



INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 8, 2021

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2021 Annual Comprehensive Financial Report (ACFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report, which is now termed Annual Comprehensive Financial Report (ACFR) with the early implementation of GASB Statement 98, *The Annual Comprehensive Financial Report*, in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this ACFR has been prepared in accordance with GAAP.

North Carolina's State government management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted 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, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. Turnpike Authority, and the N.C. State Lottery Fund. The MD&A can be found immediately following the independent auditor's report.

Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee, and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 10.6 million, making it the 9th most populated state in the nation. Ninety-four percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on the western border. There are 80,242 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85, and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina is ranked in the top two states by *Site Selection* and *CNBC* magazines for doing business while *Chief Executive* magazine ranked North Carolina fourth for best state for doing business.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...." All administrative departments, agencies, and offices of the State and their respective functions, powers, and duties shall be allocated by law among and within not more than 25 principal administrative departments.

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the ACFR includes all fund types of the departments, agencies, boards, commissions, and authorities governed and legally controlled by the State's executive, legislative, and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, and the State Health Plan. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1, Summary of Significant Accounting Policies, of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment compliance exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriations Bill. The budget approved by the General Assembly is the legal expenditure authority; however, the Office of State Budget and Management may approve executive changes to the legal budget as allowed by law. These changes result in the final budget presented in the required supplementary information.

Economic Condition

Overview

In fiscal year 2020-21, the nation and North Carolina were recovering from the sharp economic downturn caused by disruptions associated with the COVID-19 pandemic. Public health measures undertaken in response to COVID-19 resulted in shuttered businesses and unprecedented job losses, leading to a unique recession caused largely by a single external factor rather than structural economic problems. The pandemic-induced U.S. recession was unusually severe, with declines in economic activity and employment comparable to those seen at the start of the Great Depression. However, this recession was also unusually short; it lasted only two months and officially ended in April 2020.

At the start of the fiscal year, the most stringent business restrictions had been eased and the State's economy was beginning to rebound. The economic recovery continued in fits and starts throughout the fiscal year, following the trajectory of the spread of the virus and related containment measures. In May 2021, near the end of the fiscal year, the remaining business restrictions were lifted, and COVID-19 vaccinations had become widely available to adults. By the fiscal year's end, economic output had surpassed pre-pandemic levels despite employment remaining well below pre-pandemic levels.

At the start of fiscal year 2021-22, the Delta variant of the coronavirus precipitated a new wave of infections, slowing economic recovery. By October 2021, this "Delta wave" had peaked and was beginning to fall, and the economic recovery was beginning to accelerate once more. Going forward, economy remains tied to the rate of transmission of the coronavirus. Given falling infection and hospitalization rates, the economic outlook is positive.

Broad measures of U.S. and North Carolina economic activity demonstrate the remarkable recovery from the depths of the pandemic-induced recession. Although many indicators suggest that the economy has returned to or exceeded pre-pandemic levels, labor market indicators, in particular, demonstrate that certain sectors of the economy have not yet fully recovered. Projections of key economic indicators reflect how the economy is expected to unfold during the next two fiscal years.

Economic Indicators

	FY 2019-20 Actual	FY 2020-21 Actual	FY 2021-22 Projected	FY 2022-23 Projected
<u>United States Indicators</u>				
Real Gross Domestic Product Growth	-0.9%	1.6%	5.2%	2.9%
Personal Income Growth	5.4%	7.2%	0.9%	3.9%
Corporate Pre-Tax Profit Growth	-5.3%	15.0%	10.2%	4.9%
Retail Sales Growth	1.3%	14.6%	8.0%	3.6%
Average Unemployment Rate	6.0%	6.9%	4.4%	3.5%
Average Consumer Price Index Growth	1.6%	2.3%	5.0%	2.5%
Average 30-yr Fixed Mortgage Interest Rate	3.5%	2.9%	3.2%	3.7%
<u>North Carolina Indicators</u>				
Real Gross State Product Growth	-0.8%	2.5%	5.6%	3.3%
Personal Income Growth	6.4%	7.2%	0.6%	3.9%
Wages and Salaries Growth	3.4%	6.1%	7.4%	4.9%
Retail Sales Growth	0.5%	13.6%	12.0%	6.1%
Average Unemployment Rate	5.7%	6.1%	3.3%	2.9%
Nonfarm Employment Growth	-7.0%	5.8%	4.2%	1.8%

U.S. real gross domestic product (GDP, a broad measure of economic activity) decreased by 5.0 percent annualized in the first quarter of 2020, and by 31.4 percent annualized in the second quarter of 2020, ending the longest period of economic expansion in recorded history. The onset of the pandemic took a similarly substantial toll on State economic activity. The contraction was in large part a result of the restrictions on economic activity imposed because of the pandemic; once lifted, economic activity recovered substantially. North Carolina's gross state product grew by 2.5 percent in fiscal year 2020-21, while the U.S. gross domestic product similarly grew by 1.6 percent, both exceeding their pre-pandemic levels by the end of the fiscal year. Over the next two fiscal years, North Carolina's economy is expected to expand at a faster pace than that of the nation.

U.S. corporate profits mounted an especially robust recovery, ending the fiscal year up 15.0 percent, after falling by 5.3 percent in the previous fiscal year. Corporate profits are expected to remain strong through next fiscal year, with growth moderating in fiscal year 2022-23.

Inflation was low for most of the fiscal year but began to accelerate near the end of the fiscal year, bringing the average annual change in consumer prices to 2.3 percent. Price increases were concentrated in a few categories where prices had been cut initially due to the pandemic, such as airfares and hotels, and in used vehicles due to supply-chain issues. Inflation is expected to become more widespread in fiscal year 2021-22, as pandemic-fueled supply-chain disruptions continue to grow. Consequently, consumer price growth is expected to remain high through next fiscal year, before slowing in fiscal year 2022-23.

During the fiscal year, the housing market tightened considerably. Mortgage rates hit an all-time low at the beginning of January 2021 and housing demand surged. In North Carolina, home values appreciated 17.7 percent over the fiscal year. Mortgage rates are expected to rise slowly over the next two years and the housing market is expected to cool.

Wage and salary income rose 6.1 percent during the fiscal year, compared to growth last fiscal year of 3.4 percent. As the economic restrictions largely impacted lower-wage industries such as the leisure and

hospitality sector, wage growth overall was not as dramatically impacted as it may have been had the pandemic and related economic restrictions affected higher-wage industries. In 2020 and early 2021, total personal income was boosted by pandemic-related assistance programs. Income from the federal government economic impact payments, expanded unemployment insurance, and the Paycheck Protection Program more than offset declines in other sources of income. State total personal income rose by 7.2 percent during the fiscal year, mirroring the national 7.2 percent increase. These increases came after last fiscal year's growth of 6.4 percent at the State level and 5.4 percent nationally. As transfer payments subside to more typical levels, personal income growth is expected to slow significantly.

Consumer spending was initially hard hit by the pandemic, especially during the most restrictive phases of the economic lockdown. However, upon reopening, consumer spending rebounded significantly, due to pent up demand because of reduced spending during the lockdown, as well as income from the federal stimulus benefits provided in 2020 and early 2021. Retail sales were especially strong, growing 13.6 percent in the State during this fiscal year compared to a growth rate of only 0.5 percent last fiscal year. Growth was slow early in the fiscal year, but quickly surpassed pre-pandemic levels as business restrictions were eased. Despite higher prices, retail sales are expected to remain robust through next fiscal year as consumers spend down the savings accumulated during the pandemic.

Compared to other economic indicators, employment measures present a more nuanced picture of overall economic conditions. Prior to the pandemic, the State and U.S. unemployment rates were 3.5 percent, the lowest level in 50 years. Throughout the recession and recovery, North Carolina's unemployment rate has been consistently below the U.S. unemployment rate. Unemployment rates peaked in April 2020 in the State and nationally, reaching 13.5 percent for North Carolina and 14.8 percent for the U.S. The State unemployment rate averaged 6.1 percent for the fiscal year, declining from 8.8 percent at the start of the fiscal year to 4.6 percent in June 2021. The U.S. unemployment rate fell from 10.2 percent in July 2020 to 5.9 percent in June 2021, averaging 6.9 percent over the 12-month period. However, the unemployment rate understates the level of joblessness because workers who left the labor force during the pandemic are not counted among the unemployed. In North Carolina, over 100,000 workers had not returned to the labor force as of June 2021.

From June 2020 to June 2021, the North Carolina economy gained 247,900 nonfarm jobs (5.8 percent). However, employment was 121,400 (2.6 percent) lower than in February 2020, before the pandemic. At the end of the fiscal year, North Carolina had recovered 78.9 percent of the 575,200 jobs lost during the recession, while the U.S. had only recovered 70.3 percent of jobs lost. In North Carolina, jobs were added over the fiscal year in all major industries. The leisure and hospitality sector, hardest hit during the pandemic, added the most jobs (81,000 jobs).

Labor market conditions are expected to continue to improve. New business formation, which is critical for the employment outlook, was extraordinarily strong during the fiscal year. Over 170,000 new businesses were formed in the State, up 66.8 percent over last fiscal year. North Carolina is expected to fully recoup job losses incurred as a result of the pandemic by early 2022.

Emma Turner, PhD
NCGA Fiscal Research Division

Long-Term Financial Planning and Major Initiatives

North Carolina Pension Funds

The North Carolina Retirement System administers four major retirement systems and several smaller systems and pension funds. The largest of the major retirement systems is the Teachers' and State Employees' Retirement System (TSERS).

Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2020, the State established an employer contribution rate of 14.78% of compensation for TSERS. This contribution rate remains in effect until there is a Current Operations Appropriations Act for fiscal year 2021-22. The TSERS Board of Trustees has recommended a contribution rate of 15.74% of compensation pursuant to Employer Contribution Rate Stabilization Policy (ECRSP) subject to adjustment if there are cost-of-living increases or benefit improvements enacted by the General Assembly.

The ECRSP was established in 2016 as a mechanism for the Board of Trustees to use for making recommendations to the General Assembly for employer contribution rates for TSERS. A new version of ECRSP was adopted in April 2021 extending the essential provisions of ECRSP and adding clarifications. This policy establishes a procedure for determining the employer contribution rates for TSERS that the TSERS Board of Trustees will recommend to the General Assembly for fiscal years ending through June 30, 2027.

With the ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is no less than 0.35% of payroll greater than the appropriated contribution from the prior fiscal year, within the following bounds: 1) contributions may not be less than the actuarially determined contribution rate using the assumptions adopted, including a discount rate equal to the assumed rate of investment return used in the current year's valuation; and 2) contributions may not be greater than the actuarially determined contribution rate determined using the assumptions adopted, but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

Retiree Health Benefits

Legislation passed during the 2017 Legislative Session will close the Retiree Health Benefit Trust. Members hired on or after January 1, 2021, are not eligible to receive retiree medical benefits. Under this legislation, retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn from service, to be eligible for retiree medical benefits.

Unfunded Liability Solvency Reserve

Session Law 2018-30 created the Unfunded Liability Solvency Reserve within the State's General Fund. The purpose is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce the unfunded liabilities associated with TSERS and the Retiree Health Benefit Fund (RHBF). The Solvency Reserve will receive funds specifically designated by the General Assembly. To the extent the Savings Reserve has reached its statutory maximum, the Solvency Reserve also will receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability. The TSERS Board of Trustees met on April 29, 2021, and determined pursuant to G.S. 143C-4-10(c)(3)c that rebates received from supplemental voluntary insurance benefits are not needed to pay for the future administrative costs of these benefits and can be directed to the Unfunded Liability Solvency Reserve. The Retirement System Division received a rebate check in October 2021 in the amount of \$3.3 million from United Health Care in a performance reward which was deposited to the Unfunded Liability Solvency Fund.

Enterprise Resource Planning (ERP)

The North Carolina General Assembly allocated funds during the 2017-2019 biennium to continue to develop a fully consolidated statewide Enterprise Resource Planning (ERP) solution. To date, the State has implemented Release One, the replacement of the Cash Management Control System (CMCS), on April 5, 2021, and Release Two, implementation of new Oracle SmartView tools for compiling the State's Annual Comprehensive Financial Report (ACFR), on July 28, 2021. Through fiscal year ended June 2021, project spending has amounted to approximately \$28 million out of the \$40 million

appropriated. There is currently a budget request for the balance of \$50 million to complete the project. The project team is currently in the development phase for Release Three, the replacement of the North Carolina Accounting System (NCAS), scheduled for a 2023 implementation.

Relevant Financial Policies

Savings Reserve

Session Law 2017-5 amended General Statute 143C-4-2 creating the Savings Reserve in the General Fund. The Reserve is a component of the unappropriated General Fund balance. Funds in the Savings Reserve shall be available for expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and the House of Representatives present and voting for the following purposes: 1) to cover a decline in General Fund tax revenue from one fiscal year to another, 2) to cover the difference between that fiscal year's General Fund operating budget appropriations, excluding receipts and projected revenue, 3) to pay costs imposed by a court or administrative order, or 4) to provide relief and assistance from the effects of an emergency. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies.

Each year the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly shall jointly determine the adequacy of the Savings Reserve, based on the volatility of the State's tax structure and determine a target for the Savings Reserve, so as to be sufficient to cover two years of need for nine out of ten scenarios involving a decline in General Fund revenue from one fiscal year to the next. In 2021, the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly recommended a target of 10.9% of the prior fiscal year's General Fund operating budget appropriations. At June 30, 2021, the Savings Reserve was \$1.982 billion, which represents 8.12% of the prior year's General Fund appropriation budget.

At the beginning of fiscal year 2020-21, the balance of the Savings Reserve Account was \$1.169 billion. The 2020 General Assembly authorized the transfer of \$877.717 million from the Unreserved Fund Balance to the Savings Reserve, the transfer of \$13.203 million from the Savings Reserve to the State Emergency/Response Disaster Reserve, \$27.797 million to the Hurricane Florence Disaster Recovery Reserve, and \$24.0 million to the Earthquake Disaster Recovery Reserve leaving a balance in the Savings Reserve of \$1.982 billion.

State Capital and Infrastructure Fund

The 2017 General Assembly established the State Capital and Infrastructure Fund, effective July 1, 2019. This replaces the Repairs and Renovations Reserve Account. The General Assembly recognized the need to establish and maintain a sufficient funding source to address the ongoing capital and infrastructure needs of the State. The Fund shall consist of 1) one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of the fiscal year; 2) four percent of the net State tax revenues that are deposited in the General Fund during the fiscal year; 3) all monies appropriated by the General Assembly for the purposes of capital improvements; 4) all interest and investment earnings received on monies in the Fund; and 5) any other funds as directed by the General Assembly.

Justification & Expected Long-term benefits of Tax Abatements

The Jobs Development Investment Grant (JDIG Program) is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to twelve years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year of the grant. In adopting the JDIG Program in the 2001-2002 Session, the General Assembly intended "to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State." The long-term benefits to the state of N.C. generated by the fiscal year 2020-21 grant payments include 1) the creation of 27,523 jobs, 2) capital investment of \$6.06 billion, and 3) \$12.03 million contributed to the Utility Fund for infrastructure grants to rural counties.

2020 COVID-19 Recovery Act and State Fiscal Recovery Reserve and State Fiscal Recovery Fund

The 2020 COVID-19 Recovery Act (Act) (Session Law 2020-4) authorized the Office of the State Controller to establish the Coronavirus Relief Reserve in the General Fund to maintain funds received from the federal government through the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak in North Carolina. Additionally, the Act established the Coronavirus Relief Fund to provide necessary and appropriate relief and assistance from the effects of COVID-19. The special fund is administered by the Office of State Budget and Management. Subsequent legislation (Session Law 2020-32, Session Law 2020-53, and Session Law 2020-80) authorized additional spending of the Coronavirus Relief funds received from the CARES Act. The State of North Carolina received \$3.59 billion directly from the federal government from the CARES Act in fiscal year 2020. By June 30, 2021 \$3.29 billion had been spent on COVID-19 relief. The remaining \$294.09 million was reported as unearned revenue.

In addition, in response to the Coronavirus pandemic, Session Law 2021-25 was signed into law on May 24, 2021. This bill created the State Fiscal Recovery Reserve and State Fiscal Recovery Fund to manage federal funds received from the federal government under the American Rescue Plan Act (ARPA) of 2021, P.L. 117-2. North Carolina will receive \$5.4 billion in federal funds from ARPA which will be appropriated by the General Assembly for expenditure. As of June 30, 2021, N.C. had received \$2.7 billion of the \$5.4 billion and is expected to receive the remainder in fiscal year 2021-22. At June 30, 2021, the full amount of \$2.7 billion was reported as unearned revenue.

Debt Affordability Guidelines

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is also required to recommend other debt management policies consistent with sound management of the State's debt. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year. A one-month extension was granted for the report in 2021 in anticipation of the latest consensus revenue forecasts.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The 2021 study indicated over the ten-year planning horizon the State's revenue picture is positive overall, reflecting a continued economic recovery. The study found that the State's General Fund has debt capacity of \$1.458 billion in each of the next ten years after incorporating the Committee's policy that directs resources to unfunded pension and OPEB liabilities. The ratio of debt service to revenues was projected to peak at 2.68% in fiscal year 2021. This rate is below the 4.0% target. The debt service arising from the Connect NC Bonds and Build NC Bonds is incorporated into the model.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt the State could prudently authorize and issue over the next ten years:

1. Net Tax-Supported Debt service after a continuing appropriation of \$100 million to the Solvency Fund as a percentage of General Tax Revenues should be targeted at no more than 4.0% and not to exceed 4.75%;
2. Net Tax-Supported Debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of twelve other states rated "triple-A."

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2020. This was the 27th consecutive year (1994 to 2020) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our gratitude to all the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 707-0500.

Respectfully submitted,



Linda Combs
State Controller

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CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of
Achievement
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Reporting

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morrell

Executive Director/CEO