$ 814,820,274</b>

**Note 9 - 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, 2024 were as follows:

**Revenues from Other State Agencies:**

	<b>Purpose</b>	<b>Amount</b>
<b>General Fund:</b>		
Department of Transportation	Motor Fuels Reimbursement	\$ 5,188,441
Department of Transportation	Fuel Tax Compliance Reimbursement	1,946,206
Department of Transportation	International Registration Plan Reimbursement	159,375
Department of Information Technology	Information Technology Security Positions	395,710
Department of Insurance	Insurance Reimbursement	240,736
Department of Agriculture and Consumer Services	Forestry Reimbursement	126,561
Office of State Budget and Management	State Fiscal Recovery Funds	6,647,941
Office of State Controller	Information Technology Reserves	1,650,000
Office of State Controller	Retiree Supplement Reserves	667,440
<b>Total Revenues from Other State Agencies</b>		<b>\$ 17,022,410</b>

**Expenditures to Other State Agencies:**

	<b>Purpose</b>	<b>Amount</b>
<b>General Fund:</b>		
Department of Commerce	Job Development Investment Grants	\$ 516,926
Department of Commerce	Sports Wagering - Major Events	10,163,526
Department of Health and Human Services	Sports Wagering - Gambling Prevention	2,000,000
Wildlife Resources Commission	Sports Wagering - Outdoor Heritage	1,000,000
Administrative Office of the Courts	General Court Justice Fees	200
Office of State Budget and Management	State Fiscal Recovery Funds	2,917,143
Office of State Budget and Management	Coronavirus Relief	32,000
<b>Total</b>		<b>16,629,795</b>
<b>Special Revenue Fund:</b>		
Statewide General Fund	25% Transfer to General Fund	2,382,333
<b>Total</b>		<b>2,382,333</b>
<b>Total Expenditures to Other State Agencies</b>		<b>\$ 19,012,128</b>

**Note 10 - Interfund Balances and Transfers****A. Interfund Balances**

Amounts due to/from other funds at June 30, 2024 were as follows:

	<b>Due From Other Funds</b>	
	<b>General Fund</b>	<b>Fiduciary Fund - Local Governments</b>
<b><u>Due To Other Funds</u></b>		
General Fund	\$ 0	\$ 28,748,580
Special Revenue	76,982	
<b>Total</b>	<b>\$ 76,982</b>	<b>\$ 28,748,580</b>

**B. Interfund Transfers**

Transfers in/out of other funds for the year ended June 30, 2024 consisted of the following:

	<b>Transfers In</b>			
	<b>General Fund</b>	<b>State General Fund</b>	<b>Other State Funds</b>	<b>Total</b>
<b><u>Transfers Out</u></b>				
General Fund	\$ 0	\$ 31,958,973,242	\$ 138,399,284	\$ 32,097,372,526
Special Revenue	721,490			721,490
<b>Total</b>	<b>\$ 721,490</b>	<b>\$ 31,958,973,242</b>	<b>\$ 138,399,284</b>	<b>\$ 32,098,094,016</b>

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

The Department made legislatively mandated transfers to other state funds for the year ended June 30, 2024 as follows: (1) \$105,654,436 to the Department of Public Instruction for the State Public School Fund per General Statute 105-164.44H, (2) \$26,092,638 to the Department of Insurance for Workers' Compensation and Volunteer Fire Department Funds per General Statute 105-228.5 and to extend the Firefighter Cancer Health Benefit Pilot program authorized in Session Law 2021-180 per Session Law 2023-134, and (3) \$6,652,210 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, 2024, in the amount of \$75,888,750, which has been eliminated on the governmental fund 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 11 - 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 is not reported on the face of the governmental fund financial statements.

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

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with unreduced 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 reduced 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. 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, 2024 was 17.64% of covered payroll. Plan members' contributions to the pension plan were \$5,176,025, and the Department's contributions were \$15,217,514 for the year ended June 30, 2024.

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 2023 *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.ncosc.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 2023 *Annual Comprehensive Financial Report*.

**Net Pension Liability:** At June 30, 2024, the Department's proportionate share of the collective net pension liability was \$73,466,760. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total pension liability to June 30, 2023. 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, 2023, the Department's proportion was 0.44066%, which was a decrease of 0.00672 from its proportion measured as of June 30, 2022, which was 0.44738%.

**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	12/31/2022
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, 2022 valuation 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, 2023 (the measurement date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2023 is 0.78%.

**Discount Rate:** The discount rate used to measure the total pension liability was 6.5% for the December 31, 2022 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, 2023 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:

<u>Net Pension Liability</u>		
<u>1% Decrease (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
\$ 126,125,212	\$ 73,466,760	\$ 30,025,246

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** For the year ended June 30, 2024, the Department's proportionate share of the collective pension expense was \$20,125,040. At June 30, 2024, 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	\$ 5,989,279	\$ 542,237
Changes of Assumptions	2,580,055	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	20,460,487	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,015,233	
Contributions Subsequent to the Measurement Date	15,217,514	
<b>Total</b>	<b>\$ 45,262,568</b>	<b>\$ 542,237</b>

The amount of \$15,217,514 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, 2025. 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>
2025	\$ 10,010,964
2026	5,315,174
2027	13,302,670
2028	874,009
2029	
<b>Total</b>	<b>\$ 29,502,817</b>

**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, 2024, were \$114,860.



## Note 12 - 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 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 2023 *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.ncosc.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 2023 *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 13. The plan options change when the 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 (CJRS), the Legislative Retirement System (LRS), 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 repealed retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amended Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the TSERS (or in an allowed local system unit), CJRS, or LRS 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 Act. The Department's contractually-required contribution rate for the year ended June 30, 2024 was 7.14% of covered payroll. The Department's contributions to the RHBF were \$6,159,470 for the year ended June 30, 2024.

In fiscal year 2022, the State Health Plan (the Plan) transferred \$180.51 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 the RHBF employers. For the year ended June 30, 2024, the contribution allocated to the Department was \$136,911.

## 2. Disability Income

*Plan Administration:* As discussed in Note 13, 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 State's 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, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. 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 becoming disabled 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. A general 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; (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, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, 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, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security benefits.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act 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, 2024 was 0.11% of covered payroll. The Department's contributions to DIPNC were \$94,894 for the year ended June 30, 2024.

### C. Net OPEB Liability

*Retiree Health Benefit Fund:* At June 30, 2024, the Department's proportionate share of the collective net OPEB liability for RHBF was \$104,218,001. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. 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, 2023, the Department's proportion was 0.39110%, which was an increase of 0.00108 from its proportion measured as of June 30, 2022, which was 0.39002%.

*Disability Income Plan of North Carolina:* At June 30, 2024, the Department reported a liability of \$101,347 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. 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, 2023, the Department's proportion was 0.38106%, which was a decrease of 0.00720 from its proportion measured as of June 30, 2022, which was 0.38826%.

*Actuarial Assumptions:* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2022, 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, 2023 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2022	12/31/2022
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3%
Healthcare Cost Trend Rate - Medical***	6.5% grading down to 5% by 2029	N/A
Healthcare Cost Trend Rate - Prescription Drug***	10% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Prescription Drug Rebates***	7% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	0% through 2025, 5% thereafter	N/A
Healthcare Cost Trend Rate - Administrative***	3%	N/A

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

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

\*\*\* Disability Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or 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, 2023.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2023 (the measurement date) are summarized in the following table:



<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. 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, 2023 is 0.78%.

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 the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and 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. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.

The actuarial assumptions used in the December 31, 2022 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 3.65% at June 30, 2023 compared to 3.54% at June 30, 2022. 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 3.65% was used as the discount rate used to measure the total OPEB liability. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

The discount rate used to measure the total OPEB liability for DIPNC was 3% at June 30, 2023 compared to 3.08% at June 30, 2022. 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 not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3%, 3% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.65% was used during the period that the plan was projected to have no fiduciary net position. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

**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				
	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)	
RHBF	\$ 122,945,062	\$ 104,218,001	\$ 88,966,204	
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)	
DIPNC	\$ 121,833	\$ 101,347	\$ 80,487	

**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**

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 9%, Pharmacy Rebates - 4% - 6%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebates - 5% - 7%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebates - 6% - 8%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF	\$ 86,041,370	\$ 104,218,001	\$ 127,656,573

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

**OPEB Expense:** For the year ended June 30, 2024, the Department recognized OPEB expense were as follows:

OPEB Plan	Amount
RHBF	\$ (1,610,396)
DIPNC	149,947
<b>Total OPEB Expense</b>	<b>\$ (1,460,449)</b>

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** At June 30, 2024, 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	\$ 1,147,644	\$ 88,817	\$ 1,236,461
Changes of Assumptions	11,289,982	7,385	11,297,367
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	832,547	132,373	964,920
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,556,368	28,780	4,585,148
Contributions Subsequent to the Measurement Date	6,159,470	94,894	6,254,364
<b>Total</b>	<b>\$ 23,986,011</b>	<b>\$ 352,249</b>	<b>\$ 24,338,260</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 102,113	\$ 56,134	\$ 158,247
Changes of Assumptions	27,804,522	17,300	27,821,822
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,924,423	3,378	1,927,801
<b>Total</b>	<b>\$ 29,831,058</b>	<b>\$ 76,812</b>	<b>\$ 29,907,870</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities related to RHBF and DIPNC in the fiscal year ending June 30, 2025. 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>
2025	\$ (5,548,316)	\$ 58,358
2026	(5,925,135)	38,738
2027	(2,435,951)	50,464
2028	1,904,885	20,948
2029		7,176
Thereafter		4,859
<b>Total</b>	<b>\$ (12,004,517)</b>	<b>\$ 180,543</b>

### **Note 13 - 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 12, 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 12, 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 14 - Pending Litigation and Claims**

***Pending State Franchise Tax Refund Claims*** – The Department has received numerous claims for refund of State franchise tax paid on the basis that the tax was unconstitutional during the claimed periods. Generally, the constitutional ground asserted in these claims is that the State franchise tax violated the Commerce Clause of the United States Constitution. Collectively, the total amount of these claims could exceed \$160 million. All claims remain under the Department's purview, and, currently, there is no actual litigation pending before an administrative tribunal or court concerning these matters.

#### **Note 15 - Changes in Financial Accounting and Reporting**

For the fiscal year ended June 30, 2024, the Department implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*

GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error corrections; and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information.



# **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, 2024**

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

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Tax Revenues¹	\$ 32,002,723,000	\$ 32,002,723,000	\$ 32,043,015,547	\$ 40,292,547
Services	2,789,193	3,764,745	3,573,098	(191,647)
Fees	3,328,849	4,903,292	5,130,313	227,021
Revenues from Other State Agencies	12,009,955	16,981,682	12,861,901	(4,119,781)
Miscellaneous Revenue	564,283	543,834	190,542	(353,292)
Total Revenues	32,021,415,280	32,028,916,553	32,064,771,401	35,854,848
EXPENDITURES				
Salaries and Benefits	142,881,408	132,060,884	125,136,227	6,924,657
Contracted Personal Services	42,557,583	59,744,556	31,440,030	28,304,526
Supplies and Materials	909,637	993,027	850,059	142,968
Travel	1,635,383	1,104,955	926,364	178,591
Communication	4,067,334	4,736,520	3,747,118	989,402
Utilities	186,391	168,887	121,976	46,911
Data Processing Services	4,739,364	3,003,213	2,257,552	745,661
Other Services	4,481,071	2,041,868	1,493,904	547,964
Claims and Benefits	48,088	204,960	202,957	2,003
Other Fixed Charges	8,186,048	9,836,165	9,766,766	69,399
Capital Outlay	3,183,172	10,010,425	7,185,142	2,825,283
Grants		4,750,000	4,716,684	33,316
Insurance and Bonding	72,005	68,587	65,435	3,152
Expenditures to Other State Agencies	19,500	3,485,769	16,629,795	(13,144,026)
Other Expenditures	7,341,084	8,230,771	7,918,810	311,961
Total Expenditures	220,308,068	240,440,587	212,458,819	27,981,768
Excess Revenues Over Expenditures	31,801,107,212	31,788,475,966	31,852,312,582	63,836,616
OTHER FINANCING SOURCES (USES)				
Gain on Sale of Capital Assets	1,000	1,000	1,000	
Transfers to the State Reserve Fund	(610,249)	(616,138)	(163,054)	453,084
Transfers from the State Reserve Fund		5,624,142	5,404,521	(219,621)
Transfers from Other Departments or Funds	2,294,742	2,368,699	2,258,885	(109,814)
Transfers to the State General Fund¹	(32,002,723,000)	(32,002,723,000)	(31,958,973,242)	43,749,758
State Appropriations	118,119,821	118,119,821	117,198,822	(920,999)
Total Other Financing Sources (Uses)	(31,882,917,686)	(31,877,225,476)	(31,834,273,068)	42,952,408
Net Change in Fund Balance	(81,810,474)	(88,749,510)	18,039,514	106,789,024
Fund Balance - July 1	70,598,770	70,598,770	70,598,770	
Fund Balance - June 30	\$ (11,211,704)	\$ (18,150,740)	\$ 88,638,284	\$ 106,789,024

<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, 2024**

**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, 2024 to the fund balance on a modified accrual basis (GAAP).

	<b>General Fund</b>
Fund Balance (Budgetary Basis) June 30, 2024	\$ 88,638,284
<b>Reconciling Adjustments:</b>	
<b>Basis Differences:</b>	
<b>Accrued Revenues:</b>	
Taxes Receivable	3,149,743,666
Less: Unearned Revenue	(594,600,000)
Accounts Receivable	5,746,986
Intergovernmental Receivable	11,181,108
Due from Other Funds	76,982
Total Accrued Revenues	<u>2,572,148,742</u>
<b>Accrued Expenditures:</b>	
Accounts Payable	(8,895,447)
Accrued Payroll	(30,654)
Intergovernmental Payables	(203,300,382)
Tax Refund Payable	<u>(1,544,482,477)</u>
Total Accrued Expenditures	<u>(1,756,708,960)</u>
Total Basis Differences	<u>815,439,782</u>
<b>Other Adjustments:</b>	
Undeposited Receipts	11,331,352
General Fund Tax Reserves	11,336,995
Undistributed E-911 Funds	1,634,677
Inventories	5,341,189
Securities Held in Trust (Sureties)	15,300
Due to Other Funds	(28,748,580)
Funds Held for Others	(22,016)
Unavailable Revenue	<u>(91,103,512)</u>
Total Other Adjustments	<u>(90,214,595)</u>
Fund Balance (GAAP Basis) June 30, 2024	<u>\$ 813,863,471</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, 2024**

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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, 2024**

**Exhibit D-1**

**ASSETS**

Cash and Cash Equivalents	\$ 95,648,533
Receivables:	
Accounts Receivable, Net	210,094
Intergovernmental Receivables	37,231
Due from Company 99 <sup>1</sup>	6,994,616
Due from Other Funds	76,982
Inventories	5,341,189
Securities Held in Trust (Sureties)	15,300
	<hr/>
Total Assets	108,323,945

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	0
	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 108,323,945

**LIABILITIES**

Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 7,891,216
Accrued Payroll	30,654
Intergovernmental Payables	1,752,088
Funds Held for Others	22,016
	<hr/>
Total Liabilities	9,695,974

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	0
	<hr/>

**FUND BALANCES**

Nonspendable	5,341,189
Committed	95,594,594
Unassigned	(2,307,812)
	<hr/>
Total Fund Balances	98,627,971
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 108,323,945

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, 2024**

**Exhibit D-2**

**REVENUES**

Services	\$ 3,374,357
Fees	5,130,313
Revenues from Company 99 <sup>1</sup>	75,888,750
Revenues from Other State Agencies	17,022,410
Miscellaneous Revenues	190,543
Total Revenues	101,606,373

**EXPENDITURES**

Salaries and Benefits	125,144,069
Contracted Personal Services	31,402,929
Travel	938,464
Communication	3,716,901
Utilities	122,140
Data Processing Services	2,198,625
Other Services	3,256,605
Claims and Benefits	202,957
Lease Expenditures:	
Principal Payments	2,220,843
Interest Payments	884,865
Subscription (SBITAS) Expenditures:	
Principal Payments	2,987,703
Interest Payments	166,481
Other Fixed Charges	7,808,208
Capital Outlay	14,008,135
Grants	4,716,684
Insurance and Bonding	65,435
Expenditures to Other State Agencies	3,466,269
Other Expenditures	4,810,099
Total Expenditures	208,117,412
Deficit of Revenues Under Expenditures	(106,511,039)

**OTHER FINANCING SOURCES (USES)**

Proceeds from Leases	2,713,214.00
Proceeds from Subscriptions (SBITAS)	4,922,110.00
Gain on Sale of Capital Assets	1,000
Transfers to State Reserve Fund	(163,054)
Transfers from State Reserve Fund	5,404,521
Transfers In	721,490
State Appropriations	117,198,822
Total Other Financing Sources (Uses)	130,798,103
Net Change in Fund Balances	24,287,064
Fund Balances - July 1	74,340,907
Fund Balances - June 30	\$ 98,627,971

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, 2024**

**Exhibit D-3**

**ASSETS**

Cash and Cash Equivalents	\$ 17,292,775
Receivables:	
Taxes Receivable, Net	3,149,743,666
Accounts Receivable, Net	5,536,892
Intergovernmental Receivables	11,143,877
Total Assets	<u>3,183,717,210</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<u>0</u>
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Total Assets and Deferred Outflows of Resources	<u><u>\$ 3,183,717,210</u></u>
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**LIABILITIES**

Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 1,004,231
Intergovernmental Payables	201,548,294
Tax Refunds Payable	1,544,482,477
Due to Company 45 <sup>1</sup>	6,994,616
Due to Other Funds	28,748,580
Unearned Revenue	594,600,000
Total Liabilities	<u>2,377,378,198</u>

**DEFERRED INFLOWS OF RESOURCES**

Unavailable Revenue	<u>91,103,512</u>
Total Deferred Inflows of Resources	<u>91,103,512</u>

**FUND BALANCE**

Unassigned	<u>715,235,500</u>
Total Fund Balance	<u>715,235,500</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 3,183,717,210</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, 2024**

**Exhibit D-4**

**REVENUES**

Tax Revenues	\$ 32,738,055,799
Miscellaneous Revenues	1,813,075
Total Revenues	<u>32,739,868,874</u>

**EXPENDITURES**

Statutory Tax Distributions	779,136,696
Expenditures to Company 45 <sup>1</sup>	75,888,750
Expenditures to Other State Agencies	<u>13,163,526</u>
Total Expenditures	<u>868,188,972</u>
Excess of Revenues Over Expenditures	<u>31,871,679,902</u>

**OTHER FINANCING SOURCES (USES)**

Transfers Out	<u>(32,097,372,526)</u>
Total Other Financing Sources (Uses)	<u>(32,097,372,526)</u>
Net Change in Fund Balance	(225,692,624)
Fund Balance - July 1	<u>940,928,124</u>
Fund Balance - June 30	<u>\$ 715,235,500</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**  
**Schedule of Aging of Taxes Receivable**  
**General Fund - Company 99**  
**As of June 30, 2024**

**Exhibit E-1**

Tax Type	Delinquent Receivables (in years)				Total
	Less than 1	1 to 5	5 to 10	More than 10	
Individual	\$ 731,219,387	\$ 955,824,078	\$ 336,419,401	\$ 20,622,015	\$ 2,044,084,881
Corporate	33,919,160	50,942,450	3,009,621	75,796	87,947,027
Sales and Use	113,654,518	144,814,304	40,184,338	7,048,469	305,701,629
Franchise	30,002,435	24,141,070	3,553,053	104,408	57,800,966
Scrap Tire	322,605	291,327	70,237	19,743	703,912
White Goods	186,355	29,520	584		216,459
Manufacturing		64,630	19,075	375	84,080
Solid Waste	44	26,961			27,005
License and Excise	1,483,811	1,815,766	161,178	66,006	3,526,761
	<u>\$ 910,788,315</u>	<u>\$ 1,177,950,106</u>	<u>\$ 383,417,487</u>	<u>\$ 27,936,812</u>	<u>2,500,092,720</u>

**Reconciling Adjustments:**

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

Tobacco Products	\$ 12,959,359	
License and Excise	671,363	
Alcoholic Beverage	944,610	
Insurance	1,114,565	
Total PSRM Receivables Balance		15,689,897

**Other Adjustments:**

Unposted Accrued Interest for June 30, 2024	142,575,873
July Adjustments	(10,506,725)
<b>Delinquent Receivables (Gross) - General Fund</b>	<u><u>\$ 2,647,851,765</u></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, 2024**

**Exhibit F-1**  
**Page 1 of 2**

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

Salaries and Benefits:	
Employee Salaries	\$ 83,159,292
Law Enforcement Salaries	2,222,678
Temporary Wages	486,599
Overtime Wages	97,952
Board Member Compensation	91,300
Other Salary Expenses	24,859
Regular Retirement Contributions	21,015,807
Law Enforcement Retirement Contributions	681,770
Pension Spike Payments	7,335
Medical Insurance Contributions	9,156,437
Social Security Contributions	6,401,870
Longevity Pay	1,439,280
Employee Educational Expense	31,697
Unemployment Compensation Payments	57,912
Workers Compensation Medical Payments	9
Flexible Spending Savings	163,316
Employee Claims and Settlements	32,836
Short Term Disability Payments, Net of Refunds	50,268
Other Employee Benefits	22,852
Total Salaries and Benefits	125,144,069
Contracted Personal Services:	
Other Information Technology Services	13,418,828
Temporary Agency and Administrative Services	9,557,710
Legal Services	4,328,212
Financial and Audit Services	297,921
Security Services	688,422
Janitorial and Waste Services	133,621
Miscellaneous Contractual Services	2,978,215
Total Contracted Personal Services	31,402,929
Travel:	
Ground Transportation	489,335
Air Transportation	99,894
Lodging	224,824
Meals	72,589
Other Travel	51,822
Total Travel	938,464
Communication:	
Telephone Service	2,280,279
Telecommunication Data Charges	1,030,471
Cellular Phone Services	399,398
Other Telephone Charges	6,753
Total Communication	3,716,901
Utilities:	
Energy Services-Electrical	113,212
Other Utilities	8,928
Total Utilities	122,140
Data Processing Services	2,198,625
Other Services:	
Postage and Delivery	2,224,129
Printing and Binding	551,328
Other Services	481,148
Total Other Services	3,256,605



**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, 2024**

**Exhibit F-1**  
**Page 2 of 2**

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

Claims and Benefits:	
Law Enforcement Separation Allowance	202,957
Lease Expenditures:	
Principal Payments	2,220,843
Interest Payments	884,865
Total Lease Expenditures	3,105,708
Subscription (SBITAS) Expenditures:	
Principal Payments	2,987,703
Interest Payments	166,481
Total Subscription (SBITAS) Expenditures	3,154,184
Other Fixed Charges:	
Computer Software Maintenance Agreements	6,413,925
Computer Hardware Maintenance Agreements	330,589
Other Equipment Maintenance Agreements	402,540
Membership Dues and Subscriptions	471,858
Other Fixed Charges	189,296
Total Other Fixed Charges	7,808,208
Capital Outlay:	
Right to Use Buildings	2,713,214
Computer Software	4,737,045
Computer Hardware	1,543,317
Subscription Arrangements (SBITA) Outlay	4,922,110
Office Furniture	88,460
Office Equipment	2,232
Other Capital Outlays	1,757
Total Capital Outlay	14,008,135
Grants:	
Formula Grants to Nongovernmental Organizations	(33,316)
Directed Grants to Nongovernmental Organizations	4,750,000
Total Grants	4,716,684
Insurance and Bonding	65,435
Expenditures to Other State Agencies	16,629,795
Other Expenditures:	
Office Building Rent	217,388
Motor Vehicles Rents and Leases	12,000
Office and Communication Equipment Rents and Leases	31,863
Other Rents and Leases	2,777
Electronic Payment Processing Fees	4,539,977
Other Operating Expenses	6,094
Total Other Expenditures	4,810,099
Total Expenditures Paid for Department Operations and Administration	221,280,938
<b><u>Expenditures Paid by the Department Pursuant to Statutory Tax Allocations:</u></b>	
Expenditures Paid to Local Governments Pursuant to Statutory Tax Allocations	779,136,696
Total General Fund Expenditures	\$ 1,000,417,634



# **Independent Auditor's Report**



## North Carolina Office of the State Auditor

Dave Boliek, State Auditor

### **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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McKinley Wooten, Jr., 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, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 30, 2025.

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, 2024, 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.

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.



Dave Boliek  
State Auditor

Raleigh, North Carolina

May 30, 2025

# Ordering Information

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Copies of this report may be obtained by contacting:



**Office of the State Auditor**  
State of North Carolina  
20601 Mail Service Center  
Raleigh, North Carolina 27699

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contact the Office of the State Auditor's Tipline:**

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**Internet:** [www.auditor.nc.gov/about-us/state-auditors-tipline](http://www.auditor.nc.gov/about-us/state-auditors-tipline)

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This audit required 1,178 hours at an approximate cost of \$182,590.