

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF REVENUE

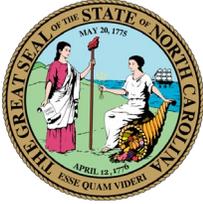
RALEIGH, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

A DEPARTMENT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of the North Carolina Department of Revenue for the years ended June 30, 2021 and 2020, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

AN OVERVIEW OF HOW TO USE THIS REPORT

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

The Department reports financial activities in two governmental funds and one fiduciary fund. The governmental funds are used to report all activity of the Department. The fiduciary fund is a custodial fund that reports local sales tax collections.

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

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

Required Information (Information required to be reported per the Governmental Accounting Standards Board and *Government Auditing Standards*):

The **Independent Auditor's Report** presents the auditor's opinion on the financial statements, which is that 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, 2021 and 2020 and the Statement of Revenues, Expenditures, and Changes in Fund Balances for fiscal years ended June 30, 2021 and 2020 for the Department's **governmental funds as a whole**.

"B" Exhibits present the Statement of Fiduciary Net Position as of June 30, 2021 and 2020 and the Statement of Changes in Fiduciary Net Position for the fiscal years ended June 30, 2021 and 2020 for the **fiduciary fund as a whole (represented by the Local Sales Tax Collection Fund)**.

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

"C" Exhibits present the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis-Non-GAAP) for the **General Fund** (for the

fiscal years ended June 30, 2021 and 2020). These schedules have not been subjected to the same auditing procedures performed on the financial statements.

Supplementary Information:

“**D**” **Exhibits** present the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund **by Company** (for fiscal years ended June 30, 2021 and 2020).

“**E**” **Exhibits** present the Statement of Collections (Cash Basis), which details certain tax revenues collected by the Department (for fiscal years ended June 30, 2021 and 2020).

“**F**” **Exhibits** present the Schedule of Aging of Taxes Receivable for unpaid taxes by tax type sorted by years outstanding (as of June 30, 2021 and 2020).

“**G**” **Exhibit** presents the Schedule of Operating Expenditures by Purpose, or natural classification (agrees to total general fund expenditures on Exhibits A-3 and A-4 for fiscal years ended June 30, 2021 and 2020, respectively).

Required Information:

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



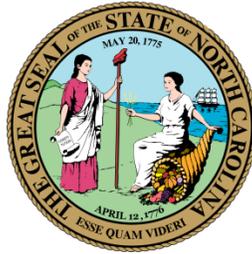
**Beth A. Wood, CPA
State Auditor**

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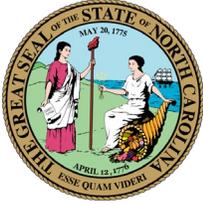
Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce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

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental funds and the fiduciary fund of the North Carolina Department of Revenue (Department), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental funds and the fiduciary fund of the North Carolina Department of Revenue, as of June 30, 2021 and 2020, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Carolina Department of Revenue are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Revenue. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of

June 30, 2021 or 2020, or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 18 to the financial statements, during the years ended June 30, 2021 and 2020, the North Carolina Department of Revenue adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The Department's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

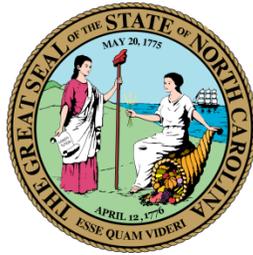
In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 25, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of the North Carolina Department of Revenue's (Department) financial report is provided as an overview of the financial performance of the governmental funds for the fiscal year ended June 30, 2021, with comparative information for the fiscal year ended June 30, 2020. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this section.

Overview of the Financial Statements

The Department's financial statements are comprised of governmental funds (General Fund and Special Revenue Fund) and the Fiduciary Fund (Local Sales Tax Collection Fund). The governmental fund's basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances, and notes to the financial statements. The fiduciary fund basic financial statements consist of a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, and notes to the financial statements.

Governmental Funds:

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

Fiduciary Fund:

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

Notes to the financial statements are designed to give the reader additional information concerning the Department and further supports the statements noted above.

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

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

Governmental Funds**Condensed Balance Sheets**

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
Assets	\$ 2,699,072,176	\$ 3,324,194,246	\$ (625,122,070)
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	<u>\$ 2,699,072,176</u>	<u>\$ 3,324,194,246</u>	<u>\$ (625,122,070)</u>
Liabilities	\$ 1,932,595,339	\$ 1,950,729,390	\$ (18,134,051)
Deferred Inflows of Resources	124,752,248	87,627,102	37,125,146
Fund Balance			
Nonspendable	3,949,181	3,447,562	501,619
Committed	39,790,913	46,463,283	(6,672,370)
Unassigned	<u>597,984,495</u>	<u>1,235,926,909</u>	<u>(637,942,414)</u>
Total Fund Balances	<u>641,724,589</u>	<u>1,285,837,754</u>	<u>(644,113,165)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 2,699,072,176</u>	<u>\$ 3,324,194,246</u>	<u>\$ (625,122,070)</u>

Assets

Total assets decreased by \$625.1 million during fiscal year 2021 due to a \$644 million decrease in taxes receivable. On May 4, 2020, Governor Roy Cooper signed Session Law 2020-3, which adjusted certain tax filing deadlines to mirror the relief provided by the Internal Revenue Service. The legislation also extended certain State tax-related deadlines. Under Session Law 2020-3, the Department did not charge interest on an underpayment of tax due on a franchise, corporate income, or individual income tax return, including a partnership tax return and an estate and trust tax return due to be filed between April 15, 2020, and July 15, 2020 (collectively the "COVID Period"). As enacted, interest did not accrue on an underpayment of tax during the COVID Period. Interest began to accrue on underpayments of tax beginning July 16, 2020.

As a result of the tax filing deadline for individual income tax returns being moved to July 15, 2020, \$824.6 million in taxes receivable was recorded in the 2020 fiscal year for final payments received in July 2020. Final payments are those payments typically received on or before April 15th of each year when individual income tax returns are filed. The tax filing deadline for individual income tax returns due during the 2021 fiscal year was not extended past fiscal year-end; therefore, additional amounts accrued for the 2020 fiscal year were not necessary for the 2021 fiscal year.

Liabilities

Total liabilities decreased by \$18.1 million compared to the prior fiscal year. The decrease is primarily due to a decrease in tax refunds payable of \$160.2 million and an increase in unearned revenue of \$100 million.

Tax refunds payable decrease of \$160.2 million is primarily due to the decrease in individual income tax revenues estimated to be refunded in some future period.

Individual income tax revenues estimated to be refunded in some future periods are \$120.9 million less than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of individual income taxes that will be refunded for amounts collected by the Department in excess of final tax liability during the time period January to June. Amounts collected during this time period that are included in the calculation of the estimate are withholdings and estimated tax payments. Collections during the first half of the fiscal year (July – December) are usually considered to be settled when tax returns are submitted by April 15th and are refunded prior to June 30. To estimate the individual income tax refunds payable on collections from January through June, the Department collects data of cash refunds to total collections for several years and uses various trend models to calculate a refund percentage. The refund percentage is applied to the January to June collections to estimate future cash refunds.

As noted above, collections during the first half of the fiscal year (July – December) are usually considered to be settled when tax returns are submitted by April 15th and are refunded prior to June 30. However, as discussed previously, the tax filing due date for individual income tax returns was extended to July 15th in the prior fiscal year. As a result, the estimate in the 2020 fiscal year included the amount of refunds in July 2020 that exceeded the amount from the prior fiscal year to account for refunds for tax year 2019 that may have been requested late due to the extension of the tax return due date. The amount of refunds in July 2020 that exceeded the amount from the prior fiscal year was \$88.8 million. The tax filing deadline for individual income tax returns due during the 2021 fiscal year was not extended past fiscal year-end; therefore, additional amounts estimated to be refunded for the 2020 fiscal year were not applicable for the 2021 fiscal year.

An estimate is also prepared at the end of each fiscal year to determine the amount of individual income taxes that were earned prior to year-end but not collected until after year-end in July or August. Amounts included in the calculation of the estimate are withholdings and estimated tax payments. The refund ratio discussed above is then applied to the estimated collections to determine the amount expected to be refunded at a future date. Due to the tax filing deadline for individual income taxes being extended to July 15th in the 2020 fiscal year but not in the 2021 fiscal year, the estimated collections for the 2021 fiscal year were \$139.2 million lower than in the prior fiscal year. This was primarily due to a decrease in estimated payments received in July 2021 compared to July 2020. As a result, the amount calculated to be refunded at a future date was \$25.9 million lower than in the prior year.

The increase in unearned revenue of \$100 million is primarily due to an increase in corporate income tax collections for January to June 2021. Corporate income taxpayers can elect different income years and are generally required to make installment payments four times a year with the due date depending on the income year elected. Final payment of expected net tax liability is due when the tax return is due, even though corporate taxpayers often take a 6-month extension to file the return. In addition, corporate taxpayers will frequently elect to apply any overpayment to a future tax period. These amounts are considered unearned

revenue. Estimated unearned revenue related to corporate income tax collections for January to June 2021 increased \$137.8 million from the prior fiscal year. An estimate is prepared at the end of each fiscal year to determine the amount of corporate income tax unearned revenue. The Department assumes that corporate income tax collections during the time period July to December and any refund requests associated with these collections have been applied or paid out by June 30. Collections for January to June that are not considered final are used as a base for the corporate income tax unearned revenue calculation. Corporate income tax collections for January to June 2021 increased \$548.2 million from the same time period in the prior fiscal year. The increase in the base for the corporate income tax unearned revenue calculation is the primary reason for the increase in corporate income tax unearned revenue. The increase in corporate income tax collections for January to June 2021 is consistent with the trend in the United States. Corporate profits in the United States have risen in the United States in recent quarters. Corporations are required to pay quarterly tax payments; hence, the increase in gross corporate income tax collections.

Deferred Inflows of Resources

Deferred inflows of resources increased \$37.1 million compared to the prior fiscal year due to an increase in unavailable revenue. Unavailable revenue is the amount of taxes receivable that is not expected to be collected within a specified period after fiscal year-end. The majority of the unavailable revenues come from, corporate income taxes, franchise taxes, and sales and use taxes. These amounts are deferred and recognized as revenues in the period that the amounts become available. Unavailable revenues for corporate income and franchise taxes increased \$35.0 million from the prior fiscal year due to a significant increase in the taxes receivable for these tax types. Taxes receivable for corporate income and franchise taxes increased in the 2021 fiscal year due to two years of tax filings occurring during the 2021 fiscal year. As noted above, the tax due date of April 15, 2020 for corporate income and franchise taxes was extended to July 15, 2020. Therefore, most corporations would have waited to file their tax returns. Taxes receivable balances increase when returns are filed without payments ("no remits"). The "no remits" filed in July 2020 would have normally been filed in April 2020 and would have been final billed prior to the end of the 2020 fiscal year. Due to the tax due date being extended to July 15, 2020, the "no remits" were final billed in the 2021 fiscal year. In addition, the corporations were still required to file by April 15, 2021. Any "no remits" for filings from April 15, 2021 would have also been final billed in the 2021 fiscal year. It is also expected that an increased number of "no remits" were filed by July 15, 2020 due to corporations wanting to ensure they qualified to apply for Pandemic Protection Program (PPP) loans as it was required that a return had to be filed in order to apply.

Fund Balance

Overall fund balance decreased by \$644.1 million during fiscal year 2021. The decrease is primarily attributable to a decrease of \$637.9 million in the unassigned fund balance and a decrease of \$6.7 million in the committed fund balance. The decrease in the committed fund balance is due to the amount committed for Project Collect Tax, a collection assistance fee imposed by the General Assembly under General Statute 105-243.1. The fee is imposed on an overdue tax debt that remains unpaid 30 days or more after the fee notice is mailed to the taxpayer. The proceeds of the fee must be deposited into a special account and must be applied to the costs of collecting overdue tax debts. The proceeds of the fee may not be used for any purpose that is not directly and primarily related to collecting overdue tax debts unless appropriated by the General Assembly. During the 2021 fiscal year the Department collected \$47.2 million in collection assistance fees and expended \$57.6 million from the Project Collect fund. Therefore, \$10.4 million more was expended than collected during the 2021 fiscal year;

hence, reducing fund balance. Expenditures exceeded revenues primarily because Session Law 2020-97 of the 2020 Session of the North Carolina General Assembly authorized the Department to spend \$12.5 million from the collection assistance fee for costs associated with tax systems operations and maintenance upgrades.

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

The following condensed balance sheet shows the governmental funds' financial position at June 30, 2020 and 2019:

	2020	2019	Increase (Decrease)
Assets	\$ 3,324,194,246	\$ 2,202,941,057	\$ 1,121,253,189
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows of Resources	<u>\$ 3,324,194,246</u>	<u>\$ 2,202,941,057</u>	<u>\$ 1,121,253,189</u>
Liabilities	\$ 1,950,729,390	\$ 1,605,820,151	\$ 344,909,239
Deferred Inflows of Resources	87,627,102	94,303,185	(6,676,083)
Fund Balance			
Nonspendable	3,447,562	4,051,656	(604,094)
Committed	46,463,283	63,817,251	(17,353,968)
Unassigned	1,235,926,909	434,948,814	800,978,095
Total Fund Balances	<u>1,285,837,754</u>	<u>502,817,721</u>	<u>783,020,033</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,324,194,246</u>	<u>\$ 2,202,941,057</u>	<u>\$ 1,121,253,189</u>

Assets

Total assets increased by \$1.1 billion during fiscal year 2020 due to a \$1.1 billion increase in taxes receivable. Taxes receivable increased significantly from the prior fiscal year primarily due to various forms of tax relief provided to individuals and businesses affected by the COVID-19 pandemic. Specifically, as detailed below, tax deadlines for various tax types originally due prior to June 30th were extended to July 15, 2020 without penalty or accrual of interest. Individual income final tax payments were the most significant tax receivable recorded. Final payments are those payments typically received on or before April 15th of each year when individual income tax returns are filed. Due to the extension, \$824.6 million in taxes receivable was recorded for final payments received in July 2020.

On March 10, 2020, Governor Roy Cooper signed Executive Order 116 declaring a state of emergency in response to COVID-19. As a result, in the month of March 2020, the Secretary of Revenue and the 2020 General Assembly provided various forms of tax relief to individuals and businesses affected by the COVID-19 pandemic:

- March 17, 2020: The Department of Revenue announced penalty relief for taxpayers who have been affected by COVID-19 with returns or payments due between March 15, 2020 and March 31, 2020.
- March 19, 2020: The Department of Revenue announced penalty relief for taxpayers paying income tax due on April 15, 2020.

- March 20, 2020: The United States Department of the Treasury and the Internal Revenue Service announced the due date for filing federal income tax returns and making federal income tax payments due April 15, 2020, was automatically postponed to July 15, 2020. In response to the extension of the federal April 15, 2020 deadline, on March 23, 2020, the Department of Revenue automatically extended the time to file state income and franchise tax returns originally due on April 15, 2020 to July 15, 2020. The extension applied to income and franchise tax returns originally due on April 15, 2020, from individuals, corporations, partnerships, trusts, and estates.
- March 31, 2020: The Department of Revenue expanded penalty relief for taxpayers affected by COVID-19 by not assessing penalties for failure to obtain a license, failure to file a return, or failure to pay a tax that was due on March 15, 2020, through July 15, 2020, if the corresponding license is obtained, return is filed, or tax was paid on or before July 15, 2020. The relief from this announcement applied to a number of tax types including income and franchise tax, withholding tax, and sales and use tax.

On May 4, 2020, Governor Roy Cooper signed Session Law 2020-3, which adjusted certain tax filing deadlines to mirror the relief provided by the Internal Revenue Service. The legislation also extended certain State tax-related deadlines. Under Session Law 2020-3, the Department did not charge interest on an underpayment of tax due on a franchise, corporate income, or individual income tax return, including a partnership tax return and an estate and trust tax return due to be filed between April 15, 2020, and July 15, 2020 (collectively the "COVID Period"). As enacted, interest did not accrue on an underpayment of tax during the COVID Period. Interest began to accrue on underpayments of tax beginning July 16, 2020.

North Carolina General Statutes §105-163.15 and §105-163.41 require the Secretary of the Department of Revenue to assess interest on an underpayment of estimated tax by an individual or corporation. In general, if a taxpayer does not pay enough income tax throughout the year, either through withholding or by making estimated tax payments, the Secretary is required to charge interest on the amount of underpayment. Under Session Law 2020-3, the relief from assessing accrued interest also applied to estimated tax payments. Accordingly, the Secretary will waive the accrual of interest, during the COVID Period, owed on estimated tax payments due during the COVID Period.

Liabilities

Total liabilities increased by \$344.9 million compared to the prior year. The majority of this increase is due to an increase in tax refunds payable of \$294.6 million.

Tax refunds payable increase is primarily due to the \$268.7 million increase in individual income and corporate income tax revenues estimated to be refunded in some future period.

Individual income tax revenues estimated to be refunded in some future period are \$193.8 million higher than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of individual income taxes that will be refunded for amounts collected by the Department in excess of final tax liability during the time period January to June. Amounts collected during this time period that are included in the calculation of the estimate are withholdings and estimated tax payments. Collections during the first half of the fiscal year (July 2019 – December 2019) are usually considered to be settled when tax returns are submitted by April 15th and are refunded prior to June 30. To estimate the individual income tax refunds payable on collections from January 2020 through June 2020, the Department

collects data of cash refunds to total collections for several years and uses various trend models to calculate a refund percentage. The refund percentage is applied to the January to June collections to estimate future cash refunds. The refund ratio calculated for the 2020 fiscal year was higher than in the prior fiscal year. The higher refund percentage was based on the trend in the refund ratio since the implementation of individual income tax law changes that took effect in tax year 2014. The trend analysis also estimated an effect for the recession due to COVID-19 that began in February 2020 based on prior recessions. Historically, the refund ratio has increased during recessions. Although actual collections for January 2020 through June 2020 were down from the prior fiscal year, the higher refund percentage caused an increase of \$75.3 million in individual income tax revenues estimated to be refunded in some future period.

As noted above, collections during the first half of the fiscal year (July 2019 – December 2019) are usually considered to be settled when tax returns are submitted by April 15th and are refunded prior to June 30. However, as discussed previously, the tax filing due date for individual income tax returns was extended to July 15th. As a result, the estimate included the amount of refunds in July 2020 that exceeded the amount from the prior fiscal year to account for refunds for tax year 2019 that may have been requested late due to the extension of the tax return due date. The amount of refunds in July 2020 that exceeded the amount from the prior fiscal year was \$88.8 million.

An estimate is also prepared at the end of each fiscal year to determine the amount of individual income taxes that were earned prior to year-end but not collected until after year-end in July or August. Amounts included in the calculation of the estimate are withholdings and estimated tax payments. The refund ratio discussed above is then applied to the estimated collections to determine the amount expected to be refunded at a future date. Due to the tax filing deadline for individual income taxes being extended to July 15th, the estimated collections were \$190.6 million higher than in the prior year. This was primarily due to an increase in estimated payments received in July 2020 compared to the prior year. As a result, the amount calculated to be refunded at a future date was \$29.7 million higher than in the prior year.

Corporate income tax revenues estimated to be refunded in some future period are \$74.9 million higher than in the previous year. An estimate is prepared at the end of each fiscal year to determine the amount of corporate income taxes that will be refunded for amounts collected by the Department in excess of final tax liability during the time period January to June. Collections during the first half of the fiscal year (July 2019 – December 2019) are usually considered to be settled when tax returns are submitted by April 15th and are refunded prior to June 30. To estimate the corporate income tax refunds payable on collections from January 2020 through June 2020, the Department collects data of cash refunds to total collections for several years and uses various trend models to calculate a refund percentage. The refund percentage is applied to the January to June collections to estimate future cash refunds. The refund ratio calculated for the 2020 fiscal year was significantly higher than in the prior fiscal year. The higher refund percentage was based on the higher trend in the refund ratio over the last three years that may reflect the impact of tax rate reductions and shift to sales-only apportionment. These factors reduce corporate tax liabilities, making refunds more likely. The refund ratio was also adjusted for the spike seen in the first year of previous recessions. Although actual collections for January 2020 through June 2020 were down from the prior fiscal year, the higher refund percentage caused an increase of \$30.4 million in corporate income tax revenues estimated to be refunded in some future period.

An estimate is also prepared at the end of each fiscal year to determine the amount of corporate income taxes that were earned prior to year-end but not collected until after year-end in July. The refund ratio discussed above is then applied to the estimated collections to determine the amount expected to be refunded at a future date. Due to the tax filing deadline for corporate income taxes being extended to July 15th, the estimated collections were \$152.8 million higher than in the prior year. As a result, the amount calculated to be refunded at a future date was \$44.5 million higher than in the prior year.

Fund Balance

Overall fund balance increased by \$783.0 million during fiscal year 2020. The increase is primarily attributable to an increase of \$801.0 million in the unassigned fund balance and a decrease of \$17.4 million in the committed fund balance. The decrease in the committed fund balance is due to the amount committed for Project Collect Tax, collection assistance fee imposed by the General Assembly under General Statute 105-243.1. The fee is imposed on an overdue tax debt that remains unpaid 30 days or more after the fee notice is mailed to the taxpayer. The proceeds of the fee must be deposited into a special account and must be applied to the costs of collecting overdue tax debts. The proceeds of the fee may not be used for any purpose that is not directly and primarily related to collecting overdue tax debts unless appropriated by the General Assembly. During the 2020 fiscal year, the Department collected \$36.0 million in collection assistance fees and expended \$52.7 million from the Project Collect fund. Therefore, \$16.7 million more was expended than collected during the 2020 fiscal year; hence, reducing fund balance. Expenditures exceeded revenues primarily because Session Law 2019-237 of the 2019 Session of the North Carolina General Assembly authorized the Department to spend \$12.5 million from the collection assistance fee for costs associated with tax systems operations and maintenance upgrades. It also authorized the Department to spend \$4.4 million to contract with a vendor to perform identity theft and tax fraud analysis using the Government Data Analytics Center (GDAC).

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

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

The following condensed statements show the governmental funds' resource flows at June 30, 2021 and 2020.

	2021	2020	Increase (Decrease)
Revenues:			
Tax Revenues	\$ 29,132,797,301	\$ 24,628,529,608	\$ 4,504,267,693
Revenues from Other State Agencies	386,632,603	7,183,658	379,448,945
Fees	3,764,265	2,846,870	917,395
Other Revenues	9,379,919	2,365,974	7,013,945
Total Revenues	<u>29,532,574,088</u>	<u>24,640,926,110</u>	<u>4,891,647,978</u>
Expenditures:			
Statutory Tax Distributions	762,792,117	683,027,464	79,764,653
Grants	381,269,918		381,269,918
Salaries and Benefits	110,889,069	106,820,539	4,068,530
Expenditures to Other State Agencies	2,349,083	1,726,923	622,160
Other Expenditures	50,239,886	49,496,945	742,941
Total Expenditures	<u>1,307,540,073</u>	<u>841,071,871</u>	<u>466,468,202</u>
Excess of Revenues Over Expenditures	<u>28,225,034,015</u>	<u>23,799,854,239</u>	<u>4,425,179,776</u>
Other Financing Sources (Uses)			
State Appropriations	87,953,327	87,185,512	767,815
Gain on Sale (Loss on Sale) of Capital Assets	1,000	(66)	1,066
Transfers In	3,355,417	1,349,194	2,006,223
Transfers Out	(28,960,456,924)	(23,105,368,846)	(5,855,088,078)
Total Other Financing Sources (Uses)	<u>(28,869,147,180)</u>	<u>(23,016,834,206)</u>	<u>(5,852,312,974)</u>
Net Change in Fund Balance	(644,113,165)	783,020,033	(1,427,133,198)
Fund Balance - July 1	1,285,837,754	502,817,721	783,020,033
Fund Balance - June 30	<u>\$ 641,724,589</u>	<u>\$ 1,285,837,754</u>	<u>\$ (644,113,165)</u>

Tax Revenues

Total tax revenues were \$29.1 billion at June 30, 2021, an increase of \$4.5 billion from the prior fiscal year. This increase is primarily due to increases in net individual income tax revenues of \$2.2 billion, net sales and use tax revenues of \$1.3 billion, net corporate income tax revenues of \$575.3 million, and net franchise tax revenues of \$224.5 million.

Individual Income Tax

Individual income tax revenues on a modified accrual basis increased \$2.2 billion or 17.1% from the 2019-2020 fiscal year. The increase can be attributed to an increase of \$2.2 billion in gross individual income tax collections on a modified accrual basis. Gross individual income tax collections on a cash basis increased \$3.7 billion; however, accrued gross individual income tax collections decreased almost \$1.5 billion.

Gross individual income tax collections on a cash basis increased by \$3.7 billion due to an increase of \$2.1 billion in final payments, \$955.6 million in withholding payments, and \$604.8 million in estimated tax payments. As discussed above (Assets section), the tax filing deadline for individual income tax returns was extended until July 15, 2020. This is the primary reason final payments and estimated payments increased.

In addition, as discussed below, North Carolina's personal income and wage and salary income show growth over the prior year. Growth in personal income and wage and salary income is generally correlated with individual income tax revenue growth. The State's income tax withholding remained strong throughout the 2020-2021 fiscal year due to the rise in wages and salaries and the shift to higher-income workers. In addition, as discussed below, the unemployment compensation payments provided by the federal government are taxable income in North Carolina and the Department of Revenue has collected withholding taxes from many of these payments.

Gross individual income tax collections on a cash basis for the 2020-2021 fiscal year were decreased by approximately \$1.5 billion due to accruals of gross individual income tax collections in the 2019-2020 and 2020-2021 fiscal years. As a result of the tax filing deadline for individual income tax returns being moved to July 15, 2020, \$864.5 million more in individual income collections were accrued for the 2019-2020 fiscal year than in the 2018-2019 fiscal year. Accruals from the 2019-2020 fiscal year were reversed in the 2020-2021 fiscal year financial statements resulting in gross collections on a cash basis being reduced by \$864.5 million. In addition, the tax filing deadline for individual income tax returns due during the 2020-2021 fiscal year was not extended past fiscal year-end; therefore, additional amounts accrued for the 2019-2020 fiscal year were not necessary for the 2020-2021 fiscal year. Current year accruals of gross individual income tax collections are \$574.4 million less than the prior year causing gross individual income tax collections on a cash basis to be decreased by an additional \$574.4 million.

Sales and Use Tax

Sales and use tax revenues on a modified accrual basis increased by \$1.3 billion or 14.8% from the 2019-2020 fiscal year. This increase can be attributed to an improved economy as well as the enactment of North Carolina General Statute 105-164.4J. The improvements in the economy and growth in personal consumption expenditures, as discussed below, increased the disposable incomes of consumers. This is supported by an increase in gross sales and use tax collections on a cash basis by \$1.9 billion or 14.3% for the fiscal year over the 2019-2020 fiscal year.

North Carolina General Statute 105-164.4J became effective February 1, 2020, and requires marketplace facilitators, as defined in the statute, to collect and remit sales tax. A marketplace facilitator is required to comply with the same requirements and procedures as all other retailers registered or who are required to be registered to collect and remit sales and use tax in this State. As discussed above, this change in tax law contributed to the year-over-year increase in sales and use tax collections in the 2020-2021 fiscal year compared to the 2019-2020 fiscal year as the 2020-2021 fiscal year includes a full year of these collections. North Carolina General Statute 105-164.4J should continue to have a positive effect on the sales tax revenue in subsequent fiscal years.

Corporate Income Tax

Corporate income tax revenues on a modified accrual basis increased \$575.3 million or 78.9% from the 2019-2020 fiscal year. The increase in corporate income tax revenues in North Carolina is consistent with the trend in the United States. Corporate profits in the United States have risen in the United States in recent quarters. Corporations are required to pay quarterly tax payments; hence, the increase in gross corporate tax revenues on a cash basis of \$807.5 million during the 2020-2021 fiscal year. This increase is reduced by the accrual of estimated refunds of corporate income tax.

Corporations have been assisted by Paycheck Protection Program loans. Like the non-corporate business sector, certain corporations have received loans from the federal Paycheck Protection Program since the last quarter of the 2019-2020 fiscal year. These loans are potentially forgivable. According to the Bureau of Economic Analysis data, corporations have received approximately \$257 billion during the 2020-2021 fiscal year. This has helped corporations affected by the pandemic maintain profitability. The federal government has provided other programs that also helped the bottom lines of businesses affected by the pandemic, such as the Employee Retention Tax Credit.

In addition, the Department of Revenue implemented the Voluntary Corporate Transfer Pricing Resolution Initiative during the 2020-2021 fiscal year to work with corporate taxpayers to expedite the resolution of corporate intercompany pricing issues subject to General Statute 105-130.5A. The initiative allowed corporate taxpayers to resolve intercompany pricing issues with the Department of Revenue between August 1, 2020, and December 1, 2020, without penalties, for all tax years within the statute of limitations for which the taxpayer had filed a return. This initiative contributed to the increase in corporate income tax revenues as the Department collected over \$100 million in disputed corporate income taxes.

Franchise Tax

Franchise tax revenues increased \$224.5 million or 34.7% on a modified accrual basis in the 2020-2021 fiscal year as compared to the 2019-2020 fiscal year. This increase is due to an increase in gross revenues on a cash basis during the 2020-2021 fiscal year. Gross franchise tax revenues on a cash basis increased by \$229.8 million or 34.11% from the 2019-2020 fiscal year. Almost \$80 million of this increase can be attributed to tax reliefs as a result of COVID-19 as discussed previously. Specifically, the extension of due dates of payments originally due April 15, 2020 through July 15, 2020 to July 15, 2020. The tax reliefs allowed taxpayers to pay at a later date without penalty. As a result, franchise tax payments in the fourth quarter of the 2019-2020 fiscal year were down significantly from the prior year. Franchise tax payments received in July 2020 were also significantly higher than in the prior year and would account for much of the reduction in the last quarter of the 2019-2020 fiscal year. However, the franchise tax received in July 2020 was not accrued. Unlike individual income tax and corporate income tax, which is based on the prior year income, franchise tax is most commonly calculated on a net worth type basis and is paid for the privilege of operating in the coming year. The net worth of many corporations may have been positively impacted by the recent increases in stock market values which would also explain the increase in franchise tax in the 2020-2021 fiscal year.

Revenues from Other State Agencies

Revenues from Other State Agencies increased \$379.4 million in the 2020-2021 fiscal year as compared to the 2019-2020 fiscal year. On September 4, 2020, Governor Cooper, signed into law House Bill 1105 (Session Law 2020-97), an act to provide additional and revised uses for federal Coronavirus Relief Funds. Under this law \$440.5 million was allocated to the Department to administer the Extra Credit Grant Program. This program provided help to families with qualifying children in North Carolina by providing economic support to assist with virtual schooling and childcare costs during the COVID-19 pandemic. As of June 30, 2021, the Department recorded \$379.1 million in revenues for the Extra Credit Grant Program.

Expenditures

Total expenditures increased \$466.5 million from the prior year primarily due to increases in grants of \$381.3 million, statutory tax distributions of \$79.8 million, and salaries and benefits of \$4.1 million.

The increase in grants is primarily related to the Extra Credit Grant Program. The Department expended \$377.3 million in grants for this program during the 2020-2021 fiscal year.

Statutory tax distributions increased \$79.8 million from the prior year because Medicaid hold harmless distributions to local governments per General Statute 105-523 increased \$70.6 million. Local governments' sales and use tax revenue was reduced when General Statutes 105-515 through 105-520 under Article 44 of the North Carolina Revenue Laws were repealed effective October 1, 2009. In addition, the local governments' cost of administering the Medicaid program was reduced as the State assumed responsibility for the administration of Medicaid. The intent of General Statute 105-523 is that each county be held harmless from the exchange of a portion of the local sales and use taxes for the State's agreement to assume the responsibility for the non-administrative costs of Medicaid. The Department is charged with comparing the lost sales and use tax revenue to the lost cost of administering the Medicaid program for each county. If the lost revenue is higher than the lost cost, then a distribution is made to the county. The increase in Medicaid hold harmless distributions can be attributed to continued growth in sales and use tax revenues while the administrative costs of Medicaid growth is relatively slow in comparison.

The majority of increase in salaries and benefits can be attributed to salary increases provided by Session Law 2019-209 for the Department's employees for each year of the 2019-2021 fiscal biennium.

Other Financing Sources (Uses)

Total other financing uses increased \$5.9 billion from the prior year primarily due to an increase in the year-end transfer of net revenues to the Office of the State Controller. This transfer amount increased from \$23.0 billion to \$28.8 billion during fiscal year end 2020-2021. This increase is attributable to the increase in tax revenues as discussed above. Tax revenues on a cash basis in the 2020-2021 fiscal year increased \$5.9 billion from the prior year.

Budget Variations

Data for the budget variances is presented in Schedule C-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) for the fiscal year ended June 30, 2021 of this report.

Variations – Original and Final Budget:

The final budgeted revenues were \$3.1 million more than the original budget. The majority of the increase is due to an increase in the final budget for services. The increase in services of \$1.9 million was mostly due to a budget revision to increase receipts from the Department of Transportation for the Vehicle Tax System upgrade project.

The final budgeted expenditures increased \$3.7 million from the original budget. The increase is primarily due to an increase in the final budgets for contracted personal services and grants as well as decreases in the final budgets for salaries and benefits and data processing services.

The final budgeted expenditures for contracted personal services were \$14.9 million more than the original budget. This is primarily due to increases in the final budgets for other information technology services, server support services, and temporary agency services. The increase in these accounts directly relate to the decrease in the final budgets for salaries and benefits and data processing services. Amounts originally budgeted as salaries and benefits and data processing services were moved to these accounts.

The final budget for grants increased \$1.8 million due to an increase in the budget for grants for the Extra Credit Grant Program. Amounts originally budgeted as miscellaneous contractual services were moved to grants.

The final amount budgeted for other financing sources (uses) was \$0.5 million more than the original budget due to transfers to/from the State Reserve Fund not having an original budget. See Note 1(O) for additional information regarding transfers to/from the State Reserve Fund.

Variances – Final Budget and Actual Results:

Actual total revenue collected was \$2.1 billion above budgeted revenue amounts. The increase is due to an increase in tax revenues. Some of the increase is due to various forms of tax relief provided to individuals and businesses affected by the COVID-19 pandemic. Specifically, as previously discussed, tax deadlines for various tax types originally due prior to June 30, 2020 were extended to July 15, 2020 without penalty or accrual of interest. This shifted a significant amount of tax collections from the 2020 fiscal year to the 2021 fiscal year. Individual income final tax payments were the most significant tax revenue source impacted. Final payments are those payments typically received on or before April 15th of each year when individual income tax returns are filed. Due to the extension, \$824.6 million of tax revenues for individual income final tax payments were received in July 2020.

Additional factors that contributed to actual tax revenues being above budgeted amounts are:

- Business restrictions due to COVID-19 were loosened more quickly than expected.
- The budgeted amount anticipated another round of federal relief, but the timing and size of that relief was unknown. The actual relief package passed by Congress in March 2021 was larger than expected.
- North Carolina continues to experience a “K-shaped” recovery, in which higher-income households have fared better than lower-income households. This type of recovery has led to a smaller revenue drop than under a typical economic downturn; tax revenue appears to have been more resilient than anticipated.

Actual total expenditures were \$26.5 million less than budgeted expenditures during fiscal year end 2020-2021. Budgeted expenditures exceeded actual expenditures primarily because the Department spent \$16.9 million less on salaries and benefits and grants. The Department expended less in grants than budgeted due to \$7.5 million of the amount budgeted for Extra Child Grants was not expended as of the end of the fiscal year. The individual grants must be disbursed on or before December 31, 2021.

Variances between the budgeted and actual expenditures for salaries and benefits are largely due to vacancies that are paid for from receipt supported funds.

Actual total other financing sources (uses) was \$2.0 billion above budgeted amounts primarily due to an increase in transfers to the State's general fund. Transfers to the State's general fund consist solely of the year-end transfer of net revenues to the Office of the State Controller. This increase is attributable to the increase in revenues as discussed above.

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

The following condensed statements show the governmental funds' resource flows at June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Revenues:			
Tax Revenues	\$ 24,628,529,608	\$ 24,664,018,355	\$ (35,488,747)
Revenues from Other State Agencies	7,183,658	6,472,955	710,703
Fees	2,846,870	3,005,301	(158,431)
Other Revenues	<u>2,365,974</u>	<u>3,358,336</u>	<u>(992,362)</u>
Total Revenues	<u>24,640,926,110</u>	<u>24,676,854,947</u>	<u>(35,928,837)</u>
Expenditures:			
Statutory Tax Distributions	683,027,464	679,551,831	3,475,633
Salaries and Benefits	106,820,539	100,254,017	6,566,522
Expenditures to Other State Agencies	1,726,923	1,861,668	(134,745)
Other Expenditures	<u>49,496,945</u>	<u>50,975,555</u>	<u>(1,478,610)</u>
Total Expenditures	<u>841,071,871</u>	<u>832,643,071</u>	<u>8,428,800</u>
Excess of Revenues Over Expenditures	<u>23,799,854,239</u>	<u>23,844,211,876</u>	<u>(44,357,637)</u>
Other Financing Sources (Uses)			
State Appropriations	87,185,512	84,093,147	3,092,365
Gain on Sale (Loss of Sale) of Capital Assets	(66)	2,009	(2,075)
Transfers In	1,349,194	3,217,545	(1,868,351)
Transfers Out	<u>(23,105,368,846)</u>	<u>(23,937,689,557)</u>	<u>832,320,711</u>
Total Other Financing Sources (Uses)	<u>(23,016,834,206)</u>	<u>(23,850,376,856)</u>	<u>833,542,650</u>
Net Change in Fund Balance	783,020,033	(6,164,980)	789,185,013
Fund Balance - July 1	<u>502,817,721</u>	<u>508,982,701</u>	<u>(6,164,980)</u>
Fund Balance - June 30	<u>\$ 1,285,837,754</u>	<u>\$ 502,817,721</u>	<u>\$ 783,020,033</u>

Tax Revenues

Total tax revenues were \$24.6 billion at June 30, 2020, a decrease of \$35.5 million from prior fiscal year. This decrease is primarily due to the net impact of decreases in net individual income tax revenues of \$119.7 million, net corporate income tax revenues of \$45.1 million, and net franchise tax revenues of \$104.3 million and increases in net sales and use tax revenues of \$118.3 million and net insurance tax revenues of \$83.4 million.

Individual Income Tax

Individual income tax revenues on a modified accrual basis decreased \$119.7 million or 0.9% from the 2018-2019 fiscal year. The decrease in individual income tax revenues most likely is attributed to the decrease in the individual income tax rate as well as the COVID-19 pandemic. Effective January 1, 2019, the individual income tax rate decreased from 5.499% to 5.25% and the standard deduction amounts increased to \$20,000 for married couples filing jointly, \$10,000 for single taxpayers, and \$15,000 for head of household.

The true impact of the COVID-19 pandemic on personal income taxes is unknown. As reported by the Bureau of Economic Analysis, North Carolina's personal income and wage and salary income show growth over the prior year through February 2020. Growth in personal income and wage and salary income is generally correlated with individual income tax revenue growth. Prior to March 2020, individual income tax revenue was showing growth over the prior year even though there was a decrease in the individual income tax rate. This is supported by an increase in withholding tax payments by \$87.2 million or 1.2% as of February 2020 over the same time period in the 2018-2019 fiscal year. While North Carolina still showed an increase in withholding tax payments by the end of the fiscal year, the increase was slightly lower – 0.9%. Most likely the withholding payments would show an even larger decrease if not for the collection of withholding taxes on the pandemic unemployment compensation payments.

In addition, as of March 2020, year-to-date estimated payments were up 12.0% from the prior fiscal year. However, due to a combination of the pandemic-related shutdown and the extension of the due date for April and June payments until July 15, estimated payments in the fourth quarter of the 2019-2020 fiscal year were down \$231.8 million, nearly 50% from the prior fiscal year. Estimated payments received in July 2020 and accrued in the financial statements were \$172.1 million more than the prior year. The increase in July 2020 does not completely offset the reduction in the last quarter of the 2019-2020 fiscal year.

Corporate Income Tax

Corporate income tax revenues on a modified accrual basis decreased \$45.1 million or 5.8% from the 2018-2019 fiscal year. The decrease in corporate income tax revenues most likely is attributed to the decrease in the corporate income tax rate as well as the COVID-19 pandemic. The corporate income tax rate for tax years beginning on or after January 1, 2019 was reduced from 3% to 2.5%.

As with individual income tax, the true impact of the COVID-19 pandemic on corporate income taxes is unknown. Prior to March 2020, corporate income tax revenue was showing growth over the prior year even though there was a decrease in the corporate income tax rate. This is supported by an increase in corporate income tax payments net of refunds on a cash basis by \$20.7 million or 8.2% as of February 2020 over the same time period in the 2018-2019 fiscal year. However, due to a combination of the pandemic-related shutdown and the extension of the due date for April payments until July 15, corporate income payments net of refunds in the fourth quarter of the 2019-2020 fiscal year were down \$210.0 million, nearly 40% from the prior fiscal year. Corporate income tax payments received in July 2020 and accrued in the financial statements were \$152.8 million more than the prior year. The increase in July 2020 does not completely offset the reduction in the last quarter of the 2019-2020 fiscal year.

Franchise Tax

Franchise tax revenues decreased by \$104.3 million or 13.9% on a modified accrual basis in the 2019-2020 fiscal year as compared to the 2018-2019 fiscal year. This decrease is due to a decrease in gross revenues on a cash basis during the 2019-2020 fiscal year. Gross franchise tax revenues on a cash basis decreased by \$105.8 million or 13.6% from the 2018-2019 fiscal year and is mainly due to tax reliefs as a result of COVID-19 as discussed previously. Specifically, the extension of due dates of payments originally due April 15, 2020 through July 15, 2020 to July 15, 2020. The tax reliefs allowed taxpayers to pay at a later date without penalty. As a result, franchise tax payments in the fourth quarter of the 2019-2020 fiscal were down significantly from the prior fiscal year. Franchise tax payments received in

July 2020 were also significantly higher than in the prior year and would account for much of the reduction in the last quarter of the 2019-2020 fiscal year. However, the franchise tax received in July 2020 was not accrued. Unlike individual income tax and corporate income tax, which is based on the prior year income, franchise tax is calculated on a net worth type basis and is paid for the privilege of operating in the coming year.

Sales and Use Tax

Sales and use tax revenues on a modified accrual basis increased by \$118.3 million or 1.4% from the 2018-2019 fiscal year. This increase can be attributed to an improved economy through February 2020 as well as the enactment of North Carolina General Statute §105-164.4J. The improvements in the economy and growth in personal consumption expenditures through February 2020 increased the disposable incomes of consumers. This is supported by an increase in gross sales and use tax collections by \$455.0 million or 5.4% for the fiscal year as of February 2020 over the same time period in the 2018-2019 fiscal year. Following a decline in collections due to COVID-19 beginning in April 2020, the increase in gross sales and use tax collections had decreased to 1.6% by June 2020.

Insurance Tax

Insurance tax revenues increased by \$83.4 million or 14.4% on a modified accrual basis in the 2019-2020 fiscal year as compared to the 2018-2019 fiscal year. The increase is due to a combination of taxpayers taking less tax credits than in previous years as well as increased collections from audits of past years' tax credits.

Expenditures

Total expenditures increased \$8.4 million from the prior year due primarily to an increase of \$6.6 million in salaries and benefits. The majority of increase in salaries and benefits can be attributed to salary increases provided by Session Law 2019-209 for the Department's employees for each year of the 2019-2021 fiscal biennium. In addition, due to COVID-19, Department management directed that only designated mandatory employees were required to report to their worksite, at days and times directed by their supervisor and were compensated beyond regular pay for the time worked at the worksite. This was effective from March 31, 2020 through the end of the 2020 fiscal year. The compensation above regular pay for these employees also contributed to the increase in salaries and benefits.

Other Financing Sources (Uses)

Total other financing uses decreased \$833.5 million from the prior fiscal year due to a decrease in the year-end transfer of net revenues to the Office of the State Controller. This transfer amount decreased from \$23.8 billion to \$23.0 billion during fiscal year end 2020. This decrease is attributable to the decrease in tax revenues on a cash basis due to the tax deadlines for various tax types being extended to July 15, 2020, as previously discussed. Tax revenues on a cash basis in the 2020 fiscal year decreased \$841.1 million from the prior fiscal year.

Budget Variations

Data for the budget variances is presented in Schedule C-2: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) for the fiscal year ended June 30, 2020 of this report.

Variances – Original and Final Budget:

The final budgeted revenues were \$1.2 million more than the original budget. The increase is primarily due to an increase in the final budget for revenues from other state agencies. The increase in revenues from other state agencies of \$0.9 million was mostly due to a budget revision to increase receipts from the Department of Transportation for the Fuel Tracking System upgrade project.

The final budgeted expenditures increased \$20.3 million from the original budget. The increase is primarily due to an increase in the final budget for contracted personal services as well as decreases in the final budgets for salaries and benefits and data processing services.

The final budgeted expenditures for contracted personal services were \$31.3 million more than the original budget. This is due to increases in the final budget for other information technology services, temporary agency services, janitorial service agreements, security service agreements, and miscellaneous contractual services.

Other information technology services' budget increased \$24.6 million and was primarily due to a \$19.8 million revision for the Collections Case Management project. In addition, the Department was authorized to use \$12.5 million from the Collections Assistance Fee for costs related to the Department's tax systems. Of this amount, \$4.4 million was originally budgeted as data processing services and was later moved to information technology services.

The combined final budgets for temporary agency services, janitorial service agreements, security service agreements, and miscellaneous contractual services increased \$5.1 million. The increase in these accounts directly relates to the decrease in the final budget for salaries and benefits. Amounts originally budgeted as salaries and benefits were moved to these accounts.

The final amount budgeted for other financing sources (uses) was \$1.8 million more than the original budget due to transfers to/from the State Reserve Fund not having an original budget. See Note 1(O) for additional information regarding transfers to/from the State Reserve Fund.

Variances – Final Budget and Actual Results:

Actual total revenue collected was \$1.0 billion below budgeted revenue amounts. The decrease is due to various forms of tax relief provided to individuals and businesses affected by the COVID-19 pandemic. Specifically, as previously discussed, tax deadlines for various tax types originally due prior to June 30th were extended to July 15, 2020, without penalty or accrual of interest. Individual income final tax payments were the most significant tax revenue source impacted. Final payments are those payments typically received on or before April 15th of each year when individual income tax returns are filed. Due to the extension, \$824.6 million of tax revenues for individual income final tax payments were received in July 2020.

Actual total expenditures were \$34.3 million less than budgeted expenditures during fiscal year end 2020. Budgeted expenditures exceeded actual expenditures primarily because the Department spent \$28.2 million less on contracted personal services and salaries and benefits. The amount spent on contracted personal services was \$20.4 million less than budgeted primarily due to decreased spending on other information technology services for the Collections Case Management project.

Variances between the budgeted and actual expenditures for salaries and benefits are largely due to vacancies that are paid for from receipt supported funds.

Actual total other financing sources (uses) was \$1.1 billion below budgeted amounts primarily due to a decrease in transfers to the State's general fund. Transfers to the State's general fund consist solely of the year-end transfer of net revenues to the Office of the State Controller. This decrease is attributable to the decrease in revenues as discussed above.

Future Outlook

General Operations

The 2021 Session of the North Carolina General Assembly enacted Session Law 2021-180 (Senate Bill 105), 2021 Current Operations Appropriations Act (2021 Appropriations Act), which appropriated \$110.7 million to the Department of Revenue for general operations in the fiscal year 2021-2022. The amount appropriated included \$1.7 million from the general fund for salary increases for the Department's employees in the 2021-2022 fiscal year. The Act also provided \$2.3 million from federal State Fiscal Recovery Funds (SFRF) for a \$1,000 bonus for full-time Department employees with certain employees receiving an additional \$500 bonus.

The Department was also authorized to create and administer the Business Recovery Grant Program (Program). The Department must provide a one-time grant to businesses that suffered economic damage from the COVID-19 pandemic that meet certain conditions. The Department was allocated \$500 million from federal SFRF for the Program. The Act also provided \$2.5 million from federal SFRF for the migration of the Department's data from the Department of Information Technology's mainframe to IBM. Authority to use \$750,000 of receipts from the Collections Assistance Fee was also given to the Department for a high-speed check printer.

North Carolina Economic Conditions

During the 2020-2021 fiscal year, North Carolina's economy has been impacted by the economic effects of the COVID-19 pandemic and the federal and state government responses to counter these negative effects, such as direct payments to households and more support for businesses and laid-off workers. North Carolina's labor market has rebounded since the COVID-19 shutdown in the spring of 2020. The number of payroll jobs in North Carolina rebounded in the summer of 2020 and has increased steadily since then, according to data compiled by the Bureau of Labor Statistics. By June 2021, the unemployment rate had fallen to 4.6% and the number of nonfarm jobs exceeded 4.5 million. However, in June 2021 there were still 71,300 fewer jobs than in June 2019 even though the number of job postings is at a high level.¹ The lower number of jobs is likely due to continued impacts of COVID-19 on certain industries, in particular those in the leisure and hospitality sector.

As reported by the Bureau of Economic Analysis, North Carolina's personal income shows substantial growth during the 2020-2021 fiscal year. Personal income grew 7.4% during the fiscal year. Several federal programs that were designed to provide relief from the economic impacts to the economy helped elevate North Carolina's personal income amount.

Two rounds of federal economic impact payments to North Carolina households occurred primarily in January and March 2021 that increased personal income. In addition, the State of

¹ NC Today June 2021, NC Department of Commerce

North Carolina also issued payments to households with eligible children under the Extra Credit Grant Program. The majority of the Extra Credit Grant payments occurred during the 2020-2021 fiscal year. Although these payments are not taxable under the State's income tax, sales and use taxes and other excise taxes would be positively impacted by these payments.

The federal government also provided pandemic unemployment compensation payments and other unemployment assistance throughout the 2020-2021 fiscal year. The unemployment compensation payments are taxable income in North Carolina and the Department of Revenue has collected withholding taxes from many of these payments. The Paycheck Protection Program loans to businesses contributed to proprietors' income in the same period.

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

National Bureau of Economic Analysis's data for wage and salary income indicates growth in the 2020-2021 fiscal year of 6.7% over the prior fiscal year. As a result of the pandemic, the sectoral composition of employment shifted to higher-wage industries so that total wages and salaries have grown despite the employment level remaining below the pre-pandemic level.

The State's income tax withholding remained strong throughout the 2020-2021 fiscal year due to the rise in wages and salaries and the shift to higher-income workers. Even though North Carolina has a flat individual income tax rate, the withholding tables withhold a higher percentage of earnings for higher-income workers.

National Bureau of Economic Analysis's data also shows growth in personal consumption expenditures during the 2020-2021 fiscal year. There was a drop in sales at the end of the 2019-2020 fiscal year due to the COVID-19 related shutdowns. Growth since then is attributed to the State re-opening, especially after vaccinations became available to most Americans, as well as the effect of the last two rounds of economic impact payments by the federal government as discussed above.

E-commerce sales in the 2020-2021 fiscal year were a larger share of total retail sales than in past years. Shoppers turned to e-commerce during the pandemic shutdowns in the spring of 2020. The share of retail sales through e-commerce has fallen somewhat since then but still remains elevated. Sales and use tax collections would have been negatively impacted by this change in how consumers shop if not for the tax law change beginning in February 2020 that certain marketplace facilitators collect North Carolina sales taxes on behalf of retailers using these marketplaces. This change in tax law also contributed to the year-over-year increase in sales and use tax collections in the 2020-2021 fiscal year compared to the 2019-2020 fiscal year as the 2020-2021 fiscal year includes a full year of these collections. More details related to this tax law change are discussed above in the Sales and Use Tax section.

Tax Changes

Session Law 2021-180 (Senate Bill 105), 2021 Current Operations Appropriations Act (2021 Appropriations Act) changed several tax laws as discussed below.

Individual Income Tax

The 2021 Appropriations Act lowered the individual income tax rate from 5.25% to 4.99% effective January 1, 2022. In addition, the tax rate will continue to decrease in subsequent tax years as indicated below:

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

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

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

Combined, the above tax law changes are expected to decrease individual income tax revenues by \$650 million in fiscal year 2022 and by \$1.7 billion in fiscal year 2022-2023. However, the full fiscal impact will not be realized until the changes are fully implemented in 2027, when the individual income tax rate drops to 3.99%.

The Act updates the State's adopted reference date to the federal Internal Revenue Code to April 1, 2021, and conforms to the permanent 7.5% federal medical expense deduction threshold and the deductibility of expenses using funds from forgiven Pandemic Protection Program (PPP) loans and from similar pandemic-related loan and grant programs. The cost of conforming to the medical expense threshold is included above. The cost of allowing PPP and similar loans to be deducted is limited to the two years of the 2021-2023 biennium. The deduction impacts individual income and corporate income taxes and is expected to reduce revenue by \$610 million in fiscal year 2021-2022 and by \$50 million in fiscal year 2022-2023.

On June 21, 2019, the United States Supreme Court issued an opinion in *North Carolina Department of Revenue v. Kimberley Rice Kaestner 1992 Family Trust (Kaestner)*, holding that, based on the specific facts presented, North Carolina's taxation of trust income based solely on the trust beneficiary's residence in the State violated the Due Process Clause. To date, the Department has received 500 amended returns requesting refunds totaling \$11 million based on the *Kaestner* decision. As of October 2021, the Department has issued denials of refunds in a number of cases, which may be subject to further administrative review if requested by the taxpayer. The Department continues to review the remainder of the refund claims to determine the applicability, if any, of the *Kaestner* decision to the refund request. No refunds have been approved to date.

Corporate Income Tax

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

Sales and Use Tax

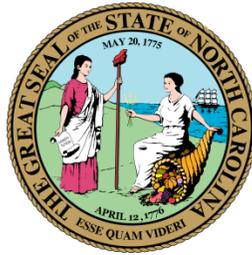
The Act amended G.S. 105-187.9(a) such that all taxes collected for short-term vehicle rentals at the rate of 5% and 8% shall be credited to the Highway Fund. The law previously required only \$10 million of the taxes collected to be credited to the Highway Fund. This change in law is effective for the 2021-2022 fiscal year and is expected to decrease sales and use tax revenues by \$69.8 million in the 2021-2022 fiscal year and \$74.6 million in the 2022-2023 fiscal year.

Franchise Tax

The Act simplifies the franchise tax base calculation and, for some taxpayers, reduces the amount of franchise tax due by eliminating the two tax bases calculated using property values. This change is effective for taxable years beginning on or after January 1, 2023 and is applicable to the calculation of franchise tax reported on the 2022 and later corporate income tax returns. This change will reduce fiscal year 2022-2023 franchise tax revenue by approximately \$173 million in its first full year of implementation.

Tobacco Tax

The Act subjects all cigar sales, whether sold online or in-person, to the existing rate of excise tax, which is 12.8% of the cost price per cigar. It also places a cap on the excise tax in the amount of 30¢ per cigar. This section is effective July 1, 2022 and applies to sales or purchases occurring on or after that date. These changes are expected to increase tobacco tax revenue by \$25 million annually beginning in fiscal year 2022-2023.



FINANCIAL STATEMENTS

**North Carolina Department of Revenue
Balance Sheet
Governmental Funds
June 30, 2021**

Exhibit A-1

	General Fund¹	Special Revenue	Total Governmental Funds 2021
ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 69,129,823	\$ 2,527,250	\$ 71,657,073
Receivables:			
Taxes Receivable, Net (Note 4)	2,602,309,163	4,222,899	2,606,532,062
Accounts Receivable, Net (Note 4)	6,704,194		6,704,194
Intergovernmental Receivables (Note 4)	10,127,379		10,127,379
Due from Other Funds (Note 13)	86,987		86,987
Inventories (Note 5)	3,949,181		3,949,181
Securities Held in Trust (Sureties)	15,300		15,300
	<u>2,692,322,027</u>	<u>6,750,149</u>	<u>2,699,072,176</u>
Total Assets			
	<u>2,692,322,027</u>	<u>6,750,149</u>	<u>2,699,072,176</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,692,322,027</u>	<u>\$ 6,750,149</u>	<u>\$ 2,699,072,176</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable (Note 7)	\$ 7,807,263	\$ 0	\$ 7,807,263
Accrued Payroll	43,105		43,105
Intergovernmental Payables (Note 7)	199,849,331	1,727,055	201,576,386
Tax Refunds Payable (Note 7)	1,170,642,054		1,170,642,054
Due to Other Funds (Note 13)	32,524,394	86,987	32,611,381
Unearned Revenue	519,900,000		519,900,000
Funds Held for Others	15,150		15,150
	<u>1,930,781,297</u>	<u>1,814,042</u>	<u>1,932,595,339</u>
Total Liabilities			
	<u>1,930,781,297</u>	<u>1,814,042</u>	<u>1,932,595,339</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue (Note 8)	<u>120,940,177</u>	<u>3,812,071</u>	<u>124,752,248</u>
Total Deferred Inflows of Resources	<u>120,940,177</u>	<u>3,812,071</u>	<u>124,752,248</u>
FUND BALANCES (Note 11)			
Nonspendable	3,949,181		3,949,181
Committed	38,666,877	1,124,036	39,790,913
Unassigned	597,984,495		597,984,495
	<u>640,600,553</u>	<u>1,124,036</u>	<u>641,724,589</u>
Total Fund Balances			
	<u>640,600,553</u>	<u>1,124,036</u>	<u>641,724,589</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,692,322,027</u>	<u>\$ 6,750,149</u>	<u>\$ 2,699,072,176</u>

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

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

**North Carolina Department of Revenue
Balance Sheet
Governmental Funds
June 30, 2020**

Exhibit A-2

	General Fund¹	Special Revenue	Total Governmental Funds 2020
ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 56,761,760	\$ 1,427,529	\$ 58,189,289
Receivables:			
Taxes Receivable, Net (Note 4)	3,246,614,889	3,939,563	3,250,554,452
Accounts Receivable, Net (Note 4)	558,985		558,985
Intergovernmental Receivables (Note 4)	11,389,517		11,389,517
Due from Other Funds (Note 13)	39,141		39,141
Inventories (Note 5)	3,447,562		3,447,562
Securities Held in Trust (Sureties)	15,300		15,300
	<u>3,318,827,154</u>	<u>5,367,092</u>	<u>3,324,194,246</u>
Total Assets			
	<u>3,318,827,154</u>	<u>5,367,092</u>	<u>3,324,194,246</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,318,827,154</u>	<u>\$ 5,367,092</u>	<u>\$ 3,324,194,246</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities:			
Accounts Payable (Note 7)	\$ 2,201,460	\$ 0	\$ 2,201,460
Accrued Payroll	21,932		21,932
Intergovernmental Payables (Note 7)	164,929,857	766,255	165,696,112
Tax Refunds Payable (Note 7)	1,330,877,535		1,330,877,535
Due to Other Funds (Note 13)	31,978,060	39,141	32,017,201
Unearned Revenue	419,900,000		419,900,000
Funds Held for Others	15,150		15,150
	<u>1,949,923,994</u>	<u>805,396</u>	<u>1,950,729,390</u>
Total Liabilities			
	<u>1,949,923,994</u>	<u>805,396</u>	<u>1,950,729,390</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue (Note 8)	<u>84,057,406</u>	<u>3,569,696</u>	<u>87,627,102</u>
Total Deferred Inflows of Resources	<u>84,057,406</u>	<u>3,569,696</u>	<u>87,627,102</u>
FUND BALANCES (Note 11)			
Nonspendable	3,447,562		3,447,562
Committed	45,471,283	992,000	46,463,283
Unassigned	1,235,926,909		1,235,926,909
	<u>1,284,845,754</u>	<u>992,000</u>	<u>1,285,837,754</u>
Total Fund Balances			
	<u>1,284,845,754</u>	<u>992,000</u>	<u>1,285,837,754</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,318,827,154</u>	<u>\$ 5,367,092</u>	<u>\$ 3,324,194,246</u>

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

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

North Carolina Department of Revenue
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2021

Exhibit A-3

	General Fund ¹	Special Revenue	Total Governmental Funds 2021
REVENUES			
Tax Revenues	\$ 29,123,628,984	\$ 9,168,317	\$ 29,132,797,301
Services	3,268,917		3,268,917
Fees	3,764,265		3,764,265
Revenues from Other State Agencies (Note 12)	386,632,603		386,632,603
Miscellaneous Revenue	6,111,002		6,111,002
Total Revenues	<u>29,523,405,771</u>	<u>9,168,317</u>	<u>29,532,574,088</u>
EXPENDITURES			
Salaries and Benefits	110,889,069		110,889,069
Contracted Personal Services	22,081,415		22,081,415
Supplies and Materials	323,712		323,712
Travel	337,323		337,323
Communication	2,417,761		2,417,761
Utilities	120,071		120,071
Data Processing Services	1,173,777		1,173,777
Other Services	4,909,472	21,750	4,931,222
Claims and Benefits	189,001		189,001
Other Fixed Charges	8,806,484		8,806,484
Capital Outlay	3,894,097		3,894,097
Grants	381,269,918		381,269,918
Insurance and Bonding	49,011		49,011
Statutory Tax Distributions	756,597,953	6,194,164	762,792,117
Expenditures to Other State Agencies (Note 12)	287,772	2,061,311	2,349,083
Other Expenditures	5,916,012		5,916,012
Total Expenditures	<u>1,299,262,848</u>	<u>8,277,225</u>	<u>1,307,540,073</u>
Excess of Revenues Over Expenditures	<u>28,224,142,923</u>	<u>891,092</u>	<u>28,225,034,015</u>
OTHER FINANCING SOURCES (USES)			
Gain on Sale of Capital Assets	1,000		1,000
Transfers to State Reserve Fund	(3,060,588)		(3,060,588)
Transfers from State Reserve Fund	2,596,018		2,596,018
Transfers In (Note 13)	759,399		759,399
Transfers Out (Note 13)	(28,956,637,280)	(759,056)	(28,957,396,336)
State Appropriations	87,953,327		87,953,327
Total Other Financing Sources (Uses)	<u>(28,868,388,124)</u>	<u>(759,056)</u>	<u>(28,869,147,180)</u>
Net Change in Fund Balances	(644,245,201)	132,036	(644,113,165)
Fund Balances - July 1	1,284,845,754	992,000	1,285,837,754
Fund Balances - June 30	<u>\$ 640,600,553</u>	<u>\$ 1,124,036</u>	<u>\$ 641,724,589</u>

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

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

North Carolina Department of Revenue
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2020

Exhibit A-4

	General Fund ¹	Special Revenue	Total Governmental Funds 2020
REVENUES			
Tax Revenues	\$ 24,621,937,968	\$ 6,591,640	\$ 24,628,529,608
Services	2,163,693		2,163,693
Fees	2,846,870		2,846,870
Revenues from Other State Agencies (Note 12)	7,183,658		7,183,658
Miscellaneous Revenue	202,281		202,281
Total Revenues	<u>24,634,334,470</u>	<u>6,591,640</u>	<u>24,640,926,110</u>
EXPENDITURES			
Salaries and Benefits	106,820,539		106,820,539
Contracted Personal Services	17,465,099		17,465,099
Supplies and Materials	615,822		615,822
Travel	952,648		952,648
Communication	3,155,119		3,155,119
Utilities	132,209		132,209
Data Processing Services	4,413,186		4,413,186
Other Services	5,340,172	49,470	5,389,642
Claims and Benefits	151,378		151,378
Other Fixed Charges	7,283,814		7,283,814
Capital Outlay	3,900,408		3,900,408
Insurance and Bonding	14,825		14,825
Statutory Tax Distributions	678,505,995	4,521,469	683,027,464
Expenditures to Other State Agencies (Note 12)	219,300	1,507,623	1,726,923
Other Expenditures	6,022,795		6,022,795
Total Expenditures	<u>834,993,309</u>	<u>6,078,562</u>	<u>841,071,871</u>
Excess of Revenues Over Expenditures	<u>23,799,341,161</u>	<u>513,078</u>	<u>23,799,854,239</u>
OTHER FINANCING SOURCES (USES)			
Loss on Sale of Capital Assets	(66)		(66)
Transfers to State Reserve Fund	(2,596,018)		(2,596,018)
Transfers from State Reserve Fund	759,802		759,802
Transfers In (Note 13)	589,392		589,392
Transfers Out (Note 13)	(23,102,183,436)	(589,392)	(23,102,772,828)
State Appropriations	87,185,512		87,185,512
Total Other Financing Sources (Uses)	<u>(23,016,244,814)</u>	<u>(589,392)</u>	<u>(23,016,834,206)</u>
Net Change in Fund Balances	783,096,347	(76,314)	783,020,033
Fund Balances - July 1	501,749,407	1,068,314	502,817,721
Fund Balances - June 30	<u>\$ 1,284,845,754</u>	<u>\$ 992,000</u>	<u>\$ 1,285,837,754</u>

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

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

North Carolina Department of Revenue
Statement of Fiduciary Net Position
Fiduciary Fund - Local Sales Tax Collection Fund
Custodial Funds
June 30, 2021 and 2020

Exhibit B-1

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents (Note 2)	\$ 764,183,500	\$ 587,808,025
Taxes Receivable	286,200,000	238,700,000
Due from Other Funds (Note 13)	32,524,394	31,978,060
Total Assets	<u>1,082,907,894</u>	<u>858,486,085</u>
LIABILITIES		
Intergovernmental Payables	<u>1,082,907,894</u>	<u>858,486,085</u>
Total Liabilities	<u>1,082,907,894</u>	<u>858,486,085</u>
NET POSITION		
Unrestricted	<u>\$ 0</u>	<u>\$ 0</u>

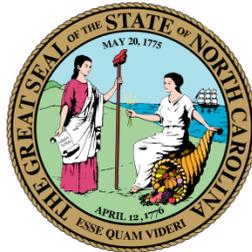
The accompanying notes to the financial statements are an integral part of this statement.

North Carolina Department of Revenue
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Local Sales Tax Collection Fund
Custodial Funds
For the Fiscal Years Ended June 30, 2021 and 2020

Exhibit B-2

	<u>2021</u>	<u>2020</u>
ADDITIONS		
Sales and Use Tax Collections for Local Governments	\$ 4,631,843,011	\$ 4,010,039,922
DEDUCTIONS		
Payments of Sales and Use Tax to Local Governments	4,631,843,011	4,010,039,922
Net Increase (Decrease) in Fiduciary Net Position	0	0
Net Position - July 1	0	0
Net Position - June 30	<u>\$ 0</u>	<u>\$ 0</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The operations of the Department are led by the Secretary of Revenue, a member of the Governor's cabinet.

- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Department is a part of the State of North Carolina and an integral part of the State's *Annual Comprehensive Financial Report*.

The accompanying financial statements present all funds belonging to or under the stewardship of the Department. The Department's accounts and transactions are included in the State's *Annual Comprehensive Financial Report* as part of the State's governmental funds and fiduciary funds.

- C. Basis of Presentation** – The Department's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP for government entities. The financial statements are prepared according to GAAP as follows:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 84, *Fiduciary Activities*, require the presentation of government-wide and fund level financial statements. See below for a description of each fund. The financial statements presented are governmental fund and fiduciary fund financial statements of the Department. Because the Department is not a separate entity, government-wide financial statements are not prepared.

The fund financial statements provide information about the Department's funds. The emphasis of fund financial statements is on governmental funds and fiduciary funds, each displayed in separate exhibits. Throughout the report, the term Department is used to refer to the governmental funds and fiduciary fund combined, unless otherwise specifically noted.

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 31 days of the end of the current fiscal period (an exception is individual income tax revenues, which the Department considers to be available if they are collected within 12 months after year-end). Expenditures are recorded when a liability is incurred, except

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

Since capital asset and long-term liability accounts relating to the governmental funds are reported only at the statewide level, these amounts are not included in the Department's governmental fund financial statements. However, these amounts are reported in the Department's notes to the financial statements.

Fiduciary Fund – Fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. These balances do not belong to the Department and are not considered assets or liabilities of the Department.

Nonexchange transactions, in which the Department receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes, fines, and forfeitures. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

The preparation of financial statements, in conformity with GAAP, requires management of the Department to make estimates and judgments that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and the disclosures and contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Actual results could differ from those estimates. Should actual results differ from those estimates, changes will flow through the financial statements during the year of change and will be disclosed, if material.

- E. Cash and Cash Equivalents** – This classification includes undeposited receipts and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The Department's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.
- F. Receivables** – Receivables consist of amounts that have arisen in the ordinary course of business.

Taxes receivable for the governmental funds and fiduciary fund primarily consist of (1) taxes owed that are expected to be received in approximately 31 days of the year-end but have not been billed (with the exception of

individual income taxes which is 12 months after year-end); (2) actual taxpayer assessed unpaid taxes less an allowance for uncollectible taxes; and (3) an estimate of under-withholding for individual income taxes for the first half of the calendar year.

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

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

- G. Due from/to Other Funds** – Activities between the Department's funds are composed of amounts due from or due to other funds of the Department. All amounts are considered collectible; accordingly, no allowance for doubtful accounts has been recorded.
- H. Inventories** – Inventories, consisting of general supplies and materials, are valued at cost using the first-in, first-out (FIFO) method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.
- I. Payables** – Accounts payable for the governmental funds primarily include amounts due to individuals and companies in connection with the Department's general business operations.

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

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

- J. Unearned Revenue** – Unearned revenue for the governmental funds represents the cumulative excess of cash received for various taxes that is to be applied in a future year.
- K. Deferred Outflows/Inflows of Resources** – Deferred outflows of resources represent a consumption of net position 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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

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

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

The Department has fund balance committed for the following purposes:

- **Project Collect Tax** – Collection assistance fee imposed by the General Assembly under General Statute 105-243.1. Fee is imposed on an overdue tax debt that remains unpaid 30 days or more after the fee notice is mailed to the tax payer. The proceeds of the fee must be deposited into a special account and must be applied to the costs of collecting overdue tax debts. The proceeds of the fee may be used for any purpose that is directly and primarily related to collecting overdue tax debts and for other purposes as outlined in the statute.
- **Transaction Fees** – Imposed by the North Carolina General Assembly under General Statute 66-58.12. A transaction fee is charged on a tax transaction made via a merchant card. The proceeds derived from the fee may be expended only for e-commerce initiatives and projects.
- **Operations and Maintenance for Tax Systems** – Imposed by the General Assembly under House Bill 1473 to use funds to support the remediation and ongoing support and maintenance of the Tax Information Management System (TIMS) and the Integrated Tax Administration System (ITAS).
- **Unauthorized Substance Tax** – An excise tax is imposed by the General Assembly under General Statute 105-113.113 on unauthorized substances. When proceeds are unencumbered, 75% of the proceeds are distributed to state and local law enforcement agencies involved in the arrest. The remaining 25% of proceeds are distributed to the General Fund of the State of North Carolina.

Unassigned Fund Balance – This is the residual classification for the General Fund. Other governmental funds cannot report positive

unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts committed to those purposes.

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

- M. Revenues and Expenditures from/to Other State Agencies** – Revenues and expenditures from/to other state agencies for the governmental funds represent amounts that the Department obtains from or transfers to other agencies, institutions, or entities within the State of North Carolina. These transfers are not considered other financing sources or uses per GAAP, nor are they considered interfund transfers. These revenues and expenditures represent nonexchange transactions and are eliminated at the statewide reporting level in the State's *Annual Comprehensive Financial Report*.
- N. Statutory Tax Distributions** – Statutory Tax Distributions represent legislatively mandated amounts transferred to local governments or law enforcement agencies for their portion of tax collections for sales and use, white goods, scrap tire, solid waste, beverage, and unauthorized substances.
- O. Transfers from/to State Reserve Fund** – These transfers are for funds obligated in the current year, but not spent at year-end, that will be carried forward to the next fiscal year. The Department must obtain authorization from the Office of State Budget and Management (OSBM) to carry forward funds. At year-end, these funds are transferred to the State Reserve Fund and held by the North Carolina Office of the State Controller until approval is granted from OSBM to return the funds to the Department in the next fiscal year.

NOTE 2 - DEPOSITS

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

At June 30, 2021 and 2020, the governmental funds' Balance Sheet reported cash and cash equivalents of \$71,657,073 and \$58,189,289, respectively. The fiduciary fund Statement of Fiduciary Net Position reported cash and cash equivalents of \$764,183,500 and \$587,808,025, respectively for the same dates. These amounts represent the Department's equity position in the State

Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal oversight other than that of the legislative body) had a weighted average maturity of 1.3 years as of June 30, 2021 and 2020. Assets and shares of the STIF are valued at fair value.

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

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Department's investments are recorded at fair value as of June 30, 2021 and 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Short-Term Investment Fund – At June 30, 2021 and 2020, the Department’s cash and cash equivalents, valued at \$835,840,573 and \$645,997,314, respectively, were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Department’s position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - RECEIVABLES

A. Taxes Receivable

Taxes receivable for the governmental funds at June 30, 2021, were as follows:

	Gross Taxes Receivable	Less Allowance for Uncollectible Taxes	Net Taxes Receivable
General Fund:			
Individual	\$ 433,500,000	\$ 0	\$ 433,500,000
Sales and Use Tax	547,800,000		547,800,000
Corporate	48,600,000		48,600,000
Underwithholding - Individual	782,500,000		782,500,000
Other	136,456,601		136,456,601
Delinquent Receivables:			
Individual	1,322,103,908	823,325,491	498,778,417
Sales and Use Tax	212,738,627	117,106,772	95,631,855
Corporate	60,815,657	28,216,960	32,598,697
Tobacco Products	11,272,100	10,251,286	1,020,814
Franchise	77,235,348	54,090,207	23,145,141
Estate	9,918,477	9,732,644	185,833
License and Excise	2,516,342	1,616,647	899,695
Alcoholic Beverage	323,980	248,762	75,218
Other	2,568,993	1,452,101	1,116,892
Total Delinquent Receivables	<u>1,699,493,432</u>	<u>1,046,040,870</u>	<u>653,452,562</u>
Total	<u>3,648,350,033</u>	<u>1,046,040,870</u>	<u>2,602,309,163</u>
Special Revenue Fund:			
Unauthorized Substance Tax	<u>196,413,922</u>	<u>192,191,023</u>	<u>4,222,899</u>
Total Taxes Receivable	<u>\$ 3,844,763,955</u>	<u>\$ 1,238,231,893</u>	<u>\$ 2,606,532,062</u>

Taxes receivable for the governmental funds at June 30, 2020, were as follows:

	Gross Taxes Receivable	Less Allowance for Uncollectible Taxes	Net Taxes Receivable
General Fund:			
Individual	\$ 572,700,000	\$ 0	\$ 572,700,000
Sales and Use Tax	471,100,000		471,100,000
Corporate	182,500,000		182,500,000
Underwithholding - Individual	1,260,000,000		1,260,000,000
Other	143,658,004		143,658,004
Delinquent Receivables:			
Individual	1,207,840,241	713,517,925	494,322,316
Sales and Use Tax	183,656,877	90,507,854	93,149,023
Corporate	11,807,421	2,608,756	9,198,665
Tobacco Products	11,477,479	6,004,608	5,472,871
Franchise	17,130,892	5,266,070	11,864,822
Estate	9,926,677	9,853,347	73,330
License and Excise	2,163,129	1,448,030	715,099
Alcoholic Beverage	316,138	68,212	247,926
Other	2,248,658	635,825	1,612,833
Total Delinquent Receivables	<u>1,446,567,512</u>	<u>829,910,627</u>	<u>616,656,885</u>
Total	<u>4,076,525,516</u>	<u>829,910,627</u>	<u>3,246,614,889</u>
Special Revenue Fund:			
Unauthorized Substance Tax	<u>150,999,644</u>	<u>147,060,081</u>	<u>3,939,563</u>
Total Taxes Receivable	<u>\$ 4,227,525,160</u>	<u>\$ 976,970,708</u>	<u>\$ 3,250,554,452</u>

Within the General Fund, the significant receivables not expected to be collected within one year at June 30, 2021 and 2020 were \$1,065,911,009 and \$979,087,621, respectively, of taxes receivable (gross).

See Exhibits F-1 and F-2 for the Schedule of Aging of the Taxes Receivable at June 30, 2021 and 2020, respectively.

B. Accounts Receivable

Accounts receivable for the governmental funds at June 30, 2021 and 2020, were as follows:

	General Fund	
	2021	2020
Accounts Receivable:		
Gross Accounts Receivable	\$ 6,780,951	\$ 567,004
Less Allowance for Doubtful Accounts	<u>76,757</u>	<u>8,019</u>
Total Accounts Receivable, Net	<u>\$ 6,704,194</u>	<u>\$ 558,985</u>

C. Intergovernmental Receivable

Intergovernmental receivables for governmental funds at June 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
	<u>Gross</u>	<u>Gross</u>
	<u>Receivables</u>	<u>Receivables</u>
General Fund:		
Local Governments - Medicaid Hold Harmless Distribution Returned	\$ 0	\$ 79,275
State Agencies - Payroll Taxes	10,127,379	11,310,242
Total Intergovernmental Receivables	<u>\$ 10,127,379</u>	<u>\$ 11,389,517</u>

NOTE 5 - INVENTORIES

Inventories at June 30, 2021 and 2020, were as follows:

	<u>General Fund</u>	
	<u>2021</u>	<u>2020</u>
Inventories:		
Postage	\$ 3,629,689	\$ 3,095,804
Other Office Materials/Supplies	319,492	351,758
Total Inventories	<u>\$ 3,949,181</u>	<u>\$ 3,447,562</u>

NOTE 6 - CAPITAL ASSETS

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Equipment	2-30 years
Computer Software	2-30 years

A summary of changes in the Department's capital assets for the year ended June 30, 2021, is presented as follows:

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>
Capital Assets, Depreciable:				
Equipment	\$ 11,710,524	\$ 308,709	\$ 0	\$ 12,019,233
Computer Software	28,303,731			28,303,731
Total Capital Assets, Depreciable	40,014,255	308,709		40,322,964
Less Accumulated Depreciation for:				
Equipment	4,794,934	468,089		5,263,023
Computer Software	9,144,520	1,406,849		10,551,369
Total Accumulated Depreciation	13,939,454	1,874,938		15,814,392
Total Capital Assets, Depreciable, Net	26,074,801	(1,566,229)		24,508,572
Capital Assets, Net	\$ 26,074,801	\$ (1,566,229)	\$ 0	\$ 24,508,572

A summary of changes in the Department's capital assets for the year ended June 30, 2020, is presented as follows:

	<u>Balance July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2020</u>
Capital Assets, Depreciable:				
Equipment	\$ 11,305,260	\$ 405,264	\$ 0	\$ 11,710,524
Computer Software	28,303,731			28,303,731
Total Capital Assets, Depreciable	39,608,991	405,264		40,014,255
Less Accumulated Depreciation for:				
Equipment	4,340,283	454,651		4,794,934
Computer Software	7,737,671	1,406,849		9,144,520
Total Accumulated Depreciation	12,077,954	1,861,500		13,939,454
Total Capital Assets, Depreciable, Net	27,531,037	(1,456,236)		26,074,801
Capital Assets, Net	\$ 27,531,037	\$ (1,456,236)	\$ 0	\$ 26,074,801

NOTE 7 - PAYABLES

A. Accounts Payable

Accounts payable for the governmental funds at June 30, 2021 and 2020, were as follows:

	<u>General Fund</u>	
	<u>2021</u>	<u>2020</u>
Accounts Payable:		
Accounts Payable	\$ 7,790,193	\$ 2,193,841
Due to Employees	17,070	7,619
Total Accounts Payable	<u>\$ 7,807,263</u>	<u>\$ 2,201,460</u>

B. Intergovernmental Payables

Intergovernmental payables for the governmental funds at June 30, 2021, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>
Intergovernmental Payables:		
Local Government Tax Distributions:		
Medicaid Hold Harmless	\$ 39,609,882	\$ 0
Alcoholic Beverage	8,113,407	
Real Estate Conveyance, White Goods Disposal, Scrap Tire Disposal, and Solid Waste Disposal	3,778,125	
Electricity	71,475,323	
Video Program	16,752,802	
Telecom	7,021,571	
Piped Natural Gas	5,017,178	
Unauthorized Substance		1,183,770
Total to Local Governments	<u>151,768,288</u>	<u>1,183,770</u>
Statutory Tax Distribution to the General Fund:		
White Goods Disposal	1,044,468	
Scrap Tire Disposal	4,190,646	
Solid Waste Disposal	2,139,549	
Unauthorized Substance		543,285
Total to General Fund	<u>7,374,663</u>	<u>543,285</u>
State Agencies:		
Department of Transportation - Aviation Fuel Taxes	6,309,133	
Department of Environmental Quality - Solid Waste Taxes	4,957,267	
Office of State Budget & Management - Coronavirus Relief	8,844,859	
Department of Information Technology - 911 Service Charges	2,614,931	
Department of Insurance - Unallocated Taxes	17,980,190	
Total to State Agencies	<u>40,706,380</u>	
Total Intergovernmental Payables	<u>\$ 199,849,331</u>	<u>\$ 1,727,055</u>

Intergovernmental payables for the governmental funds at June 30, 2020, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>
Intergovernmental Payables:		
Local Government Tax Distributions:		
Medicaid Hold Harmless	\$ 17,802,597	\$ 0
Alcoholic Beverage	7,419,388	
Real Estate Conveyance, White Goods Disposal, Scrap Tire Disposal, and Solid Waste Disposal	3,933,095	
Electricity	68,857,478	
Video Program	16,051,933	
Telecom	5,431,722	
Piped Natural Gas	3,644,610	
Unauthorized Substance		571,622
Total to Local Governments	<u>123,140,823</u>	<u>571,622</u>
Statutory Tax Distribution to the General Fund:		
White Goods Disposal	896,718	
Scrap Tire Disposal	3,156,708	
Solid Waste Disposal	2,064,826	
Unauthorized Substance		194,633
Total to General Fund	<u>6,118,252</u>	<u>194,633</u>
State Agencies:		
Department of Transportation - Aviation Fuel Taxes	6,205,329	
Department of Environmental Quality - Solid Waste Taxes	5,343,444	
Department of Information Technology - 911 Service Charges	3,222,886	
Department of Insurance - Unallocated Taxes	20,899,123	
Total to State Agencies	<u>35,670,782</u>	
Total Intergovernmental Payables	<u>\$ 164,929,857</u>	<u>\$ 766,255</u>

C. Tax Refunds Payable

Tax refunds payable for the governmental funds at June 30, 2021 and 2020, were as follows:

	<u>General Fund</u>	
	<u>2021</u>	<u>2020</u>
Tax Refunds Payable:		
Individual	\$ 708,800,000	\$ 829,700,000
Sales and Use Tax	284,700,000	307,900,000
Corporate	177,000,000	192,900,000
Other	142,054	377,535
Total Tax Refunds Payable	<u>\$ 1,170,642,054</u>	<u>\$ 1,330,877,535</u>

NOTE 8 - DEFERRED INFLOWS OF RESOURCES

The various components of deferred inflows of resources for the governmental funds at June 30, 2021, were as follows:

	Unavailable at June 30, 2020	Current Year Unavailable Increase	Prior Year Unavailable Earned in Current Year	Unavailable at June 30, 2021
General Fund:				
Estate Taxes	\$ 73,330	\$ 64	\$ (73,330)	\$ 64
Gift Taxes	1,154	860	(1,154)	860
License Taxes	651,962	888,225	(651,962)	888,225
Tobacco Taxes	5,287,726	1,014,410	(5,287,726)	1,014,410
Beverage Taxes	221,248	48,437	(221,248)	48,437
Franchise Taxes	11,580,614	22,998,768	(11,580,614)	22,998,768
Sales & Use Taxes	55,879,437	62,543,720	(55,879,437)	62,543,720
Corporate Taxes	8,792,428	32,331,603	(8,792,428)	32,331,603
White Goods Taxes	2,176	5,396	(2,176)	5,396
Scrap Tire Taxes	468,996	23,952	(468,996)	23,952
Manufacturing Taxes	44,233	9,087	(44,233)	9,087
Solid Waste Taxes	10	11	(10)	11
Insurance Taxes	1,054,092	1,075,644	(1,054,092)	1,075,644
Total	<u>84,057,406</u>	<u>120,940,177</u>	<u>(84,057,406)</u>	<u>120,940,177</u>
Special Revenue Fund:				
Unauthorized Substance Taxes	3,569,696	3,812,071	(3,569,696)	3,812,071
Total Deferred Inflows of Resources	<u>\$ 87,627,102</u>	<u>\$ 124,752,248</u>	<u>\$ (87,627,102)</u>	<u>\$ 124,752,248</u>

The various components of deferred inflows of resources for the governmental funds at June 30, 2020, were as follows:

	Unavailable at June 30, 2019	Current Year Unavailable Increase	Prior Year Unavailable Earned in Current Year	Unavailable at June 30, 2020
General Fund:				
Estate Taxes	\$ 65,714	\$ 73,330	\$ (65,714)	\$ 73,330
Gift Taxes	1,212	1,154	(1,212)	1,154
License Taxes	1,002,006	651,962	(1,002,006)	651,962
Tobacco Taxes	5,672,257	5,287,726	(5,672,257)	5,287,726
Beverage Taxes	223,459	221,248	(223,459)	221,248
Franchise Taxes	17,129,762	11,580,614	(17,129,762)	11,580,614
Sales & Use Taxes	55,168,533	55,879,437	(55,168,533)	55,879,437
Corporate Taxes	11,594,961	8,792,428	(11,594,961)	8,792,428
White Goods Taxes	39,475	2,176	(39,475)	2,176
Scrap Tire Taxes	446,915	468,996	(446,915)	468,996
Manufacturing Taxes	291,257	44,233	(291,257)	44,233
Solid Waste Taxes	210	10	(210)	10
Insurance Taxes	77,625	1,054,092	(77,625)	1,054,092
Total	<u>91,713,386</u>	<u>84,057,406</u>	<u>(91,713,386)</u>	<u>84,057,406</u>
Special Revenue Fund:				
Unauthorized Substance Taxes	2,589,799	3,569,696	(2,589,799)	3,569,696
Total Deferred Inflows of Resources	<u>\$ 94,303,185</u>	<u>\$ 87,627,102</u>	<u>\$ (94,303,185)</u>	<u>\$ 87,627,102</u>

NOTE 9 - LONG-TERM LIABILITIES

General long-term liabilities for the governmental funds are not recognized in the governmental funds until they become due. Consequently, the general long-term liabilities not yet due are not reported on the face of the governmental funds' financial statements, but are disclosed in the Department's notes to the financial statements.

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

- A. Claims and Judgments Payable** – The North Carolina Supreme Court ruled in *North Carolina School Boards Association v. Moore* that certain specified tax penalties collected from July 1, 1996 to June 30, 2005, must be paid to the State Civil Penalty and Forfeiture Fund for the benefit of public schools, rather than to the State's General Fund. The court found that the civil penalties collected during this time totaled \$767,814,048, of which \$585,741,703 represented amounts collected by the Department of Revenue (\$583,340,162 after deducting the costs of collection). The Supreme Court remanded the case to the Superior Court for implementation. The Superior Court issued an order requiring the prospective payments to commence effective July 1, 2005; however, compliance with the Superior Court's judgment is currently dependent on legislative action.
- B. Compensated Absences** – Employees of the Department are permitted to accumulate earned but unused vacation pay benefits. In the governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. When classifying the compensated absences into current and noncurrent for the long-term liabilities disclosure, leave is considered taken using a last-in, first-out (LIFO) method.

The Department's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

There is no liability for unpaid accumulated sick leave because the Department has no obligation to pay sick leave upon employee termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

C. Net Pension Liability – The net pension liability represents the Department’s proportionate share of the collective net pension liability reported in the State of North Carolina’s 2020 and 2019 *Comprehensive Annual Financial Report*. This liability represents the Department’s portion of the collective total pension liability less the fiduciary net position of the Teachers’ and State Employees’ Retirement System. See Note 14 for further information regarding the Department’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

D. Net OPEB Liability – The net OPEB liability represents the Department’s proportionate share of the collective net OPEB liability reported in the State of North Carolina’s 2020 and 2019 *Comprehensive Annual Financial Report*. This liability represents the Department’s portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the Department’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

A summary of changes in the long-term liabilities for the year ended June 30, 2021, is presented as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Governmental Funds					
Other Long-Term Liabilities					
Claims and Judgments Payable	\$ 583,340,162	\$ 0	\$ 0	\$ 583,340,162	\$ 0
Employee Benefits:					
Compensated Absences	12,179,699	7,102,992	6,450,046	12,832,645	800,757
Net Pension Liability ¹	44,615,236	8,840,352		53,455,588	
Net Other Postemployment Benefits Liability ²	119,527,921		14,596,295	104,931,626	
Workers' Compensation Liability ³	41,757	2,571	34,328	10,000	10,000
Total Other Long-Term Liabilities	\$ 759,704,775	\$ 15,945,915	\$ 21,080,669	\$ 754,570,021	\$ 810,757

¹ Additional information regarding the net pension liability is included in Note 14.

² Additional information regarding the net other postemployment benefits liability is included in Note 15.

³ Additional information regarding the workers' compensation liability is included in Note 16.

A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Governmental Funds					
Other Long-Term Liabilities					
Claims and Judgments Payable	\$ 583,340,162	\$ 0	\$ 0	\$ 583,340,162	\$ 0
Employee Benefits:					
Compensated Absences	10,239,397	8,484,947	6,544,645	12,179,699	496,932
Net Pension Liability ¹	45,124,978		509,742	44,615,236	
Net Other Postemployment Benefits Liability ²	110,863,666	8,664,255		119,527,921	
Workers' Compensation Liability ³	5,831	57,154	21,228	41,757	41,757
Total Other Long-Term Liabilities	\$ 749,574,034	\$ 17,206,356	\$ 7,075,615	\$ 759,704,775	\$ 538,689

¹ Additional information regarding the net pension liability is included in Note 14.

² Additional information regarding the net other postemployment benefits liability is included in Note 15.

³ Additional information regarding the workers' compensation liability is included in Note 16.

NOTE 10 - OPERATING LEASE OBLIGATIONS

The Department entered into operating leases for facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

Fiscal Year	General Fund
2022	\$ 2,765,638
2023	2,286,486
2024	1,845,008
2025	1,542,109
2026	1,021,472
2027-2031	1,613,815
Total Minimum Lease Payments	\$ 11,074,528

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

Fiscal Year	General Fund
2021	\$ 3,083,465
2022	2,568,061
2023	2,060,920
2024	1,612,791
2025	1,458,312
2026-2030	2,258,156
Total Minimum Lease Payments	\$ 13,041,705

Rental expense for all operating leases during the years ended June 30, 2021 and 2020, was \$3,404,287 and \$3,339,140, respectively.

NOTE 11 - FUND BALANCE

The details of the fund balance classifications for the governmental funds at June 30, 2021, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
Fund Balance:			
Nonspendable:			
Inventories	\$ 3,949,181	\$ 0	\$ 3,949,181
Committed to:			
General Government			
Project Collect Tax	32,327,312		32,327,312
Transaction Fees	5,702,478		5,702,478
Operations and Maintenance for Tax Systems	115,607		115,607
Other Committed	521,480		521,480
Unauthorized Substance Tax		1,124,036	1,124,036
Unassigned	597,984,495		597,984,495
Total Fund Balance	<u>\$ 640,600,553</u>	<u>\$ 1,124,036</u>	<u>\$ 641,724,589</u>

The details of the fund balance classifications for the governmental funds at June 30, 2020, were as follows:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total</u>
Fund Balance:			
Nonspendable:			
Inventories	\$ 3,447,562	\$ 0	\$ 3,447,562
Committed to:			
General Government			
Project Collect Tax	39,713,143		39,713,143
Transaction Fees	5,141,123		5,141,123
Operations and Maintenance for Tax Systems	115,607		115,607
Other Committed	501,410		501,410
Unauthorized Substance Tax		992,000	992,000
Unassigned	1,235,926,909		1,235,926,909
Total Fund Balance	<u>\$ 1,284,845,754</u>	<u>\$ 992,000</u>	<u>\$ 1,285,837,754</u>

NOTE 12 - REVENUES AND EXPENDITURES FROM/TO OTHER STATE AGENCIES

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2021, were as follows:

Revenues from Other State Agencies:

	<u>Purpose</u>	<u>Amount</u>
General Fund:		
Department of Transportation	Motor Fuels Reimbursement	\$ 4,524,721
Department of Transportation	Fuel Tax Compliance Reimbursement	1,479,277
Department of Transportation	International Registration Plan Reimbursement	149,150
Department of Information Technology	Information Technology Security Positions	387,644
Department of Insurance	Insurance Reimbursement	209,964
Department of Agriculture and Consumer Services	Forestry Reimbursement	91,523
Office of State Budget and Management	Coronavirus Relief	379,790,324
		<u>\$ 386,632,603</u>

Expenditures to Other State Agencies:

	<u>Purpose</u>	<u>Amount</u>
General Fund:		
Department of Commerce	Job Development Investment Grants	\$ 287,772
	Total	<u>287,772</u>
Special Revenue Fund:		
Statewide General Fund	25% Transfer to General Fund	2,061,311
	Total	<u>2,061,311</u>
	Total Expenditures to Other State Agencies	<u>\$ 2,349,083</u>

The governmental funds' revenues and expenditures from/to other state agencies by entity and purpose for the fiscal year ended June 30, 2020, were as follows:

Revenues from Other State Agencies:

	<u>Purpose</u>	<u>Amount</u>
General Fund:		
Department of Transportation	Motor Fuels Reimbursement	\$ 4,260,888
Department of Transportation	Fuel Tax Compliance Reimbursement	2,031,896
Department of Transportation	International Registration Plan Reimbursement	168,793
Department of Information Technology	Information Technology Security Positions	353,408
Department of Insurance	Insurance Reimbursement	203,204
Department of Agriculture and Consumer Services	Forestry Reimbursement	88,963
Office of State Budget and Management	Coronavirus Relief	76,506
		<u>\$ 7,183,658</u>

Expenditures to Other State Agencies:

	<u>Purpose</u>	<u>Amount</u>
General Fund:		
Department of Commerce	Job Development Investment Grants	\$ 213,800
Statewide General Fund	William S. Lee Fees	5,500
	Total	<u>219,300</u>
Special Revenue Fund:		
Statewide General Fund	25% Transfer to General Fund	1,507,623
	Total	<u>1,507,623</u>
	Total Expenditures to Other State Agencies	<u>\$ 1,726,923</u>

NOTE 13 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Amounts due to/from other funds at June 30, 2021, were as follows:

	<u>Due From Other Funds</u>	
	<u>General Fund</u>	<u>Fiduciary Fund - Local Governments</u>
<u>Due To Other Funds</u>		
General Fund	\$ 0	\$ 32,524,394
Special Revenue	86,987	
Total	<u>\$ 86,987</u>	<u>\$ 32,524,394</u>

Amounts due to/from other funds at June 30, 2020, were as follows:

	<u>Due From Other Funds</u>	
	<u>General Fund</u>	<u>Fiduciary Fund - Local Governments</u>
<u>Due To Other Funds</u>		
General Fund	\$ 0	\$ 31,978,060
Special Revenue	39,141	
Total	<u>\$ 39,141</u>	<u>\$ 31,978,060</u>

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2021, consisted of the following:

	<u>Transfers In</u>			
	<u>General Fund</u>	<u>State General Fund</u>	<u>Other State Funds</u>	<u>Total</u>
<u>Transfers Out</u>				
General Fund	\$ 343	\$ 28,847,146,726	\$ 109,490,211	\$ 28,956,637,280
Special Revenue	759,056			759,056
Total	<u>\$ 759,399</u>	<u>\$ 28,847,146,726</u>	<u>\$ 109,490,211</u>	<u>\$ 28,957,396,336</u>

Transfers in/out of other funds for the fiscal year ended June 30, 2020, consisted of the following:

	<u>Transfers In</u>			
	<u>General Fund</u>	<u>State General Fund</u>	<u>Other State Funds</u>	<u>Total</u>
<u>Transfers Out</u>				
General Fund	\$ 0	\$ 22,995,696,298	\$ 106,487,138	\$ 23,102,183,436
Special Revenue	589,392			589,392
Total	<u>\$ 589,392</u>	<u>\$ 22,995,696,298</u>	<u>\$ 106,487,138</u>	<u>\$ 23,102,772,828</u>

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

The Department made legislatively mandated transfers to other state funds for the years ended June 30, 2021 and 2020, as follows: (1) \$76,768,010 and \$76,021,744, respectively, to the Department of Public Instruction for the State Public School Fund per General Statute 105-164.44H, (2) \$27,382,918 and \$25,639,272, respectively, to the Department of Insurance for Workers' Compensation and Volunteer Fire Department Funds per General Statute 105-228.5, and (3) \$5,339,283 and \$4,826,122, respectively, to the Department of the State Treasurer to reimburse costs of Local Government Commission collections per General Statute 105-501.

The Department also had intrafund transfers from Company 99 to Company 45 for the fiscal years ended June 30, 2021 and 2020, in the amount of \$54,658,118 and \$39,965,331, respectively, which has been eliminated on the governmental funds financial statements. These General Fund transfers primarily consist of a 20 percent collection assistance fee authorized by General Statute 105-243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

NOTE 14 - PENSION PLANS

A. Defined Benefit Plan

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net pension liability, discussed in Note 9 to the financial statements, is not reported on the face of the governmental funds' financial statements.

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

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Effective July 1, 2019, 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. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Department's contractually-required contribution rate for the years ended June 30, 2021 and 2020 was 14.78% and 12.97%, respectively, of covered payroll. Employee contributions to the pension plan were \$4,600,396 and \$4,625,970 and the Department's contributions were \$11,332,308 and \$9,999,805 for the years ended June 30, 2021 and 2020.

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 2020 and 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS 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, 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. (TSERS and other pension plans of the State of North Carolina were the sole participants as of the December 31, 2018 valuation date). 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 2020 and 2019 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2021 and 2020, the Department reported a liability of \$53,455,588 and \$44,615,236, respectively, for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019 and 2018, and update procedures were used to roll forward the total pension liability to June 30, 2020 and 2019, respectively. The Department's proportion of the net pension liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined.

As of June 30, 2020, the Department's proportion was 0.44244%, which was an increase of 0.01208 from its proportion measured as of June 30, 2019, which was 0.43036%.

As of June 30, 2019, the Department's proportion was 0.43036%, which was a decrease of 0.02288 from its proportion measured as of June 30, 2018, which was 0.45324%.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation dates of December 31, 2019 and 2018:

Inflation	3%
Salary Increases*	3.5% - 8.1%
Investment Rate of Return**	7%

* Salary increases include 3.5% inflation and productivity factor.

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

TSERS currently 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, 2019 and 2018 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

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

allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2020 and 2019 (the valuation dates) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected rate of return for the Bond Index Investment Pool as of June 30, 2020 and 2019 is 1.2% and 1.4%, respectively.

Discount Rate: The discount rate used to measure the total pension liability was 7.00% for the December 31, 2019 and 2018 valuations. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2020 calculated using the discount rate of 7.00%, as well as what the net

pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 96,207,503	\$ 53,455,588	\$ 17,595,578

The following presents the net pension liability of the plan at June 30, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 84,915,205	44,615,236	\$ 10,808,698

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021, the Department's proportionate share of the collective pension expense was \$16,380,531. At June 30, 2021, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 2,945,690	\$ 0
Changes of Assumptions	1,811,460	
Net Difference Between Projected and Actual Earnings on Plan Investments	5,911,640	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,719,458	374,105
Contributions Subsequent to the Measurement Date	11,332,308	
Total	\$ 23,720,556	\$ 374,105

For the year ended June 30, 2020, the Department's proportionate share of the collective pension expense was \$16,659,951. At June 30, 2020, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 3,732,013	\$ 89,317
Changes of Assumptions	4,753,929	
Net Difference Between Projected and Actual Earnings on Plan Investments	855,211	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	909,536	561,158
Contributions Subsequent to the Measurement Date	9,999,805	
Total	\$ 20,250,494	\$ 650,475

The amounts reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 and 2019 measurement dates will be included as a reduction of the net pension liability in the subsequent fiscal years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2022	\$ 4,252,821
2023	3,164,386
2024	2,835,808
2025	1,761,128
Total	\$ 12,014,143

B. Defined Contribution Plan

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Department except for a 5% employer contribution for the Department's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Department law enforcement officers for the years ended June 30, 2021 and 2020, were \$107,197 and \$92,377, respectively.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefit (OPEB) contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net OPEB liability, discussed in Note 9 to the financial statements, is not reported on the face of the governmental fund financial statements.

The Department participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2020 and 2019 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment

Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair 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 2020 and 2019 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

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

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contributions from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or

the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Department's contractually-required contribution rate for the years ended June 30, 2021 and 2020 was 6.68% and 6.47%, respectively, of covered payroll. The Department's contributions to the

RHBF were \$5,121,774 and \$4,988,338 for the years ended June 30, 2021 and 2020, respectively.

In fiscal year 2020, the State Health Plan (the Plan) transferred \$475.2 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was considered to be a nonemployer contributing entity contribution and was allocated among RHBF employers. For the fiscal year ended June 30, 2021, the contribution allocated to the Department was \$1,797,476.

2. Disability Income

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

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

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

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

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The Department's contractually-required contribution rate for the years ended June 30, 2021 and 2020 was 0.09% and 0.10%, respectively, of covered payroll. The Department's contributions to DIPNC were \$69,006 and \$77,100 for the years ended June 30, 2021 and 2020, respectively.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2021 and 2020, the Department reported a liability of \$104,931,626 and \$119,527,921, respectively, for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020 and 2019, respectively.

The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019 and 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2020 and 2019. The Department's proportion of the net OPEB liability was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined.

As of June 30, 2020, the Department's proportion was 0.37826%, which was an increase of 0.00048 from its proportion measured as of June 30, 2019, which was 0.37778%.

As of June 30, 2019, The Department's proportion was 0.37778% which was a decrease of 0.01138 from its proportion measured as of June 30, 2018, which was 0.38916%.

Net OPEB Asset: At June 30, 2021 and 2020, the Department reported an asset of \$187,601 and \$161,161, respectively, for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020 and 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019 and 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2020 and 2019. The Department's proportion of the net OPEB asset was based on the present value of future salaries for the Department relative to the present value of future salaries for all participating employers, actuarially-determined.

As of June 30, 2020, the Department's proportion was 0.38135%, which was an increase of 0.00786 from its proportion measured as of June 30, 2019, which was 0.37349%.

As of June 30, 2019, the Department's proportion was 0.37349% which was a decrease of 0.01852 from its proportion measured as of June 30, 2018, which was 0.39201%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019 and 2018, 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, 2020 and 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2028	9.5% grading down to 5% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.5% grading down to 5% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3%	N/A

* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects

are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2020 and 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2020 and 2019 (the valuation dates) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 and 2019 was 1.2% and 1.4%, respectively.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between

the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

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

The actuarial assumptions used in the December 31, 2019 and 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 2.21% and 3.50% for the measurement dates of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.21% and 3.50% was used as the discount rate used to measure the total OPEB liability for the fiscal years ended June 30, 2020 and 2019, respectively. The 2.21% and 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020 and 2019, respectively.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75% for both remeasurement dates of June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Department's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB

liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate for the year ended June 30, 2021:

<u>Net OPEB Liability (Asset)</u>			
	<u>1% Decrease (1.21%)</u>	<u>Current Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
RHBF Net OPEB Liability	\$ 124,443,356	\$ 104,931,626	\$ 89,213,332
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
DIPNC Net OPEB Asset	\$ (162,020)	\$ (187,601)	\$ (212,439)

The following presents the Department's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate for the year ended June 30, 2020:

<u>Net OPEB Liability (Asset)</u>			
	<u>1% Decrease (2.50%)</u>	<u>Current Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
RHBF Net OPEB Liability	\$ 142,042,126	\$ 119,527,921	\$ 101,500,291
	<u>1% Decrease (2.75%)</u>	<u>Current Discount Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
DIPNC Net OPEB Asset	\$ (136,499)	\$ (161,161)	\$ (185,124)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates for the year ended June 30, 2021:

	<u>1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)</u>	<u>Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)</u>	<u>1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)</u>
RHBF Net OPEB Liability	\$ 84,594,604	\$ 104,931,626	\$ 132,116,939
	<u>1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)</u>	<u>Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)</u>	<u>1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)</u>
DIPNC Net OPEB Asset	\$ (187,910)	\$ (187,601)	\$ (187,331)

The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates for the year ended June 30, 2020:

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4% - 5.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5% - 6.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6% - 7.5%, Administrative - 4%)
RHBF Net OPEB Liability	\$ 98,422,022	\$ 119,527,921	\$ 147,278,368
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%)
DIPNC Net OPEB Asset	\$ (161,445)	\$ (161,161)	\$ (160,896)

OPEB Expense: For the fiscal year ended June 30, 2021, the Department recognized OPEB expense as follows:

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ (882,764)
DIPNC	152,095
Total OPEB Expense	\$ (730,669)

For the fiscal year ended June 30, 2020, the Department recognized OPEB expense as follows:

<u>OPEB Plan</u>	<u>Amount</u>
RHBF	\$ 186,927
DIPNC	164,860
Total OPEB Expense	\$ 351,787

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2021, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 95,060	\$ 135,902	\$ 230,962
Changes of Assumptions	4,601,851	14,587	4,616,438
Net Difference Between Projected and Actual Earnings on Plan Investments	221,050		221,050
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	6,181,857	28,183	6,210,040
Contributions Subsequent to the Measurement Date	<u>5,121,774</u>	<u>69,006</u>	<u>5,190,780</u>
Total	<u>\$ 16,221,592</u>	<u>\$ 247,678</u>	<u>\$ 16,469,270</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 4,105,054	\$ 0	\$ 4,105,054
Changes of Assumptions	42,582,910	14,773	42,597,683
Net Difference Between Projected and Actual Earnings on Plan Investments		31,782	31,782
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>3,212,866</u>		<u>3,212,866</u>
Total	<u>\$ 49,900,830</u>	<u>\$ 46,555</u>	<u>\$ 49,947,385</u>

At June 30, 2020, the Department's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB were from the following sources:

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 0	\$ 164,638	\$ 164,638
Changes of Assumptions	5,745,075	17,853	5,762,928
Net Difference Between Projected and Actual Earnings on Plan Investments	79,596	30,697	110,293
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	8,315,343	37,182	8,352,525
Contributions Subsequent to the Measurement Date	<u>4,988,338</u>	<u>77,100</u>	<u>5,065,438</u>
Total	<u>\$ 19,128,352</u>	<u>\$ 327,470</u>	<u>\$ 19,455,822</u>

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 6,025,713	\$ 0	\$ 6,025,713
Changes of Assumptions	35,935,332	16,534	35,951,866
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>4,033,309</u>		<u>4,033,309</u>
Total	<u>\$ 45,994,354</u>	<u>\$ 16,534</u>	<u>\$ 46,010,888</u>

Amounts reported as deferred outflows of resources related to contributions subsequent to the June 20, 2020 and 2019 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 subsequent fiscal years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ending June 30:	RHBF	DIPNC
2022	\$ (12,787,007)	\$ 42,445
2023	(12,775,485)	29,684
2024	(6,949,571)	16,711
2025	(2,974,592)	24,972
2026	(3,314,357)	5,333
Thereafter		12,972
Total	\$ (38,801,012)	\$ 132,117

NOTE 16 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

contribution rate was 0.13% and 0.16% for the fiscal years ended June 30, 2021 and 2020, respectively.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Department employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the Department for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The Department is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the Department for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The Department pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim, and \$5,000,000, and \$10,000,000 in the aggregate for the fiscal years ended June 30, 2021 and 2020, respectively. This coverage is provided via contract with a private insurance company and the Department pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 17 - PENDING LITIGATION AND CLAIMS

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

North Carolina Farm Bureau Mutual Insurance Company, Inc. v. North Carolina Department of Revenue (20 CVS 10244) – The taxpayer is challenging a final determination issued by the Department disallowing more than \$17.1 million in renewable energy tax credits claimed by the taxpayer over a three-year-period. The North Carolina Office of Administrative Hearings (OAH) upheld the Department's final determination and the taxpayer has paid more than \$25 million in taxes, interest, and penalties to the Department. The taxpayer has petitioned the North Carolina Business Court to review the OAH decision. It is reasonably possible that the Business Court or the North Carolina Supreme Court will disagree with the OAH decision and require the Department to refund the more than \$25 million the taxpayer paid to the Department.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal years ended June 30, 2021 and 2020, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

GASB Statement No. 84, Fiduciary Activities

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

GASB Statement No. 98, The Annual Comprehensive Financial Report

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for 90-days or less.

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

GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances

of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.



REQUIRED SUPPLEMENTARY INFORMATION

**North Carolina Department of Revenue
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2021**

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

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Tax Revenues ¹	\$ 26,830,300,000	\$ 26,830,300,000	\$ 28,897,371,555	\$ 2,067,071,555
Services	2,579,957	4,499,322	3,206,575	(1,292,747)
Fees	2,766,969	3,244,134	3,764,265	520,131
Revenues from Other State Agencies	397,069,998	398,073,660	395,445,189	(2,628,471)
Miscellaneous Revenue	876,749	546,736	168,555	(378,181)
Total Revenues	27,233,593,673	27,236,663,852	29,299,956,139	2,063,292,287
EXPENDITURES				
Salaries and Benefits	125,958,102	120,256,420	110,869,886	9,386,534
Contracted Personal Services	9,943,405	24,823,071	21,906,755	2,916,316
Supplies and Materials	1,297,398	1,065,392	539,802	525,590
Travel	1,637,500	634,202	332,812	301,390
Communication	4,099,901	3,888,358	3,018,656	869,702
Utilities	187,506	166,909	123,707	43,202
Data Processing Services	10,416,585	2,355,062	1,353,535	1,001,527
Other Services	6,196,052	7,105,645	5,217,724	1,887,921
Claims and Benefits	14,323	189,006	189,001	5
Other Fixed Charges	9,083,889	9,509,134	8,816,643	692,491
Capital Outlay	3,560,894	4,897,895	3,609,923	1,287,972
Grants	386,932,578	388,747,033	381,269,918	7,477,115
Insurance and Bonding	70,465	57,530	50,256	7,274
Expenditures to Other State Agencies	299,500	308,622	289,122	19,500
Other Expenditures	6,631,989	6,028,351	5,929,128	99,223
Total Expenditures	566,330,087	570,032,630	543,516,868	26,515,762
Excess Revenues Over Expenditures	26,667,263,586	26,666,631,222	28,756,439,271	2,089,808,049
OTHER FINANCING SOURCES (USES)				
Gain on Sale of Capital Assets	1,000	1,000	1,000	
Transfers to the State Reserve Fund		(3,060,588)	(3,060,588)	
Transfers from the State Reserve Fund		2,596,018	2,596,018	
Transfers from Other Departments or Funds	2,136,747	2,136,747	2,228,657	91,910
Transfers to the State General Fund ¹	(26,830,300,000)	(26,830,300,000)	(28,847,146,726)	(2,016,846,726)
State Appropriations	91,085,286	91,085,286	87,953,327	(3,131,959)
Total Other Financing Sources (Uses)	(26,737,076,967)	(26,737,541,537)	(28,757,428,312)	(2,019,886,775)
Net Change in Fund Balance	(69,813,381)	(70,910,315)	(989,041)	69,921,274
Fund Balance - July 1	43,526,125	43,526,125	43,526,125	
Fund Balance - June 30	\$ (26,287,256)	\$ (27,384,190)	\$ 42,537,084	\$ 69,921,274

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

**North Carolina Department of Revenue
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
 For the Fiscal Year Ended June 30, 2021**

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

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2021 to the fund balance on a modified accrual basis (GAAP).

	<u>General Fund</u>
Fund Balance (Budgetary Basis) June 30, 2021	\$ 42,537,084
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Revenues:	
Taxes Receivable	2,602,309,163
Less: Unearned Revenue	(519,900,000)
Accounts Receivable	6,704,194
Intergovernmental Receivable	10,127,379
Due from Other Funds	<u>86,987</u>
Total Accrued Revenues	<u>2,099,327,723</u>
Accrued Expenditures:	
Accounts Payable	(7,807,263)
Accrued Payroll	(43,105)
Intergovernmental Payables	(199,849,331)
Tax Refund Payable	<u>(1,170,642,054)</u>
Total Accrued Expenditures	<u>(1,378,341,753)</u>
Total Basis Differences	<u>720,985,970</u>
Other Adjustments:	
Undeposited Receipts	13,750,539
General Fund Tax Reserves	10,227,395
Undistributed E-911 Funds	2,614,805
Inventories	3,949,181
Securities Held in Trust (Sureties)	15,300
Due to Other Funds	(32,524,394)
Funds Held for Others	(15,150)
Unavailable Revenue	<u>(120,940,177)</u>
Total Other Adjustments	<u>(122,922,501)</u>
Fund Balance (GAAP Basis) June 30, 2021	<u>\$ 640,600,553</u>

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

**North Carolina Department of Revenue
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2020**

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

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
REVENUES				
Tax Revenues ¹	\$ 24,080,400,000	\$ 24,080,400,000	\$ 23,034,854,415	\$ (1,045,545,585)
Services	2,550,262	2,612,593	2,167,977	(444,616)
Fees	2,766,969	3,133,955	2,846,870	(287,085)
Revenues from Other State Agencies	8,301,583	9,238,683	7,183,658	(2,055,025)
Miscellaneous Revenue	876,749	695,380	198,043	(497,337)
Total Revenues	24,094,895,563	24,096,080,611	23,047,250,963	(1,048,829,648)
EXPENDITURES				
Salaries and Benefits	121,470,028	114,662,923	106,826,273	7,836,650
Contracted Personal Services	6,884,440	38,155,212	17,750,499	20,404,713
Supplies and Materials	997,554	1,014,974	802,790	212,184
Travel	1,637,000	1,368,668	982,795	385,873
Communication	4,099,901	3,719,354	2,516,143	1,203,211
Utilities	187,506	186,422	140,923	45,499
Data Processing Services	10,416,585	5,506,202	4,496,667	1,009,535
Other Services	4,396,552	5,885,849	4,527,472	1,358,377
Claims and Benefits	14,323	151,382	151,378	4
Other Fixed Charges	9,083,889	7,357,076	7,270,818	86,258
Capital Outlay	3,645,801	5,110,522	3,827,563	1,282,959
Insurance and Bonding	70,465	47,963	42,244	5,719
Expenditures to Other State Agencies	299,500	511,950	217,950	294,000
Other Expenditures	6,572,595	6,355,673	6,135,366	220,307
Total Expenditures	169,776,139	190,034,170	155,688,881	34,345,289
Excess Revenues Over Expenditures	23,925,119,424	23,906,046,441	22,891,562,082	(1,014,484,359)
OTHER FINANCING SOURCES (USES)				
Gain on Sale of Capital Assets	1,000	1,000	1,000	
Transfers to the State Reserve Fund		(2,596,018)	(2,596,018)	
Transfers from the State Reserve Fund		759,802	759,802	
Transfers from Other Departments or Funds	2,119,529	2,119,529	2,168,313	48,784
Transfers to the State General Fund ¹	(24,080,400,000)	(24,080,400,000)	(22,995,696,297)	1,084,703,703
State Appropriations	89,198,161	89,198,161	87,185,512	(2,012,649)
Total Other Financing Sources (Uses)	(23,989,081,310)	(23,990,917,526)	(22,908,177,688)	1,082,739,838
Net Change in Fund Balance	(63,961,886)	(84,871,085)	(16,615,606)	68,255,479
Fund Balance - July 1	60,141,731	60,141,731	60,141,731	
Fund Balance - June 30	\$ (3,820,155)	\$ (24,729,354)	\$ 43,526,125	\$ 68,255,479

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

**North Carolina Department of Revenue
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
 For the Fiscal Year Ended June 30, 2020**

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

The following table presents a reconciliation of resulting basis differences in the fund balance (budgetary basis) at June 30, 2020 to the fund balance on a modified accrual basis (GAAP).

	<u>General Fund</u>
Fund Balance (Budgetary Basis) June 30, 2020	\$ 43,526,125
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued Revenues:	
Taxes Receivable	3,246,614,889
Less: Unearned Revenue	(419,900,000)
Accounts Receivable	558,985
Intergovernmental Receivable	11,389,517
Due from Other Funds	<u>39,141</u>
Total Accrued Revenues	<u>2,838,702,532</u>
Accrued Expenditures:	
Accounts Payable	(2,201,460)
Accrued Payroll	(21,932)
Intergovernmental Payables	(164,929,857)
Tax Refund Payable	<u>(1,330,877,535)</u>
Total Accrued Expenditures	<u>(1,498,030,784)</u>
Total Basis Differences	<u>1,340,671,748</u>
Other Adjustments:	
Undeposited Receipts	1,141,521
General Fund Tax Reserves	8,871,353
Undistributed E-911 Funds	3,222,761
Inventories	3,447,562
Securities Held in Trust (Sureties)	15,300
Due to Other Funds	(31,978,060)
Funds Held for Others	(15,150)
Unavailable Revenue	<u>(84,057,406)</u>
Total Other Adjustments	<u>(99,352,119)</u>
Fund Balance (GAAP Basis) June 30, 2020	<u>\$ 1,284,845,754</u>

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

North Carolina Department of Revenue
Notes to Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
(Budgetary Basis - Non-GAAP) - General Fund
For the Fiscal Years Ended June 30, 2021 and 2020

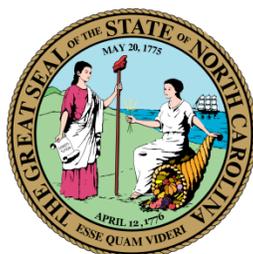
A. Budgetary Process

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

B. Reconciliation of Budget/GAAP Reporting Differences

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

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



SUPPLEMENTARY INFORMATION

North Carolina Department of Revenue
Balance Sheet
General Fund - Company 45
June 30, 2021 and 2020

Exhibit D-1

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 50,988,237	\$ 46,749,036
Accounts Receivable, Net	509,973	306,841
Due from Company 99 ¹	4,830,902	1,913,799
Due from Other Funds	86,987	39,141
Inventories	3,949,181	3,447,562
Securities Held in Trust (Sureties)	15,300	15,300
Total Assets	<u>60,380,580</u>	<u>52,471,679</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 60,380,580</u>	<u>\$ 52,471,679</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 7,206,922	\$ 1,632,842
Accrued Payroll	43,105	21,932
Intergovernmental Payables	11,459,789	3,222,887
Funds Held for Others	15,150	15,150
Total Liabilities	<u>18,724,966</u>	<u>4,892,811</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>
FUND BALANCE		
Nonspendable	3,949,181	3,447,562
Committed	38,666,877	45,471,283
Unassigned	(960,444)	(1,339,977)
Total Fund Balance	<u>41,655,614</u>	<u>47,578,868</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 60,380,580</u>	<u>\$ 52,471,679</u>

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

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

¹This account represents the resources owed to Company 45 from Company 99 which are eliminated on the governmental fund financial statements. These resources are owed to Company 45 primarily for a 20 percent collection assistance fee authorized by General Statute 105.243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

North Carolina Department of Revenue
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund - Company 45
For the Fiscal Years Ended June 30, 2021 and 2020

Exhibit D-2

	<u>2021</u>	<u>2020</u>
REVENUES		
Services	\$ 3,268,917	\$ 2,163,693
Fees	3,764,265	2,846,870
Revenues from Company 99 ¹	54,658,118	39,965,331
Revenues from Other State Agencies	386,632,603	7,183,658
Miscellaneous Revenues	168,925	202,281
	<u>448,492,828</u>	<u>52,361,833</u>
EXPENDITURES		
Salaries and Benefits	110,889,069	106,820,539
Contracted Personal Services	22,081,415	17,465,099
Supplies and Materials	323,712	615,822
Travel	337,323	952,648
Communication	2,417,761	3,155,119
Utilities	120,071	132,209
Data Processing Services	1,173,777	4,413,186
Other Services	4,909,472	5,340,172
Claims and Benefits	189,001	151,378
Other Fixed Charges	8,806,484	7,283,814
Capital Outlay	3,894,097	3,900,408
Grants	381,269,918	
Insurance and Bonding	49,011	14,825
Expenditures to Other State Agencies	287,772	219,300
Other Expenditures	5,916,012	6,022,795
	<u>542,664,895</u>	<u>156,487,314</u>
Total Expenditures	<u>542,664,895</u>	<u>156,487,314</u>
Deficit of Revenues Under Expenditures	<u>(94,172,067)</u>	<u>(104,125,481)</u>
OTHER FINANCING SOURCES (USES)		
Gain on Sale (Loss on Sale) of Capital Assets	1,000	(66)
Transfers to State Reserve Fund	(3,060,588)	(2,596,018)
Transfers from State Reserve Fund	2,596,018	759,802
Transfers In	759,399	589,392
Transfers Out	(343)	
State Appropriations	87,953,327	87,185,512
	<u>88,248,813</u>	<u>85,938,622</u>
Total Other Financing Sources (Uses)	<u>88,248,813</u>	<u>85,938,622</u>
Net Change in Fund Balances	(5,923,254)	(18,186,859)
Fund Balances - July 1	47,578,868	65,765,727
Fund Balances - June 30	<u>\$ 41,655,614</u>	<u>\$ 47,578,868</u>

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

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

¹This account represents the flow of resources from Company 99 to Company 45 which are eliminated on governmental fund financial statements. These resource flows primarily consist of a 20 percent collection the assistance fee authorized by General Statute 105.243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

North Carolina Department of Revenue
Balance Sheet
General Fund - Company 99
June 30, 2021 and 2020

Exhibit D-3

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 18,141,586	\$ 10,012,724
Receivables:		
Taxes Receivable, Net	2,602,309,163	3,246,614,889
Accounts Receivable, Net	6,194,221	252,144
Intergovernmental Receivables	10,127,379	11,389,517
	<u>2,636,772,349</u>	<u>3,268,269,274</u>
Total Assets		
	<u>2,636,772,349</u>	<u>3,268,269,274</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,636,772,349</u>	<u>\$ 3,268,269,274</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 600,341	\$ 568,618
Intergovernmental Payables	188,389,542	161,706,970
Tax Refunds Payable	1,170,642,054	1,330,877,535
Due to Company 45 ¹	4,830,902	1,913,799
Due to Other Funds	32,524,394	31,978,060
Unearned Revenue	519,900,000	419,900,000
	<u>1,916,887,233</u>	<u>1,946,944,982</u>
Total Liabilities		
	<u>1,916,887,233</u>	<u>1,946,944,982</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	<u>120,940,177</u>	<u>84,057,406</u>
Total Deferred Inflows of Resources	<u>120,940,177</u>	<u>84,057,406</u>
FUND BALANCE		
Unassigned	<u>598,944,939</u>	<u>1,237,266,886</u>
Total Fund Balance	<u>598,944,939</u>	<u>1,237,266,886</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 2,636,772,349</u>	<u>\$ 3,268,269,274</u>

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

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

¹This account represents the resources owed to Company 45 from Company 99 which are eliminated on the governmental fund financial statements. These resources are owed to Company 45 primarily for a 20 percent collection assistance fee authorized by General Statute 105.243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

North Carolina Department of Revenue
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Company 99
For the Fiscal Years Ended June 30, 2021 and 2020

Exhibit D-4

	<u>2021</u>	<u>2020</u>
REVENUES		
Tax Revenues	\$ 29,123,628,984	\$ 24,621,937,968
Miscellaneous Revenue	5,942,077	
Total Revenues	<u>29,129,571,061</u>	<u>24,621,937,968</u>
EXPENDITURES		
Statutory Tax Distributions	756,597,953	678,505,995
Expenditures to Company 45 ¹	54,658,118	39,965,331
Total Expenditures	<u>811,256,071</u>	<u>718,471,326</u>
Excess of Revenues Over Expenditures	<u>28,318,314,990</u>	<u>23,903,466,642</u>
OTHER FINANCING SOURCES (USES)		
Transfers Out	<u>(28,956,636,937)</u>	<u>(23,102,183,436)</u>
Total Other Financing Sources (Uses)	<u>(28,956,636,937)</u>	<u>(23,102,183,436)</u>
Net Change in Fund Balance	(638,321,947)	801,283,206
Fund Balance - July 1	<u>1,237,266,886</u>	<u>435,983,680</u>
Fund Balance - June 30	<u>\$ 598,944,939</u>	<u>\$ 1,237,266,886</u>

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

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

¹This account represents the flow of resources from Company 99 to Company 45 which are eliminated on the governmental fund financial statements. These resource flows primarily consist of a 20 percent collection assistance fee authorized by General Statute 105.243.1, which the Department uses to offset the costs of collecting and reducing the incidence of overdue tax debts.

**North Carolina Department of Revenue
Statement of Collections (Cash Basis)
General Fund - Company 99 and Special Revenue Fund - Company 45
For the Fiscal Year Ended June 30, 2021**

Exhibit E-1

Source of Revenue	Gross Revenue	Refunds	Reserves for Local Government	Other Transfers	Net Revenue
General Fund:					
Estate Tax	\$ 6,924,975	\$ 6,892,648	\$ 0	\$ 0	\$ 32,327
Privilege License Tax	41,942,452	128,108		568,970	41,245,374
Tobacco Products Tax	307,735,528	348,198		42,213,563	265,173,767
Franchise Tax	903,369,869	24,039,868		9,504,162	869,825,839
Individual Income Tax	17,370,289,237	1,423,265,584		124,463,083	15,822,560,570
Sales and Use Tax	14,894,331,591	797,188,714	4,313,118,617	760,433,724	9,023,590,536
Alcoholic Beverage Tax	532,394,218	138,938	39,461,620	202,072	492,591,588
Gift Tax	2,600				2,600
Freight Car Lines Tax	212,721				212,721
Insurance Tax	781,870,191	5,977,073		83,245,045	692,648,073
Corporate Income Tax	1,695,084,716	178,628,186		5,000,464	1,511,456,066
Real Estate Conveyance Tax	113,615,741				113,615,741
White Goods Disposal Tax	8,132,900	8,298	4,097,148	398,515	3,628,939
Scrap Tire Disposal Tax	22,213,521	62,777	15,156,803	498,168	6,495,773
Manufacturing Tax	1,190,524	72,562		25,564	1,092,398
Solid Waste Disposal Tax	23,145,670	5,130	8,672,874	11,576,708	2,890,958
Miscellaneous Tax Receipts	83,535			78	83,457
Total	\$ 36,702,539,989	\$ 2,436,756,084	\$ 4,380,507,062	\$ 1,038,130,116	\$ 28,847,146,727
Special Revenue Fund:					
Unauthorized Substances Tax	\$ 10,043,185	\$ 128,850	\$ 0	\$ 8,929,481	\$ 984,854

The following table presents a reconciliation of tax revenues (cash basis) to tax revenues on a modified accrual basis (GAAP) at June 30, 2021.

	General Fund	Special Revenue
Tax Revenues (Cash Basis) June 30, 2021	\$ 28,847,146,727	\$ 984,854
Reconciling Adjustments and Accruals:		
Reserve for Local Government	67,388,445	
Other Transfers	792,679,921	8,929,531
Accrual Entries	(613,197,465)	155,828
Year-End Reclassification	29,611,356	(901,896)
Tax Revenues (GAAP Basis) June 30, 2021 (See Exhibit A-3)	\$ 29,123,628,984	\$ 9,168,317

**North Carolina Department of Revenue
Statement of Collections (Cash Basis)
General Fund - Company 99 and Special Revenue Fund - Company 45
For the Fiscal Year Ended June 30, 2020**

Exhibit E-2

<u>Source of Revenue</u>	<u>Gross Revenue</u>	<u>Refunds</u>	<u>Reserves for Local Government</u>	<u>Other Transfers</u>	<u>Net Revenue</u>
General Fund:					
Estate Tax	\$ 1,199,069	\$ 0	\$ 0	\$ 30,631	\$ 1,168,438
Privilege License Tax	35,851,203	134,285		577,116	35,139,802
Tobacco Products Tax	289,329,065	547,793		36,835,662	251,945,610
Franchise Tax	673,590,069	19,113,967		8,525,588	645,950,514
Individual Income Tax	13,683,270,671	1,147,120,074		121,451,258	12,414,699,339
Sales and Use Tax	13,029,106,063	745,854,708	3,739,361,862	723,294,439	7,820,595,054
Alcoholic Beverage Tax	452,344,047	1,501,800	40,083,680	147,064	410,611,503
Gift Tax	79,707			344	79,363
Freight Car Lines Tax	240,566				240,566
Insurance Tax	715,493,010	7,067,982		52,271,472	656,153,556
Corporate Income Tax	887,567,902	224,781,277		5,027,254	657,759,371
Real Estate Conveyance Tax	87,895,466	4,468			87,890,998
White Goods Disposal Tax	6,912,238	12,783	3,220,973	362,726	3,315,756
Scrap Tire Disposal Tax	20,671,735	19,580	14,127,853	469,508	6,054,794
Manufacturing Tax	1,299,270	201,055		22,792	1,075,423
Solid Waste Disposal Tax	23,247,626	40,737	8,645,316	11,679,801	2,881,772
Miscellaneous Tax Receipts	134,476			38	134,438
Total	<u>\$ 29,908,232,183</u>	<u>\$ 2,146,400,509</u>	<u>\$ 3,805,439,684</u>	<u>\$ 960,695,693</u>	<u>\$ 22,995,696,297</u>
Special Revenue Fund:					
Unauthorized Substances Tax	\$ 7,217,620	\$ 87,439	\$ 0	\$ 7,514,910	\$ (384,729)

The following table presents a reconciliation of tax revenues (cash basis) to tax revenues on a modified accrual basis (GAAP) at June 30, 2020.

	<u>General Fund</u>	<u>Special Revenue</u>
Tax Revenues (Cash Basis) June 30, 2020	\$ 22,995,696,297	\$ (384,729)
Reconciling Adjustments and Accruals:		
Reserve for Local Government	66,077,823	
Other Transfers	739,924,451	7,514,910
Accrual Entries	800,058,988	24,901
Year-End Reclassification	20,180,409	(563,442)
Tax Revenues (GAAP Basis) June 30, 2020 (See Exhibit A-4)	<u>\$ 24,621,937,968</u>	<u>\$ 6,591,640</u>

**North Carolina Department of Revenue
Schedule of Aging of Taxes Receivable
General Fund - Company 99
As of June 30, 2021**

Exhibit F-1

Tax Type	Delinquent Receivables (in years)				Total
	Less than 1	1 to 5	5 to 10	More than 10	
Individual	\$ 430,422,359	\$ 650,747,881	\$ 201,452,974	\$ 60,296,641	\$ 1,342,919,855
Corporate	45,816,359	9,519,569	4,985,433	248,794	60,570,155
Sales and Use	76,929,028	83,671,388	34,367,457	8,073,456	203,041,329
Franchise	66,075,108	10,457,330	697,043	148,734	77,378,215
Scrap Tire	146,325	199,115	241,801	8,014	595,255
White Goods	8,455	820	24	50	9,349
Manufacturing	21,469	21,716	9,454	416	53,055
License and Excise	851,756	566,231	158,517	38,151	1,614,655
	<u>\$ 620,270,859</u>	<u>\$ 755,184,050</u>	<u>\$ 241,912,703</u>	<u>\$ 68,814,256</u>	<u>1,686,181,868</u>

Reconciling Adjustments:

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

Tobacco Products	11,272,100	
Estate	9,918,477	
License and Excise	957,876	
Alcoholic Beverage	323,979	
Gift	355,672	
Insurance	1,512,166	
Total PSRM Receivables Balance		24,340,270

Other Adjustments:

Unposted Accrued Interest for June 30, 2021	24,227,620
July Adjustments	(35,256,326)

Delinquent Receivables (Gross) - General Fund

\$ 1,699,493,432

**North Carolina Department of Revenue
Schedule of Aging of Taxes Receivable
General Fund - Company 99
As of June 30, 2020**

Exhibit F-2

Tax Type	Delinquent Receivables (in years)				Total
	Less than 1	1 to 5	5 to 10	More than 10	
Individual	\$ 328,759,736	\$ 600,402,750	\$ 184,114,445	\$ 54,611,888	\$ 1,167,888,819
Corporate	5,673,264	5,651,355	1,598,542	93,553	13,016,714
Sales and Use	47,913,567	67,321,658	47,416,913	9,590,850	172,242,988
Franchise	9,396,898	6,517,334	539,879	175,294	16,629,405
Scrap Tire	96,833	178,149	236,508	8,982	520,472
White Goods	679	863	74		1,616
Manufacturing	12,188	33,362	4,549	417	50,516
License and Excise	594,216	425,725	137,424	27,107	1,184,472
	<u>\$ 392,447,381</u>	<u>\$ 680,531,196</u>	<u>\$ 234,048,334</u>	<u>\$ 64,508,091</u>	<u>1,371,535,002</u>

Reconciling Adjustments:

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

Tobacco Products	11,477,479	
Estate	9,926,678	
License and Excise	983,217	
Alcoholic Beverage	316,138	
Gift	235,569	
Insurance	1,394,408	
Total PSRM Receivables Balance		24,333,489

Other Adjustments:

Unposted Accrued Interest for June 30, 2020	58,320,283
July Adjustments	(7,621,262)

Delinquent Receivables (Gross) - General Fund

\$ 1,446,567,512

**North Carolina Department of Revenue
Schedule of Operating Expenditures by Purpose
General Fund - Company 99 and Company 45
For the Fiscal Years Ended June 30, 2021 and 2020**

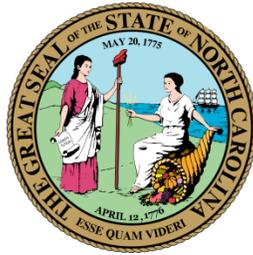
**Exhibit G-1
Page 1 of 2**

	<u>2021</u>	<u>2020</u>
<u>Expenditures Paid for Department Operations and Administration:</u>		
Salaries and Benefits:		
Employee Salaries	\$ 75,309,963	\$ 73,551,746
Law Enforcement Salaries	2,041,329	1,799,148
Temporary Wages	788,619	165,004
Overtime Wages	107,854	87,963
COVID19 Mandatory Hazard Pay	114,678	785,248
Board Member Compensation	93,600	74,050
Other Salary Expenses	25,297	29,344
Regular Retirement Contributions	16,498,752	14,762,380
Law Enforcement Retirement Contributions	572,004	534,400
Medical Insurance Contributions	7,905,204	7,888,269
Social Security Contributions	5,788,282	5,646,569
Longevity Pay	1,269,077	1,217,909
Employee Educational Expense	22,570	66,625
Unemployment Compensation Payments	45,729	20,823
Workers Compensation Medical Payments	34,328	5,866
Flexible Spending Savings	155,397	148,717
Short Term Disability Payments, Net of Refunds	92,828	16,329
Other Employee Benefits	23,558	20,149
	<u>110,889,069</u>	<u>106,820,539</u>
Contracted Personal Services:		
Other Information Technology Services	10,986,785	5,871,367
Temporary Agency and Administrative Services	8,189,107	8,244,494
Legal Services	184,893	189,188
Financial and Audit Services	421,993	327,637
Security Services	716,505	712,146
Janitorial and Waste Services	(99,256)	347,119
Miscellaneous Contractual Services	1,681,388	1,773,148
	<u>22,081,415</u>	<u>17,465,099</u>
Supplies and Materials:		
General Office Supplies	324,545	428,512
Data Processing Supplies	16,000	64,625
Other Supplies and Materials	(16,833)	122,685
	<u>323,712</u>	<u>615,822</u>
Travel:		
Ground Transportation	305,988	540,364
Air Transportation	2,312	57,727
Lodging	13,730	225,790
Meals	5,507	76,884
Other Travel	9,786	51,883
	<u>337,323</u>	<u>952,648</u>
Communication:		
Telephone Service	1,576,829	911,793
Telecommunication Data Charges	465,984	1,699,047
Cellular Phone Services	329,637	498,513
Other Telephone Charges	45,311	45,766
	<u>2,417,761</u>	<u>3,155,119</u>

**North Carolina Department of Revenue
Schedule of Operating Expenditures by Purpose
General Fund - Company 99 and Company 45
For the Fiscal Years Ended June 30, 2021 and 2020**

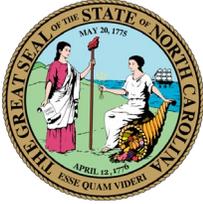
**Exhibit G-1
Page 2 of 2**

	<u>2021</u>	<u>2020</u>
<u>Expenditures Paid for Department Operations and Administration (Continued):</u>		
Utilities:		
Energy Services-Electrical	106,060	120,881
Other Utilities	14,011	11,328
Total Utilities	<u>120,071</u>	<u>132,209</u>
Data Processing Services	<u>1,173,777</u>	<u>4,413,186</u>
Other Services:		
Postage and Delivery	3,783,545	4,729,427
Printing and Binding	306,896	404,496
Other Services	819,031	206,249
Total Other Services	<u>4,909,472</u>	<u>5,340,172</u>
Claims and Benefits:		
Law Enforcement Separation Allowance	<u>189,001</u>	<u>151,378</u>
Other Fixed Charges:		
Computer Software Maintenance Agreements	7,179,284	5,531,034
Computer Hardware Maintenance Agreements	391,470	698,579
Other Equipment Maintenance Agreements	297,850	285,629
Membership Dues and Subscriptions	857,191	705,476
Other Fixed Charges	80,689	63,096
Total Other Fixed Charges	<u>8,806,484</u>	<u>7,283,814</u>
Capital Outlay:		
Computer Software	3,196,352	2,543,400
Computer Hardware	293,272	417,237
Office Furniture	200,496	170,844
Office Equipment	20,598	20,172
Other Capital Outlays	183,379	748,755
Total Capital Outlay	<u>3,894,097</u>	<u>3,900,408</u>
Grants:		
Directed Grants to Governmental Organizations	3,991,578	
Others Aids and Grants to Individuals	377,278,340	
Total Grants	<u>381,269,918</u>	
Insurance and Bonding	<u>49,011</u>	<u>14,825</u>
Expenditures to Other State Agencies	<u>287,772</u>	<u>219,300</u>
Other Expenditures:		
Office Building Rent	3,404,287	3,339,140
Office and Communication Equipment Rents and Leases	44,755	98,367
Other Rents and Leases	34	146,941
Electronic Payment Processing Fees	2,466,683	2,438,347
Other Operating Expenses	253	
Total Other Expenditures	<u>5,916,012</u>	<u>6,022,795</u>
Total Expenditures Paid for Department Operations and Administration	<u>542,664,895</u>	<u>156,487,314</u>
<u>Expenditures Paid by the Department Pursuant to Statutory Tax Allocations:</u>		
Expenditures Paid to Local Governments Pursuant to Statutory Tax Allocations	<u>756,597,953</u>	<u>678,505,995</u>
Total General Fund Expenditures	<u>\$ 1,299,262,848</u>	<u>\$ 834,993,309</u>



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental funds and fiduciary funds of the North Carolina Department of Revenue (Department), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 25, 2022.

As discussed in Note 1, the financial statements of the North Carolina Department of Revenue are intended to present the financial position and changes in financial position that are only attributable to the transactions of the North Carolina Department of Revenue. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2021 or 2020, or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 25, 2022

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This audit required 4,655 hours at an approximate cost of \$493,430, including costs associated with the report on the Department's statewide financial statement audit procedures.