# North Carolina Department of Public Safety

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
Jeffrey Smythe, Secretary
Department of Public Safety
Hank Bauer, ABC Commission Chair

The North Carolina Department of Public Safety is the chief agency for law enforcement, juvenile justice initiatives and emergency management responsibilities in North Carolina. Operating under the Office of the Governor, the Department reported $2 billion in revenues and $2.8 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. In conducting its financial statement audit of the North Carolina Department of Public Safety, the State Auditor's Office identified 34 adjustments to the financial statements, 14 of which were material.

The State Auditor's Office found the Department did not have adequate internal controls, including review procedures, to ensure accurate financial reporting. Auditors found that the Department's review of the financial statements failed to identify several significant misstatements. In total, there were $97.3 million in overstated and understated errors. Had these errors not been flagged and fixed, Department management and other stakeholders could have relied on inaccurate information, leading to greater errors in the future.

After the State Auditor's Office identified and accounted for the 34 adjustments, the audit now shows no material errors for the year ended June 30, 2025. The Department noted in its response to the audit that it is developing standard operating procedures and checklists for preparations of its year-end statements.

Respectfully submitted,

Dave Boliek
State Auditor

# REPORT SUMMARY

## North Carolina Department of Public Safety
## Financial Statement Audit

The Office of the State Auditor (OSA) performs financial statement audits[1] at the North Carolina Department of Public Safety (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 an **internal control deficiency over financial reporting**. The finding and recommendation are included in the report along with the Department's response.

### Quick Highlights

**Governmental Funds**

**Revenues: $2.0 Billion**

**Expenses: $2.8 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 and grants allocated to prisons, juvenile justice, emergency management, and other programs.
- 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.

A "clean" audit opinion supports public trust and demonstrates the Department's commitment to responsible financial stewardship, assuring stakeholders that resources are being managed to fulfill the institution's mission.

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

The Department reports financial activities in three governmental funds, two proprietary funds, and two fiduciary funds. The governmental funds report most of the activity of the Department. The proprietary funds are used to report the activity of the Alcoholic Beverage Control (ABC) Commission and the Private Protective Services and the Alarm Systems Licensing Boards. The fiduciary funds are custodial funds that report Alcohol Law Enforcement (ALE) seized assets and escrow funds for homeowners.

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, proprietary 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, as presented, are materially correct.

The **Management's Discussion and Analysis** presents a discussion of the reasons for significant financial changes between years. The Management's Discussion and Analysis is prepared by the Department and has not been subjected to the same auditing procedures performed on the financial statements.

**"A" Exhibits** present the Balance Sheet as of June 30, 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 Net Position as of June 30, 2025, the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2025, and the Statement of Cash Flows for the fiscal year ended June 30, 2025 for the Department's **proprietary funds as a whole.**

**"C" 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:**

**"D" Schedules** present the budget and actual comparisons for the General Fund for the fiscal year ended June 30, 2025 and the required supplementary information related to pension and other postemployment benefit plans for the Department's proprietary funds. These schedules have not been subjected to the same auditing procedures performed on the financial statements.

**Supplementary Information:**

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

**The "E" 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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# Independent Auditor's Report

North Carolina Office of the State Auditor
Dave Boliek, State Auditor

# Independent Auditor's Report

Jeffrey Smythe, Secretary
Management of the North Carolina Department of Public Safety
Hank Bauer, ABC Commission Chair
Raleigh, North Carolina

## Report on the Audit of the Financial Statements

### Opinions

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the North Carolina Department of Public Safety (Department) as of and for the year ended June 30, 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 fund and the aggregate remaining fund information of the North Carolina Department of Public Safety as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows 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, changes in financial position, and cash flows that are only attributable to the transactions of 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, the changes in its financial position, or its cash flows 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 governmental funds by division (combining schedule) 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 July 21, 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

July 21, 2026

# Management's Discussion and Analysis

## Introduction

The Management's Discussion and Analysis section of the North Carolina Department of Public Safety's (Department) financial report is provided as an overview of the financial performance of the governmental funds and proprietary funds for the fiscal year ended June 30, 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, proprietary funds, and fiduciary funds. The governmental funds include the General Fund, Capital Projects Fund, and Special Revenue Funds. The proprietary funds include the Alcoholic Beverage Control (ABC) Commission and Other Proprietary Funds, which include the Private Protective Services Board and the Alarm Systems Licensing Board. The fiduciary funds include the Alcohol Law Enforcement (ALE) Seized Assets Fund and Community Development Block Grant (CDBG) Escrow Fund.

While the ABC Commission is administratively housed under the Department, the activities of the ABC Commission are exercised independently of the Secretary of Public Safety and fall under the oversight of the Commissioner per North Carolina General Statute 18B-200(a). The Commissioner is solely responsible for all management functions, direction, and supervision of the ABC Commission.

The governmental funds' basic financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. The proprietary funds' basic financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. 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 and proprietary 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.

Proprietary Funds:

- The Statement of Net Position shows the financial position of the proprietary funds and includes all of the funds' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement of Net Position also provides the basis for evaluating the liquidity and financial flexibility of the funds.
- The Statement of Revenues, Expenses, and Changes in Net Position displays revenue and expense activities of the proprietary funds. The net effect of revenues and expenses rolls into net position which reflects the current year's activities.

- The Statement of Cash Flows is prepared using the direct method. This statement shows the net changes in cash resulting from operating, noncapital financing, capital and investing activities.

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 budgetary comparison schedule reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end as well as pension and other postemployment benefits (OPEB) related schedules for the Department's proprietary funds.

### Governmental Funds

### Condensed Balance Sheets

The following Condensed Balance Sheets show the governmental funds' financial position at June 30, 2025 and 2024. The June 30, 2024 amounts below are shown as restated and reflect the correction of prior period accounting errors. See Note 16 to the financial statements for further details.

| | 2025 | 2024 (As Restated) | Change |
|---|---|---|---|
| Assets | $ 289,672,042 | $ 310,043,790 | $ (20,371,748) |
| Deferred Outflows Of Resources | 0 | 0 | 0 |
| Total Assets and Deferred Outflows of Resources | $ 289,672,042 | $ 310,043,790 | $ (20,371,748) |
| Liabilities | $ 132,486,503 | $ 50,446,188 | 82,040,315 |
| Deferred Inflows Of Resources | 2,843,228 | 1,483,862 | 1,359,366 |
| Fund Balances | | | |
| Nonspendable | 30,308,564 | 24,346,244 | 5,962,320 |
| Restricted | 27,445,623 | 29,499,440 | (2,053,817) |
| Committed | 506,013,746 | 267,354,777 | 238,658,969 |
| Unassigned | (409,425,622) | (63,086,721) | (346,338,901) |
| Total Fund Balances | 154,342,311 | 258,113,740 | (103,771,429) |
| Total Liabilities, Deferred Inflows, and Fund Balances | $ 289,672,042 | $ 310,043,790 | $ (20,371,748) |

Total assets decreased $20.4 million in fiscal year 2025 compared to fiscal year 2024. This was primarily due to a decrease in cash and cash equivalents of $21.1 million. Of this amount, Capital

Projects Fund's cash and cash equivalents decreased by $12.2 million related to ongoing National Guard projects.

Total liabilities increased $82.0 million in fiscal year 2025 compared to fiscal year 2024. The increase is primarily due to a $90.6 million increase in accounts payable due to increased spending for Hurricane Helene recovery efforts at year-end.

Overall fund balance decreased by $103.8 million in fiscal year 2025 compared to fiscal year 2024. Committed fund balance increased by $238.7 million as a direct result of increased funding for Hurricane Helene disaster recovery efforts. Unassigned fund balance decreased by $346.3 million due to increased payables at year-end and timing of reimbursements from federal programs which created a deficit at year-end.

### 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 (As Restated) | Change |
|---|---|---|---|
| **Revenues** | | | |
| Federal Funds | $ 1,273,321,640 | $ 585,005,994 | $ 688,315,646 |
| Other Revenues | 765,831,427 | 330,274,193 | 435,557,234 |
| Total Revenues | 2,039,153,067 | 915,280,187 | 1,123,872,880 |
| **Expenditures** | | | |
| Salaries and Benefits | 532,721,012 | 512,703,043 | 20,017,969 |
| Contracted Personal Services | 742,579,772 | 331,002,724 | 411,577,048 |
| Grants, State Aid, and Subsidies | 1,092,600,041 | 480,705,983 | 611,894,058 |
| Other Expenditures | 442,912,438 | 343,166,408 | 99,746,030 |
| Total Expenditures | 2,810,813,263 | 1,667,578,158 | 1,143,235,105 |
| Excess of Revenues Under Expenditures | (771,660,196) | (752,297,971) | (19,362,225) |
| **Other Financing Sources (Uses)** | | | |
| Sale of Capital Assets | 2,495,650 | 2,556,761 | (61,111) |
| Other Debt Issued | 95,345 | 10,490,648 | (10,395,303) |
| Insurance Recoveries | 2,757,336 | 2,081,836 | 675,500 |
| Transfer from ABC Commission | 313,190 | | 313,190 |
| Transfers In | 326,260 | 1,927,532 | (1,601,272) |
| Transfers Out | (326,260) | (1,927,532) | 1,601,272 |
| Transfers to State Reserve Fund | (11,099,269) | (20,289,603) | 9,190,334 |
| Transfers from State Reserve Fund | 19,289,602 | 24,098,326 | (4,808,724) |
| State Appropriations | 654,036,913 | 671,602,472 | (17,565,559) |
| Total Other Financing Sources | 667,888,767 | 690,540,440 | (22,651,673) |
| Net Change in Fund Balances | (103,771,429) | (61,757,531) | (42,013,898) |
| Fund Balances - July 1 (As Restated) | 258,113,740 | 319,871,271 | (61,757,531) |
| Fund Balances - June 30 | $ 154,342,311 | $ 258,113,740 | $ (103,771,429) |

Total revenues increased $1.1 billion in fiscal year 2025 compared to fiscal year 2024. Federal funds increased $688.3 million primarily due to increased federal funding for Hurricane Helene disaster recovery efforts. Other revenues increased $435.6 million, this increase was due to a $414.0 million increase in revenues from other state agencies due to Hurricane Helene and disaster relief funds received. Refer to Note 9 of the notes to the financial statements for more information.

Total expenditures for fiscal year 2025 increased $1.1 billion compared to fiscal year 2024. Contracted personal services increased $411.6 million primarily due to increased need for contracted services to support Hurricane Helene and disaster recovery efforts. Grants, state aid, and subsidies increased by $611.9 million due to increased expenditures for ongoing recovery efforts related to Hurricane Helene. Other expenditures increased by $99.7 million in fiscal year 2025 compared to the prior year. This increase was due to an increase in supplies and materials of $66.8 million and a $28.4 million increase in expenditures to other state agencies. These increases were a direct result of Hurricane Helene recovery efforts.

**Budget Variation**

**General Fund**

Data for the General Fund budget variances is presented in Schedule D-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 budgeted revenues and expenditures were $2.7 billion and $3.9 billion, respectively. This represents an 84.87% increase in revenues and a 61.53% increase in expenditures from the original budget. The increase in authorized revenues was attributable to the recognition of the aggregate grant revenue in the year of the award. This increase is related to the Federal Emergency Management Agency (FEMA) funding issued for the ongoing emergency declaration due to Hurricane Helene and the continuing ongoing disaster recovery from Hurricanes Matthew, Florence, and Dorian. The increase in authorized expenditures is primarily related to an increase in projected grant expenditures for these disasters.

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 2023, nearly two years in advance of the final authorized budget. In addition, Session Law 2014-100 modified the State Budget Act (G.S. 143C) to define the base budget as the baseline for the next biennium. Using this baseline prohibits budget increases for inflation, population growth, or other factors that impact the continuation of existing programs. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the General Assembly. Consequently, when the original budget is compared to the final authorized budget, it would be expected that significant variances may occur.

*Variances - Final Budget and Actual Results:*

Actual total revenues were $1.3 billion less than budgeted revenue amounts. Likewise, actual total expenditures were $1.4 billion less than budgeted. Budgeted revenues and expenditures were unrealized mostly due to a $1.2 billion decrease in grants, state aid, and subsidies payments incurred versus the amount budgeted. This also causes a decrease in the federal funds received. Variances occur between the budget and actual federal funds because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred, the actual receipt of federal funds could be significantly less than the budget. Actual federal funds revenue was $1.3 billion less than the budget.

**Proprietary Funds**

**Condensed Statements of Net Position**

The following Condensed Statements of Net Position show the proprietary funds' financial position at June 30, 2025, and 2024. The June 30, 2024 amounts below are shown as restated and reflect the correction of prior period accounting errors. Refer to Note 16 for further details.

| | 2025 | 2024 (As Restated) | Change |
|---|---|---|---|
| Assets | | | |
| Current Assets | $ 35,663,867 | $ 37,928,003 | $ (2,264,136) |
| Capital Assets, Net | 4,012,594 | 4,302,333 | (289,739) |
| Other Noncurrent Assets | 9,773 | | 9,773 |
| Total Assets | 39,686,234 | 42,230,336 | (2,544,102) |
| Deferred Outflows Of Resources | | | |
| Deferred Outflows Related To Pensions | 6,534,091 | 9,657,130 | (3,123,039) |
| Deferred Outflows Related To OPEB | 20,064,231 | 24,729,507 | (4,665,276) |
| Total Deferred Outflows Of Resources | 26,598,322 | 34,386,637 | (7,788,315) |
| Liabilities | | | |
| Current Liabilities: | | | |
| Long-Term Liabilities - Current Portion | 181,118 | 125,447 | 55,671 |
| Other Current Liabilities | 4,423,279 | 5,303,941 | (880,662) |
| Noncurrent Liabilities: | | | |
| Long-Term Liabilities | 16,476,911 | 14,833,086 | 1,643,825 |
| Total Liabilities | 21,081,308 | 20,262,474 | 818,834 |
| Deferred Inflows Of Resources | | | |
| Deferred Inflows Related To Pensions | 3,669,356 | 5,641,840 | (1,972,484) |
| Deferred Inflows Related To OPEB | 16,674,519 | 22,644,895 | (5,970,376) |
| Total Deferred Inflows Of Resources | 20,343,875 | 28,286,735 | (7,942,860) |
| Net Position | | | |
| Net Investment In Capital Assets | 3,383,828 | 3,744,082 | (360,254) |
| Restricted | 11,127 | | 11,127 |
| Unrestricted | 21,464,418 | 24,323,682 | (2,859,264) |
| Total Net Position | $ 24,859,373 | $ 28,067,764 | $ (3,208,391) |

Total assets decreased $2.5 million in fiscal year 2025 compared to fiscal year 2024. The decrease was primarily due to a $1.2 million decrease in cash and cash equivalents from increased operating expenditures and $1.0 million decrease in intergovernmental receivables from lower outstanding bailment and surcharges for the ABC Commission.

Deferred outflow of resources decreased $7.8 million in fiscal year 2025 compared to fiscal year 2024. The decrease is the result of changes to actuarial valuations of the State's pension and other postemployment benefit (OPEB) plans. Refer to Notes 11 and 12 for details regarding deferred outflows of resources related to pension and OPEB plans, respectively.

Total liabilities increased $819 thousand in fiscal year 2025 compared to 2024. Other current liabilities decreased by $881 thousand due to a decrease in accounts payable due to the timing of invoices. Noncurrent liabilities increased $1.6 million in fiscal year 2025. The increase is related to changes in actuarial valuations for the pension and OPEB plans. The net pension liability decreased $411 thousand and the net OPEB liability increased $2.0 million. See Note 6 for more information.

Total deferred inflows of resources decreased by $7.9 million in fiscal year 2025 compared to fiscal year 2024. The decrease is the result of changes to actuarial valuations of the State's pension and OPEB plans. Refer to Notes 11 and 12 for more information.

Total net position decreased by $3.2 million in fiscal year 2025 compared to fiscal year 2024, primarily driven by the decrease in unrestricted net position of $2.9 million. The decrease was primarily due to decreased operating revenues coupled with an increase in operating expenses in fiscal year 2025 compared to 2024.

## Condensed Statements of Revenues, Expenses, and Changes in Net Position

The following Condensed Statements of Revenues, Expenses, and Changes in Net Position provide answers to the nature and source of changes in net position for the years ended June 30, 2025 and 2024:

| | 2025 | 2024 (As Restated) | Change |
|---|---|---|---|
| **Operating Revenues** | | | |
| Fees, Licenses, and Fines | $ 36,340,016 | $ 36,945,069 | $ (605,053) |
| Other Operating Revenues | 128,543 | 978,185 | (849,642) |
| Total Operating Revenues | 36,468,559 | 37,923,254 | (1,454,695) |
| **Operating Expenses** | | | |
| Salaries and Benefits | 10,671,319 | 9,450,269 | 1,221,050 |
| Contracted Personal Services | 26,228,610 | 25,012,704 | 1,215,906 |
| Supplies and Materials | 800,016 | 227,835 | 572,181 |
| Depreciation/Amortization | 282,069 | 261,185 | 20,884 |
| Travel | 71,602 | 97,349 | (25,747) |
| Communication | 126,830 | 95,900 | 30,930 |
| Utilities | 46,842 | 53,888 | (7,046) |
| Data Processing Services | 159,035 | 66,363 | 92,672 |
| Other Services | 200,321 | 689,751 | (489,430) |
| Claims and Benefits | 41,993 | 31,494 | 10,499 |
| Other Fixed Charges | 80,046 | 63,059 | 16,987 |
| Grants, State Aid, and Subsidies | 30,133 | 11,000 | 19,133 |
| Insurance and Bonding | 123,301 | 134 | 123,167 |
| Other Expenses | 563,951 | 699,870 | (135,919) |
| Total Operating Expenses | 39,426,068 | 36,760,801 | 2,665,267 |
| Operating Income (Loss) | (2,957,509) | 1,162,453 | (4,119,962) |
| **Nonoperating Revenues (Expenses)** | | | |
| Interest and Fees | (21,807) | (24,202) | 2,395 |
| Loss on Disposal of Capital Assets | (7,670) | | (7,670) |
| Noncapital Contributions | 3,056 | 10,538 | (7,482) |
| Miscellaneous Nonoperating Expenses | (13,078) | 13,606 | (26,684) |
| Investment Earnings | 143,913 | 114,385 | 29,528 |
| Net Nonoperating Revenues | 104,414 | 114,327 | (9,913) |
| Income (Loss) Before Transfers | (2,853,095) | 1,276,780 | (4,129,875) |
| Transers to General Fund | (313,190) | | (313,190) |
| Change in Net Position | (3,166,285) | 1,276,780 | (4,443,065) |
| Net Position - July 1 (As Restated) | 28,067,764 | 26,790,984 | 1,276,780 |
| Restatement* | (42,106) | | (42,106) |
| Net Position - June 30 | $ 24,859,373 | $ 28,067,764 | $ (3,208,391) |

*Prior year net position was restated for a change in accounting principle in relation to the implementation of GASB Statement No. 101, *Compensated Absences*. This statement is not reflected in the Condensed Statement of Net Position based on guidance in GASB Statement No. 100, *Accounting Changes and Error Corrections*. See Note 16 for further details.

Total operating revenues decreased $1.5 million in fiscal year 2025 compared to fiscal year 2024. Fees, licenses, and fines decreased $605 thousand primarily due to reduced permit activity and lower fine collections during fiscal year 2025. Other operating revenues decreased $850 thousand primarily due to a decrease in miscellaneous income related to pension and OPEB plans for changes in assumptions in fiscal year 2025 compared to fiscal year 2024.

Total operating expenses increased $2.7 million in fiscal year 2025 compared to fiscal year 2024. Contracted personal services increased $1.2 million primarily due to increased payments to outside vendors for services provided for the distribution of liquor for the ABC Commission in fiscal year 2025. Salaries and benefits increased $1.2 million primarily due to legislatively mandated raises for employees.

**Future Outlook**

**Department Structure**

Pursuant to Session Law 2025-2 (HB 47), the transition of the North Carolina Office of Recovery and Resiliency (NCORR) is scheduled to become effective on October 1, 2026. As part of this transition, NCORR's remaining disaster recovery programs will be transferred to other departments of the State of North Carolina.

# Financial Statements

# North Carolina Department of Public Safety
# Balance Sheet
# Governmental Funds
# June 30, 2025

**Exhibit A-1**

| | General Fund | Capital Projects Fund | Special Revenue Funds[1] | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents (Note 2) | $ 187,338,918 | $ 35,915,105 | $ 741,760 | $ 223,995,783 |
| Receivables: | | | | |
| Accounts Receivable | 445,350 | | | 445,350 |
| Intergovernmental Receivables (Note 4) | 26,844,625 | | | 26,844,625 |
| Inventories | 30,308,564 | | | 30,308,564 |
| Leases Receivable | 3,008,939 | | | 3,008,939 |
| Notes Receivable | 5,068,781 | | | 5,068,781 |
| Total Assets | 253,015,177 | 35,915,105 | 741,760 | 289,672,042 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 0 | 0 | 0 | 0 |
| Total Assets and Deferred Outflows of Resources | $ 253,015,177 | $ 35,915,105 | $ 741,760 | $ 289,672,042 |
| **LIABILITIES** | | | | |
| Accounts Payable and Accrued Liabilities: | | | | |
| Accounts Payable | $ 95,070,935 | $ 10,927,507 | $ 0 | $ 105,998,442 |
| Accrued Payroll | 5,929 | | | 5,929 |
| Intergovernmental Payables | 18,544,739 | | | 18,544,739 |
| Due to Other State Agencies | 5,382,851 | | | 5,382,851 |
| Funds Held for Others | 60,624 | | | 60,624 |
| Unearned Revenue | | 2,493,918 | | 2,493,918 |
| Total Liabilities | 119,065,078 | 13,421,425 | 0 | 132,486,503 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred Inflows for Leases | 2,843,228 | 0 | 0 | 2,843,228 |
| **FUND BALANCES (NOTE 8)** | | | | |
| Nonspendable | 30,308,564 | | | 30,308,564 |
| Restricted | 27,445,623 | | | 27,445,623 |
| Committed | 482,224,039 | 23,047,947 | 741,760 | 506,013,746 |
| Unassigned | (408,871,355) | (554,267) | | (409,425,622) |
| Total Fund Balances | 131,106,871 | 22,493,680 | 741,760 | 154,342,311 |
| Total Liabilities, Deferred Inflows, and Fund Balances | $ 253,015,177 | $ 35,915,105 | $ 741,760 | $ 289,672,042 |

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

[1]Special Revenue Funds consist of Juvenile Welfare, Cannon Funds, Kate B. Reynolds, and Widenhouse Funds.

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

**Exhibit A-2**

| | General Fund | Capital Projects Fund | Special Revenue Funds[1] | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Federal Funds | $ 792,333,522 | $ 16,628,930 | $ 0 | $ 808,962,452 |
| Federal COVID-19 Funds | 464,359,188 | | | 464,359,188 |
| Investment Earnings | 1,944,077 | | 25,655 | 1,969,732 |
| Sales and Services | 13,604,082 | | | 13,604,082 |
| Rental and Lease of Property | 322,507 | | | 322,507 |
| Fees, Licenses, and Fines | 35,044,706 | | | 35,044,706 |
| Student Tuition and Fees | 146,730 | | | 146,730 |
| Contributions, Gifts, and Grants | 39,123,303 | | 143,656 | 39,266,959 |
| Revenues from Other State Agencies (Note 9) | 623,345,057 | 51,364,342 | | 674,709,399 |
| Miscellaneous Income | 767,312 | | | 767,312 |
| Total Revenues | 1,970,990,484 | 67,993,272 | 169,311 | 2,039,153,067 |
| **EXPENDITURES** | | | | |
| Salaries and Benefits | 532,721,012 | | | 532,721,012 |
| Contracted Personal Services | 742,312,479 | 252,103 | 15,190 | 742,579,772 |
| Contracted Medical Services | 7,541,598 | | | 7,541,598 |
| Supplies and Materials | 96,063,607 | | 11,690 | 96,075,297 |
| Purchases for Resale | 117,817 | | | 117,817 |
| Travel | 19,851,870 | | | 19,851,870 |
| Communication | 11,160,658 | | | 11,160,658 |
| Utilities | 8,882,064 | | | 8,882,064 |
| Data Processing Services | 8,970,069 | | | 8,970,069 |
| Other Services | 11,565,832 | 15,455 | 446 | 11,581,733 |
| Claims and Benefits | 15,985,838 | | | 15,985,838 |
| Debt Service: | | | | |
| Principal Retirement | 5,049,044 | | | 5,049,044 |
| Interest and Fees | 1,813,002 | | | 1,813,002 |
| Other Fixed Charges | 11,503,923 | | | 11,503,923 |
| Capital Outlay | 62,082,809 | 82,937,503 | | 145,020,312 |
| Grants, State Aid, and Subsidies | 1,092,600,041 | | | 1,092,600,041 |
| Insurance and Bonding | 2,926,351 | | | 2,926,351 |
| Expenditures to Other State Agencies (Note 9) | 82,310,226 | 3,526 | | 82,313,752 |
| Other Expenditures | 14,119,110 | | | 14,119,110 |
| Total Expenditures | 2,727,577,350 | 83,208,587 | 27,326 | 2,810,813,263 |
| Excess of Revenues Over (Under) Expenditures | (756,586,866) | (15,215,315) | 141,985 | (771,660,196) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Sale of Capital Assets | 2,495,650 | | | 2,495,650 |
| Other Debt Issued | 95,345 | | | 95,345 |
| Insurance Recoveries | 2,757,336 | | | 2,757,336 |
| Transfer from ABC Commission (Note 10) | 313,190 | | | 313,190 |
| Transfers In (Note 10) | | 326,260 | | 326,260 |
| Transfers Out (Note 10) | (326,260) | | | (326,260) |
| Transfers to State Reserve Fund | (11,099,269) | | | (11,099,269) |
| Transfers from State Reserve Fund | 19,289,602 | | | 19,289,602 |
| State Appropriations | 654,036,913 | | | 654,036,913 |
| Total Other Financing Sources | 667,562,507 | 326,260 | 0 | 667,888,767 |
| Net Change in Fund Balances | (89,024,359) | (14,889,055) | 141,985 | (103,771,429) |
| **FUND BALANCES** | | | | |
| Fund Balances - July 1, 2024, as Restated (Note 16) | 220,131,230 | 37,382,735 | 599,775 | 258,113,740 |
| Fund Balances - June 30, 2025 | $ 131,106,871 | $ 22,493,680 | $ 741,760 | $ 154,342,311 |

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

[1]Special Revenue Funds consist of Juvenile Welfare, Cannon Funds, Kate B. Reynolds, and Widenhouse Funds.

# North Carolina Department of Public Safety
# Statement of Net Position
# Proprietary Funds
# June 30, 2025

**Exhibit B-1**

| | ABC Commission | Other Proprietary Funds[1] | Total Proprietary Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents (Note 2) | $ 28,120,989 | $ 3,326,951 | $ 31,447,940 |
| Receivables: | | | |
| Accounts Receivable | 373,259 | | 373,259 |
| Intergovernmental Receivables (Note 4) | 3,819,396 | | 3,819,396 |
| Inventories | 2,669 | 20,603 | 23,272 |
| Total Current Assets | 32,316,313 | 3,347,554 | 35,663,867 |
| Noncurrent Assets: | | | |
| Net Other Postemployment Benefits Asset | 7,866 | 1,907 | 9,773 |
| Capital Assets - Nondepreciable (Note 5) | 550,407 | | 550,407 |
| Capital Assets - Depreciable, Net (Note 5) | 3,015,709 | 446,478 | 3,462,187 |
| Total Noncurrent Assets | 3,573,982 | 448,385 | 4,022,367 |
| Total Assets | 35,890,295 | 3,795,939 | 39,686,234 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred Outflows Related to Pensions | 5,308,988 | 1,225,103 | 6,534,091 |
| Deferred Outflows Related to Other Postemployment Benefits (Note 12) | 16,365,124 | 3,699,107 | 20,064,231 |
| Total Deferred Outflows of Resources | 21,674,112 | 4,924,210 | 26,598,322 |
| **LIABILITIES** | | | |
| Current Liabilities: | | | |
| Accounts Payable | 4,059,401 | 302,285 | 4,361,686 |
| Accrued Payroll | | 2,806 | 2,806 |
| Due to Other Funds | 15,039 | 43,748 | 58,787 |
| Lease Liability (Note 6) | | 81,305 | 81,305 |
| Compensated Absences (Note 6) | 79,865 | 19,948 | 99,813 |
| Total Current Liabilities | 4,154,305 | 450,092 | 4,604,397 |
| Noncurrent Liabilities: | | | |
| Lease Liability (Note 6) | | 547,461 | 547,461 |
| Compensated Absences (Note 6) | 768,742 | 168,197 | 936,939 |
| Net Pension Liability (Note 6) | 3,983,029 | 965,583 | 4,948,612 |
| Net Other Postemployment Benefits Liability (Note 6) | 8,084,114 | 1,959,785 | 10,043,899 |
| Total Noncurrent Liabilities | 12,835,885 | 3,641,026 | 16,476,911 |
| Total Liabilities | 16,990,190 | 4,091,118 | 21,081,308 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred Inflows Related to Pensions | 2,953,384 | 715,972 | 3,669,356 |
| Deferred Inflows Related to Other Postemployment Benefits (Note 12) | 13,358,975 | 3,315,544 | 16,674,519 |
| Total Deferred Inflows of Resources | 16,312,359 | 4,031,516 | 20,343,875 |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | 3,566,116 | (182,288) | 3,383,828 |
| Restricted for Expendable: | | | |
| Specific Purposes | 8,634 | 2,493 | 11,127 |
| Unrestricted | 20,687,108 | 777,310 | 21,464,418 |
| Total Net Position | $ 24,261,858 | $ 597,515 | $ 24,859,373 |

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

[1]Other Proprietary Funds include the Private Protective Services Board and the Alarm Systems Licensing Board.

## North Carolina Department of Public Safety
## Statement of Revenues, Expenses, and Changes in Net Position
## Proprietary Funds
## For the Fiscal Year Ended June 30, 2025

**Exhibit B-2**

| | ABC Commission | Other Proprietary Funds[1] | Total Proprietary Funds |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Fees, Licenses, and Fines | $ 34,162,738 | $ 2,177,278 | $ 36,340,016 |
| Student Tuition and Fees | | 28,699 | 28,699 |
| Other Operating Revenues | 9,650 | 90,194 | 99,844 |
| Total Operating Revenues | 34,172,388 | 2,296,171 | 36,468,559 |
| **OPERATING EXPENSES** | | | |
| Salaries and Benefits | 8,773,977 | 1,897,342 | 10,671,319 |
| Contracted Personal Services | 26,037,304 | 191,306 | 26,228,610 |
| Supplies and Materials | 761,735 | 38,281 | 800,016 |
| Depreciation/Amortization | 170,297 | 111,772 | 282,069 |
| Travel | 32,222 | 39,380 | 71,602 |
| Communication | 68,623 | 58,207 | 126,830 |
| Utilities | 46,842 | | 46,842 |
| Data Processing Services | 142,255 | 16,780 | 159,035 |
| Other Services | 161,312 | 39,009 | 200,321 |
| Claims and Benefits | 41,993 | | 41,993 |
| Other Fixed Charges | 69,580 | 10,466 | 80,046 |
| Grants, Aid, and Subsidies | | 30,133 | 30,133 |
| Insurance and Bonding | 123,262 | 39 | 123,301 |
| Other Expenses | 560,630 | 3,321 | 563,951 |
| Total Operating Expenses | 36,990,032 | 2,436,036 | 39,426,068 |
| Operating Loss | (2,817,644) | (139,865) | (2,957,509) |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Interest and Fees | | (21,807) | (21,807) |
| Loss on Disposal of Capital Assets | (7,670) | | (7,670) |
| Noncapital Contributions | 2,460 | 596 | 3,056 |
| Miscellaneous Nonoperating Expenses | (13,078) | | (13,078) |
| Investment Earnings | | 143,913 | 143,913 |
| Net Nonoperating Revenues (Expenses) | (18,288) | 122,702 | 104,414 |
| Loss Before Transfers | (2,835,932) | (17,163) | (2,853,095) |
| Transfer to General Fund | (313,190) | | (313,190) |
| Decrease in Net Position | (3,149,122) | (17,163) | (3,166,285) |
| **NET POSITION** | | | |
| Net Position - July 1, 2024, as Restated (Note 16) | 27,410,980 | 614,678 | 28,025,658 |
| Net Position - June 30, 2025 | $ 24,261,858 | $ 597,515 | $ 24,859,373 |

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

[1]Other Proprietary Funds include the Private Protective Services Board and the Alarm Systems Licensing Board.

# North Carolina Department of Public Safety
# Statement of Cash Flows
# Proprietary Funds
# For the Fiscal Year Ended June 30, 2025 — Exhibit B-3

| | ABC Commission | Other Proprietary Funds[1] | Total Proprietary Funds |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from Customers | $ 35,211,955 | $ 2,205,977 | $ 37,417,932 |
| Payments to Employees and Fringe Benefits | (7,380,604) | (1,707,727) | (9,088,331) |
| Payments to Vendors and Suppliers | (28,926,312) | (423,941) | (29,350,253) |
| Other Payments | (13,078) | | (13,078) |
| Other Receipts | | 91,767 | 91,767 |
| Net Cash Provided (Used) by Operating Activities | (1,108,039) | 166,076 | (941,963) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Transfer to General Fund | (313,190) | | (313,190) |
| **CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES** | | | |
| Principal Paid on Lease Liabilities | | (76,393) | (76,393) |
| Interest and Fees on Lease Liabilities | | (21,807) | (21,807) |
| Cash Used by Capital Financing and Related Financing Activities | | (98,200) | (98,200) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment Earnings | | 143,913 | 143,913 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,421,229) | 211,789 | (1,209,440) |
| Cash and Cash Equivalents - July 1, 2024, as Restated | 29,542,218 | 3,115,162 | 32,657,380 |
| Cash and Cash Equivalents - June 30, 2025 | $ 28,120,989 | $ 3,326,951 | $ 31,447,940 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | | |
| Operating Loss | $ (2,817,644) | $ (139,865) | $ (2,957,509) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation/Amortization Expense | 170,297 | 111,772 | 282,069 |
| Nonoperating Miscellaneous and Other Income (Expense) | (13,078) | | (13,078) |
| Changes in Assets and Deferred Outflows of Resources: | | | |
| Accounts Receivable | 3,726 | | 3,726 |
| Intergovernmental Receivables | 1,045,491 | | 1,045,491 |
| Inventories | (2,669) | 7,897 | 5,228 |
| Net Other Postemployment Benefits Asset | (7,866) | (1,907) | (9,773) |
| Deferred Outflows Related to Pensions | 2,537,921 | 585,118 | 3,123,039 |
| Deferred Outflows Related to Other Postemployment Benefits | 3,816,480 | 848,796 | 4,665,276 |
| Changes in Liabilities and Deferred Inflows of Resources: | | | |
| Accounts Payable | (892,925) | (48,664) | (941,589) |
| Accrued Payroll | | 2,137 | 2,137 |
| Due to Other Funds | 15,040 | 43,748 | 58,788 |
| Net Pension Liability | (330,765) | (80,185) | (410,950) |
| Net Other Postemployment Benefits Liability | 1,623,644 | 393,610 | 2,017,254 |
| Compensated Absences | 92,796 | 37,992 | 130,788 |
| Deferred Inflows Related to Pensions | (1,574,054) | (398,430) | (1,972,484) |
| Deferred Inflows Related to Other Postemployment Benefits | (4,774,433) | (1,195,943) | (5,970,376) |
| Net Cash Provided (Used) by Operating Activities | $ (1,108,039) | $ 166,076 | $ (941,963) |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES** | | | |
| Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions | $ (2,460) | $ (596) | $ (3,056) |
| Loss on Disposal of Capital Assets | (7,670) | | (7,670) |

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

[1]Other Proprietary Funds include the Private Protective Services Board and the Alarm Systems Licensing Board.

# North Carolina Department of Public Safety
# Statement of Fiduciary Net Position
# Fiduciary Funds - Custodial Funds
# June 30, 2025

**Exhibit C-1**

| | ALE Seized Assets Fund | CDBG Escrow Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents (Note 2) | $ 199,832 | $ 127,223 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 0 | 0 |
| **LIABILITIES** | | |
| Funds Held for Others | 13,072 | |
| **DEFERRED INFLOWS OF RESOURCES** | 0 | 0 |
| **NET POSITION** | | |
| Restricted for: | | |
| Individuals and Other Organizations | 186,760 | 127,223 |
| Total Fiduciary Net Position | $ 186,760 | $ 127,223 |

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

# North Carolina Department of Public Safety
# Statement of Changes in Fiduciary Net Position
# Fiduciary Funds - Custodial Funds
# For the Fiscal Year Ended June 30, 2025 Exhibit C-2

| | ALE Seized Assets Fund | CDBG Escrow Fund |
|---|---|---|
| **ADDITIONS** | | |
| Participant Deposits | $ 0 | $ 104,894 |
| **DEDUCTIONS** | | |
| Payments in Accordance with Custodial Arrangements | 0 | 390,128 |
| Decrease in Fiduciary Net Position | 0 | (285,234) |
| **NET POSITION** | | |
| Net Position - July 1, 2024, as Restated (Note 16) | 186,760 | 412,457 |
| Net Position - June 30, 2025 | $ 186,760 | $ 127,223 |

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 Public Safety (Department) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Department is charged with improving the quality of life for North Carolinians by reducing crime and enhancing public safety. The operations of the Department are led by the Secretary of Public Safety, a member of the Governor's cabinet.

**B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *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, proprietary 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, proprietary 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, proprietary funds, and fiduciary funds, each displayed in separate exhibits. Throughout the report, the term Department is used to refer to the governmental funds, proprietary funds, and fiduciary funds combined, unless otherwise specifically noted.

The Department's financial statements consist of the following 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.

**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.

**Special Revenue Funds** - Special revenue funds are utilized to account for and report the proceeds of specific revenue sources that are legally restricted or formally committed to expenditures for designated purposes. Special Revenue Funds consist of Juvenile Welfare, Cannon Funds, Kate B. Reynolds, and Widenhouse Funds.

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

**Alcoholic Beverage Control (ABC) Commission** - This enterprise fund accounts for the activities of the ABC commission established by North Carolina General Statute 18B-200. The purpose of the ABC Commission is to provide uniform control over the sale, purchase, transportation, manufacture, consumption, and possession of alcoholic beverages within the State of North Carolina. This fund does not receive any appropriations from the General Assembly.

All remaining proprietary funds are aggregated and reported as Other Proprietary Funds in a separate column in the financial statements. The other proprietary funds include the Private Protective Services Board and the Alarm Systems Licensing Board, both of which are enterprise funds that charge fees to external users for services rendered for licensing purposes.

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

**ALE Seized Assets** - This fund accounts for seized assets by the Division of Alcohol Law Enforcement due to legal or illegal activity. These funds are held until a case is decided in the courts and a ruling is made on how the funds will be distributed.

**CDBG Escrow** - The Community Development Block Grant (CDBG) escrow fund accounts for deposits of insurance proceeds or other funds received by individuals who have been accepted by the U.S. Department of Housing and Urban Development (HUD) for the home repair program due to hurricane damage. These funds are held in escrow until the home repairs start and the funds are applied as an offset to the final amount that is needed to repair the home.

**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.

**Proprietary Funds** - Proprietary fund financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

**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 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 the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

Accounts receivable for the governmental funds primarily includes amounts due from employees. Accounts receivable for the proprietary funds include amounts due from suppliers to the ABC Commission. Receivables 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 allowable expenditures made pursuant to grants and contracts and amounts due from local governments. Intergovernmental receivables for the proprietary funds include amounts due from the local ABC boards for bailments and surcharges to the ABC Commission. Receivables are considered fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

G. **Due To Other State Agencies** - Activities between the Department and other State agencies.

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

I. **Capital Assets** - Capital assets are reported as expenditures in the governmental funds. Consequently, capital asset balances are not reported on the face of the governmental funds' financial statements. Capital assets are reported on the face of the proprietary fund financial statements and are reported in Note 5 of the Department's Notes to the Financial Statements.

Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The Department capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below the $5,000 threshold are capitalized when considered significant.

Depreciation and amortization are recorded at the statewide level for governmental funds. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets in the following manner:

| Asset Class | Estimated Useful Life |
|---|---|
| Buildings | 10-100 years |
| Machinery and Equipment | 2-30 years |
| General Infrastructure | 10-75 years |

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

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

J. **Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

All trust or custodial funds meeting the criteria of a fiduciary activity are reported in separate fiduciary fund financial statements.

K. **Payables** - Accounts payable for the governmental funds and proprietary funds include amounts due to vendors/suppliers and employees in connection with the Department's general business operations.

Intergovernmental payables for the governmental funds include amounts due to federal and local governments primarily in connection with various federal programs.

L. **Unearned Revenue** - Unearned revenue for the governmental funds represents the cumulative excess of cash received from the federal government over expenditures paid in connection with reimbursement of allowable expenditures made pursuant to contracts and grants.

M. **Long-Term Liabilities** - General long-term liabilities for the governmental funds are not recognized in the governmental funds until they become due. Consequently, the general long-term liabilities not yet due are not reported on the face of the governmental funds' financial statements. Long-term liabilities for the proprietary funds are reported on the face of the proprietary funds' financial statements and disclosed in Note 6.

Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes lease liabilities, compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

**Net Pension Liability** - The net pension liability represents the Department's proportionate share of the collective net pension liability reported in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*. This liability represents the Department's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

**Net OPEB Liability** - The net OPEB liability represents the Department's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2024 *Annual Comprehensive Financial Report.* This liability represents the Department's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 12 for further information regarding the Department's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

N. **Compensated Absences** - The Department's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of

30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

Sick leave is earned monthly by eligible employees. The policy provides for the accumulation of unused sick leave to be carried forward until used. When employment is terminated, unused leave is forfeited or used to increase a member's creditable service for employees participating in the North Carolina Teachers' and State Employees' Retirement System (TSERS). Sick leave liability has been recorded for proprietary funds based on sick leave taken compared to sick leave earned, using the LIFO method.

O. **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.

P. **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.

**Net Position** - Net position for the proprietary funds is classified as follows:

*Net Investment in Capital Assets* - This represents the proprietary funds' total investment in capital assets, net of outstanding liabilities related to those capital assets.

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

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

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

**Fiduciary Net Position** - Net position for the fiduciary funds is classified as follows:

*Restricted Net Position* - Fiduciary net position includes resources held for ALE seized assets and CDBG Escrow that are not available for alternative use by the Department.

**Q. 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*.

**R. Revenues and Expenses** - The proprietary funds classify revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as fees, licenses, and fines. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent grants or assistance to the Department, as well as investment earnings, are considered nonoperating since these are either investing, capital, or noncapital financing activities.

**S. 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) is detailed as follows:

- The governmental funds' Balance Sheet includes cash and cash equivalents of $223,677,115.
- The proprietary funds' Statement of Net Position includes cash and cash equivalents of $31,407,340.
- The fiduciary funds' Statement of Fiduciary Net Position includes cash and cash equivalents of $327,055.

The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal oversight other than that of the legislative body) had a weighted average maturity of 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.

Proprietary funds' cash on hand at June 30, 2025 was $40,600. The carrying amount of the governmental funds' deposits not with the State Treasurer was $318,668, and the bank balance was $265,632. Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. The Department does not have a deposit policy for custodial credit risk. As of June 30, 2025, the Department's bank balance was not exposed to custodial credit risk.

## 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 take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

**Short-Term Investment Fund** - At year-end, the Department's investments held in the STIF were valued at $255,411,510. 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 - Intergovernmental Receivables

Intergovernmental receivables for the General Fund at June 30, 2025 were as follows:

| Intergovernmental Receivables: | Amount |
|---|---|
| Federal Government | $ 19,526,681 |
| U.S. States & Territories | 1,394,026 |
| Local Governments: | |
| Juvenile Detention | 5,923,918 |
| **Total Intergovernmental Receivables** | $ 26,844,625 |

Intergovernmental receivables for the ABC Commission at June 30, 2025 were as follows:

| Intergovernmental Receivables: | Amount |
|---|---|
| ABC Board Surcharge | $ 1,081,295 |
| ABC Board Bailment | 2,735,428 |
| Military Surcharge | 789 |
| Military Bailment | 1,884 |
| **Total Intergovernmental Receivables** | $ 3,819,396 |

## Note 5 - Capital Assets

A summary of changes in the proprietary funds' capital assets for the year ended June 30, 2025, is presented as follows:

| | Balance July 1, 2024 (as Restated) | Increases | Decreases | Balance June 30, 2025 |
|---|---|---|---|---|
| **Proprietary Funds** | | | | |
| Capital Assets, Nondepreciable: | | | | |
| Land | $ 550,407 | $ 0 | $ 0 | $ 550,407 |
| **Total Capital Assets, Nondepreciable** | 550,407 | 0 | 0 | 550,407 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 7,381,464 | | | 7,381,464 |
| Equipment | 453,201 | | 8,337 | 444,864 |
| General Infrastructure | 30,000 | | | 30,000 |
| Right -to-Use Leased Building | 908,914 | | | 908,914 |
| **Total Capital Assets, Depreciable** | 8,773,579 | 0 | 8,337 | 8,765,242 |
| Less Accumulated Depreciation/Amortization for: | | | | |
| Buildings | 4,309,828 | 141,403 | | 4,451,231 |
| Equipment | 331,161 | 28,894 | 667 | 359,388 |
| General Infrastructure | 30,000 | | | 30,000 |
| Right-to-Use Leased Building | 350,664 | 111,772 | | 462,436 |
| Total Accumulated Depreciation/Amortization | 5,021,653 | 282,069 | 667 | 5,303,055 |
| **Total Capital Assets, Depreciable, Net** | 3,751,926 | (282,069) | 7,670 | 3,462,187 |
| **Capital Assets, Net** | $ 4,302,333 | $ (282,069) | $ 7,670 | $ 4,012,594 |

## Note 6 - Long-Term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2025, is presented as follows:

| | Balance July 1, 2024 (as Restated) | Additions | Reductions | Balance June 30, 2025 | Current Portion |
|---|---|---|---|---|---|
| Long-Term Liabilities | | | | | |
| Lease Liabilities | $ 705,159 | $ 0 | $ 76,393 | $ 628,766 | $ 81,305 |
| Compensated Absences | 905,964 | 130,788 | | 1,036,752 | 99,813 |
| Net Pension Liability | 5,359,562 | | 410,950 | 4,948,612 | |
| Net Other Postemployment Benefits Liability | 8,029,701 | 2,021,818 | 7,620 | 10,043,899 | |
| **Total Long-Term Liabilities** | $ 15,000,386 | $2,152,606 | $ 494,963 | $16,658,029 | $ 181,118 |

Additional information regarding lease liabilities is included in Note 7.
Additional information regarding the net pension liability is included in Note 11.
Additional information regarding the net other postemployment benefits liability is included in Note 12.

## Note 7 - Leases

A. **Lessee Arrangements** - The proprietary funds have a lease agreement for the right to use office space from an external party. The lease expires after five years but has a renewal option for an additional five years. Lease liabilities and right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. The expected payments are discounted using the interest rate stated per the lease contract, or the proprietary funds' estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the proprietary funds did not recognize any variable payment amounts.

The proprietary funds' lessee arrangements at June 30, 2025, are summarized below (excluding short-term leases):

| Classification: | Number of Lease Contracts | Lease Liabilities June 30, 2025 | Current Portion | Lease Term | Interest Rate |
|---|---|---|---|---|---|
| Lessee: | | | | | |
| Right-to-Use Leased Building | 1 | $ 628,766 | $ 81,305 | 10 years | 3.25% |

B. **Annual Requirements** - The annual requirements to pay principal and interest on leases at June 30, 2025, are as follows:

| | Annual Requirements | |
|---|---|---|
| | Lease Liabilities | |
| Fiscal Year | Principal | Interest |
| 2026 | $ 81,305 | $ 19,250 |
| 2027 | 86,645 | 16,527 |
| 2028 | 92,085 | 13,666 |
| 2029 | 97,842 | 10,553 |
| 2030 | 103,820 | 7,284 |
| 2031-2035 | 167,069 | 4,362 |
| **Total Requirements** | $ 628,766 | $ 71,642 |

## Note 8 - Fund Balance

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

| | General Fund | Capital Projects Fund | Special Revenue Funds | Total |
|---|---|---|---|---|
| **Fund Balance:** | | | | |
| Nonspendable: | | | | |
| Inventories | $ 30,308,564 | $ 0 | $ 0 | $ 30,308,564 |
| Restricted for: | | | | |
| Federal Grants and Federal Equitable Sharing Receipts | 27,126,955 | | | 27,126,955 |
| National Guard Funds | 318,668 | | | 318,668 |
| Committed to: | | | | |
| Emergency Management | 3,012,756 | | | 3,012,756 |
| Law Enforcement | 103,948 | | | 103,948 |
| Geodetic Survey | 549,229 | | | 549,229 |
| Capital Projects | | 23,047,947 | | 23,047,947 |
| Disaster Recovery Funds | 478,558,106 | | | 478,558,106 |
| Special Revenue Funds | | | 741,760 | 741,760 |
| Unassigned | (408,871,355) | (554,267) | | (409,425,622) |
| **Total Fund Balance** | $ 131,106,871 | $ 22,493,680 | $ 741,760 | $ 154,342,311 |

## Note 9 - Revenues and Expenditures from/to Other State Agencies

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

**Revenues from Other State Agencies:**

| | Purpose | Amount |
|---|---|---|
| **General Fund:** | | |
| Office of the State Controller | Disaster Recovery Funds | $ 12,559,509 |
| Office of State Budget and Management | Disaster Relief Reserve | 153,432,755 |
| | Hurricane Helene Relief | 380,000,000 |
| | Disaster Recovery (OSBM GF Special Rev) | 4,802,111 |
| | Earthquake Disaster Recovery Fund | 318,333 |
| | Tropical Storm Fred | 15,387,968 |
| | COVID-19 Recovery Fund | 28,477,929 |
| Department of Transportation | Motor Carrier Enforcement Grants | 15,592,111 |
| | Specialty License Plate Revenue (National Guard) | 95,478 |
| Department of Adult Correction | DAC- Inst Gen Health | 19,577 |
| | Victims Compensation Fund | 813,998 |
| Department of Environmental Quality | Disaster -Flood studies and Mapping | 3,910,000 |
| Department of Health and Human Services | ALE - Sub Abuse Prevention | 300,000 |
| | COVID-19 Relief Fund | 1,974,080 |
| Department of State Treasurer | Floodplain Mapping Register of Deeds | 3,561,208 |
| North Carolina Lottery | Funds for ALE Branch Gambling Enforcement | 2,100,000 |
| Total General Fund Revenues from Other State Agencies | | 623,345,057 |
| **Capital Projects Fund:** | | |
| Office of State Budget and Management | General Repairs and Maintenance | 51,337,717 |
| | Connect NC 2019 | 26,625 |
| Total Capital Projects Fund Revenues from Other State Agencies | | 51,364,342 |
| **Total Revenues from Other State Agencies** | | $ 674,709,399 |

**Expenditures to Other State Agencies:**

| | Purpose | Amount |
|---|---|---|
| **General Fund:** | | |
| North Carolina General Fund | Revenues Collected under G.S. 18B-902 | $ 30,170,365 |
| Department of Agriculture | Disaster Recovery Florence | 198,193 |
| | FEMA State Match | 24,000 |
| Department of Transportation | Motor Carrier Enforcement Grants | 15,574,751 |
| | Hurricane Helene- Economic Development Project | 10,000,000 |
| Department of Health and Human Services | Fixed Nuclear Assessment per G.S. 166-A29 | 335,911 |
| Office of State Budget and Management | Evidence Based Grants | 7,006 |
| | Grow Grant Helene | 26,000,000 |
| Total General Fund Expenditures to Other State Agencies | | 82,310,226 |
| **Capital Projects Fund:** | | |
| State Bureau of Investigation | Fire Alarm Panel | 3,526 |
| Total Capital Projects Fund Revenues to Other State Agencies | | 3,526 |
| **Total Expenditures to Other State Agencies** | | $ 82,313,752 |

## Note 10 - Interfund Transfers

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

| | Transfers In | | |
|---|---|---|---|
| Transfers Out | General Fund | Capital Projects Fund | Total |
| General Fund | $ 0 | $ 326,260 | $ 326,260 |
| ABC Commission | 313,190 | | 313,190 |
| **Total** | $ 313,190 | $ 326,260 | $ 639,450 |

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

## Note 11 - 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 the payment is not due until the subsequent period. Because the governmental funds are reported using the current financial resources measurement focus, long-term pension liabilities (including the net pension liability) and related deferred outflows of resources and deferred inflows of resources are not reported in the governmental fund financial statements. The Department's proprietary funds, which are reported using the economic resources measurement focus, reports its net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense.

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

*Benefits Provided*: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. LEO's who complete 25 years of credible service with 15 years as an officer are eligible to retire with partial retirement benefits. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The Department's contractually required contribution rate for the year ended June 30, 2025 was 16.79% of covered payroll. During the fiscal year ended June 30, 2025, the Department's governmental funds recognized total employer pension contributions of $59,249,040 as expenditures, which are included in salaries and benefits in the governmental fund financial statements. In addition, the proprietary funds contributed $1,070,726 to the pension plan. Plan members' contributions to the pension plan were $21,555,604.

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.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by the TSERS.

*Methods Used to Value TSERS Investment*: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, the Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2024 *Annual Comprehensive Financial Report.*

*Net Pension Liability – Proprietary Funds:* At June 30, 2025, the proprietary funds reported a liability of $4,948,612 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total pension liability to June 30, 2024. The proprietary funds' proportion of the net pension liability was based on a projection of the present value of future salaries for the Department's proprietary funds relative to the present value of future salaries for all participating employers, actuarially determined. As of June 30, 2024, the proprietary funds' proportion was 0.03340%, which was an increase of 0.00126 from its proportion measured as of June 30, 2023, which was 0.03214%.

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

| | |
|---|---|
| Valuation Date | 12/31/2023 |
| Inflation | 2.5% |
| Salary Increases* | 3.25% - 8.05% |
| Investment Rate of Return** | 6.5% |

* Salary increases include 3.25% inflation and productivity

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

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

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

Future ad hoc cost-of-living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement. The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024 (the measurement date) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Fixed Income | 2.4% |
| Global Equity | 6.9% |
| Real Estate | 6.0% |
| Alternatives | 8.6% |
| Opportunistic Fixed Income | 5.3% |
| Inflation Sensitive | 4.3% |

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

*Discount Rate:* The discount rate used to measure the total pension liability was 6.5% for the December 31, 2023 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the proprietary funds' net pension liability at June 30, 2024 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

| Net Pension Liability | | |
|---|---|---|
| 1% Decrease (5.5%) | Current Discount Rate (6.5%) | 1% Increase (7.5%) |
| $ 9,077,971 | $ 4,948,612 | $ 1,543,640 |

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2025, the proprietary funds recognized pension expense of $1,817,774. At June 30, 2025, the proprietary funds reported deferred outflows of resources and deferred inflows of resources related to TSERS were from the following sources:

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference Between Actual and Expected Experience | $ 445,956 | $ 14,628 |
| Changes of Assumptions | | |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 816,003 | |
| Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 4,201,406 | 3,654,728 |
| Contributions Subsequent to the Measurement Date | 1,070,726 | |
| **Total** | $ 6,534,091 | $ 3,669,356 |

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the proprietary funds' net pension liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized in pension expense as follows:

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

| Year Ending June 30: | Amount |
|---|---|
| 2026 | $ 589,124 |
| 2027 | 1,313,335 |
| 2028 | (21,104) |
| 2029 | (87,346) |
| **Total** | $ 1,794,009 |

## B. Single-Employer, Defined Benefit Plan

### 1. Special Separation Allowance

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

62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement.

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

There is no statewide administration of the SSA. The SSA is not administered through a trust and therefore no assets are accumulated. Funds for this allowance are appropriated annually in the Department's budget. For the fiscal year ended June 30, 2025, the Department paid $15,985,838 for 597 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.

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

The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan. The Department assumes no obligations in relation to the plan. Benefit provisions are established by the General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

The NGPF's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year *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 $6,889,384.

## Note 12 - Other Postemployment Benefits

Other postemployment benefit contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Because the governmental funds are reported using the modified accrual basis of accounting and the current financial resources measurement focus, long-term other postemployment benefit (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense are not reported in the governmental fund financial statements. The Department's proprietary funds, which are reported using the economic resources measurement focus, reports their proportionate share of long-term OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense.

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. Summary of Significant Accounting Policies and Plan Asset Matters

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

*Methods Used to Value Plan Investments*: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2024 *Annual Comprehensive Financial Report.*

## B. Plan Descriptions

### 1. Health Benefits

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

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of 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 13. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the 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. During the fiscal year ended June 30, 2025, the Department's governmental funds recognized contributions of $24,666,515 to the RHBF as expenditures, which are included in salaries and benefits in the governmental fund financial statements. In addition, the proprietary funds contributed $445,764 to the RHBF.

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 a nonemployer contributing entity contribution and was allocated among the RHBF employers. For the fiscal year ended June 30, 2025, the contribution allocated to the Department was $186,327. Of this amount, the proprietary funds contributed $3,056.

**2. Disability Income**

*Plan Administration:* As discussed in Note 13, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the State's reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

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

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits, by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security 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*: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the year ended June 30, 2025 was 0.13%, of covered payroll. During the fiscal year ended June 30, 2025, the Department's governmental funds recognized contributions of $458,747 to DIPNC as expenditures, which are included in salaries and benefits in the governmental fund financial statements. In addition, the proprietary funds contributed $8,291 to the DIPNC.

## C. Net OPEB Liability (Asset)

*Retiree Health Benefit Fund*: At June 30, 2025, the proprietary funds reported a liability of $10,043,899 for their proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2024. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The proprietary funds' proportion of the net OPEB liability was based on the present value of future salaries for the proprietary funds relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the proprietary funds' share was 0.02953%, which was a decrease of 0.00057 from its proportion measured as of June 30, 2023, which was 0.03010%.

*Disability Income Plan of North Carolina*: At June 30, 2025, the proprietary funds reported an asset of $9,773 for their proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2024. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. The proprietary funds' proportion of the net OPEB asset was based on the present value of future salaries for the proprietary funds relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2024, the proprietary funds' share was 0.02968%, which was an increase of 0.00103 from its proportion measured as of June 30, 2023, which was 0.02865%.

*Actuarial Assumptions:* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2024 utilizing update procedures incorporating the actuarial assumptions.

| | Retiree Health Benefit Fund | Disability Income Plan of N.C. |
|---|---|---|
| Valuation Date | 12/31/2023 | 12/31/2023 |
| Inflation | 2.5% | 2.5% |
| Salary Increases* | 3.25% - 8.05% | 3.25% - 8.05% |
| Investment Rate of Return** | 6.5% | 3.0% |
| Healthcare Cost Trend Rate - Medical*** | 6.5% grading down to 5% by 2030 | N/A |
| Healthcare Cost Trend Rate - Prescription Drug*** | 10% grading down to 5% by 2033 | N/A |
| Healthcare Cost Trend Rate - Prescription Drug Rebates*** | 7% through 2030 grading down to 5% by 2033 | N/A |
| Healthcare Cost Trend Rate - Medicare Advantage*** | Premium adjustments for IRA impacts through 2027, 6.17% in 2028 down to 5% by 2034 | N/A |
| Healthcare Cost Trend Rate - Administrative*** | 3% | N/A |

* Salary increases include 3.25% inflation and productivity factor.
** Investment rate of return is net of OPEB plan investment expense, including inflation.
*** Disability Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.
N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e., teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e., disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2024.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2024 (the measurement date) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Fixed Income | 2.4% |
| Global Equity | 6.9% |
| Real Estate | 6.0% |
| Alternatives | 8.6% |
| Opportunistic Fixed Income | 5.3% |
| Inflation Sensitive | 4.3% |

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annual figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2024 is 2.76%.

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

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and benefits are dependent on membership requirements.

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

The actuarial assumptions used in the December 31, 2023 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.93% at June 30, 2024 compared to 3.65% at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.93% was used as the discount rate used to measure the total OPEB liability. The 3.93% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2024.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2024 and at June 30, 2023. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members.

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

**Net OPEB Liability (Asset)**

| | 1% Decrease (2.93%) | Current Discount Rate (3.93%) | 1% Increase (4.93%) |
|---|---|---|---|
| RHBF | $ 11,949,663 | $ 10,043,899 | $ 8,513,771 |

| | 1% Decrease (2.00%) | Current Discount Rate (3.00%) | 1% Increase (4.00%) |
|---|---|---|---|
| DIPNC | $ (8,714) | $ (9,773) | $ (10,885) |

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

**Net OPEB Liability**

| | 1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 9%, Pharmacy Rebate - 4% - 6%, Med. Advantage - 4% - 5.17%, Administrative - 2%) | Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebate - 5% - 7%, Med. Advantage - 5% - 6.17%, Administrative - 3%) | 1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebate - 6% - 8%, Med. Advantage - 6% - 7.17%, Administrative - 4%) |
|---|---|---|---|
| RHBF | $ 8,290,533 | $ 10,043,899 | $ 12,314,209 |

The sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

*OPEB Expense:* For the fiscal year ended June 30, 2025, the proprietary funds recognized OPEB expense as follows:

| OPEB Plan | Amount |
|---|---|
| RHBF | $ 1,150,985 |
| DIPNC | 6,085 |
| **Total OPEB Expense** | $ 1,157,070 |

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:* At June 30, 2025, the proprietary funds reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

| | RHBF | DIPNC | Total |
|---|---|---|---|
| Differences Between Actual and Expected Experience | $ 81,863 | $ 3,940 | $ 85,803 |
| Changes of Assumptions | 2,418,981 | 145 | 2,419,126 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 43,040 | 7,673 | 50,713 |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 17,042,576 | 11,958 | 17,054,534 |
| Contributions Subsequent to the Measurement Date | 445,764 | 8,291 | 454,055 |
| **Total** | $ 20,032,224 | $ 32,007 | $ 20,064,231 |

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

| | RHBF | DIPNC | Total |
|---|---|---|---|
| Differences Between Actual and Expected Experience | $ 0 | $ 11,241 | $ 11,241 |
| Changes of Assumptions | 1,309,519 | 4,553 | 1,314,072 |
| Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions | 15,334,347 | 14,859 | 15,349,206 |
| **Total** | $ 16,643,866 | $ 30,653 | $ 16,674,519 |

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

| Year Ended June 30: | RHBF | DIPNC |
|---|---|---|
| 2026 | $ 580,811 | $ (3,741) |
| 2027 | 892,237 | (3,378) |
| 2028 | 1,036,461 | 773 |
| 2029 | 433,084 | (132) |
| 2030 | 1 | (457) |
| Thereafter | | (2) |
| **Total** | $ 2,942,594 | $ (6,937) |

## Note 13 - Risk Management

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

## A. Employee Benefit Plans

### 1. State Health Plan

Department employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims. See Note 12, Other Postemployment Benefits, for additional information regarding retiree health benefits.

### 2. Death Benefit Plan of North Carolina

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

### 3. Disability Income Plan

Short-term and long-term disability benefits are provided to Department employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Department for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 12, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

## B. Other Risk Management and Insurance Activities

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

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.

2. **Public Officers' and Employees' Liability Insurance**

   The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $10,000,000 in the aggregate per fiscal year via contract with private insurance companies. The Department pays the premium, based on a composite rate, directly to the private insurer.

3. **Employee Dishonesty and Computer Fraud**

   The Department is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Department is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. **Statewide Workers' Compensation Program**

   The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Department's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Department is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Department retains the risk for workers' compensation.

   Additional details on the state-administered risk management programs are disclosed in the State's *Annual Comprehensive Financial Report*, issued by the Office of the State Controller.

## Note 14 - 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.

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 $22,784,048 related to construction and improvements of state government facilities, primarily within the Capital Projects Fund.

## Note 15 - 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.

## Note 16 - Fund Balance / Net Position Restatements

As of July 1, 2024, fund balance and net position as previously reported was restated as follows:

| | July 1, 2024 Fund Equity as Previously Reported | GASB 101 Implementation | Prior Year Error Corrections | July 1, 2024 Fund Equity as Restated |
|---|---|---|---|---|
| **Governmental Funds:** | | | | |
| General Fund | $ 219,122,445 | $ 0 | $ 1,008,785 | $ 220,131,230 |
| Capital Projects Fund | 44,019,409 | | (6,636,674) | 37,382,735 |
| Special Revenue Funds | 416,006 | | 183,769 | 599,775 |
| **Total Governmental Funds** | $ 263,557,860 | $ 0 | $ (5,444,120) | $ 258,113,740 |
| **Proprietary Funds:** | | | | |
| ABC Commission | $ 29,408,618 | $ (34,715) | $ (1,962,923) | $ 27,410,980 |
| Other Proprietary Funds | 621,575 | (7,391) | 494 | 614,678 |
| **Total Proprietary Funds** | $ 30,030,193 | $ (42,106) | $ (1,962,429) | $ 28,025,658 |
| **Fiduciary Funds:** | | | | |
| ALE Seized Assets Fund | $ 195,483 | $ 0 | $ (8,723) | $ 186,760 |
| CDBG Escrow Fund | (1,009,439) | | 1,421,896 | 412,457 |
| **Total Fiduciary Funds** | $ (813,956) | $ 0 | $ 1,413,173 | $ 599,217 |

### Governmental Funds

*General Fund*

The Department reported a restatement of $1,008,785 for notes receivable that were understated in the prior fiscal year related to loans for local governments. Because the loans were not issued in the prior year, only the fiscal year 2025 beginning fund balance would be impacted in the prior year. As a result, fiscal year 2025 beginning fund balance was understated by $1,008,785.

*Capital Projects Fund*

The Department overstated cash and cash equivalents by $1,569,073 in fiscal year 2024 by reporting unallotted state funds for capital improvements. Because the funds were not allotted to the Department, this decreased fiscal year 2025 beginning fund balance by $1,569,073.

The Department did not accrue liabilities that were incurred in the prior year. As a result, accounts payable and capital outlay were understated by $5,067,601 in fiscal year 2024. This decreased fiscal year 2025 beginning fund balance by $5,067,601.

*Special Revenue Funds*

The Department did not record contributions, gifts, and grants received in the prior year from the Cannon and Widenhouse funds. As a result, contributions, gifts, and grants and cash and cash equivalents were understated by $139,140 in fiscal year 2024. This increased fiscal year 2025 beginning fund balance by $139,140.

The Department did not record prior year reimbursements. As a result, contracted personal services were overstated by $7,400, supplies and materials were overstated by $24,426, other services were overstated by $12,803, and cash and cash equivalents were understated by $44,629 in fiscal year 2024. This increased fiscal year 2025 beginning fund balance by $44,629.

**Proprietary Funds**

*ABC Commission*
The Department's cash and cash equivalents balance and beginning net position was understated by $732,222 in fiscal year 2024 due to errors in recording deposits. This increased fiscal year 2025 beginning net position by $732,222.

The Department did not record completed building renovations in the prior year. As a result, buildings, net of accumulated depreciation, was understated by $2,065,606 in fiscal year 2024. In addition, depreciation was understated by $11,990 in fiscal year 2024. As a result, this increased fiscal year 2025 beginning net position by $2,065,606.

The Department did not accrue liabilities that were incurred in the prior year. As a result, accounts payable and contracted personal services were understated by $4,760,751 in fiscal year 2024. This decreased fiscal year 2025 beginning net position by $4,760,751.

*Other Proprietary Funds*
The Department's cash and cash equivalents were understated by $9,518 in fiscal year 2024 due to errors in recording deposits. This increased fiscal year 2025 beginning net position by $9,518.

The Department did not accrue liabilities that were incurred in the prior year. As a result, accounts payable and contracted personal services were understated by $9,024 in fiscal year 2024. This decreased fiscal year 2025 beginning net position by $9,024.

**Fiduciary Funds**

*ALE Seized Assets Fund*
The Department did not accrue a payment that was approved to be released in fiscal year 2024. As a result, funds held for others and payments in accordance with custodial agreements were understated by $8,723 in fiscal year 2024. This decreased fiscal year 2025 beginning fiduciary net position by $8,723.

*CDBG Escrow Fund*
The Department did not properly record $1,421,896 in participant deposits in their Community Development Block Grant (CDBG) escrow fund in prior years. As a result, funds held for others was overstated by $1,421,896 in fiscal year 2024. This increased fiscal year 2025 beginning fiduciary net position by $1,421,896.

## Note 17 - Subsequent Event

Effective July 1, 2025, Session Law 2024-57 removed the North Carolina State Highway Patrol (NCSHP) from the Department of Public Safety (DPS) and made it an independent, cabinet-level department. DPS had a memorandum of agreement in place to provide administrative support to NCSHP until June 30, 2026. The reorganization has been finalized as of the date of this report.

# Required Supplementary Information

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

Schedule D-1
Page 1 of 2

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual (Cash Basis) | Favorable (Unfavorable) |
| **REVENUES** | | | | |
| Federal Funds | $ 1,411,374,650 | $ 2,607,269,395 | $ 1,265,081,280 | $ (1,342,188,115) |
| Contributions, Gifts, and Grants | 11,299,368 | 33,685,140 | 39,697,332 | 6,012,192 |
| Sales and Services | 12,521,414 | 15,642,953 | 13,604,082 | (2,038,871) |
| Fees, Licenses, and Fines | 4,832,024 | 4,950,010 | 37,279,206 | 32,329,196 |
| Rental and Lease of Property | 177,802 | 177,802 | 188,628 | 10,826 |
| Investment Earnings | 79,925 | 990,604 | 1,944,077 | 953,473 |
| Student Tuition and Fees | 55,385 | 55,385 | 146,730 | 91,345 |
| Miscellaneous Income | 307,988 | 550,456 | 5,162,430 | 4,611,974 |
| Total Revenues | 1,440,648,556 | 2,663,321,745 | 1,363,103,765 | (1,300,217,980) |
| **EXPENDITURES** | | | | |
| Salaries and Benefits | 576,653,816 | 603,536,911 | 531,711,326 | 71,825,585 |
| Contracted Personal Services | 525,976,970 | 887,168,577 | 678,133,148 | 209,035,429 |
| Contracted Medical Services | 2,083,684 | 6,765,354 | 6,765,390 | (36) |
| Supplies and Materials | 19,655,430 | 31,266,829 | 96,806,465 | (65,539,636) |
| Travel | 6,836,298 | 22,465,435 | 19,670,023 | 2,795,412 |
| Communication | 5,906,458 | 8,176,213 | 6,744,556 | 1,431,657 |
| Utilities | 8,229,218 | 13,137,371 | 8,641,816 | 4,495,555 |
| Data Processing Services | 2,590,435 | 13,226,046 | 10,539,081 | 2,686,965 |
| Other Services | 4,193,319 | 11,743,582 | 11,246,480 | 497,102 |
| Claims and Benefits | 12,871,876 | 16,052,437 | 15,985,838 | 66,599 |
| Debt Service: | | | | |
| Principal Retirement | | 1,692 | 1,692 | |
| Interest and Fees | | 3,650 | 3,650 | |
| Other Fixed Charges | 2,086,253 | 11,346,828 | 11,153,794 | 193,034 |
| Capital Outlay | 35,067,786 | 59,874,706 | 62,022,358 | (2,147,652) |
| Grants, State Aid, and Subsidies | 1,214,691,516 | 2,226,032,018 | 1,068,154,198 | 1,157,877,820 |
| Insurance and Bonding | 2,037,888 | 2,931,210 | 2,805,794 | 125,416 |
| Other Expenditures | 23,402,265 | 31,383,326 | 18,561,326 | 12,822,000 |
| Total Expenditures | 2,442,283,212 | 3,945,112,185 | 2,548,946,935 | 1,396,165,250 |
| Excess of Revenues Under Expenditures | (1,001,634,656) | (1,281,790,440) | (1,185,843,170) | 95,947,270 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Sale of Capital Assets | 2,427,295 | 2,456,099 | 2,486,274 | 30,175 |
| Insurance Recoveries | 643,405 | 2,607,180 | 2,757,336 | 150,156 |
| Transfers from Other Departments or Funds | 843,133,565 | 888,462,187 | 610,930,429 | (277,531,758) |
| Transfers to Other Departments or Funds | 40,676,636 | 63,327,787 | (93,409,495) | (156,737,282) |
| State Appropriations | 654,036,913 | 654,036,913 | 654,036,913 | |
| Total Other Financing Sources | 1,540,917,814 | 1,610,890,166 | 1,176,801,457 | (434,088,709) |
| Net Change in Fund Balance | 539,283,158 | 329,099,726 | (9,041,713) | (338,141,439) |
| Fund Balance - July 1 | 196,380,631 | 196,380,631 | 196,380,631 | |
| Fund Balance - June 30 | $ 735,663,789 | $ 525,480,357 | $ 187,338,918 | $ (338,141,439) |

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



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 | $ 187,338,918 |
| Reconciling Adjustments: | |
| **Basis Differences:** | |
| Receivables | 35,367,695 |
| Payables | (119,004,454) |
| Funds Held for Others | (60,624) |
| Deferred Inflows for Leases | (2,843,228) |
| Total Basis Differences | (86,540,611) |
| **Other Adjustments:** | |
| Inventories | 30,308,564 |
| Fund Balance (GAAP Basis) June 30, 2025 | $ 131,106,871 |

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

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

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

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

**Schedule D-2**

| **Teachers' and State Employees' Retirement System** | **2025** | **2024** | **2023** | **2022** | **2021** |
|---|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net Pension Liability | 0.03340% | 0.03214% | 0.02614% | 0.02380% | 0.02193% |
| Proportionate Share of TSERS Collective Net Pension Liability | $ 4,948,612 | $ 5,359,562 | $ 3,880,686 | $ 1,114,298 | $ 2,649,858 |
| Covered Payroll | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 | $ 3,463,039 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 85.25% | 101.00% | 89.70% | 30.09% | 76.52% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 85.35% | 82.97% | 84.14% | 94.86% | 85.98% |

| | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net Pension Liability | 0.02184% | 0.02033% | 0.02373% | 0.02072% | 0.02108% |
| Proportionate Share of TSERS Collective Net Pension Liability | $ 2,264,156 | $ 2,023,407 | $ 1,883,220 | $ 1,904,292 | $ 776,917 |
| Covered Payroll | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 | $ 3,129,442 | $ 3,021,054 |
| Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 67.77% | 66.18% | 60.18% | 60.85% | 25.72% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 87.56% | 87.61% | 89.51% | 87.32% | 94.64% |

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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

**Schedule D-3**

| **Teachers' and State Employees' Retirement System** | **2025** | **2024** | **2023** | **2022** | **2021** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 1,070,726 | $ 1,023,989 | $ 922,271 | $ 708,649 | $ 547,324 |
| Contributions in Relation to the Contractually Determined Contribution | 1,070,726 | 1,023,989 | 922,271 | 708,649 | 547,324 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 6,377,165 | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 |
| Contributions as a Percentage of Covered Payroll | 16.79% | 17.64% | 17.38% | 16.38% | 14.78% |

| | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 449,156 | $ 410,600 | $ 329,600 | $ 312,294 | $ 286,344 |
| Contributions in Relation to the Contractually Determined Contribution | 449,156 | 410,600 | 329,600 | 312,294 | 286,344 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 3,463,039 | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 | $ 3,129,442 |
| Contributions as a Percentage of Covered Payroll | 12.97% | 12.29% | 10.78% | 9.98% | 9.15% |

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

## North Carolina Department of Public Safety
## Notes to Required Supplementary Information
## Schedule of Department Contributions
## Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
## Proprietary Funds
## For the Fiscal Year Ended June 30, 2025

*Changes of Benefit Terms:*

Cost of Living Increase

| Teachers' and State Employees' | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retirement System | N/A | N/A | N/A | N/A | N/A | N/A | 1.00% | N/A | N/A | N/A |

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA) in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan net pension liability.

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017, and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of July 1, 2016, received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and before June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

In December 2021 for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of September 1, 2021, received a one-time cost-of-living supplement payment, equal to 2% of the beneficiary’s annual retirement allowance.

Benefit recipients of the TSERS received a one-time benefit supplement payment equal to 4% of the member’s annual benefit amount, paid in October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Benefit recipients of the TSERS will receive a one-time benefit supplement payment equal to 4% of the member’s annual benefit amount, paid in November 2023, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2024. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

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.

*Methods and Assumptions Used in Calculations of Actuarially Determined Contributions*: An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of Department Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 11 for more information on the specific assumptions for the plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* In January 2021, the actuarial assumptions for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of the TSERS actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for the TSERS was lowered from 7.00% to 6.50% effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina’s 2024 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

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

Schedule D-4
Page 1 of 2

| Retiree Health Benefit Fund | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net OPEB Liability | 0.02953% | 0.03010% | 0.02309% | 0.02088% | 0.01921% |
| Proportionate Share of Collective Net OPEB Liability | $ 10,043,899 | $ 8,022,081 | $ 5,484,416 | $ 6,456,195 | $ 5,329,069 |
| Covered Payroll | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 | $ 3,463,039 |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 173.02% | 151.17% | 126.77% | 174.34% | 153.88% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 9.79% | 10.73% | 10.58% | 7.72% | 6.92% |

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net OPEB Liability | 0.01933% | 0.01773% | 0.02071% | 0.01712% |
| Proportionate Share of Collective Net OPEB Liability | $ 6,118,325 | $ 5,049,904 | $ 6,790,909 | $ 7,449,874 |
| Covered Payroll | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 | $ 3,129,442 |
| Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll | 183.13% | 165.16% | 217.02% | 238.06% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 4.40% | 4.40% | 3.52% | 2.41% |

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



| Disability Income Plan of North Carolina | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net OPEB Liability (Asset) | 0.02968% | 0.02865% | 0.02321% | 0.02111% | 0.01919% |
| Proportionate Share of Collective Net OPEB Liability (Asset) | $ (9,773) | $ 7,620 | $ 6,905 | $ (3,448) | $ (9,438) |
| Covered Payroll | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 | $ 3,463,039 |
| Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll | 0.17% | 0.14% | 0.16% | 0.09% | 0.27% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 114.99% | 90.61% | 90.34% | 105.18% | 115.57% |

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Proportionate Share Percentage of Collective Net OPEB Liability (Asset) | 0.01916% | 0.01768% | 0.02101% | 0.01852% |
| Proportionate Share of Collective Net OPEB Liability (Asset) | $ (8,269) | $ (5,370) | $ (12,843) | $ (11,504) |
| Covered Payroll | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 | $ 3,129,442 |
| Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll | 0.25% | 0.18% | 0.41% | 0.37% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 113.00% | 108.47% | 116.23% | 116.06% |

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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



| Retiree Health Benefit Fund | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 445,764 | $ 414,471 | $ 365,619 | $ 272,124 | $ 247,370 |
| Contributions in Relation to the Contractually Determined Contribution | 445,764 | 414,471 | 365,619 | 272,124 | 247,370 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 6,377,165 | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 |
| Contributions as a Percentage of Covered Payroll | 6.99% | 7.14% | 6.89% | 6.29% | 6.68% |

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 224,059 | $ 209,476 | $ 184,980 | $ 181,806 |
| Contributions in Relation to the Contractually Determined Contribution | 224,059 | 209,476 | 184,980 | 181,806 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 3,463,039 | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 |
| Contributions as a Percentage of Covered Payroll | 6.47% | 6.27% | 6.05% | 5.81% |

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



| Disability Income Plan of North Carolina | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 8,291 | $ 6,386 | $ 5,306 | $ 3,894 | $ 3,333 |
| Contributions in Relation to the Contractually Determined Contribution | 8,291 | 6,386 | 5,306 | 3,894 | 3,333 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 6,377,165 | $ 5,804,923 | $ 5,306,508 | $ 4,326,307 | $ 3,703,136 |
| Contributions as a Percentage of Covered Payroll | 0.13% | 0.11% | 0.10% | 0.09% | 0.09% |

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 3,463 | $ 4,677 | $ 4,280 | $ 11,891 |
| Contributions in Relation to the Contractually Determined Contribution | 3,463 | 4,677 | 4,280 | 11,891 |
| Contribution Deficiency (Excess) | $ 0 | $ 0 | $ 0 | $ 0 |
| Covered Payroll | $ 3,463,039 | $ 3,340,924 | $ 3,057,511 | $ 3,129,194 |
| Contributions as a Percentage of Covered Payroll | 0.10% | 0.14% | 0.14% | 0.38% |

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

# North Carolina Department of Public Safety
# Notes to Required Supplementary Information
# Schedule of Department Contributions
# Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
# Proprietary Funds
# For the Fiscal Year Ended June 30, 2025

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

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

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for one of four options of the RHBF. Out-of-pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Effective January 1, 2022, the structure of employer contributions to the RHBF was altered by legislation. Previously, non-Medicare-eligible retirees had the same employer contribution rate as active employees. As a result of the legislative change, non-Medicare-eligible retirees have the same employer contribution rate as Medicare-eligible retirees.

Effective April 1, 2024, coverage of GLP-1 prescriptions for obesity management (GLP-1-AOM) was terminated.

Beginning with the Disability Income Plan of North Carolina (DIPNC) actuarial valuation as of December 31, 2017,the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of employee's short-term disability benefit period. The reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019 and no further reimbursements may be issued.

*Method and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Department Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of Department Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 12 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* Consistent with prior years, for the actuarial valuation measured as of June 30, 2024 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.93%, from 3.65% as of June 30, 2023. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next four years. The expected impact from the Inflation Reduction Act on assumed Medicare Advantage rates by including proposed PMPM vendor rates through 2027 and then using assumed trend beginning in 2028. Employer portion of contributions were calculated to have less volatility than recent experience and have a smoother transition to the ultimate trend.

For the actuarial valuation measured as of June 30, 2024 for DIPNC, the discount rate remained at 3%, unchanged from the rate as of June 30, 2023.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS and the Committee on Actuarial Valuation of Retired Employees' Health Benefits adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the TSERS actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability.

The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

For the DIPNC actuarial valuation as of December 31, 2023, benefit payments expected to be issued after 36 months of disability to claimants who had at least five years of membership service as of July 31, 2007 were updated to include an offset (reduction to the DIPNC benefit) based on estimated Social Security benefits.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2024 *Annual Comprehensive Financial Report*.

# Supplementary Information

## North Carolina Department of Public Safety
## Combining Schedule of Revenues and Expenditures
## Governmental Funds by Division
## For the Fiscal Year Ended June 30, 2025 — Schedule E-1

| | Administration | Juvenile Justice | Law Enforcement | National Guard | Emergency Management | Office of Recovery and Resiliency | Total Divisions |
|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | |
| Federal Funds | $ 45,596,046 | $ 742,456 | $ 17,313,298 | $ 51,266,918 | $ 536,185,916 | $ 157,857,818 | $ 808,962,452 |
| Federal COVID-19 Funds | | | | | 464,359,188 | | 464,359,188 |
| Investment Earnings | 786,417 | 25,656 | 220,940 | 30,599 | 906,120 | | 1,969,732 |
| Sales and Services | 101,057 | 124,753 | 9,624,148 | 100,805 | 3,653,319 | | 13,604,082 |
| Rental and Lease of Property | | | 162,746 | 159,761 | | | 322,507 |
| Fees, Licenses, and Fines | 30,318,553 | | 294,942 | | 4,431,211 | | 35,044,706 |
| Student Tuition and Fees | | | 146,730 | | | | 146,730 |
| Contributions, Gifts, and Grants | 722,862 | 9,624,023 | 7,474,305 | 346,788 | 12,683,031 | 8,415,950 | 39,266,959 |
| Revenues from Other State Agencies | 4,009,320 | 10,361,363 | 33,413,208 | 30,762,179 | 440,860,189 | 155,303,140 | 674,709,399 |
| Miscellaneous Income | 244,878 | (11) | 152,556 | 113,252 | 256,637 | | 767,312 |
| Total Revenues | 81,779,133 | 20,878,240 | 68,802,873 | 82,780,302 | 1,463,335,611 | 321,576,908 | 2,039,153,067 |
| **EXPENDITURES** | | | | | | | |
| Salaries and Benefits | 28,089,783 | 135,545,452 | 275,859,357 | 20,945,992 | 46,713,992 | 25,566,436 | 532,721,012 |
| Contracted Personal Services | 14,964,245 | 48,645,877 | 10,998,463 | 13,631,315 | 413,418,085 | 240,921,787 | 742,579,772 |
| Contracted Medical Services | | 6,982,818 | 534,401 | 24,379 | | | 7,541,598 |
| Supplies and Materials | 1,081,661 | 827,981 | 19,427,950 | 2,372,058 | 72,324,286 | 41,361 | 96,075,297 |
| Purchases for Resale | 1,479 | 1,971 | | 114,367 | | | 117,817 |
| Travel | 265,911 | 551,320 | 1,531,978 | 637,901 | 10,581,179 | 6,283,581 | 19,851,870 |
| Communication | 1,956,934 | 2,205,718 | 3,311,864 | 2,924,125 | 542,310 | 219,707 | 11,160,658 |
| Utilities | 568,982 | 1,278,448 | 1,297,292 | 5,708,333 | 29,009 | | 8,882,064 |
| Data Processing Services | 1,340,033 | 2,454,898 | 2,743,552 | 1,052,445 | 1,351,305 | 27,836 | 8,970,069 |
| Other Services | 1,875,324 | 1,412,550 | 1,278,030 | 6,783,949 | 206,517 | 25,363 | 11,581,733 |
| Claims and Benefits | 194,406 | 15,791,432 | | | | | 15,985,838 |
| Debt Service: | | | | | | | |
| Principal Retirement | 2,427,862 | 688,733 | 838,874 | 135,720 | 581,547 | 376,308 | 5,049,044 |
| Interest and Fees | 401,465 | 71,948 | 858,496 | 43,644 | 392,073 | 45,376 | 1,813,002 |
| Other Fixed Charges | 1,699,249 | 220,701 | 4,178,796 | 328,149 | 1,068,577 | 4,008,451 | 11,503,923 |
| Capital Outlay | 5,350,704 | 13,440,284 | 52,554,104 | 63,052,334 | 10,475,412 | 147,474 | 145,020,312 |
| Grants, State Aid, and Subsidies | 57,898,462 | 29,260,967 | | 72,269 | 961,072,424 | 44,295,919 | 1,092,600,041 |
| Insurance and Bonding | 67,883 | 172,795 | 2,362,208 | 112,464 | 210,998 | 3 | 2,926,351 |
| Expenditures to Other State Agencies | 34,541,894 | 7,005 | 11,206,749 | | 36,359,911 | 198,193 | 82,313,752 |
| Other Expenditures | (386,361) | 3,461,723 | 679,732 | 1,084,855 | 9,344,599 | (65,438) | 14,119,110 |
| Total Expenditures | 152,339,916 | 263,022,621 | 389,661,846 | 119,024,299 | 1,564,672,224 | 322,092,357 | 2,810,813,263 |
| Excess of Revenues Under Expenditures | (70,560,783) | (242,144,381) | (320,858,973) | (36,243,997) | (101,336,613) | (515,449) | (771,660,196) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Sale of Capital Assets | | 1,284 | 2,433,670 | 50,357 | 10,339 | | 2,495,650 |
| Other Debt Issued | | 95,345 | | | | | 95,345 |
| Insurance Recoveries | | | 2,577,475 | | 179,861 | | 2,757,336 |
| Transfers from ABC Commission | 313,190 | | | | | | 313,190 |
| Transfers In | | | | 326,260 | | | 326,260 |
| Transfers Out | (4,821) | | | (321,439) | | | (326,260) |
| Transfers to State Reserve Fund | (6,266,547) | (659,870) | (1,509,326) | (133,577) | (2,529,949) | | (11,099,269) |
| Transfers from State Reserve Fund | 9,040,333 | 1,717,635 | 3,885,279 | 3,072,950 | 1,573,405 | | 19,289,602 |
| State Appropriations | 79,535,954 | 216,342,083 | 324,166,608 | 18,083,985 | 15,526,374 | 381,909 | 654,036,913 |
| Total Other Financing Sources | 82,618,109 | 217,496,477 | 331,553,706 | 21,078,536 | 14,760,030 | 381,909 | 667,888,767 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | $ 12,057,326 | $ (24,647,904) | $ 10,694,733 | $ (15,165,461) | $ (86,576,583) | $ (133,540) | $ (103,771,429) |

# Independent Auditor's Report

# 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*

Jeffrey Smythe, Secretary
Management of the North Carolina Department of Public Safety
Hank Bauer, ABC Commission Chair
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, the major proprietary fund, and the aggregate nonmajor funds of the North Carolina Department of Public Safety, 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 July 21, 2026.

As discussed in Note 1, the financial statements of the North Carolina Department of Public Safety are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the North Carolina Department of Public Safety. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2025, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. However, as described in the accompanying Finding, Recommendation, and Response section, we did identify a deficiency in internal control that we consider to be a material weakness.

## 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

July 21, 2026

# Finding, Recommendation, and Response

<u>Matters Related to Financial Reporting Objectives</u>

## Inadequate Internal Controls Resulted in Significant Misstatements

The North Carolina Department of Public Safety (Department) did not have adequate internal controls, including review procedures, to ensure accurate financial reporting. Auditors found that the Department's review of the financial statements failed to identify several significant misstatements.

For the Capital Projects Fund, errors in year-end journal entries resulted in the following misstatements:

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Committed Fund Balance | $9,436,150 | 39% |
| Accounts Payable | (5,918,647) | 54% |
| Expenditures to Other State Agencies | 4,368,003 | 123,880% |
| Revenues from Other State Agencies | 4,368,003 | 9% |
| Unearned Revenue | (2,493,918) | 100% |
| Federal Funds | 1,948,430 | 12% |
| Cash and Cash Equivalents | 1,569,073 | 4% |
| Capital Outlay Expenditure | (851,046) | 1% |
| Unassigned Fund Balance | 554,267 | 100% |
| Intergovernmental Payables | 545,488 | 100% |

For the Special Revenue Fund,[2] errors in year-end journal entries resulted in the following misstatements:

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Cash and Cash Equivalents | $(142,521) | 19% |
| Committed Fund Balance | (142,390) | 19% |
| Supplies and Materials Expense | (24,426) | 209% |
| Other Services Expense | (12,803) | 2,871% |
| Contracted Personal Services Expense | (7,400) | 49% |
| Contributions, Gifts, and Grants Revenue | (4,516) | 3% |

For the ABC Commission, errors in year-end journal entries and capital asset additions resulted in the following misstatements:

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Contracted Personal Services Expense | $(26,037,304) | 100% |
| Services Expense | 25,822,234 | 100% |

[1] Percentage of the overstatement or understatement to the final audited account balance.
[2] Special Revenue Funds consist of Juvenile Welfare, Cannon Funds, Kate B. Reynolds and Widenhouse funds.

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Other Fixed Charges Expense | 3,339,814 | 4800% |
| Accounts Payable | (2,087,261) | 51% |
| Capital Assets - Depreciable, Net | (1,649,992) | 55% |
| Net Investment in Capital Assets | (1,649,992) | 46% |
| Unrestricted Net Position | 1,363,673 | 7% |
| Cash and Cash Equivalents | (732,222) | 3% |
| Data Processing and Other Services Expenses | (303,567) | 100% |
| Supplies and Materials Expense | (241,630) | 32% |
| Travel, Communications, and Utilities Expenses | (147,687) | 100% |
| Depreciation Expense | (11,990) | 7% |
| Restricted Expendable Net Position | (8,634) | 100% |

For the Other Proprietary Funds,[3] errors in year-end journal entries resulted in the following misstatements:

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Services Expense | $353,706 | 100% |
| Unrestricted Net Position | (153,276) | 37% |
| Contracted Personal Services Expense | (191,306) | 100% |
| Net Investment in Capital Assets | 182,288 | 100% |
| Travel and Communications Expenses | (97,587) | 100% |
| Unearned Revenue | 81,305 | 100% |
| Lease Liability | (81,305) | 100% |
| Data Processing and Other Services Expenses | (55,789) | 100% |
| Fees, Licenses, and Fines Revenue | 36,037 | 2% |
| Cash and Cash Equivalents | 26,519 | 1% |
| Restricted Expendable Net Position | (2,493) | 100% |

For the Fiduciary Funds,[4] errors in year-end journal entries resulted in the following misstatements:

| Account | Overstated (Understated) | Percentage[1] |
|---|---|---|
| Administrative Expense | $ 390,128 | 100% |
| Payments in Accordance with Custodial Arrangements | (381,405) | 98% |

Additional audit adjustments were required to correct the statement of cash flows, notes to the financial statements, and supplementary schedules.

[3] Other Proprietary Funds include the Private Protective Services Board and the Alarm Systems Licensing Board.
[4] The Fiduciary Funds include funds held in custodial nature for the Alcohol Law Enforcement (ALE) Seized Assets Fund and Community Development Block Grant (CDBG) Escrow Fund.

If these errors had not been identified and corrected, the financial statements users would have been misinformed about the Department's financial condition and operating results. In addition, management and other decision-makers could have relied on inaccurate or incomplete information, and the errors may have continued and increased in future accounting periods.

These financial reporting errors occurred due to gaps in financial reporting oversight within a high-volume, decentralized environment. Department management experienced challenges in ensuring that personnel responsible for financial reporting had the necessary knowledge and experience following recent turnover. In addition, Department management:

- Did not have adequate written policies and procedures related to the preparation and review of the financial statements.
- Did not consistently communicate or monitor financial reporting requirements across divisions.

North Carolina General Statutes[5] require that Department management establish and maintain a proper system of internal controls in accordance with the standards established by the North Carolina Office of the State Controller. Included in those standards is the Committee of Sponsoring Organizations (COSO) *Internal Control – Integrated Framework*[6] which establishes objectives for the preparation of financial reporting for use by the entity, stakeholders, and other external parties.

*Recommendation:* Department management should ensure:

- Personnel responsible for financial reporting have the necessary knowledge and experience, including targeted training and support to address gaps resulting from turnover.
- Written policies and procedures are established and maintained, including a year-end checklist, that allows for a thorough review of the financial statements and related information to ensure accurate and complete financial reporting.
- Financial reporting requirements are clearly communicated and consistently monitored across all divisions, with defined expectations.

In addition, Department management should actively monitor the year-end financial reporting process to ensure corrective actions are implemented.

Deparment's Response: See page 73 for the Department's response to this finding.

[5] Chapter 143D, Article 2.
[6] Committee of Sponsoring Organizations, *Internal Control – Integrated Framework*, May 2013.

NC Department of Public Safety
ENHANCING COMMUNITIES, BUILDING TRUST

Josh Stein, Governor

Jeffrey Smythe, Secretary

June 9, 2026

The Honorable Dave Boliek, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC  27699-0601

Dear State Auditor Boliek:

In response to your recent correspondence regarding the completion of the FY2025 Financial Statement Audit, the Department of Public Safety acknowledges your finding.

To improve internal controls, the Department is developing standard operating procedures and checklists for staff to use during the preparation of year-end statements to enhance internal controls for future financial reporting activities. The Financial Services sections have also conducted a year-end information session to equip divisional staff to perform the necessary year-end requirements. Staff continue to hold virtual office hours to monitor progress and ensure timely and appropriate submission of year-end documentation to support the accurate completion of the financial statements.

We appreciate the professionalism demonstrated by your staff throughout this audit and look forward to continued collaboration in the future.

Sincerely,

Jeffrey Smythe
Secretary

cc: Casandra Skinner Hoekstra, Chief of Staff
Caroline Valand, Chief Deputy for Administration
Melissa B. Earp, Chief Financial Officer
Allis Talley-Burton, Controller
Sidra Owens, Internal Audit Director

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This audit required 3,794 hours at an approximate cost of $588,070.