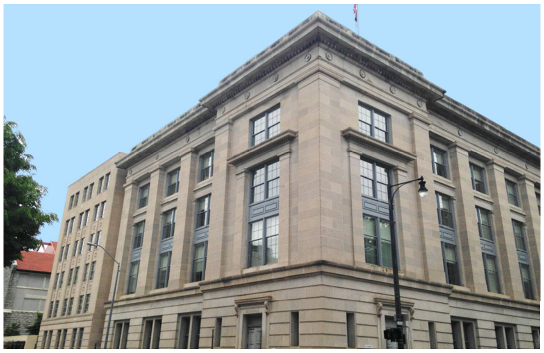
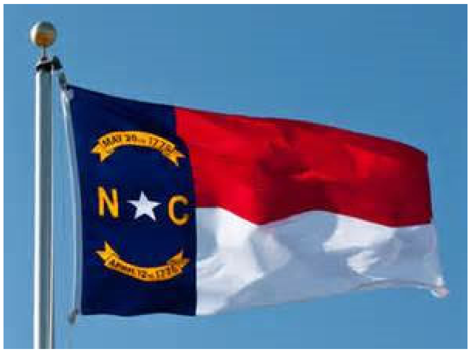
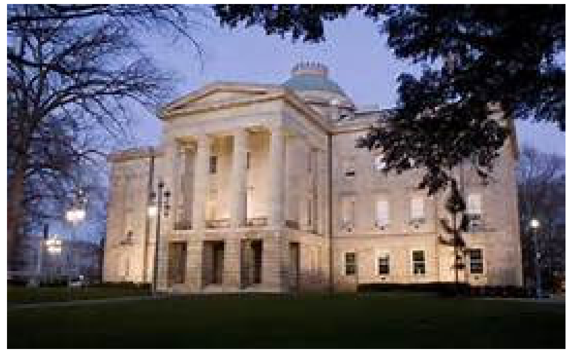
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA







RALEIGH, NORTH CAROLINA

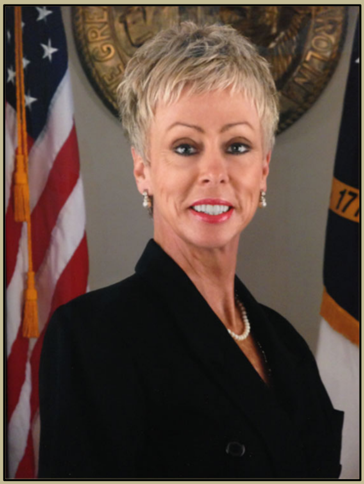
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

A DEPARTMENT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog



Beth A. Wood, CPA
State Auditor

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SHARPE PATEL CPA

INDEPENDENT AUDITORS' REPORT

To the North Carolina
Office of the State Auditor
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Office of the State Auditor (the "Office") which comprise the balance sheet as of June 30, 2020, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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; this includes the design and implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for out audit opinion.

Opinion

In our opinion, based on out audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Office as of June 30, 2020, and the respective changes in net financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information as listed in the table of content be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considered it to be an essential part of financial reporting for place the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the requires 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2020 on our consideration of the Office'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 the report is to describe the scope of our testing of internal controls 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 *Governmental Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Sharpe Patel PLLC

December 31, 2020

Management's Discussion and Analysis

The following is a narrative overview and analysis of the North Carolina Office of the State Auditor's financial performance for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements which follow this section.

Discussion of the Basic Financial Statements

The North Carolina Office of the State Auditor (Office) is a part of the State of North Carolina (State) and is not a separate legal or reporting entity. The Office's accounts and transactions are included in the State of North Carolina's *Comprehensive Annual Financial Report* (CAFR) as a part of the State's General Fund.

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* requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the Office. Because the Office is not a separate entity, government-wide financial statements are not prepared.

Governmental fund financial statements are reported using the current financial resources measurement focus and 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 State considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Cash and cash equivalents are not presented on the current year financial statements due to a change in the method in which the cash carryforward process is handled at state agencies. Beginning in fiscal year 2016, state agencies no longer record approved carryforward funds. The agency carryforward is now recorded in a reserve account at the North Carolina Office of State Budget and Management.

Since capital asset and long-term liability accounts relating to governmental funds are reported only in the governmental activities column of the government-wide financial statements, these amounts are not included in the financial statements of the Office. However, amounts are reported in the notes to the financial statements.

Financial Condition

The Office continues to strategically optimize positions geographically and divisionally based on changing workloads and priorities. As a result, total revenues were slightly higher, while total expenditures remained relatively stable. The Office expects to continue to efficiently manage resources to optimize output.

Condensed Data

See the following for comparative condensed financial information.

Condensed Balance Sheets
Governmental Fund

	6/30/2020	6/30/2019
Total Assets and Deferred Outflows of Resources	$ 1,527,216.20	$ 2,180,083.13
Liabilities, Deferred Inflows of Resources, and Fund Balance:		
Total Liabilities	$ 163,342.86	$ 97,710.41
Total Deferred Inflows of Resources	1,396,564.00	2,029,474.50
Fund Balance:		
Nonspendable:		
Inventories	30,500.20	18,614.13
Unassigned	(63,190.86)	34,284.09
Total Fund Balance	(32,690.66)	52,898.22
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 1,527,216.20	$ 2,180,083.13

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund

	Fiscal Year Ended 6/30/20	Fiscal Year Ended 6/30/19
Revenues:		
Total Revenues	$ 6,464,886.72	$ 6,299,610.11
Expenditures:		
Personal Services and Employee Benefits	15,423,446.16	15,075,263.96
Contracted Audits and Services	1,516,934.75	1,086,285.17
Supplies and Materials	24,557.48	32,600.61
Travel	161,265.89	256,400.87
Communications	78,300.50	83,029.56
Utilities	4,760.18	5,412.66
Data Processing Service	172,971.03	85,474.65
Employee Education	200,494.58	238,647.07
Other Services	12,726.01	14,474.32
Rent of Property and Equipment	59,158.62	71,813.96
Service and Mantenance	225,138.36	406,347.87
Other Fixed Charges	42,101.48	67,553.18
Insurance and Bonding	2,996.80	3,109.39
Capital Outlay	1,094,815.07	1,374,027.60
Total Expenditures	19,019,666.91	18,800,440.87
Deficiency of Revenues Under Expenditures	(12,554,780.19)	(12,500,830.76)
Other Financing Sources (Uses):		
State Appropriations	12,792,447.87	12,494,888.78
Transfers In	194,339.00	227,564.00
Transfers Out	(518,027.04)	(211,543.42)
Sale of Surplus Property	431.48	50.00
Total Other Financing Sources	12,469,191.31	12,510,959.36
Net Change in Fund Balance	(85,588.88)	10,128.60
Fund Balance Beginning of Year	52,898.22	42,769.62
Fund Balance End of Year	$ (32,690.66)	$ 52,898.22

Comparative Data and Variances

Total assets and deferred outflows of resources decreased approximately $652,867 during the current fiscal year. This decrease is attributable to a decrease in due from other funds. This account represents amounts billed to primary government audit clients for audit work performed during the last quarter of the fiscal year. Fourth quarter billings for fiscal year 2020 decreased due to a shift in the timing of certain large audits. Financial audit staff were asked by management to delay the starts of several audits due to the COVID-19 pandemic. In addition, several large primary government agencies had less grant audit work performed in fiscal year 2020 than in fiscal year 2019, resulting in decreased audit billings for the fourth quarter of fiscal year 2020.

Total liabilities increased approximately $65,632 due to an increase in accounts payable. Accounts payable includes all automated accruals for goods or services received before June 30, but not paid until shortly after fiscal year end. More accruals were processed in fiscal year 2020 than in the prior fiscal year.

The decrease in unavailable revenue (audit fees for the fourth quarter) is directly related to the accounts receivable decrease discussed above in the first paragraph.

Unassigned fund balance decreased by approximately $97,475. This decrease is directly related to the decreases in total assets and unavailable revenue discussed above.

The increase in personal services and employee benefits expenditures is primarily attributable to a 2.5% legislative salary increase for all state-funded employees effective July 1, 2019. In addition, the state's employer contribution rates for retirement and related benefits increased from the prior fiscal year.

Contracted audits and services increased during the 2020 fiscal period by approximately $430,650. Several new or one-time reviews or projects occurred during fiscal year 2020, including a contract to aid the Office in auditing Medicaid eligibility determinations and contracts related to the Office's New Hire Training Program. This account varies year-to-year, depending on the amount of contract work that is necessary to assist with our audits or meet legislative requests.

Travel decreased by approximately $95,135 during fiscal year 2020 primarily due to the impact of travel restrictions due the COVID-19 pandemic. Conferences and training were held virtually, and travel within the state was nonexistent during the last quarter of the fiscal year.

Data processing services increased during this 2020 fiscal period by approximately $87,496. This was primarily due to two large information technology related projects that occurred during the fiscal year. The Office upgraded our phone system to Voice over Internet Protocol (VoIP). In addition, the internet was upgraded at all branch office locations, which involved installation costs and a sustained increase cost for the must faster internet speed.

Expenditures for service and maintenance decreased by approximately $181,210 during fiscal year 2020 primarily due to a decrease in expenses for maintenance agreements for software and equipment. This decrease directly relates to the decrease in capital outlay discussed below.

Capital outlay decreased primarily due to the costs of information technology infrastructure upgrades that occurred during fiscal year 2019. The Office purchased new backup servers for Data Analytics and our Data Center and computer equipment was updated for all staff during the previous fiscal year. The necessary software and equipment costs for the new data backup solutions were included in Capital Outlay during fiscal year 2019, while fiscal year 2020 did not include these costs.

Transfers out – Office of State Budget and Management – carryforward increased during fiscal year 2020. This account represents the funds the Office requested to carry forward from fiscal year 2020 to fiscal year 2021. The amount will be used to cover expenditures (salaries and related benefits) associated with employees who will participate in the Reorganization through Reduction program during fiscal year 2021. This opportunity was offered to all Office employees in order to respond to the COVID-19 pandemic and likely forthcoming budget shortfall.

Net change in fund balance decreased by approximately $95,717. This decrease is primarily due to the increases in the expenditure categories and transfers out account as described above.

Capital Asset Activity

Overall, little activity occurred during fiscal year 2020 for capital assets. See Note 2 for more information.

Long-Term Liability Activity

No significant changes occurred during fiscal year 2020 for long-term liability accounts. See Note 3 for more information.

Budget Variations

Data for the budget variations is presented in the Required Supplementary Information section of this report, Schedule C-1: Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP).

Variances – Original and Final Budget:

The final budgets for personal services and employee benefits were $2,704,373 less than the original budgets. Lapsed salaries are generated from vacant positions throughout the year. Budgeted funds were moved from personal services and employee benefits accounts to purchased services or equipment accounts to cover non-personnel related expenditures.

The final budget for contracted audits and services increased by $847,247. This account varies year-to-year, depending on the amount of contract work that is necessary to assist with our audits or meet legislative requests. Original budgets are usually not enough to cover these expenditures each year, and lapsed salaries generated are moved to this account. Several new or one-time reviews/projects occurred during FY 2020 which required OSA to hire specialists for expert services.

The final budget for maintenance agreements increased by $131,500 from the original budget. Lapsed salaries generated are also moved to this account to cover annual maintenance agreements for software and equipment.

The final budget for equipment and intangible assets increased by $936,550. As mentioned previously, the Office upgraded to a VoIP phone system during the fiscal year. In addition, the budget was increased to cover two large Nutanix software purchases. Nutanix is the operating system that controls the Office's servers and their resources, and is one of the two backup systems in place for the Office. Furthermore, laptops and docking stations were purchased due to a depleted excess laptop supply.

Variances – Final Budget and Actual Results:

Actual total revenue collected from reimbursements from primary government was $239,685 above the budgeted revenue amount. This account represents amounts collected from the primary government agencies in which the Office performs audits. This account, along with the reimbursements from component units account, is difficult to budget due to the timing of the audit work and billings, which vary year-to-year.

Employee benefits were $456,733 below the final budgeted amounts. While actual expenditures for salaries and benefits stayed constant as compared to the prior year, and some lapsed salaries were moved out of benefit accounts, most of the lapsed salaries were moved from salary accounts, resulting in a larger variance between final budget and actual employee benefits.

Contracted audits and services expenditures were $318,620 below the budgeted amount. All contracts have different expiration dates, and most cross between fiscal years. While lapsed salaries were moved to cover amounts encumbered for contracts, some contract invoices were not received before fiscal year end, resulting in budget remaining in the contracts account.

Actual travel expenditures were $112,401 below the final budgeted amount due to the impact of travel restrictions due to the COVID-19 pandemic discussed under *Comparative Data and Variances* above.

The amount of state appropriations expended during the fiscal year was $1,552,450 below the budgeted amount. This total is the amount of State Appropriations unused at year-end that is reverted back to the General Fund.

Economic Outlook

The coronavirus pandemic has recently affected and continues to affect the global economy as well as the State of North Carolina, resulting in much uncertainty for the future. Although the State anticipates a budget shortfall in FY 2020-21, many measures have been implemented across state agencies to help reduce the shortfall. In addition, the State has received a generous amount of Federal funding to help the economy recover. Due to this fact, we anticipate the Legislative action for the 2020-2021 period for the Office to remain relatively constant.

FINANCIAL STATEMENTS

North Carolina Office of the State Auditor
Balance Sheet
Governmental Fund - General Fund
June 30, 2020 ***Exhibit A-1***

ASSETS		
Due from Other Funds	$	820,404.00
Due from Component Units		676,312.00
Inventories		30,500.20
Total Assets		1,527,216.20
DEFERRED OUTFLOWS OF RESOURCES		-
Total Assets and Deferred Outflows of Resources	$	1,527,216.20
LIABILITIES		
Accounts Payable		163,342.86
Total Liabilities		163,342.86
DEFERRED INFLOWS OF RESOURCES		-
Unavailable Revenue		1,396,564.00
Total Deferred Inflows of Resources		1,396,564.00
FUND BALANCE		
Nonspendable:		
Inventories		30,500.20
Unassigned		(63,190.86)
Total Fund Balance		(32,690.66)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$	1,527,216.20

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

North Carolina Office of the State Auditor
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2020 *Exhibit A-2*

REVENUES		
Audit Fees	$	6,462,154.48
Miscellaneous Income		2,732.24
Total Revenues		6,464,886.72
EXPENDITURES		
Personal Services and Employee Benefits		15,423,446.16
Contracted Audits and Services		1,516,934.75
Supplies and Materials		24,557.48
Travel		161,265.89
Communications		78,300.50
Utilities		4,760.18
Data Processing Service		172,971.03
Employee Education		200,494.58
Other Services		12,726.01
Rent of Property and Equipment		59,158.62
Service and Maintenance		225,138.36
Other Fixed Charges		42,101.48
Insurance and Bonding		2,996.80
Capital Outlay		1,094,815.07
Total Expenditures		19,019,666.91
Deficiency of Revenues Under Expenditures		(12,554,780.19)
OTHER FINANCING SOURCES (USES)		
State Appropriations		12,792,447.87
Transfers In - Carryforward		194,339.00
Transfers Out:		
Office of State Budget and Management - Carryforward		(500,000.00)
Office of the State Controller - DCAP		-18,027.04
Sale of Surplus Property		431.48
Total other Financing Sources		12,469,191.31
Net Change in Fund Balance		(85,588.88)
Fund Balance - July 1, 2019		52,898.22
Fund Balance - June 30, 2020	$	(32,690.66)

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 Office of the State Auditor (Office) is a part of the State of North Carolina and is not a separate legal or reporting entity. The Office performs an array of work, including financial statement audits, financial-related audits, performance audits, information technology audits, and special investigations.

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 Office is a part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

C. **Basis of Presentation** -The Office's records are maintained on a cash basis throughout the year, but adjustments are made at fiscal year-end 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* requires the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the Office. Because the Office is not a separate entity, government-wide financial statements are not prepared.

The Office's financial statements consist of the following governmental fund:

General Fund - This is the Office's primary operating fund. It accounts for all financial resources of the Office.

D. **Measurement Focus and Basis of Accounting** -

Governmental fund financial statements are reported using the current financial resources measurement focus and 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 Office considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for compensated absences which are recognized as expenditures when payment is due. Pension and other postemployment benefit 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 governmental funds are reported only in the governmental activities column of the government-wide financial statements, these amounts are not included in the financial statements of the Office. However, amounts are reported in the Notes to the Financial Statements.

E. Due from Other Funds and Component Units - These classifications are composed of amounts due from other funds or component units of the State of North Carolina for audit fees. All amounts are considered collectible and therefore, no allowance for doubtful accounts is recorded.

F. Inventories - Inventories, consisting of general supplies and materials, are valued at cost using last invoice cost method. Inventories are recorded as expenditures when consumed rather than when purchased. In the fund financial statements, inventories are offset in a nonspendable fund balance account to indicate that they are not available for appropriation and are not expendable available financial resources.

G. Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Office has unavailable revenues from audit fees that qualify for reporting in this category.

H. Vacation and Sick Leave - Employees earn vacation leave ranging from 1.17 to 2.17 days per month depending upon years of service. There is no requirement that vacation leave be taken; however, the maximum permissible accumulation of unused vacation leave which can be carried forward each January 1 or for which an employee can be paid upon termination of employment with the State is 30 days. Under this policy, the accumulated vacation leave for each employee at each June 30 would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. Also, any accumulated vacation leave in excess of 30 days at December 31 is converted to sick leave.

There is a category of special “annual bonus leave” that was awarded by the General Assembly in prior years. These unused bonus leave balances could be retained by employees and transferred into the next calendar year. It was not subject to the limitation on annual leave carried forward described above and was not subject to conversion to sick leave.

Employees earn sick leave at the rate of one day per month with an unlimited accumulation. Employees are not paid for accumulated sick leave upon termination; however, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement. The State has no obligation to pay sick leave upon termination or retirement.

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

The nonspendable fund balance classification includes amounts that cannot be spent because they represent inventories that are not available for appropriation and are not expendable available financial resources.

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

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

NOTE 2 - CAPITAL ASSETS

Purchases of capital assets are reported as expenditures in governmental funds. Consequently, capital asset balances are not reported on the face of the financial statements. In accordance with Office of the State Controller policy, assets that have a value of $5,000 or more when acquired and a useful life of more than one year are recorded in the accounting system for statewide reporting purposes.

Depreciation, which is recorded at the statewide level, is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 30 years for equipment including furniture and data processing systems.

A summary of changes in the Office's capital asset balances is presented as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Depreciable:				
Equipment	1,755,835.05	125,289.84	21,195.94	1,859,928.95
Total Capital Assets, Depreciable	1,755,835.05	125,289.84	21,195.94	1,859,928.95
Less Accumulated Depreciation for:				
Equipment	568,594.74	73,497.26	11,494.08	630,597.92
Total Accumulated Depreciation	568,594.74	73,497.26	11,494.08	630,597.92
Total Capital Assets, Depreciable, Net	$ 1,187,240.31	$ 51,792.58	$ 9,701.86	$ 1,229,331.03

NOTE 3 - CHANGES IN LONG-TERM LIABILITIES

General long-term liabilities are not recognized in governmental funds until they become due. Consequently, general long-term liabilities not yet due are not reported on the face of the financial statements.

The general long-term liabilities are composed of unused vacation and bonus leave, matching benefits for retirement and social security, net pension liability, net other postemployment benefit (OPEB) liability, and workers' compensation.

The net pension liability represents the Office's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the Office's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 6 for further information regarding the Office's liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the Office's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the Office's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 7 for further information regarding the Office's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

A summary of changes in long-term liabilities is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Compensated Absences	$ 1,772,184.00	$ 1,212,829.00	1,048,698.00	$ 1,936,315.00	$ 95,460.29
Net Pension Liability	7,776,701.00	-	63,685.00	7,713,016.00	-
Net Other Postemployment Benefits Liability	19,211,855.00	1,594,190.00	-	20,806,045.00	-
Workers' Compensation	1,000.00	-	1,000.00	-	-
Total Long-Term Liabilities	28,761,740.00	2,807,019.00	1,113,383.00	30,455,376.00	95,460.29

NOTE 4 - OPERATING LEASES

The Office entered into operating leases for office space and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

Fiscal Year	Amount
2021	$ 67,096.31
2022	21,096.84
2023	13,482.84
2024	9,258.84
2025	8,487.27
Total Minimum Lease Payments	$ 119,422.10

Rental expense for all operating leases during the year was $59,158.62.

NOTE 5 - AUDIT FEES

The Office performs federal compliance audits as specified in Uniform Guidance. State agencies, universities, and community colleges are billed for the federal compliance audit work performed on a cost reimbursement basis. Additionally, the Office bills colleges and universities for the cost of their financial statement audits. The Office performs certain other audits on a cost reimbursement basis as required by law.

NOTE 6 - PENSION PLANS

A. Teachers' and State Employees' Retirement System

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 creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. 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 Office's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. The Office's contributions to the pension plan were $1,473,870.33, and employee contributions were $681,821.28 for the year ended June 30, 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 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 are the sole participants 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. 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 2019 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2020, the Office's proportionate share of the collective net pension liability was $7,713,016.00. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. The Office's proportion of the net pension liability was based on the present value of future salaries for the Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Office's proportion was 0.07440%, which was a decrease of 0.00371 from its proportion measured as of June 30, 2018, which was 0.07811%.

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

Valuation Date	12/31/2018
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is 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, 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, 2019 (the valuation date) 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, 2019 is 1.4%.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 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%)
$ 14,680,015.03	$ 7,713,016.00	$ 1,868,591.71

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2020, the Office's proportionate share of the collective pension expense was $2,759,724. At June 30, 2020, the Office'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 o Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 645,185.00	$ 15,441.00
Changes of Assumptions	821,852.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	147,848.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	49,601.00	209,422.00
Contributions Subsequent to the Measurement Date	1,473,842.00	-
Total	$ 3,138,328.00	$ 224,863.00

The amount of $1,473,842.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will represent a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be included 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:

Year Ended June 30:	Amount
2021	$ 1,113,309.00
2022	204,544.00
2023	70,048.00
2024	51,722.00
Total	$ 1,439,623.00

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - All permanent employees are eligible to participate in the deferred compensation plan offered by the State of North Carolina in accordance with Internal Revenue Code Section 457. The plan permits each participant to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation of service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to $207,139.00 during the year ended June 30, 2020.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of the plan may receive their benefits upon retirement, disability, termination, hardship, or death. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to $198,461.15 during the year ended June 30, 2020.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

The Office 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 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 other postemployment benefit (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 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 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 contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 8. 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 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.

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 North Carolina General Assembly in the Appropriations Bill. The Office's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The Office's contributions to the RHBF were $735,230.61 for the year ended June 30, 2020.

2. Disability Income

Plan Administration: As discussed in Note 8, 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 Office's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The Office's contributions to DIPNC were $11,363.69 for the year ended June 30, 2020.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2020, the Office's proportionate share of the collective net OPEB liability for RHBF was $20,806,045.00. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The Office's proportion of the net OPEB liability was based on the present value of future salaries for the Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Office's proportion was 0.06576%, which was a decrease of 0.00168 from its proportion measured as of June 30, 2018, which was 0.06744%.

Net OPEB Asset: At June 30, 2020, the Office's proportionate share of the collective net OPEB asset for DIPNC was $28,721.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. The Office's proportion of the net OPEB asset was based on the present value of future salaries for the Office relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2019, the Office's proportion was 0.06656%, which was a decrease of 0.00308 from its proportion measured as of June 30, 2018, which was 0.06964%.

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

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	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, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (the valuation date) 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, 2019 is 1.4%.

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, 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 3.50%. 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 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. 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 Office's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	$ 24,725,210.90	$ 20,806,134.54	$ 17,668,111.40
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (24,325.68)	$ (28,720.64)	$ 32,991.13

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

Net OPEB Liability (Asset)

	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	$ 17,132,278.54	$ 20,806,134.54	$ 25,636,681.33

	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	$ (28,771.23)	$ (28,720.64)	$ (28,673.38)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the Office's proportionate share of the collective OPEB contra-expense was $11,175.00 for RHBF and contra-expense of $26,592.00 for DIPNC, resulting in a total OPEB contra-expense of $37,767. At June 30, 2020, the Office's proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ -	$ 29,340.00	$ 29,340.00
Changes of Assumptions	1,000,037.00	3,182.00	1,003,219.00
Net Difference Between Projected and Actual Earnings on Plan Investments	13,855.00	5,471.00	19,326.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,767,249.00	2,508.00	1,769,757.00
Contributions Subsequent to the Measurement Date	735,216.00	11,363.00	746,579.00
Total	$ 3,516,357.00	$ 51,864.00	$ 3,568,221.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,048,887.00	$ -	$ 1,048,887.00
Changes of Assumptions	6,255,209.00	2,947.00	6,258,156.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,206,917.00	1,426.00	1,208,343.00
Total	$ 8,511,013.00	$ 4,373.00	$ 8,515,386.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will represent a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be included 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 Ended June 30:	RHBF	DIPNC
2021	$(1,674,636.00)	$ 10,992.00
2022	(1,674,636.00)	8,537.00
2023	(1,672,633.00)	6,311.00
2024	(767,012.00)	4,047.00
2025	59,045.00	5,491.00
Thereafter	-	750.00
Total	$(5,729,872.00)	$ 36,128.00

NOTE 8 - RISK MANAGEMENT

The Office 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

Employees and retirees of the Office 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 7, 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 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to Office's 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 Office up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 7, 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 State Property Fire Insurance Fund insures all State-owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to this Office. Losses covered by the Fund are subject to a $5,000 per occurrence deductible.

The State is required by Chapter 58, Article 31, and Part 50 of the General Statutes to provide liability insurance on every state-owned motor vehicle. The State is self-insured for the first $1,000,000 of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than $1,000,000 up to $10,000,000 per occurrence.

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The Office is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. 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 are included in the program. When an employee is injured, the Office's primary responsibility is to arrange for and provide the necessary treatment for work related injuries. The Office is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Office retains the risk for workers' compensation.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 9 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2020, the Office implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

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

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.

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Office of the State Auditor
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in
Unreserved Fund Balance-Budget and Actual (Budgetary Basis-Non-GAAP)
Governmental Fund
For the Fiscal Year Ended June 30, 2020

	General Fund			
	Budgeted Amounts			Under (Over)
	Original	Final	Actual (Cash Basis)	Final Budget
Revenues:				
Reimbursement from Primary Governmei	$ 3,327,627.00	$ 3,327,627.00	$ 3,567,311.98	$ (239,684.98)
Reimbursement from Component Units	3,013,669.00	3,013,669.00	2,926,685.00	86,984.00
Settlements	0.00	0.00	1,445.29	(1,445.29)
Procurement Card Rebates	355.00	355.00	686.95	(331.95)
Other Miscellaneous Revenues	0.00	0.00	600.00	(600.00)
Total Revenues	6,341,651.00	6,341,651.00	6,496,729.22	(155,078.22)
Expenditures:				
Personal Services	13,671,742.00	11,608,819.00	11,387,985.20	220,833.80
Employee Benefits	5,146,184.00	4,504,734.00	4,048,001.48	456,732.52
Contracted Audits and Services	961,795.00	1,809,042.00	1,490,422.50	318,619.50
Utility/Energy Service	8,053.00	8,053.00	3,513.15	4,539.85
Repair Service	2,326.00	2,326.00	0.00	2,326.00
Maintenance Agreements	108,790.00	240,290.00	225,138.36	15,151.64
Rental/Leases	29,585.00	90,336.00	59,158.62	31,177.38
Travel /Other Employee Expense	292,038.00	281,623.00	169,222.30	112,400.70
Communication/Data Processing	132,909.00	289,068.00	262,145.29	26,922.71
Other Services	137,440.00	212,521.00	208,092.38	4,428.62
General Administrative Supplies	38,037.00	40,037.00	39,100.17	936.83
Equipment and Intangible Assets	122,915.00	1,059,465.00	1,053,275.37	6,189.63
Other Expenditures	34,785.00	40,285.00	37,892.75	2,392.25
Reserves	0.00	500,000.00	500,000.00	0.00
Total Expenditures	20,686,599.00	20,686,599.00	19,483,947.57	1,202,651.43
Deficiency of Revenues Under Expenditures	(14,344,948.00)	(14,344,948.00)	(12,987,218.35)	(1,357,729.65)
Other Financing Sources (Uses):				
State Appropriations	14,344,898.00	14,344,898.00	12,792,447.87	1,552,450.13
Encumbrance Carryforward	0.00	0.00	194,339.00	(194,339.00)
Sale of Surplus Property	50.00	50.00	431.48	(381.48)
Total Other Financing Sources (Uses)	14,344,948.00	14,344,948.00	12,987,218.35	1,357,729.65
Net Change in Fund Balance	0.00	0.00	0.00	0.00
Fund Balance July 1, 2019	0.00	0.00	0.00	0.00
Fund Balance June 30, 2020	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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 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 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 authorized budget amounts.

BUDGETARY (CASH) BASIS VS. GAAP (MODIFIED ACCRUAL)

The Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – Governmental Fund, presents comparisons of 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 is accounted for on the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

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

	General Fund
Fund Balance (Budgetary Basis), June 30, 2020	$ 0.00
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues	100,152.00
Accrued Expenditures	(163,342.86)
Other Adjustment:	
Inventories	30,500.20
Fund Balance (GAAP Basis), June 30, 2020	$ (32,690.66)

SHARPE PATEL CPA

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

To the North Carolina
Office of the State Auditor
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Office of the State Auditor (the "Office") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated December 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal controls) to determine the 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 Office's internal controls. Accordingly, we do not express and opinion on the effectiveness of the Office's internal controls.

A deficiency in internal controls 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 controls, such that there is a reasonable possibility that a material misstatement of the entity'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 controls 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 controls that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office'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 determination of financial statement amounts. 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards.*

Purpose of this Report

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

Sharpe Patel PLLC

December 31, 2020

Other Information

This audit required 84 audit hours at an approximate cost of $9,384.00.