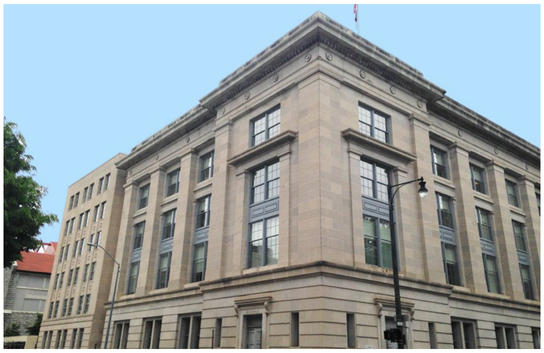
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



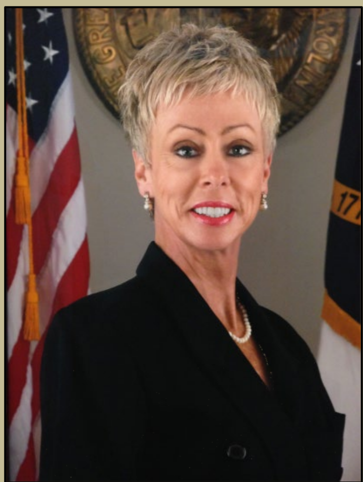
RALEIGH, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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

Opinion

We have audited the accompanying financial statements of the North Carolina Office of the State Auditor (Office) as of and for the year then ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Office as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

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Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and GAGAS, the auditor's responsibilities are to:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021 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

November 16, 2021

Management's Discussion and Analysis

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

Overview of the Financial Statements

The 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* 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.

The Department's financial statements are comprised of the governmental fund and includes the General Fund. The Governmental Funds' basic financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

The Balance Sheet presents the governmental funds' assets, deferred outflows, liabilities, and deferred inflows that are considered relevant to an assessment of near-term liquidity. The difference between assets (plus deferred outflows) and liabilities (plus deferred inflows) is reported as fund balance.

The Statement of Revenues, Expenditures, and Changes in Fund Balance reports the resource flows (revenues and expenditures) of the governmental funds.

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

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

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 face of the financial statements due to the method in which the cash carryforward process is handled at state agencies. The agency carryforward is 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.

Governmental Funds

Condensed Balance Sheets

The following Condensed Balance Sheets show the Governmental Funds' financial position at June 30, 2021 and 2020.

Condensed Balance Sheets
Governmental Funds

	Total Governmental Funds 2021	Total Governmental Funds 2020 (As Restated)	Change
ASSETS	$ 1,345,654.35	$ 1,527,216.20	$ (181,561.85)
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
Total Assets and Deferred Outflows of Resources	$ 1,345,654.35	$ 1,527,216.20	$ (181,561.85)
LIABILITIES	$ 154,537.78	$ 163,342.86	$ (8,805.08)
DEFERRED INFLOWS OF RESOURCES	1,227,356.00	1,341,600.00	(114,244.00)
FUND BALANCES			
Nonspendable	20,850.35	30,500.20	(9,649.85)
Unassigned	(57,089.78)	(8,226.86)	(48,862.92)
Total Fund Balances	(36,239.43)	22,273.34	(58,512.77)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,345,654.35	$ 1,527,216.20	$ (181,561.85)

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

The following condensed Statements of Revenues, Expenditures, and Changes in Fund Balance show the Governmental Funds' resource flows for the periods ended June 30, 2021 and June 30, 2020.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2021

	Total Governmental Funds 2021	Total Governmental Funds 2020 (As Restated)	Change
REVENUES			
Federal COVID-19 Funds			
- Coronavirus Relief Funds (CRF)	$ 500,000.00	$ -	$ 500,000.00
Services - Audit Fees to Agencies and Component Units	6,410,036.00	6,517,118.48	(107,082.48)
Other Revenue	518.09	3,163.72	(2,645.63)
Total Revenues	6,910,554.09	6,520,282.20	390,271.89
EXPENDITURES			
Salaries and Benefits	17,124,693.18	15,441,473.20	1,683,219.98
Contracted Audits and Contracted Personal Services	1,440,257.14	1,516,934.75	(76,677.61)
Supplies and Materials	23,083.32	24,557.48	(1,474.16)
Travel	31,867.17	161,265.89	(129,398.72)
Communication	54,343.83	78,300.50	(23,956.67)
Utilities	4,099.10	4,760.18	(661.08)
Data Processing Services	189,846.30	172,971.03	16,875.27
Other Services	110,054.49	213,220.59	(103,166.10)
Rent/Lease of Property and Equipment	75,085.77	59,158.62	15,927.15
Service and Maintenance	534,445.48	225,138.36	309,307.12
Capital Outlay	505,260.36	1,094,815.07	(589,554.71)
Insurance and Bonding	3,506.43	2,996.80	509.63
Other Expenditures	41,968.12	42,101.48	(133.36)
Total Expenditures	20,138,510.69	19,037,693.95	1,100,816.74
Excess of Revenues (Under) Expenditures	(13,227,956.60)	(12,517,411.75)	(710,544.85)
OTHER FINANCING SOURCES (USES)			
Transfers In:	500,000.00	194,339.00	305,661.00
Transfers Out:	(1,095,520.00)	(500,000.00)	(595,520.00)
State Appropriations	13,764,963.83	12,792,447.87	972,515.96
Total Other Financing Sources	13,169,443.83	12,486,786.87	682,656.96
Net Change in Fund Balance	(58,512.77)	(30,624.88)	(27,887.89)
Fund Balance - At July 1, As Restated	22,273.34	52,898.22	(30,624.88)
Fund Balance - At June 30	$ (36,239.43)	$ 22,273.34	$ (58,512.77)

Overall Financial Position and Results of Operations

The Office continues to respond effectively to the environmental changes occurring due to the unprecedented pandemic. Adaptation to continued challenges with changes in network infrastructure, technology costs, employee education, and legislative requirements have allowed the office to continue to provide valuable services on behalf of the citizens of North Carolina while minimizing impact to the resource flows of the state.

The Office continues to strategically align spending with goals to increase efficiency and improve responsiveness to the changing environment. As a result, total revenues were slightly higher, offsetting the additional expenditures incurred in response to the additional legislatively mandated audits and the additional costs incurred to respond effectively to the unprecedented pandemic. The Office expects to continue to efficiently manage resources to optimize output.

Total Assets and Deferred Outflows of Resources decreased by $181,561.85 compared to prior year. This is due primarily to a decrease of $171,912.00 in Due from Other Funds and Due from Component Units which consists of audit fees for services provided to agencies and component units of the State which remained uncollected as of June 30, 2021. This fluctuation in outstanding audit fees for services is typical.

Liabilities and Deferred Inflows of Resources decreased $123,049.08 from prior year primarily due to the corresponding decrease of $114,244.00 in Unavailable Revenue which is attributable to the decrease in uncollected audit fees represented in Due from Other Funds and in Due from Component Units.

The Office recognized an increase in Revenue of $390,271.89 from prior year mainly due to $500,000.00 of funding received to provide audits of the Coronavirus Relief Funds (CRF) issued to agencies during the 2020 fiscal year and a reduction of certain other audits.

The Office recognized an overall increase in expenditures of $1,100,816.74 due mainly to increases in Salaries and Benefits and Service and Maintenance Costs, which were partially offset by decreases in Travel, Other Services including Employee Education, and Capital Outlay.

The increase of $1,683,219.98 in Salaries and Benefits expenditures is primarily attributable to a 2.50% legislative salary increase for all state-funded employees effective July 1, 2020 and the additional amounts paid to separating employees participating in the Reorganization Through Retirement (RTR) plan which took place during the period. In addition, the state's employer contribution rates for retirement and related benefits increased from the prior fiscal year.

Expenditures for Travel and Other Services decreased by $232,564.82 during fiscal year 2021 primarily due to the impact of restrictions in response to the unprecedented pandemic. Educational trainings and conferences planned for the period were cancelled or transitioned to a virtual environment, and travel within the state was significantly reduced during the entire fiscal year.

Service and maintenance costs increased during this 2021 fiscal period by $309,307.12 while Capital outlay decreased by $589,554.71. The Office responded to the changes in environment related to the ongoing restrictions caused by the pandemic by shifting many functions to a virtual platform resulting in additional service maintenance style costs.

Transfers out – Office of State Budget and Management – carryforward increased during fiscal year 2021. This account represents costs expected to occur within, and attributable to, the fiscal year for which the Office entered into agreements, but had not yet incurred the expenditures. The amount will be used to cover expenditures for outstanding purchase orders as of June 30, including additional network infrastructure improvements. Additionally, it will and to cover the remaining expenditures (salaries and related benefits) associated with employees who participated in the RTR program during fiscal year 2021, but for whom final payouts will not occur until fiscal year 2022.

Net change in fund balance as of June 30, 2021 decreased by $58,512.77. This is primarily due to the increases and decreases as described above.

As of July 1, 2020, fund balance as previously reported was restated to $22,273.34, an increase of $54,964.00. See Note 9 for further discussion.

Budget Variations

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

Variances – Original and Final Budget:

The final budget decreased from the original by $595,520.00 mainly due to the carryforward process and the increase of $595,520.00 in funds carried forward to the 2022 fiscal year in relationship to the funds carried into fiscal year 2021 from fiscal year 2020.

Budgeted amounts from Salaries and Benefits not expended attributable to vacant positions were shifted throughout the year to cover additional technology costs, service and maintenance costs, and contracted personal services costs incurred.

Variances – Final Budget and Actual Results:

In comparing Actual results of operations to the budgeted expectation for the fiscal year, the Office's Revenue remained steady, collecting $46,480.91 less in total cash-basis Revenues than the expected final budget amount.

Actual total expenditures for the fiscal year were $1,089,931.08 less than the final budgeted expectation. This variance between the expectation and actual is due mainly to positions which remained unfilled and a decrease in Travel and Other Services including Employee Education during the continuing pandemic.

The amount of state appropriations expended during the fiscal year varied from the expectation by $1,043,450.17. This total is the amount of State Appropriations unused at year-end that is reverted back to the General Fund.

Capital Asset Activity

Overall, little activity occurred during fiscal year 2021 for capital assets. See Note 2 for more information.

Long-Term Liability Activity

No significant changes occurred during fiscal year 2021 for long-term liability accounts. See Note 3 for more information.

Economic Outlook

At this time, the budget for the 2021-2023 biennium, has not been passed by the North Carolina Legislature. However, appropriated funds allocated to the Office are expected to remain constant. Revenue from receipts are expected to remain consistent with prior years. During the current period, the Office received $500,000.00 in Federal COVID-19 relief funds to audit the Coronavirus Relief Funds (CRF) expended in response to the unprecedented pandemic. The pandemic continues to impact the State and the timing of the cessation of that impact is unknown. Currently, the budget proposal allocates Federal COVID-19 relief funds in the amount of $1,200,000.00 to the Office for the purpose of conducting audits of recipients of American Rescue Plan (ARP) funds. The Office continues to strategically manage resources provided to meet the duties placed upon it by restructuring working environments, shifting funds to meet changes in technological needs, and continuing to recruit qualified, competent personnel.

FINANCIAL STATEMENTS

North Carolina Office of the State Auditor
Balance Sheet
Governmental Funds
As of June 30, 2021 (With Comparative Totals as of June 30, 2020) Exhibit A-1

	Total Governmental Funds 2021	Total Governmental Funds 2020 (As Restated)
ASSETS		
Due from Other Funds	$ 635,919.00	$ 776,620.00
Due from Component Units	688,885.00	720,096.00
Inventories	20,850.35	30,500.20
Total Assets	1,345,654.35	1,527,216.20
DEFERRED OUTFLOWS OF RESOURCES	-	-
Total Assets and Deferred Outflows of Resources	$ 1,345,654.35	$ 1,527,216.20
LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	$ 154,537.78	$ 163,342.86
Total Liabilities	154,537.78	163,342.86
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	1,227,356.00	1,341,600.00
Total Deferred Inflows of Resources	1,227,356.00	1,341,600.00
FUND BALANCES		
Nonspendable:		
Inventories	20,850.35	30,500.20
Unassigned	(57,089.78)	(8,226.86)
Total Fund Balances	(36,239.43)	22,273.34
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,345,654.35	$ 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
Governmental Funds
For the Fiscal Year Ended June 30, 2021
(With Comparative Totals for the Fiscal Year Ended June 30, 2020) ***Exhibit A-2***

	Total Governmental Funds 2021	Total Governmental Funds 2020 (As Restated)
REVENUES		
Federal COVID-19 Funds - Coronavirus Relief Funds (CRF)	$ 500,000.00	$ -
Services - Audit Fees to Agencies and Component Units	6,410,036.00	6,517,118.48
Other Revenue	518.09	3,163.72
Total Revenues	6,910,554.09	6,520,282.20
EXPENDITURES		
Salaries and Benefits	17,124,693.18	15,441,473.20
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Communication	54,343.83	78,300.50
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Other Services	110,054.49	213,220.59
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Service and Maintenance	534,445.48	225,138.36
Capital Outlay	505,260.36	1,094,815.07
Insurance and Bonding	3,506.43	2,996.80
Other Expenditures	41,968.12	42,101.48
Total Expenditures	20,138,510.69	19,037,693.95
Excess of Revenues (Under) Expenditures	(13,227,956.60)	(12,517,411.75)
OTHER FINANCING SOURCES		
Transfers In:		
Office of State Budget and Management - Prior Year Carryforward	500,000.00	194,339.00
Transfers Out:		
Office of State Budget and Management - Current Year Carryforward	(1,095,520.00)	(500,000.00)
State Appropriations	13,764,963.83	12,792,447.87
Total Other Financing Sources	13,169,443.83	12,486,786.87
Net Change in Fund Balance	(58,512.77)	(30,624.88)
Fund Balance - At July 1, as restated (Note 9)	22,273.34	52,898.22
Fund Balance - At June 30	$ (36,239.43)	$ 22,273.34

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, performance audits, information technology audits, and special investigations. The operations of the Office are led by the State Auditor, a member of the Governor's Council of State.

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 the end of the fiscal year to convert to GAAP for government entities. The financial statements are prepared according to GAAP as follows:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* 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 fund is the Office's primary operating fund. It accounts for all financial resources of the Office.

D. Measurement Focus and Basis of Accounting

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

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Office considers revenues to be available if they are collected or collectible within 31 days of the end of the current fiscal period. Expenditures 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 (OPEB) contributions to cost-sharing plans are recognized as expenditures in the period to which the payment relates, even if the payment is not due until the subsequent period.

Since capital asset and long-term liability accounts relating to the governmental fund are reported only at the statewide level, these amounts are not included in the Office's governmental fund financial statements. However, these amounts are reported in the Office's 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; accordingly, no allowance for doubtful accounts has been recorded.

F. **Inventories** - Inventories, consisting of general supplies and materials, are valued at cost using the last invoice cost method. Inventories are recorded as expenditures using the consumption method. 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 represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

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

Nonspendable Fund Balance - These amounts cannot be spent because they represent inventories that are not available for appropriation and are not expendable available financial resources.

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

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

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 for the year ended June 30, 2021 is presented as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Depreciable:				
Equipment	$ 1,859,928.95	$ 12,000.00	$ 85,883.62	$ 1,786,045.33
Total Capital Assets, Depreciable	1,859,928.95	12,000.00	85,883.62	1,786,045.33
Less Accumulated Depreciation for:				
Equipment	630,597.92	71,959.84	34,853.00	667,704.76
Total Accumulated Depreciation	630,597.92	71,959.84	34,853.00	667,704.76
Total Capital Assets, Depreciable, Net	1,229,331.03	(59,959.84)	51,030.62	1,118,340.57
Capital Assets, Net	$ 1,229,331.03	$ (59,959.84)	$ 51,030.62	$ 1,118,340.57

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, and net other postemployment benefit (OPEB) liability that will not be paid within the next year.

The compensated absences liability represents payments due for accumulated but unused vacation pay benefits upon the occurrence of relevant events such as employee resignations and retirements. In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year.

The net pension liability represents the Office's proportionate share of the collective net pension liability reported in the State of North Carolina's 2020 *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 of Office's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2020 *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 the long-term liabilities for the year ended June 30, 2021 is presented as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Compensated Absences	$ 1,936,315.00	$ 1,023,434.00	$ 1,005,425.00	$ 1,954,324.00	$ 62,733.85
Net Pension Liability	7,713,016.00	1,254,242.00	-	8,967,258.00	-
Net Other Postemployment Benefits Liability	20,806,045.00	-	2,154,313.00	18,651,732.00	-
Total Long-Term Liabilities	$ 30,455,376.00	$ 2,277,676.00	$ 3,159,738.00	$ 29,573,314.00	$ 62,733.85

NOTE 4 - OPERATING LEASE OBLIGATIONS

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, 2021:

Fiscal Year	Governmental Funds
2022	$ 66,366.72
2023	57,942.72
2024	51,458.97
2025	15,527.31
2026	586.67
Total Minimum Lease Payments	$ 191,882.39

Rental expense for all operating leases during the year was $75,085.77.

NOTE 5 - SERVICE REVENUE – AUDIT FEES

The Office performs federal compliance audits as specified in the 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 performs financial statement audits for colleges, universities, and agencies. The Office bills colleges and universities for the cost of financial statement audits performed. The Office performs certain other audits on a cost reimbursement basis as required by law. Amounts Due from Other Funds and Due from Component Units represent audit fees billed to state agencies, universities, and community colleges.

NOTE 6 - RETIREMENT PLANS

A. Cost-Sharing, Multiple-Employer, Defined Benefit Plan

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net pension liability, discussed in Note 3 to the financial statements, is not reported on the face of the governmental funds' financial statements.

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

Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were $732,851.03, and the Office's contributions were $1,805,256.37 for the year ended June 30, 2021.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2020 *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 Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2020 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2021, the Office reported a liability of $8,967,258 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. 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, 2020, the Office's proportion was 0.07422%, which was a decrease of 0.00018 from its proportion measured as of June 30, 2019, which was 0.07440%.

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	12/31/2019
Inflation	3.00%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.50% inflation and productivity factor.
** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

The actuarial assumptions used in the December 31, 2019 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.40%
Global Equity	5.30%
Real Estate	4.30%
Alternatives	8.90%
Opportunistic Fixed Income	6.00%
Inflation Sensitive	4.00%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.20%.

Discount Rate: The discount rate used to measure the total pension liability was 7.00% for the December 31, 2019 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, 2020 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
$ 16,138,958.65	$ 8,967,258.00	$ 2,951,685.61

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021, the Office's proportionate share of the collective pension expense was $2,557,655.00. At June 30, 2021, 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 of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 494,144.00	$ -
Changes of Assumptions	303,875.00	-
Net Difference Between Projected and Actual Earnings on Plan Investmen	991,687.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributior	-	179,825.00
Contributions Subsequent to the Measurement Date	1,847,432.00	-
Total	$ 3,637,138.00	$ 179,825.00

The amount of $1,847,432.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ended June 30:	Amount
2022	$ 533,633.00
2023	399,467.00
2024	381,349.00
2025	295,432.00
Total	$ 1,609,881.00

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code 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 $173,588.00 during the year ended June 30, 2021.

Internal Revenue Code 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 $195,907.27 during the year ended June 30, 2021.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefit (OPEB) contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period. Consequently, the net other postemployment benefits liability, discussed in Note 3 to the financial statements, is not reported on the face of the governmental fund financial statements.

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2020 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

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

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

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

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

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

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

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The Office's contractually-required contribution rate for the year ended June 30, 2021 was 6.68% of covered payroll. The Office's contributions to the RHBF were $815,907.48 for the year ended June 30, 2021.

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, and 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, 2021 was 0.09% of covered payroll. The Office's contributions to DIPNC were $10,992.77 for the year ended June 30, 2021.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2021, the Office reported a liability of $18,651,732.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. 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, 2020, the Office's proportion was 0.06724%, which was an increase of 0.00148 from its proportion measured as of June 30, 2019, which was 0.06576%.

Net OPEB Asset: At June 30, 2021, the Office reported an asset of $32,522 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. 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, 2020, the Office's proportion was 0.06611%, which was a decrease of 0.00045 from its proportion measured as of June 30, 2019, which was 0.06656%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2020 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2019	12/31/2019
Inflation	3.00%	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	6.50% grading down to 5.00% by
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by	9.50% grading down to 5.00% by
Healthcare Cost Trend Rate - Medicare Advantage	5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	3.00%

* Salary increases include 3.50% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2020.

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

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.40%
Global Equity	5.30%
Real Estate	4.30%
Alternatives	8.90%
Opportunistic Fixed Income	6.00%
Inflation Sensitive	4.00%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 was 1.20%.

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

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

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

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

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

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

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 (1.21%)	**Current Discount Rate (2.21%)**	**1% Increase (3.21%)**
RHBF	$ 22,121,216.33	$ 18,651,732.00	$ 15,858,680.41
	1% Decrease (2.75%)	**Current Discount Rate (3.75%)**	**1% Increase (4.75%)**
DIPNC	$ (28,087.49)	$ (32,522.00)	$ (36,827.90)

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% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF Net OPEB Liability:	$ 15,037,649.08	$ 18,651,732.00	$ 23,485,282.60

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC Net OPEB Asset:	$ (32,575.70)	$ (32,522.00)	$ (32,475.22)

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

OPEB Expense

	Department as a Whole	
	DIPNC	RHBF
Total	$ (23,606.00)	$ 114,519.00

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

Employer Balances Of Deferred Outflows Of Resources Related To Opeb By Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 16,897.00	$ 23,560.00	$ 40,457.00
Changes of Assumptions	817,985.00	2,529.00	820,514.00
Net Difference Between Projected and Actual Earnings on Plan Investments	39,292.00	-	39,292.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,646,346.00	2,204.00	1,648,550.00
Contributions Subsequent to the Measurement Date	834,969.00	11,250.00	846,219.00
Total	$ 3,355,489.00	$ 39,543.00	$ 3,395,032.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 729,679.00	$ -	$ 729,679.00
Changes of Assumptions	7,569,168.00	2,561.00	7,571,729.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	5,510.00	5,510.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	936,136.00	130.00	936,266.00
Contributions Subsequent to the Measurement Date	-	-	-
Total	$ 9,234,983.00	$ 8,201.00	$ 9,243,184.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Balances of Deferred Outflows of Resources and Deferred Inflows of Resources that will be Recognized in OPEB Expense:

Year Ended June 30:	RHBF	DIPNC
2022	$ (2,230,514.00)	$ 6,882.00
2023	(2,228,465.00)	4,670.00
2024	(1,289,297.00)	2,421.00
2025	(447,999.00)	3,855.00
2026	(518,188.00)	627.00
Thereafter	-	1,637.00
Total	$ (6,714,463.00)	$ 20,092.00

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

3. State Health Plan

The Office's employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer 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.

4. Death Benefit Plan of North Carolina

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

5. Disability Income Plan

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

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $2,000,000 per claim and $5,000,000 in the aggregate per fiscal year via contract with a private insurance company. The Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

NOTE 9 - FUND BALANCE RESTATEMENT

As of July 1, 2020, fund balance as previously reported was restated as follows:

	Amount
July 1, 2020 Fund Balance as Previously Reported	$ (32,690.66)
Restatement:	
Prior period revenue recognition error correction	54,964.00
July 1, 2020 Fund Balance, as Restated	$ 22,273.34

REQUIRED SUPPLEMENTARY INFORMATION

North Carolina Office of the State Auditor
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis-Non-GAAP) - General Fund
For the Fiscal Year Ended June 30, 2021 ***Schedule B-1***

	Budgeted Amounts			
	Original	**Final**	**Actual (Cash Basis)**	**Variance**
REVENUES				
Federal COVID-19 Funds - Coronavirus Relief Funds (CRF)	$ 500,000.00	$ 500,000.00	$ 500,000.00	$ -
Services - Audit Fees to Agencies and Component Units	6,514,298.00	6,514,298.00	6,467,704.00	(46,594.00)
Other Revenue	405.00	405.00	518.09	113.09
Total Revenues	7,014,703.00	7,014,703.00	6,968,222.09	(46,480.91)
EXPENDITURES				
Salaries and Benefits	19,954,444.00	17,981,022.00	17,135,329.23	845,692.77
Contracted Audits and Contracted Personal Services	961,795.00	1,521,491.00	1,389,730.36	131,760.64
Supplies and Materials	38,037.00	14,337.00	13,395.93	941.07
Travel	292,038.00	126,138.00	32,303.11	93,834.89
Communication	47,705.00	62,205.00	59,795.97	2,409.03
Utilities	8,653.00	9,853.00	3,951.93	5,901.07
Data Processing Services	67,159.00	203,089.00	200,574.59	2,514.41
Other Services	152,960.00	114,520.00	109,038.91	5,481.09
Rent/Lease of Property and Equipment	29,585.00	75,887.00	75,085.77	801.23
Service and Maintenance	111,116.00	521,551.00	521,462.32	88.68
Other Expenditures	34,785.00	44,835.00	44,782.61	52.39
Capital Outlay	122,915.00	549,229.00	548,778.76	450.24
Insurance and Bonding	1,925.00	3,440.00	3,436.43	3.57
Total Expenditures	21,823,117.00	21,227,597.00	20,137,665.92	1,089,931.08
Excess Revenues Over (Under) Expenditures	(14,808,414.00)	(14,212,894.00)	(13,169,443.83)	1,043,450.17
OTHER FINANCING SOURCES (USES)				
Transfers In:				
Encumbrance Carryforward - FY2020	-	500,000.00	500,000.00	-
Transfers Out:				
Encumbrance Carryforward - FY2021	-	(1,095,520.00)	(1,095,520.00)	-
State Appropriations	14,808,414.00	14,808,414.00	13,764,963.83	1,043,450.17
Total Other Financing Sources (Uses)	14,808,414.00	14,212,894.00	13,169,443.83	1,043,450.17
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1	-	-	-	-
Fund Balance - June 30	$ -	$ -	$ -	$ -

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS-NON-GAAP) – GENERAL FUND

A. BUDGETARY PROCESS

The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the 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.

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

The Schedule of Revenues, Expenditures, and Changes in 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 basis differences in the fund balance (budgetary basis) at June 30, 2021 to the fund balance on a modified accrual basis (GAAP).

	Governmental
Fund Balance (Budgetary Basis) June 30, 2021	$ -
Reconciling Adjustments:	
Basis Differences:	
Accrued Revenues:	
Receivables	1,324,804.00
Less:	
Unearned Revenue	(1,227,356.00)
Total Accrued Revenues	97,448.00
Accrued Expenditures:	
Payables	(154,537.78)
Total Accrued Expenditures	(154,537.78)
Other Adjustments:	
Inventories	20,850.35
Fund Balance (GAAP Basis) June 30, 2021	$ (36,239.43)

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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