

North Carolina
Department of Adult Correction
Raleigh, NC



Financial Statement Audit Report

For the Year Ended June 30, 2025

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

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
Leslie Cooley Dismukes, Secretary
Department of Adult Correction

The North Carolina Department of Adult Correction plays a critical role in protecting public safety by operating the state's prison system and supervising individuals on probation, parole and post-release supervision. Operating under the Office of the Governor, the Department reported \$1 billion in revenues and \$2.4 billion in expenses for the fiscal year ended June 30, 2025.

Through financial audits of state agencies, the North Carolina Office of the State Auditor assesses whether the records prepared are materially correct. Our audit of the North Carolina Department of Adult Correction's financial records identified inadequate internal controls over year-end inventory procedures to ensure inventory balances of \$66.5 million were reported accurately in the financial statements.

Auditors reviewed the physical inventory counts for a sample of locations in the General Fund and Correction Enterprises Fund and identified \$106,821 in overstatements in the General Fund inventory balance, and \$122,846 in understatements in the Correction Enterprise Fund inventory balance. Additionally, auditors identified \$1.9 million in General Fund inventory and \$774,629 in Correction Enterprises Fund inventory that had not been used during fiscal years 2024 and 2025, which could indicate obsolete items that should have been removed from inventory.

The inadequate controls identified increase the risk of inaccurate information being used by management and create an environment in which misappropriation may be more likely to occur.

North Carolina Department of Adult Correction leadership acknowledged the audit finding and outlined corrective actions it will be implementing. The North Carolina Office of the State Auditor will continue to monitor the Department and implementation of corrective actions.

Respectfully submitted,

Dave Boliek
State Auditor



REPORT SUMMARY

North Carolina Department of Adult Correction Financial Statement Audit

The Office of the State Auditor (OSA) performs financial statement audits¹ at the North Carolina Department of Adult Correction (Department) every two years.

Audit Results

- The Department's financial statements for fiscal year ended June 30, 2025 are **accurate** and **reliable**.
- However, our audit identified **control weaknesses over inventory balances**. The finding and recommendation are included in the report along with the Department's response.

Quick Highlights

Governmental Funds

 **Revenues:**
\$1.0 Billion

Expenses:  
\$2.4 Billion

Audit Purpose & Importance

Provide an opinion on whether the Department's financial statements are materially correct and, if necessary, report any internal control weaknesses or noncompliance with laws and regulations. The financial statement audit serves a vital role in promoting transparency, accountability, and trust in the Department's financial operations.

While a formal process, the audit's impact extends to many members of the public, including:

- Taxpayers expect responsible stewardship and transparent reporting of public funds used to operate prisons, provide offender rehabilitation and reentry programs, maintain correctional facilities, and support other correctional services that promote public safety.
- Management relies on accurate financial reporting to monitor financial performance, manage risks, and make informed decisions regarding operations.
- Public officials rely on audited financial statements to assess financial strength to guide funding, oversight, and policy decisions.
- Regulators and oversight bodies use audited financial statements to evaluate compliance with laws, regulations, and funding requirements.

Reports

The Department's financial statement audit reports are available on our website at this [link](#).

Please review the report to fully understand the Department's overall financial health and our reporting responsibilities.

¹ North Carolina General Statute 147-64.6(c)(3)

AN OVERVIEW OF HOW TO USE THIS REPORT

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

The Department reports financial activities in four governmental funds and three fiduciary funds. The governmental funds report most of the activity of the Department. The fiduciary funds are custodial funds that report Offender Trust, Work Release, and Blue Cross Blue Shield (BCBS) Dental Reserve Funds.

The financial information in the report is initially presented at a summarized, departmental level. Where some numbers need further explanation, additional detail is provided in the supplementary schedules or “Notes to the Financial Statements” for the Department which are referenced next to the line item caption. Throughout the report, the term Department is used to refer to the governmental funds and fiduciary funds 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 are presented fairly in all material respects.

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, 2025, and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2025 for the Department’s **governmental funds as a whole**.

“B” Exhibits present the Statement of Fiduciary Net Position as of June 30, 2025, and the Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2025 for the Department’s **fiduciary funds as a whole**.

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

Required Supplementary Information:

“C” Schedules present the budget and actual comparisons for the General Fund, Correction Enterprises Fund, and Welfare Fund for the fiscal year ended June 30, 2025. These schedules have not been subjected to the same auditing procedures performed on the financial statements.

An Overview of How to Use this Report

Supplementary Information:

For the purposes of this schedule, the Department is reporting governmental fund information by division in the following manner:

The “D” Schedule presents the financial information combining the Schedule of Revenues and Expenditures for the fiscal year ended June 30, 2025 across all the divisions in the Department.

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

Lesley Cooley Dismukes, Secretary
Management of the North Carolina Department of Adult Correction
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of each major governmental fund and fiduciary funds of the North Carolina Department of Adult Correction (Department) as of and for the year ended June 30, 2025, 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 each major governmental fund and the fiduciary funds of the North Carolina Department of Adult Correction as of June 30, 2025, 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 Department 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 Department are intended to present the financial position and changes in financial position that are only attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2025, and 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 combining schedule of revenues and expenditures for government funds by division (combining schedules) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule 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 combining schedule 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 October 7, 2026 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

October 7, 2026



Management's Discussion and Analysis

Introduction

The Management's Discussion and Analysis section of the North Carolina Department of Adult Correction's (Department) financial report is provided as an overview of the financial performance of the governmental funds for the fiscal year ended June 30, 2025 with comparative information for the fiscal year ended June 30, 2024. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of governmental funds and fiduciary funds. The governmental funds include the General Fund, Correction Enterprises Fund, Capital Projects Fund, and the Welfare Fund. The fiduciary funds include the Offender Trust Fund, Work Release Fund, and Blue Cross Blue Shield (BCBS) Dental Reserve Fund. The governmental funds' basic financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the fiduciary funds consist of the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The MD&A will only discuss governmental fund financial statements.

Governmental Funds:

- The Balance Sheet presents the governmental funds' assets, deferred outflows, liabilities, and deferred inflows that are considered relevant to an assessment of near-term liquidity. The difference between assets (plus deferred outflows) and liabilities (plus deferred inflows) is reported as fund balance.
- The Statement of Revenues, Expenditures, and Changes in Fund Balances reports the resource flows (revenues and expenditures) of the governmental funds.

Fiduciary Funds:

- 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 displays 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 support the statements noted above.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes the General Fund, Correction Enterprises Fund, and Welfare Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Other supplementary information includes a Combining Schedule of Revenues and Expenditures for Governmental Funds by Division.

Governmental Funds

Condensed Balance Sheets

The following Condensed Balance Sheets show the governmental funds' financial position at June 30, 2025 and 2024:

	2025	2024	Change
Assets	\$ 184,103,751	\$ 223,200,807	\$ (39,097,056)
Deferred Outflows Of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 184,103,751	\$ 223,200,807	\$ (39,097,056)
Liabilities	\$ 186,136,995	\$ 85,510,304	\$ 100,626,691
Deferred Inflows Of Resources	5,403,983	164,115	5,239,868
Fund Balances			
Nonspendable	66,475,353	59,382,601	7,092,752
Restricted	9,332,176	26,395,901	(17,063,725)
Committed	81,755,975	120,539,645	(38,783,670)
Unassigned	(165,000,731)	(68,791,759)	(96,208,972)
Total Fund Balances	(7,437,227)	137,526,388	(144,963,615)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 184,103,751	\$ 223,200,807	\$ (39,097,056)

Total assets decreased by \$39.1 million during the year primarily due to a decrease in cash and cash equivalents. Cash decreased in the General Fund primarily due to the use of \$17.2 million in restricted debt proceeds for construction costs pursuant to a Guaranteed Energy Savings agreement. Correction Enterprises Fund cash decreased by \$25.7 million. Major causes included an operating loss caused by stagnating revenues and increased operating expenditures. Additionally, the General Fund owed Correction Enterprises Fund \$12.9 million for sales of goods and services, causing Correction Enterprises to utilize cash reserves for operating expenses.

Total liabilities increased by \$100.6 million during the year primarily due to an increase in accounts payable of \$74.1 million mainly due to obligations to vendors in the General Fund. An increase in expenditures in the fiscal year led the Department to restrict cash disbursements to prevent the budget from being overspent. Also, amounts due to other funds and state agencies increased by \$23.6 million. This consisted primarily of internal amounts due from the General Fund to the Correction Enterprises Fund and external amounts due to the Department of Information Technology, the Department of Administration, and the Office of the State Controller for services provided. For more information, see the Budget Shortfalls section discussed in the Future Outlook section.

Overall fund balances decreased by \$145 million during the year. This decrease was primarily caused by the \$96.2 million decrease in unassigned fund balance due to increased payables in the General Fund as noted above. Additionally, committed fund balances decreased by \$38.8 million, primarily due to the use of non-reverting funds for prison security equipment in the General Fund and an increase of work performed for new and existing projects in the Capital Projects Fund. Restricted fund balances decreased by \$17.1 million primarily due to the use of Guaranteed Energy Savings debt proceeds.

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

The following Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances show the governmental funds' resource flows for the years ended June 30, 2025 and 2024:

	2025	2024	Change
Revenues			
Federal Funds	\$ 14,584,696	\$ 0	\$ 14,584,696
Investment Earnings	873,860	1,264,298	(390,438)
Sales and Services	73,758,621	77,870,180	(4,111,559)
Intergovernmental Sales and Services	77,974,657	76,626,930	1,347,727
Rental and Lease Property	116,985	114,870	2,115
Fees, Licenses, and Fines	1,160,862	1,122,914	37,948
Contributions, Gifts, and Grants	11,939,859	11,440,264	499,595
Revenues from Other State Agencies	840,870,392	57,557,559	783,312,833
Miscellaneous Income	11,453,568	12,145,377	(691,809)
Total Revenues	1,032,733,500	238,142,392	794,591,108
Expenditures			
Salaries and Benefits	1,445,867,777	1,352,563,779	93,303,998
Contracted Personal Services	155,157,257	129,234,504	25,922,753
Contracted Medical Services	210,993,193	208,117,494	2,875,699
Supplies and Materials	189,052,887	211,336,174	(22,283,287)
Purchases for Resale	111,906,741	98,470,595	13,436,146
Travel	4,399,187	4,219,984	179,203
Communication	9,885,693	8,104,855	1,780,838
Utilities	52,803,178	50,454,340	2,348,838
Data Processing Services	16,748,258	11,264,794	5,483,464
Other Services	25,996,117	15,785,220	10,210,897
Claims and Benefits	4,663,514	3,163,648	1,499,866
Debt Service:			
Principal Retirement	11,278,798	10,029,266	1,249,532
Interest and Fees	6,039,661	4,313,460	1,726,201
Debt Issuance Costs		64,500	(64,500)
Other Fixed Charges	7,751,037	7,179,080	571,957
Capital Outlay	143,204,428	162,706,006	(19,501,578)
Grants, State Aid, and Subsidies	1,323,402	1,325,311	(1,909)
Insurance and Bonding	2,332,897	2,667,604	(334,707)
Expenditures to Other State Agencies	1,333,575	1,949,658	(616,083)
Other Expenditures	19,884,372	19,025,016	859,356
Total Expenditures	2,420,621,972	2,301,975,288	118,646,684
Excess of Revenues Under Expenditures	(1,387,888,472)	(2,063,832,896)	675,944,424
Other Financing Sources (Uses)			
Sale of Capital Assets	1,032,792	414,497	618,295
Other Debt Issued	6,564,611	59,409,198	(52,844,587)
Insurance Recoveries		61,078	(61,078)
Transfers In	84,040,677	30,085,058	53,955,619
Transfers Out	(84,040,677)	(30,085,058)	(53,955,619)
Transfers to State Reserve Fund		(2,263,337)	2,263,337
Transfers from State Reserve Fund	1,342,313	59,214,455	(57,872,142)
State Appropriations	1,233,985,141	1,971,873,680	(737,888,539)
Total Other Financing Sources	1,242,924,857	2,088,709,571	(845,784,714)
Net Change in Fund Balances	(144,963,615)	24,876,675	(169,840,290)
Fund Balances - July 1	137,526,388	112,649,713	24,876,675
Fund Balances - June 30	\$ (7,437,227)	\$ 137,526,388	\$ (144,963,615)

Total revenues increased by \$794.6 million primarily due to the following:

- Revenues from other state agencies increased by \$783.3 million. Included in this amount is \$800 million received from the Office of State Budget and Management consisting of State Fiscal Recovery Funds in an appropriations swap agreement. Under this agreement, appropriations were reduced in the current year by \$800 million to offset these funds.
- Federal funds increased by \$14.6 million. The increase is due to revenue from the Federal Department of Justice (DOJ) State Criminal Alien Assistance Program (SCAAP) grant and Federal Bureau of Prisons (BOP) Second Chance Act/FRESH grant.
- There was a net decrease of \$3.3 million for remaining revenues. The decrease was primarily due to decreased intragovernmental sales and services in the Correction Enterprises Fund.

Total expenditures increased by \$118.6 million from the prior year mainly due to the following:

- Salaries and benefits increased by \$93.3 million primarily due to compensation increases enacted in the 2023 Appropriations Act.
- Contracted personal services increased by \$25.9 million. This increase includes the hiring of additional temporary staff in the General Fund and payments to implement additional features in the North Carolina Financial System for Correction Enterprises Fund.

Budget Variations

General Fund

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

Variances - Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$38.6 million and \$2.1 billion, respectively. This represents a 143.35% increase in revenues and a 1.23% increase in expenditures from the original certified budget. The increase in authorized revenues was attributable to state and federal grants received that were not considered in the original budget. The largest grant was the State Criminal Alien Assistance Program (SCAAP) Grant, which accounts for over \$14 million, but also includes the Trauma-Informed Desistance (TIDES) Training Grant, the Victims of Crime Act (VOCA) Grant, Commission on Accreditation for Law Enforcement Agencies (CALEA) and American Correctional Association (ACA) Accreditation Funding from the Governor's Crime Commission, and Federal Emergency Management Agency (FEMA) Grants related to reimbursements from costs associated with Hurricane Helene.

Generally, the variances between certified and authorized budget are attributable to the timing and length of the budget preparation process. The original certified budget for fiscal year 2025 was prepared during the fall of 2022, over two years in advance of the final authorized budget. In addition, needs and situations change from year to year. For example, Hurricane Helene required the evacuation and transportation of hundreds of inmates. The costs associated with these activities

were not anticipated when the budget was prepared. This final budget reflects all budget revisions made throughout the fiscal year to accommodate these unique needs and situations for this fiscal year. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances - Final Budget and Actual Results:

Actual total revenues were \$2.1 million less than budgeted revenue amounts. The majority of this variance is attributable to the Victims of Crime Act (VOCA) Grant. The budget was increased to account for the new grant award the Department received during the fiscal year. However, the budget for the grant award from the previous fiscal year was not reduced, thus inflating the budget for this grant by over \$2 million.

Actual total expenditures were \$6.6 million less than budgeted expenditures. An increase of expenditures early in fiscal year 2025 put the Department at risk of overspending its budget. Consequently, the Department put many of its invoices on hold towards the end of the fiscal year to prevent this from happening, which artificially deflated the expenditures in this fiscal year.

Correction Enterprises Fund

Data for the Correction Enterprises Fund budget variances is presented in Schedule C-2: Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis - Non-GAAP) of this report.

Variances - Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$89.3 million and \$127.2 million, respectively. This represents a 0.11% increase in revenues and a 46.59% increase in expenditures from the original certified budget. The original certified budget for fiscal year 2025 was prepared during the fall of 2022, over two years in advance of the final authorized budget. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances - Final Budget and Actual Results:

Actual total revenues were \$13.5 million over budgeted amounts. Variances are due to the timing of cash collections. The final budget will usually vary from the actual revenues.

Actual total expenditures were \$9,454 less than budgeted amounts. Generally, minor variances like this are due to the timing of adjusting the budget and when payments and reimbursements are received. Consequently, the final budget will usually vary, at least slightly, from the actual expenditures.

Welfare Fund

Data for the Welfare Fund budget variances is presented in Schedule C-3: Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis - Non-GAAP) of this report.

Variances - Original and Final Budget:

The final authorized budgeted revenues and expenditures were \$45.7 million and \$45.8 million, respectively. This represents a 1.96% increase in revenues and a 4.48% increase in expenditures from the original certified budget. Generally, minor variances between certified and authorized budget are attributable to the timing and length of the budget preparation process for the fiscal year. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

Variances - Final Budget and Actual Results:

Actual total revenues were \$1.5 million less than budgeted revenues. Variances from budgeted revenues were primarily due to lower-than-expected prison canteen sales. Canteen sales are driven by the personal funds available to incarcerated offenders. This can vary significantly due to factors outside the control of the Department, such as the amount of money sent to an offender by friends and family.

Actual total expenditures were \$4.2 million less than budgeted expenditures. Variances from budgeted expenditures occurred due to lower purchases of canteen merchandise as a result of the decreased sales.

Future Outlook

Budget Shortfalls

The Department's deficit fund balance stemmed from a fundamental shortfall in the certified operating budget. Unpaid invoices of over \$90 million carried over into fiscal year 2026 resulted in a deficit fund balance in fiscal year 2025.

The Department faces severe, compounding cost increases across all major operational areas. These include rising food prices, escalating uniform and clothing costs, and expensive repairs for aging facilities. Additionally, a growing offender population and rising medical inflation have drastically increased the cost of fulfilling our constitutional requirement to provide comprehensive healthcare.

In fiscal year 2025, expenditures significantly exceeded the certified budget for health services, information technology, and food costs. The Department relies on lapsed salary funding from vacant positions to minimize the shortfall in appropriated funding for operational expenditures. This provides some flexibility for funding specific needs, but relying on lapsed salaries for operational expenses is not sustainable long term. In response, the Department has aggressively curtailed spending, limiting expenditures strictly to mission-critical operations. However, this emergency posture is unsustainable over the long term without compromising essential services. To restore fiscal stability and sustain operations, the Department has requested \$141 million in recurring operating funds from the General Assembly for the 2026 budget session. During fiscal year 2026, Session Law 2026-1 appropriated non-recurring funds of \$80 million to address the shortfall in operating funds. In fiscal year 2027, the Department will receive an additional \$120 million in

appropriation (\$40 million in recurring funds and \$80 million in non-recurring funds) to help with the operating shortfalls.

Prison Staffing Shortages

For the past several years, the Department has struggled with high vacancy rates for prison staffing. From October 2022 – September 2025, more than half of prison facilities have averaged vacancy rates among correctional officers of over 40.39%. As of September 2025, the Department's current vacancy rate for correctional officers is 35.47%.

Staffing shortages pose both safety issues and liability concerns, and the shortage and high turnover create additional costs for the Department. Total overtime pay for the Department totaled \$78.5 million in fiscal year 2024 and \$88.8 million in fiscal year 2025.

Private Security Contract

Private security has been contracted for prisons experiencing high vacancy rates for correctional officer positions. The private security staff are authorized to work in roving patrol, tower, gatehouse, and gatehouse search positions per General Statute.

Locations utilizing private security staff include Bertie Correctional Institution (CI), Craven CI, Eastern CI, Maury CI, Neuse CI, Roanoke River PWF, Pamlico CI, Pasquotank CI, Anson CI, Caswell CI, Central Prison, Franklin CI, Granville CI, Nash CI, NC Correctional Institution for Women (NCCIW), Warren CI, Albemarle CI, Brown Creek CI, Columbus CI, Harnett CI, Lumberton CI, New Hanover Correctional Center (CC), Pender CI, Richmond CI, Sampson CI, Scotland CI, Southern CI, Tabor CI, Alexander CI, Avery Mitchell CI, Mount View CI, Craggy CC, Foothills CI, Marion CI, and Piedmont CI.

Community Supervision Staffing Shortages

In 2017, the General Assembly authorized a Law Enforcement Salary Continuation Supplement for Probation/Parole Officers effective in 2022, enabling eligible retirees to receive a supplement to their retirement compensation until they become eligible for Social Security. As a result, retirements are steady, yet anticipated, and strategic hiring event planning has allowed the Department to keep the impact of turnover to a minimum in most parts of the State.

The Division of Community Supervision has just under 1,800 Probation/Parole Officer positions, 408 of which are in Judicial Division IV, the Western Foothills. The Division anticipates a continued serious staffing shortage in the ranks of Probation/Parole Officers in the western part of the State in the coming year. As of October 13, 2025, there is an overall 7.89% vacancy rate within the Probation/Parole Officer Classification.

Law Enforcement Officer (LEO) Retirement Supplement

For the State's fiscal year 2023-2025 biennium, a recurring amount of almost \$1.7 million was budgeted to accommodate the LEO Salary Continuation Supplement (authorized by the General Assembly in 2017, effective in 2022). In fiscal year 2025, over \$4.7 million was paid to Community Supervision retirees eligible to receive this supplement.

Physical Plant Concerns

The Department has a very large physical plant portfolio that includes 13.1 million square feet of buildings and 13,165 acres of land. Of the buildings' 13.1 million square feet, 12.2 million represent the division of Institutions, which includes Drug Treatment and Confinement in Response to Violation (CRV) facilities. The average age of our buildings is 50 years old. Existing repair and renovation (R&R) appropriations have not been at an appropriate level to allow the Department to address needed repair and replacement of essential building systems, including chillers, boilers, roofs, and door controls.

Fiscal year 2026 will have significant facility upgrade needs/costs. As of June 2026, 53 facilities have been recommended or awarded American Correctional Association (ACA) accreditation and 5 facilities are pending panel hearings at the July conference. The final completion for the remaining 5 facilities will be in 2028. To meet ACA accreditation standards at the remaining institutions, there will have to be financial investments made at our facilities.

Inmate Health Care and Hepatitis C Settlement

The Department is required to provide community-standard health care to incarcerated individuals.

In September 2020, the Department agreed to a proposed consent decree in the lawsuit with an incarcerated individual over provision of treatment for Hepatitis C. Under that agreement, the Department has increased screening and testing for the Hepatitis C virus, has expanded Hepatitis C treatment education for incarcerated individuals, and provided status reports to the plaintiffs' counsel.

- Pre-settlement – In fiscal year 2020, the Department expended \$5.6 million on Hepatitis C virus treatment on 344 offenders.
- In 2024, the Department expended \$36.2 million on the same treatment for 1,721 incarcerated individuals, a 400% increase in individuals treated. The Department was no longer able to use risk stratification to determine need for treatment.
- Through the 340B Program, a U.S. government program that requires drug manufacturers to sell outpatient drugs at a discount to eligible healthcare providers, the Department was able to save \$15.5 million during fiscal year 2025.
- The total 340B Program's cost savings since implementation (2021) is \$47.8 million.

If this treatment trend continues, the Department can expect significant costs annually for Hepatitis C treatment for incarcerated individuals. Several factors influencing this total are the constant turnover of incarcerated individuals entering and exiting the prison system, and the expectation that Hepatitis C therapy cost will fluctuate over time.

Medication For Opioid Use Disorder (MOUD) Program

The Department is required to provide community-standard health care to incarcerated individuals in its custody. Opioid use disorder (OUD) has been classified as a disability by the ADA and the U.S. Department of Justice continues to press correctional systems across the country to provide treatment for this condition. The largest component of OUD treatment involves medications (MOUD).

- The Department's MOUD program is currently in place at 22 prisons, with monthly expenditures of nearly \$300 thousand for medications, medical service providers, and staff who administer the program. This Program has been implemented through lapsed salary funds and without dedicated appropriations.
- The current annual cost, including staff for the 22 prisons, exceeds \$1 million annually.
- Additional staff will be needed to expand to all prisons and pharmaceutical costs are expected to increase.

Additional Health Care Considerations

Aging and increasingly complex medical history among incarcerated individuals has translated to increased medical costs. The incarcerated population over 60 years of age has doubled in the last 10 years and the population over 70 years of age has increased more than 300% during that same time period.



Financial Statements

North Carolina Department of Adult Correction
Balance Sheet
Governmental Funds
June 30, 2025

Exhibit A-1

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents (Note 2)	\$ 33,171,711	\$ 16,858,336	\$ 28,908,991	\$ 12,358,629	\$ 91,297,667
Receivables:					
Accounts Receivable, Net (Note 4)	2,090,285	3,756,188			5,846,473
Intergovernmental Receivables, Net (Note 4)	1,225,427	287,948			1,513,375
Interest Receivable	3,253				3,253
Inventories (Note 5)	37,281,768	26,115,753		3,077,832	66,475,353
Due from Other Funds and State Agencies	371,126	18,068,465			18,439,591
Leases Receivable		189,803			189,803
Notes Receivable	338,236				338,236
Total Assets	74,481,806	65,276,493	28,908,991	15,436,461	184,103,751
DEFERRED OUTFLOWS OF RESOURCES					
	0	0	0	0	0
Total Assets and Deferred Outflows of Resources	\$ 74,481,806	\$ 65,276,493	\$ 28,908,991	\$ 15,436,461	\$ 184,103,751
LIABILITIES					
Accounts Payable and Accrued Liabilities					
Accounts Payable	\$ 66,003,648	\$ 2,873,817	\$ 7,591,793	\$ 1,527,220	\$ 77,996,478
Medical Services Payable	61,742,248				61,742,248
Accrued Payroll	2,243	3,236			5,479
Intergovernmental Payables	4,043,772	124,943		277	4,168,992
Due to Other Funds and State Agencies	36,737,618	437,035	1,738,090	122,413	39,035,156
Due to State of North Carolina Component Units	3,188,642				3,188,642
Total Liabilities	171,718,171	3,439,031	9,329,883	1,649,910	186,136,995
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	840,091	4,497,024			5,337,115
Deferred Inflows for Leases		66,868			66,868
Total Deferred Inflows of Resources	840,091	4,563,892	0	0	5,403,983
FUND BALANCES (Note 6)					
Nonspendable	37,281,768	26,115,753		3,077,832	66,475,353
Restricted	9,332,176				9,332,176
Committed	19,748,476	31,157,817	20,140,963	10,708,719	81,755,975
Unassigned	(164,438,876)		(561,855)		(165,000,731)
Total Fund Balances	(98,076,456)	57,273,570	19,579,108	13,786,551	(7,437,227)
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 74,481,806	\$ 65,276,493	\$ 28,908,991	\$ 15,436,461	\$ 184,103,751

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

North Carolina Department of Adult Correction
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2025

Exhibit A-2

	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total Governmental Funds
REVENUES					
Federal Funds	\$ 14,584,696	\$ 0	\$ 0	\$ 0	\$ 14,584,696
Investment Earnings	873,860				873,860
Sales and Services	1,215,132	32,773,961		39,769,528	73,758,621
Intragovernmental Sales and Services		77,974,657			77,974,657
Rental and Lease of Property	10,005	101,980		5,000	116,985
Fees, Licenses, and Fines	1,160,862				1,160,862
Contributions, Gifts, and Grants	11,938,946			913	11,939,859
Revenues from Other State Agencies (Note 7)	800,569,455		40,300,937		840,870,392
Miscellaneous Income	6,841,611	17,911		4,594,046	11,453,568
	<u>837,194,567</u>	<u>110,868,509</u>	<u>40,300,937</u>	<u>44,369,487</u>	<u>1,032,733,500</u>
Total Revenues					
EXPENDITURES					
Salaries and Benefits	1,416,712,653	28,208,966		946,158	1,445,867,777
Contracted Personal Services	145,722,138	6,706,738	814,499	1,913,882	155,157,257
Contracted Medical Services	210,986,961	6,232			210,993,193
Supplies and Materials	181,586,163	4,294,515		3,172,209	189,052,887
Purchases for Resale	17,076,201	62,349,518		32,481,022	111,906,741
Travel	4,197,145	200,081		1,961	4,399,187
Communication	9,428,194	456,155		1,344	9,885,693
Utilities	50,260,216	2,301,644		241,318	52,803,178
Data Processing Services	16,525,311	150,622		72,325	16,748,258
Other Services	23,381,180	2,533,399		81,538	25,996,117
Claims and Benefits	4,663,514				4,663,514
Debt Service:					
Principal Retirement	11,117,944	151,030		9,824	11,278,798
Interest and Fees	5,967,446	60,862		11,353	6,039,661
Other Fixed Charges	6,986,429	618,591	8,370	137,647	7,751,037
Capital Outlay	74,053,986	12,414,608	55,572,796	1,163,038	143,204,428
Grants, State Aid, and Subsidies	1,323,402				1,323,402
Insurance and Bonding	1,734,967	597,930			2,332,897
Expenditures to Other State Agencies (Note 7)	19,577	927,226		386,772	1,333,575
Other Expenditures	17,037,256	1,630,343		1,216,773	19,884,372
	<u>2,198,780,683</u>	<u>123,608,460</u>	<u>56,395,665</u>	<u>41,837,164</u>	<u>2,420,621,972</u>
Total Expenditures					
Excess of Revenues Over (Under) Expenditures	<u>(1,361,586,116)</u>	<u>(12,739,951)</u>	<u>(16,094,728)</u>	<u>2,532,323</u>	<u>(1,387,888,472)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	570,030	462,762			1,032,792
Other Debt Issued	6,564,611				6,564,611
Transfers In (Note 8)	72,778,242	42	1,118,537	10,143,856	84,040,677
Transfers Out (Note 8)	(69,977,792)	(2,079,156)	(1,126,757)	(10,856,972)	(84,040,677)
Transfers from State Reserve Fund	1,342,313				1,342,313
State Appropriations	1,233,985,141				1,233,985,141
	<u>1,245,262,545</u>	<u>(1,616,352)</u>	<u>(8,220)</u>	<u>(713,116)</u>	<u>1,242,924,857</u>
Total Other Financing Sources (Uses)					
Net Change in Fund Balance	(116,323,571)	(14,356,303)	(16,102,948)	1,819,207	(144,963,615)
FUND BALANCES					
Fund Balances - July 1	<u>18,247,115</u>	<u>71,629,873</u>	<u>35,682,056</u>	<u>11,967,344</u>	<u>137,526,388</u>
Fund Balances - June 30	<u>\$ (98,076,456)</u>	<u>\$ 57,273,570</u>	<u>\$ 19,579,108</u>	<u>\$ 13,786,551</u>	<u>\$ (7,437,227)</u>

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

North Carolina Department of Adult Correction
Statement of Fiduciary Net Position
Fiduciary Funds - Custodial Funds
June 30, 2025

Exhibit B-1

	Offender Trust Fund	Work Release Fund	BCBS Dental Reserve Fund
ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 7,144,527	\$ 9,570,573	\$ 1,577,051
Accounts Receivable		443,247	
Interest Receivable		35,300	5,809
Due from Other Funds	853,600		
Total Assets	7,998,127	10,049,120	1,582,860
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
LIABILITIES			
Due to Other Funds	79,911	575,179	
Funds Held for Others	7,390	353,011	
Total Liabilities	87,301	928,190	0
DEFERRED INFLOWS OF RESOURCES	0	0	0
Restricted for:			
Individuals and Other Organizations	7,910,826	9,120,930	1,582,860
Total Fiduciary Net Position	\$ 7,910,826	\$ 9,120,930	\$ 1,582,860

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

North Carolina Department of Adult Correction
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Custodial Funds
For the Fiscal Year Ended June 30, 2025

Exhibit B-2

	Offender Trust Fund	Work Release Fund	BCBS Dental Reserve Fund
ADDITIONS			
Participant Deposits	\$ 71,293,472	\$ 20,518,798	\$ 0
Investment Income		423,300.00	71,384.00
Total Additions	71,293,472	20,942,098	71,384
DEDUCTIONS			
Payments in Accordance with Custodial Arrangements	70,820,359	20,108,507	
Administrative Expenses		2,200	
Total Deductions	70,820,359	20,110,707	0
Increase in Fiduciary Net Position	473,113	831,391	71,384
NET POSITION			
Net Position - July 1	7,437,713	8,289,539	1,511,476
Net Position - June 30	\$ 7,910,826	\$ 9,120,930	\$ 1,582,860

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 Adult Correction (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department is charged with protecting North Carolinians through the rehabilitation, care, custody, and supervision of individuals in prison and individuals on probation, post-release, or parole in communities. The operations of the Department are led by the Secretary of Adult Correction, 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 major 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 funds combined, unless otherwise specifically noted.

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

General Fund - This fund is the Department’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Correction Enterprises Fund – Authorized by *North Carolina General Statute* 148-128, this fund accounts for the activities of Correction Enterprises. Correction Enterprises provides rehabilitative opportunities to offenders and produces high-quality merchandise at a savings to the taxpayer. The fund does not receive any appropriations from the General Assembly, and because the revenues generated are committed by specific legislation, the fund is reported as a special revenue fund in the financial statements.

Capital Projects Fund – This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities and is primarily funded by state appropriations and the State's issuance of debt. Specific projects are identified in the State's budget and approved by the legislature.

Welfare Fund – This fund accounts for the proceeds from (and related expenditures for) operations of the State's prison canteens. The fund is reported as a special revenue fund.

The Department's financial statements consist of the following fiduciary funds, which are custodial in nature:

Offender Trust Fund – This fund accounts for offender deposits in the offender banking system. This includes safeguarding of the funds, permitting reasonable expenditures for authorized articles, preventing use for improper purposes, assuring return of any balance remaining to the offender upon release and limiting the amount of cash in possessions of offenders.

Work Release Fund – This fund accounts for receipts and disbursements of funds received from offenders that are eligible to participate in the Work Release Program. Any balances of earnings remaining at the time an offender is released from prison shall be paid to them.

BCBS Dental Reserve Fund – This fund is a dental reserve fund which is held in a STIF account at the Department of State Treasurer. There have been no payments processed in the past twenty years. The only activity in this fund is due to the monthly interest received in the funds held at the Department of State Treasurer. The Department is actively working to identify claimants entitled to the funds.

D. Measurement Focus and Basis of Accounting

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

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures are recorded

when a liability is incurred, except for compensated absences and workers' compensation, which are recognized as expenditures when payment is due. Pension and other postemployment benefit (OPEB) contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if the payment is not due until the subsequent period.

Fiduciary Funds – 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 to be 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 investment earnings (or losses), state appropriations, and certain grants and similar assistance. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- E. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The Department's equity position in STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in STIF is disclosed in Note 3.

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

Accounts receivable for the governmental funds primarily include amounts due from employees and sales and services provided by the Correction Enterprises Fund. Accounts receivable for the fiduciary funds include deposits initiated within the current fiscal period where cash is not received until the next fiscal period. Accounts receivable for the governmental funds are recorded net of estimated uncollectible accounts. Accounts receivable for the fiduciary funds are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Intergovernmental receivables for the governmental funds include amounts due from the federal government in connection with reimbursement of allowance expenditures made pursuant to grants and contracts. Intergovernmental receivables also include amounts due from local governments in connection with housing offenders (safekeepers). Intergovernmental receivables for the governmental funds are recorded net of estimated uncollectible amounts.

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

H. Inventories – Inventories, consisting of general supplies and materials, raw materials, and work-in-process, are valued at cost using the last invoice price or weighted average cost method. Finished goods and merchandise for resale are valued at the lower of cost or market. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

I. Payables – Accounts payable for the governmental funds include amounts due to suppliers, individuals, companies, medical services, and travel reimbursements.

Intergovernmental payables for the governmental funds include amounts due to local governmental services.

J. 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. Deferred inflows of resources include unavailable revenues, which are recorded when earned revenues are not collected within 31 days of the end of the current fiscal period. Deferred inflows of resources for lease agreements are recorded in accordance with GASB Statement No. 87, *Leases* in connection with the Department's leases of land to third parties.

K. Fund Balance/Net Position

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

Nonspendable Fund Balance – These amounts cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

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

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

Unassigned Fund Balance - This is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted or committed to those purposes.

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

Fiduciary Net Position – Net Position for the fiduciary funds is classified as follows:

Restricted Net Position – Fiduciary net position includes resources held for offenders that are not available for alternative use by the Department.

- L. 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 funds, 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 governmental 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*.
- M. 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 and Investments

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, 2025, the amounts below represent the Department's equity position in the State Treasurer's Short-Term Investment Fund (STIF):

- The governmental funds' Balance Sheet includes cash and cash equivalents of \$90,257,692.
- The fiduciary funds' Statement of Net Position includes cash and cash equivalents of \$11,147,624.

Included in the governmental funds' position is \$8,935,927 of restricted unspent debt proceeds held by a third-party fiscal agent but invested in the 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 other regulatory oversight and does not have a credit rating) had a weighted average maturity of 2.1 years as of June 30, 2025. 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.

The carrying value of governmental funds’ deposits not with the State Treasurer was \$1,039,975 and the bank balance was \$1,039,975. Fiduciary funds’ cash on hand at June 30, 2025 was \$19,476. The carrying value of fiduciary funds’ deposits not with the State Treasurer was \$7,125,051 and the bank balance was \$10,640,634.

As of June 30, 2025, \$869,886 of the Department’s bank balances was exposed to custodial credit risk as uninsured and uncollateralized. Custodial credit risk is the risk that in the event of a bank failure, the Department’s deposits may not be returned to it. As of June 30, 2025, the Department’s bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Note 3 - Fair Value Measurements

To the extent available, the Department’s investments are recorded at fair value as of June 30, 2025. 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 taking into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, the Department’s investments held in the STIF were valued at \$101,405,316. 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

Accounts receivable for the governmental funds at June 30, 2025 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Miscellaneous Accounts Receivable	\$ 88,802	\$ 0	\$ 88,802
State Surplus	62,181		62,181
FEMA Revenues Due from DPS	4,301		4,301
Due from Employees	4,732,470	2,797,469	1,935,001
Total General Fund	<u>4,887,754</u>	<u>2,797,469</u>	<u>2,090,285</u>
Correction Enterprises Fund:			
Sales	3,753,809		3,753,809
State Surplus	1,283		1,283
Due from Employees	1,231	135	1,096
Total Correction Enterprises Fund	<u>3,756,323</u>	<u>135</u>	<u>3,756,188</u>
Total Accounts Receivable	<u>\$ 8,644,077</u>	<u>\$ 2,797,604</u>	<u>\$ 5,846,473</u>

Intergovernmental receivables for the governmental funds at June 30, 2025 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Governmental Funds:			
General Fund:			
Local Governments:			
Safekeepers	\$ 1,227,191	\$ 48,267	\$ 1,178,924
Miscellaneous Intergovernmental Receivable	46,503		46,503
Total General Fund	<u>1,273,694</u>	<u>48,267</u>	<u>1,225,427</u>
Correction Enterprises Fund:			
Federal Government	42,614		42,614
U.S. States & Territories	10,257		10,257
Sales and Services to Local Governments	235,077		235,077
Total Correction Enterprises Fund	<u>287,948</u>	<u>0</u>	<u>287,948</u>
Total Intergovernmental Receivables	<u>\$ 1,561,642</u>	<u>\$ 48,267</u>	<u>\$ 1,513,375</u>

Note 5 - Inventories

Inventories for the governmental funds at June 30, 2025 were as follows:

Inventories:	
General Fund:	
	Amount
Armory Supplies and Ammunition	\$ 697,332
Clothing	9,715,404
Food & Cleaning Supplies	9,715,904
Medical Supplies	2,578,091
Other Materials and Supplies	14,575,037
Total General Fund	37,281,768
Correction Enterprises Fund:	
License Tag Plant	1,975,375
Print and Framing	942,401
Sign Plant	1,499,481
Woodworking Plant	1,124,140
Sewing Plants	5,547,255
Janitorial Plant	2,323,109
Upholstery and Reupholstery	697,954
Optical	1,128,787
Meat Plant	6,332,727
Produce, Cannery, and Farm Operations	3,819,716
Other Manufacturing Operations	295,396
Other Materials and Supplies	429,412
Total Correction Enterprises Fund	26,115,753
Welfare Fund:	
Other Materials and Supplies	108,497
Purchases for Resale*	2,969,335
Total Welfare Fund	3,077,832
Total Inventories	\$ 66,475,353

* Purchases for Resale include inventories held for internal distribution at warehouses and distribution centers.

Note 6 - Fund Balance

The details of the fund balance classifications for the governmental funds at June 30, 2025, were as follows:

	<u>General Fund</u>	<u>Correction Enterprises Fund</u>	<u>Capital Projects Fund</u>	<u>Welfare Fund</u>	<u>Total Governmental Funds</u>
Fund Balance:					
Nonspendable:					
Inventories	\$ 37,281,768	\$ 26,115,753	\$ 0	\$ 3,077,832	\$ 66,475,353
Restricted for:					
Federal Grants	396,249				396,249
Guarenteed Energy Savings	8,935,927				8,935,927
Committed to:					
Statewide Misdemeanant Confinement Fund	9,435,437				9,435,437
DAC Energy Savings	3,519,136				3,519,136
Prison Software Management	2,601,949				2,601,949
Prison Security Projects	2,438,511				2,438,511
Other Fees, Projects, and Programs	1,753,443				1,753,443
Correction Enterprises Operations		31,157,817			31,157,817
OSBM Projects, Incl. Repairs and Renovations			20,140,963		20,140,963
Prison Moneys and Earnings				10,708,719	10,708,719
Unassigned	<u>(164,438,876)</u>	<u></u>	<u>(561,855)</u>	<u></u>	<u>(165,000,731)</u>
Total Fund Balances	<u>\$ (98,076,456)</u>	<u>\$ 57,273,570</u>	<u>\$ 19,579,108</u>	<u>\$ 13,786,551</u>	<u>\$ (7,437,227)</u>

Due to the General Assembly not passing a state budget in fiscal year 2025, the State was under a continuing resolution, which limited appropriations to the levels of the previously enacted budget. However, the Department's expenditures continued to increase due to rising operational costs. The General Fund reported a negative fund balance due to total liabilities and deferred inflows of resources exceeding total assets. Specifically, the Department incurred accounts payable and accrued liabilities for unpaid operating expenses in excess of currently available financial resources. The Department exhausted all available cash that was not restricted or committed for other purposes for the payment of these liabilities by June 30, 2025. The Department's remaining obligations were paid in fiscal year 2026.

Note 7 - Revenues and Expenditures from/to Other State Agencies

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2025 were as follows:

Revenues from Other State Agencies

	Purpose	Amount
General Fund:		
Office of State Budget and Management	State Fiscal Recovery Funds	<u>\$ 800,569,455</u>
Capital Projects Fund:		
Office of State Budget and Management	General Repairs and Maintenance	23,458,702
Office of State Budget and Management	Capital Projects	2,152,669
Office of State Budget and Management	State Fiscal Recovery Funds	14,569,566
Department of Transportation	Replace Lincoln Correctional Center Main Line	<u>120,000</u>
Total Capital Projects Fund		<u>40,300,937</u>
Total Revenues from Other State Agencies		<u>\$ 840,870,392</u>

Expenditures to Other State Agencies

	Purpose	Amount
General Fund:		
Department of Public Safety	Non-cash Transfer of DPS-owned Note Receivable	<u>\$ 19,577</u>
Correction Enterprises Fund:		
NC General Fund	Transfer to Support Annual Appropriations (SL 2022-126)	500,000
Department of Public Safety	Transfer to Victims Compensation Fund (G.S. 148-130b)	<u>427,226</u>
Total Correction Enterprises Fund		<u>927,226</u>
Welfare Fund		
Department of Public Safety	Transfer to Victims Compensation Fund (G.S. 148-2c)	<u>386,772</u>
Total Expenditures to Other State Agencies		<u>\$ 1,333,575</u>

Note 8 - Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2025 consisted of the following:

Transfers Out	Transfers In				
	General Fund	Correction Enterprises Fund	Capital Projects Fund	Welfare Fund	Total
General Fund	\$ 69,967,787	\$ 0	\$ 10,005	\$ 0	\$ 69,977,792
Correction Enterprises Fund	2,079,156				2,079,156
Capital Projects Fund		42	1,108,532	18,183	1,126,757
Welfare Fund	731,299			10,125,673	10,856,972
Total	\$ 72,778,242	\$ 42	\$ 1,118,537	\$ 10,143,856	\$ 84,040,677

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

Note 9 - 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 funds' financial statements.

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, LEAs, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Effective January 1, 2024, new employees hired by UNC Health Care or by certain components of East Carolina University, who were not actively contributing to TSERS immediately before they were hired by those entities, are not eligible to join TSERS. 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 unreduced 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 reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEO's who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced 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 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.

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, 2025 was 16.79% of covered payroll. Plan members' contributions to the pension plan were \$57,801,576, and the Department's contributions were \$161,748,076 for the year ended June 30, 2025.

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 2024 *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.

B. Single Employer, Defined Contribution Plan

Special Separation Allowance

Plan Administration: The Department provides a special separation allowance (SSA), a single employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statute 135-1(11c) or General Statute 143-166.30(a)(4) that were employed by the Department and retired on a basic service retirement under the provisions of General Statute 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) have not attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement.

Benefits Provided: Each eligible officer is paid an annual separation allowance equal to 0.85% of the officer's most recent base rate of compensation for each year of creditable service. These benefits are funded on a pay-as-you-go basis with the Department being responsible for the benefits to its former employees. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

There is no statewide administration of the SSA. The SSA is not administered through a trust and therefore no assets are accumulated. Funds for this allowance are appropriated annually in the Department's budget. For the fiscal year ended June 30, 2025, the Department paid \$4,663,514 for 310 retired law enforcement officers for this benefit.

Additional detailed information about the SSA is included in the State of North Carolina's *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.

C. Defined Contribution Plan

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Department except for a 5% employer contribution for the Department's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Department law enforcement officers for the year ended June 30, 2025 were \$31,984,556.

Note 10 - 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 other postemployment benefits liability is not reported on the face of the governmental funds' 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 2024 *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. 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 contribution 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 11. 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 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 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 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, 2025 was 6.99% of covered payroll.

The Department's contributions to the RHBF were \$67,338,836 for the year ended June 30, 2025.

In fiscal year 2023, the Plan transferred \$35 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 recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2025, the Department recognized noncapital contributions for RHBF of \$469,025.

2. Disability Income

Plan Administration: As discussed in Note 11, 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 and 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 disability 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: 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, 2025 was 0.13% of covered payroll. The Department's contributions to DIPNC were \$1,252,367 for the year ended June 30, 2025.

Note 11 - 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. Settled claims have not exceeded coverage in any of the past three fiscal years. There was a reduction of insurance for public officers' and employees' excess liability coverage from \$10 million to \$5 million due to the loss of an underwriter which was not "claim related". The State is actively seeking a replacement underwriter to make up this loss in insurance coverage.

A. Employee Benefit Plans

1. State Health Plan

Department employees are provided with comprehensive 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 10, 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 up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits 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 10, 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

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the Office of State Fire Marshal within 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 Office of State Fire Marshal for the coverage.

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.

The Department has a pending/open claim for a fire sustained on March 1, 2022 (which at that time was the Department of Public Safety, or DPS) at the NC Correction Enterprises laundry facility, located at the Sampson Correctional Institution in Clinton, NC. Of the total negotiated loss amount of \$11.6 million, \$2.8 million of the claim remained as of June 30, 2025. It was recorded as a receivable and final payment of \$2.8 million was received from the Office of the State Fire Marshal in August 2025. The Department also has an open loss estimated to be approximately \$2 million for roof damage sustained at the Mountain View Correctional Institution in Spruce Pine, NC due to the Hurricane

Helene storm. The exact amount has yet to be determined, and the amount could change once the design and repairs are under contract.

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 \$5,000,000 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.

5. Other Insurance Held by the Department

The Department purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. For example, the Department maintains insurance coverage for the following types of risk which include but are not limited to: drone (unmanned aerial vehicle) accidents, boiler accidents, prison facility flood insurance, medical and dental malpractice, and railroad crossing liability.

Note 12 - Commitments and Contingencies

- A. Federal Grants** - The Department receives significant financial assistance from the federal government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not

being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the Department. As of June 30, 2025 the Department is unable to estimate what liabilities may result from such audits.

- B. Pending Litigation and Claims** - The Department is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Department management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Department.

Hodge v. NCDPS (DAC), Civil Action: Fair Labor Standards Act (FLSA) Class Action. Potential liability greater than \$60 million. The Department is party to a class action lawsuit filed on October 28, 2019, in the Western Division of the Eastern District of NC alleging a Fair Labor Standards Act violation whereby correctional officers were not properly compensated for the time it takes to pass through security and enter the prison facility when reporting to work (pre-shift), as well as the extra time taken to be relieved from their post after their shift has ended (post-shift). Plaintiffs are seeking class certification of “all current and former non-exempt, hourly-paid employees of DAC (formerly DPS) who worked as security personnel in a correctional institution at any time during the Relevant Time Period”. There could be substantial exposure to monetary damages considering the number of correctional officers who could fall into the class of plaintiffs, if certified. In Missouri, the Missouri Court of Appeals upheld a \$113 million damage award for Correction officers who were not properly paid for “pre-shift and post-shift” activities under FLSA. Though the facts of the Missouri case are different than that of our North Carolina case, and DAC practices are defensible, an adverse ruling could lead to substantial monetary damages. It should also be noted that DAC is represented by private counsel in this matter, as the NC Department of Justice was unable to represent DAC, resulting in significant attorney fees.

- C. Construction and Other Commitments** - The Department has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. As of June 30, 2025, the Department had commitments of \$70,345,703 related to construction and improvements of state government facilities, primarily within the Capital Projects Fund.

Note 13 - Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2025, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 101, Compensated Absences

GASB Statement No. 102, Certain Risk Disclosures

GASB Statement No. 101 updates the recognition, measurement, and disclosure requirements for compensated absences. This Statement supersedes GASB Statement No. 16, *Accounting for Compensated Absences*, which was issued in 1992, and aims to better meet the information needs of financial statement users by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition

and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. Lastly, the model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

GASB Statement No. 102 improves financial reporting by providing users of financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.



Required Supplementary Information

North Carolina Department of Adult Correction
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, 2025

Schedule C-1
Page 1 of 2

	Budgeted Amounts			
	Original	Final	Actual (Cash Basis)	Favorable (Unfavorable)
REVENUES				
Federal Funds	\$ 0	\$ 14,638,064	\$ 14,584,696	\$ (53,368)
Contributions, Gifts, and Grants	3,416,601	13,702,831	11,934,645	(1,768,186)
Sales and Services	1,200,519	1,198,555	1,156,724	(41,831)
Fees, Licenses, and Fines	1,168,193	1,001,766	1,172,828	171,062
Rental and Lease of Property		10,005	10,005	
Investment Earnings	9,990	200,946	79,859	(121,087)
Miscellaneous Income	10,054,481	7,818,086	7,580,873	(237,213)
Total Revenues	15,849,784	38,570,253	36,519,630	(2,050,623)
EXPENDITURES				
Salaries and Benefits	1,625,071,887	1,412,959,981	1,414,438,267	(1,478,286)
Contracted Personal Services	73,570,483	134,099,023	129,168,882	4,930,141
Contracted Medical Services	123,091,763	168,905,505	168,905,491	14
Supplies and Materials	119,563,618	179,676,886	179,088,087	588,799
Travel	1,936,402	4,362,507	4,332,877	29,630
Communication	4,592,942	8,159,121	8,521,781	(362,660)
Utilities	43,791,538	48,304,688	48,304,665	23
Data Processing Services	14,173,563	25,330,576	24,774,042	556,534
Other Services	8,461,316	22,467,108	22,526,198	(59,090)
Claims and Benefits	1,689,198	4,663,515	4,663,514	1
Debt Service:				
Principal Retirement	1,333,203	1,334,198	1,098,773	235,425
Interest and Fees	191,707	191,707	92,227	99,480
Other Fixed Charges	5,662,133	6,628,443	6,380,510	247,933
Capital Outlay	19,544,644	47,392,526	46,291,272	1,101,254
Grants, State Aid, and Subsidies	1,488,400	1,994,281	1,323,402	670,879
Insurance and Bonding	1,789,039	1,719,466	1,730,353	(10,887)
Other Expenditures	17,005,174	20,045,294	20,020,536	24,758
Total Expenditures	2,062,957,010	2,088,234,825	2,081,660,877	6,573,948
Excess of Revenues Under Expenditures	(2,047,107,226)	(2,049,664,572)	(2,045,141,247)	4,523,325
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	323,512	631,674	631,673	(1)
Transfers from Other Departments or Funds	872,846,227	874,213,442	874,120,555	(92,887)
Transfers to Other Departments or Funds	(71,551,363)	(69,977,793)	(69,977,792)	1
State Appropriations	1,235,742,012	1,234,385,141	1,233,985,141	(400,000)
Total Other Financing Sources	2,037,360,388	2,039,252,464	2,038,759,577	(492,887)
Net Change in Fund Balance	(9,746,838)	(10,412,108)	(6,381,670)	4,030,438
Fund Balance - July 1	30,617,454	30,617,454	30,617,454	0
Fund Balance - June 30	\$ 20,870,616	\$ 20,205,346	\$ 24,235,784	\$ 4,030,438

North Carolina Department of Adult Correction
 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, 2025

Schedule 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, 2025 to the fund balance on a modified accrual basis (GAAP).

	General Fund
Fund Balance (Budgetary Basis) June 30, 2025	\$ 24,235,784
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	3,318,965
Notes Receivable	338,236
Due from Other Funds and State Agencies	371,126
Total Accrued Revenues	4,028,327
Accrued Expenditures:	
Accounts Payable and Accrued Liabilities	(131,791,911)
Due to Other Funds and State Agencies	(36,737,618)
Due to Component Units	(3,188,642)
Total Accrued Expenditures	(171,718,171)
Other Adjustments:	
Cash Held with Fiscal Agent	8,935,927
Inventories	37,281,768
Deferred Inflows of Resources	(840,091)
Total Other Adjustments	45,377,604
Fund Balance (GAAP Basis) June 30, 2025	\$ (98,076,456)

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

North Carolina Department of Adult Correction
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - Correction Enterprises Fund
For the Fiscal Year Ended June 30, 2025

Schedule C-2

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales and Services	\$ 88,889,980	\$ 88,989,607	\$ 102,791,222	\$ 13,801,615
Rental and Lease of Property	210,350	210,350	47,616	(162,734)
Miscellaneous Income	117,901	117,901	11,715	(106,186)
Total Revenues	89,218,231	89,317,858	102,850,553	13,532,695
EXPENDITURES				
Salaries and Benefits	32,695,082	29,681,400	29,681,387	13
Contracted Personal Services	507,148	6,024,889	6,024,883	6
Supplies and Materials	4,281,802	5,989,337	5,981,200	8,137
Purchases for Resale	42,087,318	64,031,239	64,031,238	1
Travel	174,638	200,609	200,602	7
Communication	119,000	282,693	282,691	2
Utilities	1,899,095	2,120,030	2,120,026	4
Data Processing Services	496,343	142,295	141,037	1,258
Other Services	1,357,587	2,630,643	2,630,633	10
Other Fixed Charges	609,000	608,815	608,812	3
Capital Outlay	1,128,761	13,185,237	13,185,228	9
Insurance and Bonding	474,900	597,931	597,930	1
Other Expenditures	924,685	1,682,338	1,682,335	3
Total Expenditures	86,755,359	127,177,456	127,168,002	9,454
Excess of Revenues Over (Under) Expenditures	2,462,872	(37,859,598)	(24,317,449)	13,542,149
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	58,400	58,400	494,519	436,119
Transfers In	201,600	201,642	42	(201,600)
Transfers Out	(2,826,765)	(3,077,635)	(3,006,382)	71,253
Total Other Financing Uses	(2,566,765)	(2,817,593)	(2,511,821)	305,772
Net Change in Fund Balance	(103,893)	(40,677,191)	(26,829,270)	13,847,921
Fund Balance - July 1	43,687,606	43,687,606	43,687,606	0
Fund Balance - June 30	\$ 43,583,713	\$ 3,010,415	\$ 16,858,336	\$ 13,847,921

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2025 to the fund balance on a modified accrual basis (GAAP).

	Correction Enterprises Fund
Fund Balance (Budgetary Basis) June 30, 2025	\$ 16,858,336
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	4,044,136
Lease Receivable	189,803
Due from Other Funds and State Agencies	18,068,465
Total Accrued Revenues	22,302,404
Accrued Expenditures:	
Accounts Payable and Accrued Liabilities	(3,001,996)
Due to Other Funds and State Agencies	(437,035)
Total Accrued Expenditures	(3,439,031)
Other Adjustments:	
Inventories	26,115,753
Deferred Inflows of Resources	(4,563,892)
Total Other Adjustments	21,551,861
Fund Balance (GAAP Basis) June 30, 2025	\$ 57,273,570

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

North Carolina Department of Adult Correction
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - Welfare Fund
For the Fiscal Year Ended June 30, 2025

Schedule C-3

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales and Services	\$ 42,959,307	\$ 42,966,377	\$ 39,567,406	\$ (3,398,971)
Rental and Lease of Property	6,500	6,500	5,000	(1,500)
Contributions, Gifts, and Grants			913	913
Miscellaneous Income	1,836,355	2,706,481	4,594,319	1,887,838
Total Revenues	44,802,162	45,679,358	44,167,638	(1,511,720)
EXPENDITURES				
Salaries and Benefits	1,041,698	946,164	946,158	6
Contracted Personal Services	1,003,911	2,550,213	2,239,276	310,937
Supplies and Materials	2,437,238	3,282,939	3,244,304	38,635
Purchases for Resale	36,894,763	36,149,945	32,333,465	3,816,480
Travel		1,963	1,961	2
Communication		1,184	1,183	1
Utilities	202,757	242,674	242,671	3
Data Processing Services		325	325	
Other Services	129,446	78,750	74,563	4,187
Other Fixed Charges	150,847	161,867	137,721	24,146
Capital Outlay	784,602	1,162,127	1,137,341	24,786
Other Expenditures	1,220,494	1,252,693	1,261,796	(9,103)
Total Expenditures	43,865,756	45,830,844	41,620,764	4,210,080
Excess of Revenues Over (Under) Expenditures	936,406	(151,486)	2,546,874	2,698,360
OTHER FINANCING SOURCES (USES)				
Transfers In	7,871,150	9,542,078	10,244,603	702,525
Transfers Out	(8,810,563)	(10,863,605)	(11,344,490)	(480,885)
Total Other Financing Uses	(939,413)	(1,321,527)	(1,099,887)	221,640
Net Change in Fund Balance	(3,007)	(1,473,013)	1,446,987	2,920,000
Fund Balance - July 1	9,871,667	9,871,667	9,871,667	0
Fund Balance - June 30	\$ 9,868,660	\$ 8,398,654	\$ 11,318,654	\$ 2,920,000

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2025 to the fund balance on a modified accrual basis (GAAP).

	Welfare Fund
Fund Balance (Budgetary Basis) June 30, 2025	\$ 11,318,654
Reconciling Adjustments:	
Basis Differences:	
Accrued Expenditures:	
Accounts Payable	(1,527,497)
Due to Other Funds and State Agencies	(122,413)
Total Accrued Expenditures	(1,649,910)
Other Adjustments:	
Cash in Private Banks	1,039,975
Inventories	3,077,832
Total Other Adjustments	4,117,807
Fund Balance (GAAP Basis) June 30, 2025	\$ 13,786,551

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

North Carolina Department of Adult Correction
Notes to Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
(Budgetary Basis - Non-GAAP) - General Fund, Correction Enterprises Fund, and Welfare Fund
For the Fiscal Year Ended June 30, 2025

A. Budgetary Process

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

B. Reconciliation of Budget/GAAP Reporting Differences

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

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



Supplementary Information

North Carolina Department of Adult Correction
Combining Schedule of Revenues and Expenditures
Governmental Funds by Division
For the Fiscal Year Ended June 30, 2025

	<u>Administration</u>	<u>Correction Enterprises</u>	<u>Community Supervision</u>
REVENUES			
Federal Funds	\$ 0	\$ 0	\$ 0
Investment Earnings			33,314
Sales and Services	65,696	32,773,961	53
Intragovernmental Sales and Services		77,974,657	
Rental and Lease of Property	10,005	101,980	
Fees, Licenses, and Fines	6,956		278,025
Contributions, Gifts, and Grants	5,908,010		
Revenues from Other State Agencies			
Miscellaneous Income	9,302	17,911	172,288
	<u>5,999,969</u>	<u>110,868,509</u>	<u>483,680</u>
Total Revenues			
EXPENDITURES			
Salaries and Benefits	83,837,043	28,208,966	223,978,841
Contracted Personal Services	32,540,737	6,706,738	6,556,194
Contracted Medical Services	37,843	6,232	
Supplies and Materials	4,113,344	4,294,515	4,252,349
Purchases for Resale		62,349,518	72,732
Travel	815,161	200,081	460,752
Communication	4,670,149	456,155	2,171,776
Utilities	368,106	2,301,644	73,395
Data Processing Services	5,644,519	150,622	1,336,594
Other Services	5,262,465	2,533,399	219,710
Claims and Benefits			4,510,947
Debt Service:			
Principal Retirement	8,448,519	151,030	597,887
Interest and Fees	2,835,081	60,862	301,308
Other Fixed Charges	1,052,236	618,591	217,955
Capital Outlay	32,119,672	12,414,608	901,814
Grants, State Aid, and Subsidies	1,000,000		
Insurance and Bonding	5,962	597,930	45,802
Expenditures to Other State Agencies		927,226	
Other Expenditures	1,847,332	1,630,343	8,439,351
	<u>184,598,169</u>	<u>123,608,460</u>	<u>254,137,407</u>
Total Expenditures			
Excess of Revenues Under Expenditures	<u>(178,598,200)</u>	<u>(12,739,951)</u>	<u>(253,653,727)</u>
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	441,729	462,762	102
Other Debt Issued	1,211,979		196,360
Transfers In	676,629	42	199,845
Transfers Out	(10,005)	(2,079,156)	(199,845)
Transfers from State Reserve Fund	596,081		
State Appropriations	169,140,319		252,470,619
	<u>172,056,732</u>	<u>(1,616,352)</u>	<u>252,667,081</u>
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Sources Under Expenditures and Other Uses	<u>\$ (6,541,468)</u>	<u>\$ (14,356,303)</u>	<u>\$ (986,646)</u>

Schedule D-1

Comprehensive Health Services	Prisons	Rehabilitation and Reentry	Other	Total Divisions
\$ 14,041,245	\$ 0	\$ 543,451	\$ 0	\$ 14,584,696
32,472	794,421		13,653	873,860
525	40,918,386			73,758,621
				77,974,657
	5,000			116,985
355,922	399,461	120,498		1,160,862
4,112,301	913	1,603,882	314,753	11,939,859
139,000	840,161,937	569,455		840,870,392
2,655,201	8,591,938	1,378	5,550	11,453,568
21,336,666	890,872,056	2,838,664	333,956	1,032,733,500
168,524,820	852,283,187	69,712,608	19,322,312	1,445,867,777
7,553,110	78,107,144	22,528,737	1,164,597	155,157,257
208,204,773	2,611,978	131,175	1,192	210,993,193
65,276,287	110,117,450	342,951	655,991	189,052,887
8,738,008	40,746,282		201	111,906,741
90,334	1,338,766	246,986	1,247,107	4,399,187
68,253	2,406,880	33,027	79,453	9,885,693
230,706	49,767,321		62,006	52,803,178
159,872	7,881,951	275	1,574,425	16,748,258
557,781	15,075,721	2,286,484	60,557	25,996,117
			152,567	4,663,514
114,173	1,900,314	35,085	31,790	11,278,798
141,205	2,612,289	85,771	3,145	6,039,661
1,062,077	4,758,220	3,448	38,510	7,751,037
4,545,246	92,180,078	195,304	847,706	143,204,428
	323,402			1,323,402
529,239	1,140,119	13,845		2,332,897
19,577	386,772			1,333,575
346,111	7,012,493	109,012	499,730	19,884,372
466,161,572	1,270,650,367	95,724,708	25,741,289	2,420,621,972
(444,824,906)	(379,778,311)	(92,886,044)	(25,407,333)	(1,387,888,472)
349	127,850			1,032,792
2,573,234	2,583,038			6,564,611
58,688,548	24,392,478	83,135		84,040,677
(42)	(81,751,629)			(84,040,677)
	746,232			1,342,313
329,745,123	368,713,175	88,766,307	25,149,598	1,233,985,141
391,007,212	314,811,144	88,849,442	25,149,598	1,242,924,857
\$ (53,817,694)	\$ (64,967,167)	\$ (4,036,602)	\$ (257,735)	\$ (144,963,615)



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*

Lesley Cooley Dismukes, Secretary
Management of the North Carolina Department of Adult Correction
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and fiduciary fund of the North Carolina Department of Adult Correction (Department), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 7, 2026.

As discussed in Note 1, the financial statements of the North Carolina Department of Adult Correction 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 Adult Correction. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2025, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Department's Response to the Finding

Government Auditing Standards requires us to perform limited procedures on the Department's response to the finding identified in our audit and described in the accompanying Finding, Recommendation, and Response section. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

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

October 7, 2026



Finding, Recommendation, and Response

Matters Related to Financial Reporting

Control Weaknesses Increased Risk of Inaccurate Inventory Balances

The North Carolina Department of Adult Correction (Department) did not have adequate internal controls over year-end inventory procedures to ensure inventory balances of \$66.5 million were reported accurately in the financial statements. As a result, there was an increased risk of undetected errors in the reported inventory balance.

Auditors found that the Department's year-end inventory process, including review and reconciliation procedures, was not consistently performed and documented. Specifically:

- The Department failed to identify and correct discrepancies between inventory quantities recorded in the accounting system and quantities documented during the physical inventory counts. Specifically:
 - Auditors reviewed the physical inventory counts for a sample of 40 inventory locations in the General Fund and identified eight locations (20%) where quantities recorded in the accounting system did not agree with quantities documented during the physical count. As a result, the General Fund inventory balance was overstated by \$106,821.
 - Auditors reviewed the physical inventory counts for a sample of nine inventory locations in the Correction Enterprises Fund and identified six locations (67%) where quantities recorded in the accounting system did not agree with quantities documented during the physical count. As a result, the Correction Enterprises Fund inventory balance was understated by \$122,846.
- The Department did not evaluate obsolete items and adjust inventory balances appropriately. Auditors identified \$1.9 million in General Fund inventory and \$774,629 in Correction Enterprises Fund inventory that had not been used during fiscal years 2024 and 2025, which could indicate obsolete items that should have been removed from inventory.
- The Department did not consistently value finished goods inventory at the lower of cost or market. As a result, auditors identified an overstatement of \$304,795 in Correction Enterprises Fund inventory.

As a result of inadequate internal controls, the Department has an increased risk that:

- Inventory balances reported in the financial statements could be inaccurate, which could affect the reliability of information used by the General Assembly, management, and other stakeholders to evaluate the Department's financial position and operating results.
- Inaccurate inventory records may result in management making purchasing, production, and budgeting decisions based on unreliable information. This could lead to over-purchasing, stock shortages, emergency procurements, unnecessary storage costs, or disruptions to correctional operations and Correction Enterprises manufacturing activities.

- Inventory discrepancies are not identified and resolved during the year-end physical inventory process, resulting in uncertainty as to whether inventory shortages reflect recording errors rather than unauthorized use, theft, waste, or misplacement of assets. This creates an environment in which misappropriation may be more likely to occur and remain undetected for extended periods.¹

According to Department management, there was turnover in personnel responsible for performing the year-end inventory process and the implementation of a new system created gaps in knowledge. Additionally, management did not provide sufficient oversight to ensure inventory procedures were performed, reviewed, and documented as intended.

State law requires that Department management establish and maintain a proper system of internal control in accordance with the standards established by the North Carolina Office of the State Controller.² Those standards are based on the Committee of Sponsoring Organizations' (COSO) *Internal Control – Integrated Framework*, which requires management to design and implement control activities and monitoring activities to help ensure policies and procedures are carried out as intended, deficiencies are identified timely, and corrective actions are taken.

In addition, the Department's annual inventory memorandums provide guidance to plants and facilities regarding the annual year-end physical inventory count.³ The memoranda require plant and facility staff to perform inventory counts, investigate variances, and update inventory records to agree with physical counts. Inventory counts should be reviewed and approved by the facility or plant manager and the supporting documentation for the counts and adjustments should be retained.

Recommendation: Department management should strengthen internal controls over the year-end physical inventory process to ensure the accuracy and reliability of reported inventory balances, such as:

- Implementing contingency plans to meet year-end inventory objectives during periods affected by staff turnover and inexperienced personnel.
- Providing inventory maintenance and valuation training to personnel in positions that are essential to the year-end inventory process.
- Implementing monitoring procedures to evaluate whether internal controls are operating as designed. This should include reconciling discrepancies, evaluating obsolete inventory and lower of cost or market, and maintaining adequate documentation to support completed inventory counts and related adjustments.

Department's Response: See page(s) 50-54 for the Department's response to this finding.

¹ The Department's inventory includes a significant volume of consumable items and raw materials that are susceptible to loss, waste, unauthorized use, theft, or inaccurate recording. These items include food products, clothing, janitorial supplies, and raw materials, such as aluminum and meat, used in the manufacturing and production processes of Correction Enterprises.

² N.C.G.S. §§ 143D-7, -6.

³ N.C. Department of Adult Correction Memorandums, *Supplies and Inventory Procedures for the Fiscal Year Ending June 30, 2025, and Inventory Instructions for Correction Enterprises – Fiscal Year Ending June 30, 2025*.



Josh Stein
Governor

Leslie Cooley Dismukes
Secretary

September 30, 2026

The Honorable Dave Boliek, State Auditor
Office of the State Auditor
325 North Salisbury Street
Raleigh, NC 27603
Dear State Auditor Boliek:

Thank you for the opportunity to respond to your letter dated September 16, 2026, providing information concerning your financial statement audit for the Department of Adult Correction (Department) for the year that ended June 30, 2025. The Department acknowledges your sole finding of "Control Weaknesses Increased Risk of Inaccurate Inventory Balances" and offers the following response to several statements in your letter.

STATEMENT:

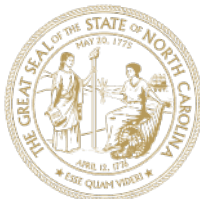
- The Department failed to identify and correct discrepancies between inventory quantities recorded in the accounting system and quantities documented during the physical inventory counts. Specifically:
 - Auditors reviewed the physical inventory counts for a sample of 40 inventory locations in the General Fund and identified eight locations (20%) where quantities recorded in the accounting system did not agree with quantities documented during the physical count. As a result, the General Fund inventory balance was overstated by \$106,821.
 - Auditors reviewed the physical inventory counts for a sample of nine inventory locations in the Correction Enterprises Fund and identified six locations (67%) where quantities recorded in the accounting system did not agree with quantities documented during the physical count. As a result, the Correction Enterprises Fund inventory balance was understated by \$122,846.

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FROM THE OFFICE OF:

Leslie Cooley Dismukes
Secretary

RESPONSE:

The Department recognizes the importance of preventing or minimizing such discrepancies moving forward and thus has begun implementing enhanced training, cycle count training and reference guides, system education, and monitoring procedures. These improvements include but are not limited to the following:

- **Enhanced Training:** Additional training has been conducted for staff responsible for inventory activities at institution locations. This training focuses on accurate physical counts, reconciliation of counts to the accounting system, investigation and documentation of variances, and appropriate review and approval of inventory adjustments. Ongoing training will continue monthly to reinforce best practices and adapt to evolving system functionalities.
- **Cycle Count Training and Reference Guides:** The Department has implemented Cycle Count Training, Account Reference Guides, and Food Service Ordering and Issuing Training to support staff in maintaining accurate inventory records.
- **System Education:** With the adoption of the new accounting system, the Department recognizes that not all functionalities and reporting features were fully understood at the outset. System education and learning have evolved, and training has been updated as understanding of the system has increased.
- **Monitoring Procedures:** The Department is implementing monitoring procedures to evaluate whether internal controls are operating as designed. These include reconciling discrepancies, evaluating obsolete inventory, ensuring valuation at the lower of cost or market, and maintaining adequate documentation to support inventory counts and adjustments.

Additionally, in an effort to more fully understand the source of the discrepancy, the Department investigated and determined that the majority of the \$122,846 discrepancy stems from human error at a single location – the Sign Plant. At that location, inventory items worth \$1,499,481 were evaluated and 341 items had discrepancies, causing the majority of the \$122,846 variance for Correction Enterprises. Due to a vacancy in the administrative position at the Sign Plant, inventory counts were not adjusted as required. For the period being audited, Correction Enterprises was using an Enterprise Resource Planning (ERP) system that was not integrated with the North Carolina Financial System (NCFS).

In addition to the measures described above, Correction Enterprises has implemented a second checkpoint to ensure the quantities are correct before counts are entered. Specifically, Correction Enterprises has implemented an NCFS-integrated Oracle Cloud Manufacturing System and now has the capability to run reports to quickly catch variances in inventory counts versus the NCFS-stated inventory.

STATEMENT:

- The Department did not evaluate obsolete items and adjust inventory balances appropriately. Auditors identified \$1.9 million in General Fund inventory and \$774,629 in Correction Enterprises Fund inventory that had not been used during fiscal years 2024 and 2025, which could indicate obsolete items that should have been removed from inventory.

RESPONSE:

The Department acknowledges that, prior to the audit, it did not conduct an evaluation of potentially obsolete items. The Department is now updating its processes so that an evaluation of potentially obsolete items can be done during the cycle count. The Department has reviewed the items the audit flagged as potentially obsolete and has determined that most are not obsolete. Moving forward, the Department will ensure to clearly communicate whether we believe items are obsolete or still retain some use in the future.

For example, with respect to the \$1,920,332 in General Fund inventory that “had not been used during fiscal years 2024 and 2025, which could indicate obsolete items that should have been removed from inventory,” the Department has investigated and determined that \$1,751,374 relates to items that are not obsolete, while \$168,958 relates to items that may be obsolete, pending further investigation.

Similarly, with respect to the \$774,629 in Correction Enterprises Fund inventory that “had not been used during fiscal years 2024 and 2025, which could indicate obsolete items that should have been removed from inventory,” the Department has investigated and determined that at least \$709,536 relates to items that are not obsolete, while roughly \$65,093 relates to items that may be considered obsolete, pending further investigation.

There are a number of reasons that items not used during fiscal years 2024 and 2025 are not obsolete. In 2024 and 2025, of the \$774,629 of inventory flagged by the audit, \$84,968 worth of items were finished goods that were sold and \$624,568 worth of the items are raw materials that are still in use by our plants.

Additionally, there are some raw materials left from previous customer orders that are still useful to us. For example, items like special paper stock ordered for a customer and left as excess will be used on future orders. In addition, other items are high priority but “slow moving” items for agencies and excess raw materials used to make these items.

In sum, most of the \$1.9 million worth of materials flagged by the audit as potentially obsolete is not obsolete. The Department will implement an annual evaluation process to better identify inventory which is of no value to the Department to be marked as obsolete inventory and make sure to more clearly state the reasoning in advance of future audits.

STATEMENT:

- The Department did not consistently value finished goods inventory at the lower of cost or market. As a result, auditors identified an overstatement of \$304,795 in Correction Enterprises Fund inventory.

RESPONSE:

Turnover in personnel responsible for performing the year-end inventory process and the implementation of a new North Carolina Financial System (NCFS) contributed to this problem in the year that ended June 30, 2025. These concerns have been addressed, and the problem will not recur in the new fiscal year or thereafter.

STATEMENT:

As a result of inadequate internal controls, the Department has an increased risk that:

- Inventory balances reported in the financial statements could be inaccurate, which could affect the reliability of information used by the General Assembly, management, and other stakeholders to evaluate the Department's financial position and operating results.
- Inaccurate inventory records may result in management making purchasing, production, and budgeting decisions based on unreliable information. This could lead to over-purchasing, stock shortages, emergency procurements, unnecessary storage costs, or disruptions to correctional operations and Correction Enterprises manufacturing activities.
- Inventory discrepancies are not identified and resolved during the year-end physical inventory process, resulting in uncertainty as to whether inventory shortages reflect recording errors rather than unauthorized use, theft, waste, or misplacement of assets.

RESPONSE:

In light of the audit findings, the Department has taken steps to minimize these risks going forward. More specifically, the Department has updated the year-end inventory compilation procedures to ensure staff are aware of all necessary year-end adjustments.

Additionally, the Department has taken steps to strengthen internal controls over the inventory process within Institutions. Additional training has been conducted for staff responsible for inventory activities and ongoing training will continue on a monthly basis. Training focuses on inventory procedures, accurate physical counts, reconciliation of physical counts to the accounting system, investigation and documentation of variance and

appropriate review and approval of inventory adjustments at Institution locations. When the new NCFS accounting system was first implemented, not all functionalities and reporting capabilities were known. Use of the system and training has increased our understanding of the system over time.

In addition, Correction Enterprises will evaluate its inventory for obsolete items during cycle counts and dispose of items that are truly obsolete. Staff will be trained in proper cycle count entry and inventory procedures and checks will be implemented to ensure as much as possible that when counts are entered they are keyed in without error.

Thank you for the opportunity to respond to your financial statement audit. The Department strives for excellence in everything we do, and we welcome the opportunity to improve our operations, comply with established accounting standards and best practices, and serve as a responsible steward of public funds.

Sincerely,

A handwritten signature in black ink, appearing to read "L. C. D.", with a stylized flourish at the end.

Leslie Cooley Dismukes
Secretary

Ordering Information

Copies of this report may be obtained by contacting:



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Raleigh, North Carolina 27699

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