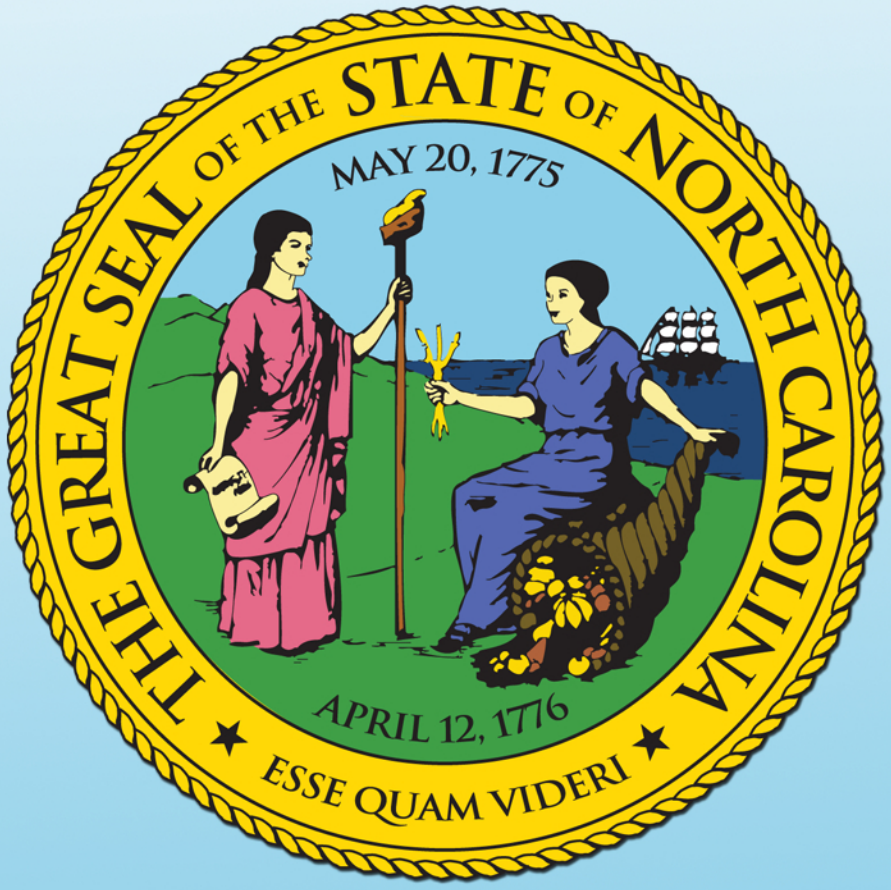
STATE OF NORTH CAROLINA

STATEWIDE ACCOUNTS RECEIVABLE REPORT

FOR THE YEAR ENDING:

JUNE 30, 2016



North Carolina Office of the State Controller
Linda Combs, State Controller

State of North Carolina
Office of the State Controller

LINDA COMBS
STATE CONTROLLER

January 24, 2017

The Honorable Roy Cooper, Governor
The Honorable Phil Berger, President Pro Tempore of the Senate
The Honorable Tim Moore, Speaker of the House of Representatives

Dear Sirs:

Attached please find the North Carolina Statewide Accounts Receivable Report for the fiscal year ended June 30, 2016. The Statewide Accounts Receivable Report includes all receivables at the fiscal year's end reported to the Office of the State Controller (OSC) by state agencies. This legislatively mandated report is prepared in accordance with Article 6B of Chapter 147 of the North Carolina General Statutes.

The receivables disclosed in this report are based on Generally Accepted Accounting Principles (GAAP) and reflect a snapshot of amounts owed to the State at the conclusion of the fiscal year. This report also discloses additional information about the State's receivables at fiscal year-end such as: an aging of receivables which indicates the degree to which receivables are past due and write-offs which are receivables that agencies will not, or most likely will not, collect and have, therefore, been deducted from their accounting records.

I trust you will find this report both informative and useful. If you have questions related to this report, my staff or I can be reached at (919) 707-0500.

Finally, additional statewide financial reports are located on the OSC website at: www.osc.nc.gov.

Respectfully submitted,

Linda Combs

cc: Members of the North Carolina Joint Legislative
Commission on Governmental Operations
Chief Fiscal Officers

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http://www.osc.nc.gov ~~ An EEO/AA/AWD Employer

Introduction

The *Statewide Accounts Receivable Report* includes all receivables at June 30, 2016, reported to the Office of the State Controller (OSC) by state agencies. As defined by the North Carolina General Statutes, a receivable is an asset of the State of North Carolina (State) reflecting a debt that is owed to the State that has not been received by the state agency servicing the debt. A state agency is defined by statute as any department, institution, board, commission, committee, division, bureau, officer, official or any other entity for which the State has oversight responsibility including any university. As prescribed by statute for the statewide accounts receivable program, the term state agency does not include a community college, an area mental health, developmental disabilities and substance abuse authority, or the General Court of Justice.

The receivables disclosed in this report are based on generally accepted accounting principles (GAAP) and reflect a snapshot of amounts owed to the State at June 30, the conclusion of the State's fiscal year. This report also discloses additional information about the State's receivables at fiscal year-end such as: an aging of receivables which indicates the degree to which receivables are past due and write-offs which are receivables that agencies will not, or most likely will not, collect and have, therefore, deducted from their accounting records.

How the State Collects Debt

State agencies invoice businesses and individuals for services rendered through many different billing and receivable systems.

State policy provides that receivable systems of state agencies should:

- Bill accounts on a timely basis, whether the receivables are due from private entities, the federal government, localities, or state agencies and institutions;
- Maintain an accurate record of receivables transactions;
- Effectively interface with other applicable agency-based accounting systems;
- Provide an aged trial balance of receivables;
- Provide information relative to specific collection efforts on each past-due account;
- Provide realistic estimates of, and properly account for, doubtful accounts;
- Properly account for receivables that are written off;
- Recognize and report receivables in accordance with generally accepted accounting principles (GAAP);
- Comply with federal and other contractual regulations;
- Maintain a record of year-end receivable balances; and
- Provide for the accrual of interest and penalties as allowed or as required by law.

Types of Receivables

Taxes - Primarily consists of individual income tax, sales and use tax, and local sales tax collections.

Accounts - Primarily consists of student, patient and medical provider payments.

Intergovernmental - Primarily consists of funds due from federal and local governments.

Notes - Primarily consists of student loans, housing mortgage loans and EPA revolving loans that will be collected on a predetermined contractual basis.

Interfund - Primarily consists of funds moving between different state fund types.

Other - Primarily consists of participant contributions to the health and pension plans and State Treasurer investment earnings (distributions) owed to those funds (trust, special) that earn interest.

Aging of Receivables

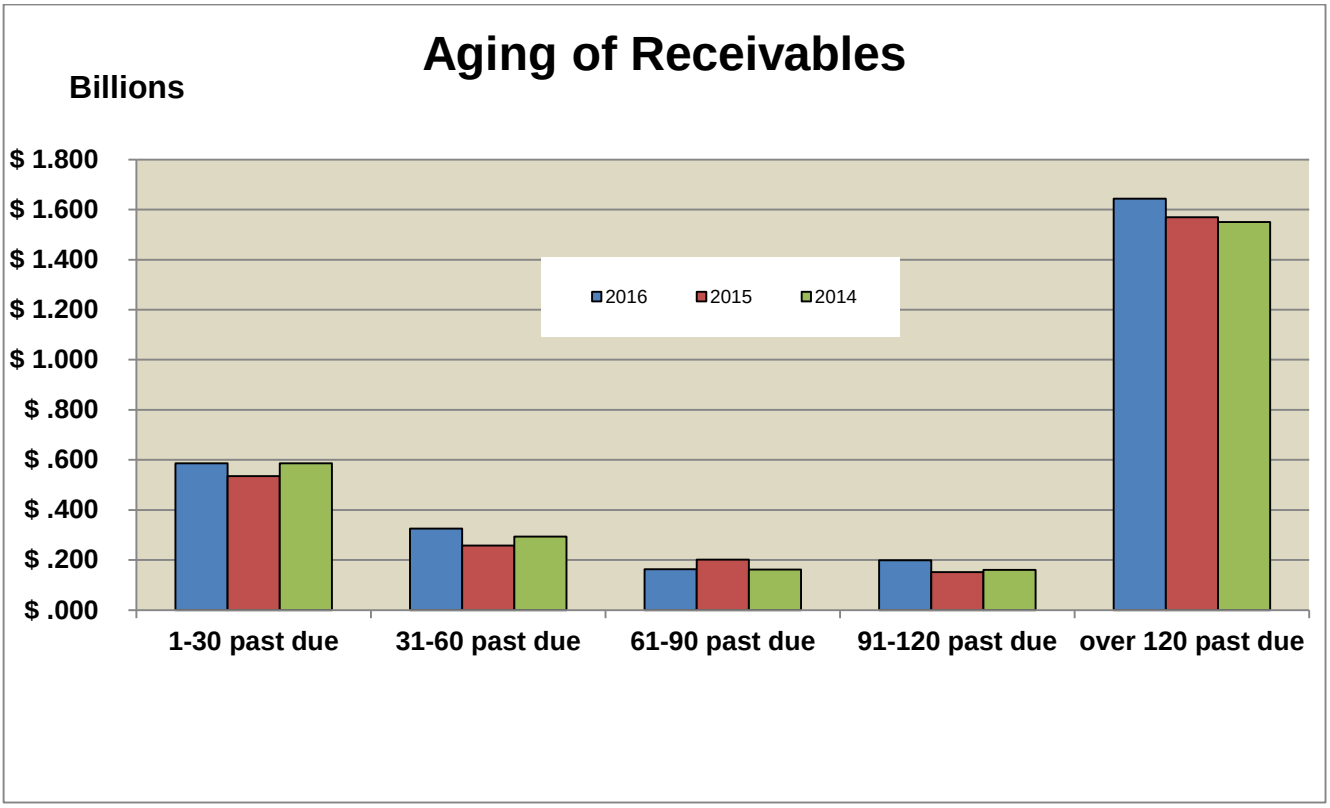
An aging of receivables indicates the degree to which receivables are past-due. State agencies provide OSC an aged trial balance of receivables each fiscal year-end.

The chart below summarizes past due receivable activity at year-end 2016.
(in thousands)

	Past Due					Total	Total
Past Due Receivables by Type	1-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Past Due	Write-offs
Taxes Receivable	$87,761	$106,391	$15,903	$34,779	$1,004,381	$1,249,215	$200,002
Accounts Receivable	279,632	107,587	71,599	95,202	485,402	1,039,422	5,858,324
Intergovernmental Receivable	11,949	4,648	6,908	12,528	24,090	60,123	613
Notes Receivable	194,544	100,665	63,702	49,482	103,213	511,606	2,677
Interfund Receivable	4,672	2,182	863	2,756	459	10,932	89
Other Receivable	7,458	4,608	3,956	4,612	25,369	46,003	315
Total Past Due	$586,016	$326,081	$162,931	$199,359	$1,642,914	$2,917,301	$6,062,020
Percent of Total Past Due	20.1%	11.2%	5.6%	6.8%	56.3%		

Accounts past-due at year-end 2016 total $2.9 billion of total receivables. The North Carolina Department of Revenue (NCDOR), the North Carolina Department of Commerce (NCDOC), UNC Hospitals, the Department of Health and Human Services (DHHS), State Education Assistance Authority (SEAA), Housing Finance Agency (HFA), and the UNC System account for $2.8 billion, or 95 percent, of these past due receivables. Each of these entities employs specific collection techniques to aggressively collect past due accounts receivables. Appendix A details the aging amounts by agency for fiscal 2016.

The chart below summarizes aging amounts for fiscal years 2016, 2015, 2014:



Year-end Amounts

The State's Comprehensive Annual Financial Report (CAFR) disclosure of receivables includes both *estimated* receivables and *invoiced* receivables, net of allowance for doubtful accounts as of June 30. The chart below summarizes CAFR total receivables by type for fiscal years 2014-2016:

Total Receivables by Type - Fiscal Years 2016, 2015 and 2014 (in thousands)				Change FY15 to FY16	
	2016	2015	2014	Amount	Percent
Notes Receivable	$ 4,419,243	$ 4,693,674	$ 4,963,586	$ (274,431)	(5.8)%
Taxes Receivable	2,347,360	2,248,051	2,166,315	99,309	4.4%
Intergovernmental Receivables	903,914	931,370	982,133	(27,456)	(2.9)%
Accounts Receivable	1,946,631	1,899,881	1,903,273	46,750	2.5%
Interfund Receivables	354,357	481,766	415,384	(127,409)	(26.4)%
Contributions, Premiums, Other Receivables	505,319	613,706	692,763	(108,387)	(17.7)%
Interest Receivable	23,432	9,639	10,075	13,793	143.1%
Total Receivables	$ 10,500,256	$ 10,878,087	$ 11,133,529	$ (377,831)	(3.5)%

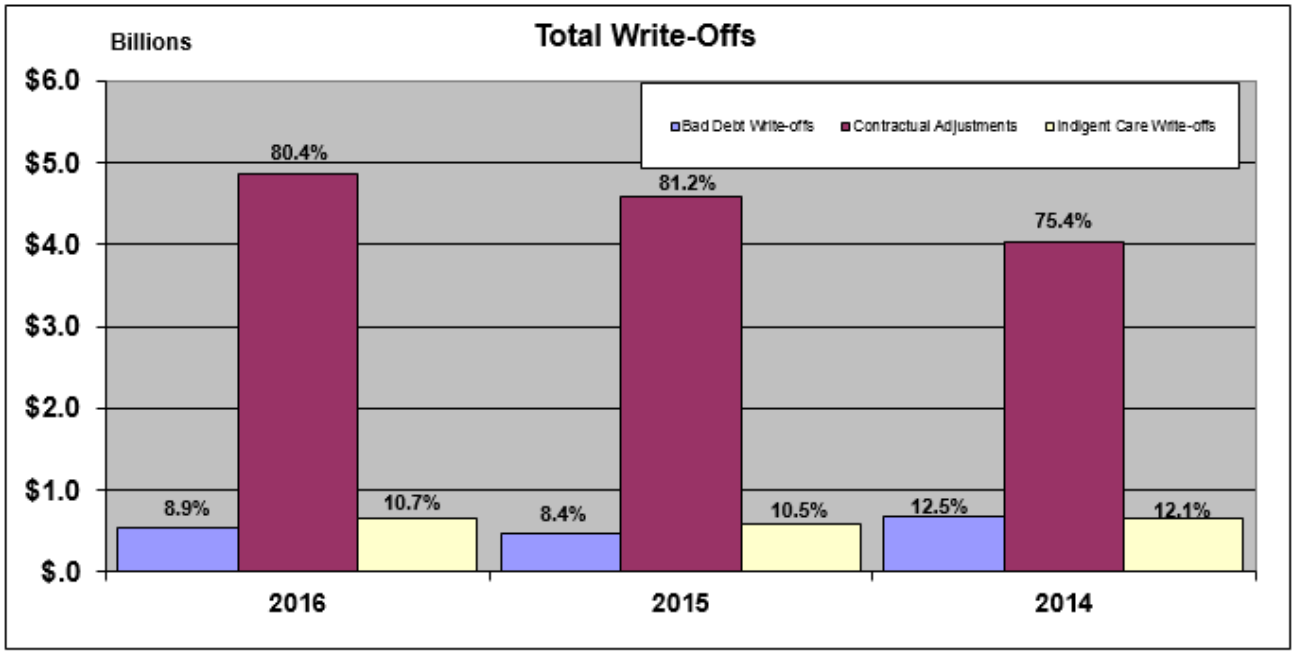
As shown in the table above, receivables totaled $10.5 billion for fiscal year 2016, $10.9 billion for fiscal year 2015 and $11.1 billion for fiscal year 2014. Total receivables for 2016 decreased by $378 million or 3.5%. Notes receivable decreased by $274 million due to more efficient collection efforts resulting in fewer delinquent accounts. More collection fee assessments were issued in 2016 than in 2015 contributing to the $99 million increase in Taxes Receivable. In addition, the 26.4% decrease in Interfund Receivables was related to general business variance and timing. Interest receivable increased $13.8 million due to the Unemployment Compensation fund having a positive net position and as a result, earning interest on a quarterly basis. Contributions, Premiums, and Other Receivables decreased by $108 million which was due to better collections for fiscal year 2016.

Write-offs

Write-offs are receivables that agencies will not, or most likely will not, collect and have been deducted from their accounting records. Write-offs are caused by bad debt adjustments (unsuccessful collection efforts), contractual adjustments or indigent care adjustments. Write-offs for year-end 2016 totaled $6.1 billion consisting of $538 million for bad debt, $4.9 billion for contractual adjustments and $648 million for indigent care. Total write-offs for 2015 were $5.6 billion.

UNC Hospitals, including Rex Healthcare, Chatham Hospital, High Point Hospital, Caldwell Hospital and Triangle Physicians Network, reported write-offs of $4.7 billion of receivables based on Medicare and Medicaid adjustments, indigent care provider adjustments, and managed care contractual adjustments. UNC Chapel Hill (UNC-CH) and East Carolina University (ECU) reported write-offs of $570 million and $243 million respectively. NCDOR reported write-offs of $200 million. The Department of Revenue's write off-reversal program previously run last year, was not run for 2016, thus resulting in higher write-offs for NCDOR.

Appendix A details total agency write-offs during fiscal 2016. The chart below summarizes agency write-offs by type for fiscal years 2014-2016.



Contractual Adjustments - The differences between revenue at established rates and the amounts realizable from third-party payers under contractual agreements. These adjustments are made to customer, patient, or business accounts as the result of a contractual agreement to provide certain services or products at a previously negotiated price. The contractual adjustment is the difference between the value assigned by the state provider/supplier of the product or service and the predetermined price as negotiated with a third-party payer (example: insurance company).

Indigent Care Adjustments - The differences between revenue at established rates and the amounts realizable from the financially responsible party for those receiving the state product or service. In this instance, the write-off is the result of the financially responsible party being **unable** to meet the financial obligations due to poverty or a lack of subsistence.

Bad Debt Adjustments - All write-offs of bad debts other than those for contractual or indigent care reasons.

Cost of Collection

State agencies, excluding NCDOR, reported collection activity costs totaling over $77 million during 2016. Agencies also reported a total of 625 full-time equivalent (FTE) state employees dedicated to receivable activities during 2016. A large percentage of total collection costs and FTE reported by state agencies is attributable to patient accounts and student accounts, including student loans.

UNC Hospitals, part of the UNC Health Care System, reported 2016 collection costs of $13 million and 119 FTE. The UNC-CH Physicians and Associates, also part of the UNC Health Care System, reported collection costs of $32 million, and FTE of 272. ECU reported collection costs of $3 million for its medical faculty practice and FTE of 53. Regarding student loans, SEAA reported that loan administration and collection are out-sourced for a cost of $13 million for 2016.

Collection Activity – Attorney General

State agencies are required by G.S. 147-86.11(e)(4) to forward unpaid billings to the Attorney General for collection. Statewide policy specifies the unpaid billings to be turned over no more than 60 days after the due date of the billing. The North Carolina Department of Justice (NCDOJ) then sends a letter to debtors demanding payment. If payment is not made within 30 days, the department recommends to agencies that unpaid billings be submitted to a state contracted collection agency. As of July 1, 2016 NCDOJ has contracts with six collection agencies.

During fiscal year 2016, a total of $66.8 million was submitted to the Attorney General for collection on behalf of state agencies. During fiscal year 2016, $36.5 million was submitted by state agencies to collection agencies, and $8.1 million was collected at a cost of $1.4 million.

Setoff Debt Collection Program Activity

The NC Department of Revenue (NCDOR) continues to administer the State's Setoff Debt Collection Program that requires NCDOR and state agencies to cooperate in identifying debtors who owe money to the State and who qualify for refunds from the NCDOR. The procedure for setting off against any refund the sum of any debt owed to the State resulted in $39.7 million of net refunds to claimant agencies during the 2016 calendar year for the 2015 tax year.

G.S. 105A, the Setoff Debt Collection Act, requires all claimant agencies and the NCDOR to cooperate in identifying debtors who owe money to the State through its various agencies and who qualify for refunds from the NCDOR. It further requires that procedures be established for setting off against any refund the sum of any debt owed to the State.

Effective January 1, 2000, G.S. 105A expanded the list of claimant agencies to include all state agencies. The Office of the State Controller requested that the NCDOR provide summary debt setoff information for the last five tax years to be included in the annual Statewide Accounts Receivable Report.

Summary data from NCDOR for the prior five tax years is reflected below (whole dollars).

Table 2
Debt Setoff Activity for Tax Years 2011-2015

Tax Year Debt Setoff Occurs in Calendar Year	2015 2016	2014 2015	2013 2014	2012 2013	2011 2012
Gross amount of Refunds Setoff	$40,708,976	$38,526,590	$68,252,280	$79,178,212	$73,640,930
Collection Assistance Fees applied Based on Actual Expenses	($925,050)	($852,895)	($1,326,395)	($1,492,065)	($1,380,525)
Net Amount of Refunds Paid to Claimant Agencies	$39,783,926	$37,673,695	$66,925,885	$77,686,147	$72,260,405
DOR Administrative Expenses - Current Year	$545,821	$532,229	$563,096	$567,448	$556,175
Total Setoffs (includes completed, denied, and cancelled setoffs)	205,920	194,269	299,166	330,945	311,122
Number of Completed Setoffs	204,870	190,935	294,044	326,832	305,108
Average Gross Setoff Amount	$198.71	$201.78	$232.12	$242.26	$241.36
Average Cost per Setoff	$2.65	$2.74	$1.89	$1.72	$1.79
Average Net Amount of Refunds Setoff	$194.20	$197.32	$227.61	$237.70	$236.84

- Effective for the calendar year 2000, the cost of collecting child support debts is not charged against the taxpayer's refund. Instead, the gross amount of the refund is applied to the debt and the NCDOR receives a collection assistance fee for these debts from individual income tax collections. For the calendar year 2016, collection assistance fees for child support debts collected through setoff were $99,240.00 bringing the total collection assistance fees received by the NCDOR to $1,024,290.00.

- Effective for the calendar year 2005, the 2004 Law Changes were amended to impose a flat collection assistance fee of $5.00 for each debt collected through setoff. The subsection was also amended to delete the provision that required the NCDOR to set the amount of the collection assistance fee based on the actual cost of collection ($15.00) maximum for the immediate preceding year.

Agency Compliance with Statewide Accounts Receivable Program

Since the 2007 fiscal year, OSC has required each state agency to complete an attestation document signed by the agency's chief executive officer and chief financial officer. All state agencies must and have returned a signed letter stating that:

- Management is responsible for complying, and has complied, with requirements of Article 6B of Chapter 147 and Chapter 105A of the North Carolina General Statutes.
- Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance with the requirements of Article 6B of Chapter 147 and Chapter 105A of the North Carolina General Statutes.
- Information submitted to OSC for preparation of the *Statewide Accounts Receivable Report* is materially correct and verifiable to agency records.

The ability to charge interest and penalty on past due accounts receivable is a manual process that is not supported by some billing and accounts receivable systems currently operating within state government. Future business infrastructure projects should incorporate the ability to calculate interest on past due accounts.

Vendor Attachment

OSC and NCDOR in September 2010 implemented a vendor attachment program. The program is authorized by G.S. 105-242(b) and G.S. 147-86.25. Phase I involves state agencies using the North Carolina Accounting System (NCAS). The program identifies vendor payments for attachment due to uncollected taxes.

In Vendor Attachment, OSC provides NCDOR a file each night of vendors who are to be paid through the North Carolina Accounting System. NCDOR compares the file against outstanding collections cases. As matches are discovered, the process generates an attachment and garnishment notice and the funds are redirected to NCDOR before the vendor receives the payment. The funds are applied to the vendor's tax debt.

Due to Hurricane Matthew and the counties that were having severe flooding and other issues, the Department of Revenue temporarily stopped the vendor attachment process. This was effective October 12, 2016 and lasted until January 10, 2017.

As of December 31, 2016, the program has collected approximately $11.9 million in unpaid taxes due to the state.

2016 Statewide Accounts Receivable Report

Appendix A

Past Due Receivable Summary Aging Report
Fiscal Year Ended June 30, 2016
(in thousands)

Past Due Receivables by Department/Institution	Past Due 1-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total Past Due	Total Write-offs
General Assembly	$ —	$1	$ —	$ —	$ —	$1	$ —
Secretary of State	14	6	8	6	36	70	21
Office of the State Auditor	—	79	—	—	—	79	—
State Treasurer	1,915	4,972	1,662	559	30,188	39,296	150
Public Instruction	5,142	14	—	11,516	8,976	25,648	—
Justice	88	78	35	47	945	1,193	89
Agriculture	223	53	38	5	178	497	66
Labor	—	355	244	363	3,709	4,671	2,302
Insurance	755	659	—	—	—	1,414	2
Administration	3,830	1,325	437	2,612	273	8,477	35
Office of State Controller	—	—	—	—	—	—	—
Transportation	4,881	2,414	2,377	3,953	35,748	49,373	4,229
ENR	258	210	73	13	1,023	1,577	47
Wildlife	—	180	118	9	176	483	6
Public Safety	1,312	283	638	66	3,203	5,502	34
DHHS	133,088	27,575	10,198	45,796	152,845	369,502	336,365
ITS	756	9	227	122	522	1,636	—
Commerce	6,009	8,158	5,909	4,170	187,162	211,408	7,800
Revenue	85,971	101,742	13,123	34,385	930,843	1,166,064	199,834
Cultural Resources	—	—	—	—	1	1	—
UNC Hospitals	95,392	43,870	33,713	27,039	82,488	282,502	4,687,132
Board of Elections	1	19	14	1	227	262	—
Education Lottery	26	34	12	2	919	993	—
Housing Finance Agency	41,046	14,167	5,089	8,544	12,094	80,940	795
North Carolina Board of Nursing	—	—	2	3	8	13	2
Board of Barber Examiners	—	—	—	—	13	13	7
North Carolina Board of Cosmetic Arts	—	—	—	—	43	43	—
NC Biotechnology Center	—	33	—	32	—	65	1,201
Global TransPark	25	—	2	—	2	29	—
NC Ports Authority	6,441	643	827	264	333	8,508	32
State Education Assistance Authority	154,556	87,639	59,123	41,063	76,042	418,423	261
Gateway University Research Park	6	3	—	—	—	9	—
UNC - Chapel Hill	22,389	15,554	12,458	12,289	58,516	121,206	570,353
North Carolina State Univ	11,614	7,302	10,478	2,305	12,519	44,218	1,337
UNC - Greensboro	—	354	190	57	3,899	4,500	785
UNC - Charlotte	312	2,630	176	121	1,882	5,121	2,486
UNC - Asheville	513	23	41	463	313	1,353	70
UNC - Wilmington	195	46	121	165	1,029	1,556	235
East Carolina Univ	5,969	3,556	3,211	2,426	16,077	31,239	242,802
NC A & T State Univ	462	154	136	42	1,082	1,876	587
Western Carolina Univ	816	345	1,278	248	837	3,524	39
Appalachian State Univ	559	381	191	64	1,530	2,725	532
UNC - Pembroke	665	91	121	212	1,767	2,856	280
Winston-Salem State Univ	101	98	310	140	2,125	2,774	641
Elizabeth City State Univ	141	167	74	—	878	1,260	825
Fayetteville State Univ	133	446	5	24	1,274	1,882	638
North Carolina Central Univ	412	404	271	191	10,654	11,932	—
North Carolina School of the Arts	—	9	1	42	486	538	—
North Carolina School of Science and Math	—	—	—	—	49	49	—
	$586,016	$326,081	$162,931	$199,359	$1,642,914	$2,917,301	$6,062,020