



State of North Carolina
Office of the State Controller

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING JUNE 30, 2017

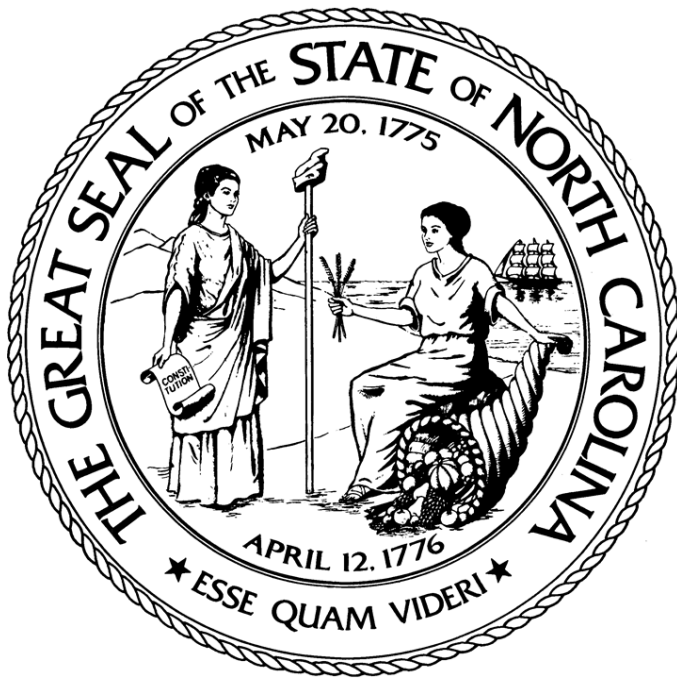
Cover photo: Outer Banks of North Carolina

The “Old North State” has a lot to offer as you travel from east to west. North Carolina as the 12th state in the union, offers the second-longest coastline on the east coast and the highest mountain east of Pikes Peak (Mount Mitchell at 6,684 feet). It is the birthplace of Virginia Dare, Andy Griffith, Charles Kuralt, Michael Jordan, three presidents, and manned flight. It is also the home of the best in barbecue (eastern and western styles), the best in college basketball, the first musical celebration of Independence Day (Old Salem), and the largest research park in the United States (Research Triangle Park). Traveling from the sea to the mountains will take you a little more than 8 hours by car as it is 546 miles from the coastal town of Manteo to the mountain town of Murphy.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2017



ROY COOPER
GOVERNOR

LINDA COMBS
STATE CONTROLLER

Prepared by Statewide Accounting staff
Office of the State Controller

<https://www.osc.nc.gov>

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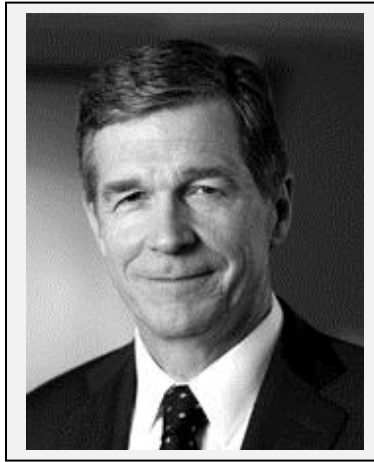
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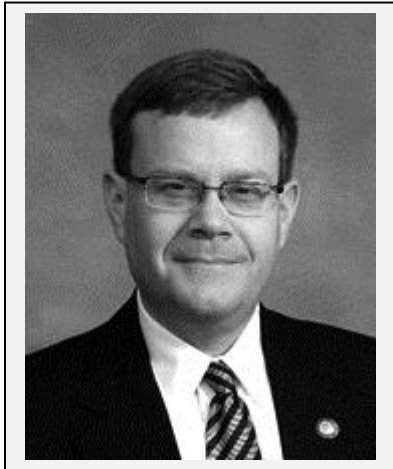
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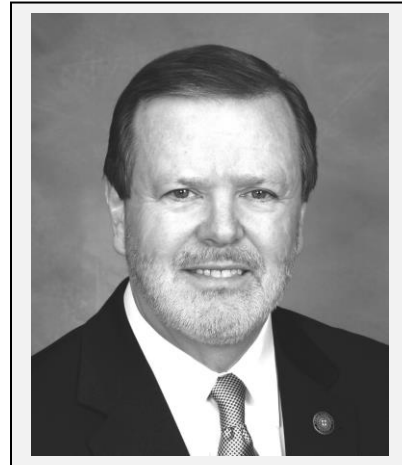
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



ROY COOPER
Governor of North Carolina



REPRESENTATIVE TIM MOORE
Speaker of the House
North Carolina General Assembly



SENATOR PHILIP BERGER
President Pro Tempore
North Carolina General Assembly



LINDA COMBS
State Controller

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For the Fiscal Year Ended June 30, 2017*

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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 1, 2017

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 2017 Comprehensive Annual Financial Report (CAFR). 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 (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this CAFR 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 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 10.26 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 our western border. There are 79,669 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 continues to grow and to be an attractive place to live, to work, and to raise a family. The State has been consistently ranked as one of the nation's best business climates according to *Site Selection* magazine. In addition, North Carolina is ranked among the best business climates in the nation by *CNBC*, *Forbes* and *Chief Executive*.

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 CAFR 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 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

During fiscal year 2016-17, the US economy continued to grow at a steady pace and North Carolina's economic conditions reflected the same steady improvements. Total industry employment increased by 72,200 jobs (1.7%). A few key State industries experienced strong growth, especially the Professional and Business Services sector (5.0% growth), followed by Education and Health Services (2.4%), and Leisure & Hospitality (2.1%). Labor market improvements lowered the unemployment rate and increased wage growth. The State's unemployment rate fell from 4.9% to 4.2%. Wage and salary income grew by 4.8%, which built upon the solid growth of last fiscal year's 5.6% growth. For the second half of 2017, economic conditions should continue to support steady employment growth with wages forecast to grow at a pace similar to last year.

At the end of the fiscal year, the economy was in the midst of the third-longest recovery from a recession at 106 months. This recovery may surpass the longest recovery on record of 120 months before the economy enters into another downturn. The sluggish economy that characterized the start of the recovery has given way to more modest, steady growth. The national Gross Domestic Product (GDP, a broad measure of economic activity) averaged an annualized growth rate of 2.2% during fiscal year 2016-17. This was below the long-term 3.0% average.

National Economic Outlook

United States Economic Indicators

| | FY 2015-16 Actual | FY 2016-17 Projected | FY 2017-18 Projected | FY 2018-19 Projected |
|---|----------------------|-------------------------|-------------------------|-------------------------|
| GDP Growth* | 1.2% | 2.2% | 2.3% | 2.5% |
| Personal Income Growth | 3.6% | 2.5% | 4.2% | 5.0% |
| Corporate Pre-Tax Profit Growth | -7.4% | 7.3% | 4.0% | 6.2% |
| Retail Sales Growth | 2.6% | 3.7% | 3.9% | 4.7% |
| Unemployment Rate | 4.8% | 4.4% | 4.0% | 4.1% |
| Consumer Price Index | 0.7% | 1.8% | 2.4% | 2.7% |
| 30-yr Fixed Mortgage Interest Rate | 3.8% | 3.9% | 4.3% | 5.2% |

*Adjusted for inflation

The national economy continues to go through a lengthy economic recovery characterized by a moderate and often erratic pace of growth. The ongoing recovery since the last recession is already the third-longest in recorded history and appears to be on its way to the longest period between the end of a downturn and the start of the next recession. Through the end of 2017, the national economy is expected to maintain the current pace of growth.

The economy continues to struggle to achieve a steady pace of expansion. In the second quarter of 2017, annualized GDP growth was 3.0%, which followed the previous quarter’s weak 1.2% growth. Nonetheless, economic indicators conveyed overall improvement during the fiscal year. The national economy grew at an average pace of 2.2%, faster than the previous year’s pace. The next two fiscal years’ economic activity is expected to continue this moderate pace, growing by 2.6% and 2.5%, respectively. Growth throughout each year is expected to be steadier than this fiscal year’s.

Uneven economic growth did not slow employment growth. The nation’s average unemployment rate dropped from 4.8% to 4.4%. Unlike previous unemployment rate drops – which were primarily attributed to a shrinking labor force – this reduction was driven by stronger employment growth. Despite the employment gains, income growth remained weaker than might have been expected. During the fiscal year, the nation’s total personal income rose by 2.5%. A projection for a stable economy suggests that personal income will grow at a stronger pace in fiscal year 2017-18.

Business profitability weakened in the first half of 2016, but stabilized as the economy remained on a trajectory of steady, modest growth. Coming out of the recession, many businesses were bolstered by a global economic recovery spurred primarily by emerging markets such as India and China. In the past year, export demand, which had weakened, recovered. Corporate profits nationally grew by 7.3% during the fiscal year after falling by 7.6% the previous fiscal year. Growth in the following years reflects better export opportunities and a steady national economy. For the next two years, profits are forecast to grow 4.0% and 6.2%, respectively.

Retail sales are a good indicator of an economy’s overall health. This key measure remained relatively weak during fiscal year 2016-17, and the pace of growth did not meet most forecasters’ expectations. With the improvements in the employment picture, consumers should be more willing to increase spending. Household debt has increased the past two years reflecting more confident consumers, but debt has in part been driven by stagnant wage growth. Continued improvements in employment and stronger individual wage growth will help boost retail sales over the next several years.

To summarize, the national economy is expected to settle into a steady growth pattern in the 2.5% range. Employment and wage improvements have begun to increase consumer spending. As the labor market continues to tighten, wages are expected to further improve, which should encourage a stronger consumer market. Structural weakness nationally, plus global economic and social uncertainties, will keep the national economy from accelerating into a full-blown expansionary mode.

*North Carolina
Economic
Outlook*

North Carolina Economic Indicators

| | FY 2015-16 Actual | FY 2016-17 Projected | FY 2017-18 Projected | FY 2018-19 Projected |
|------------------------------------|----------------------|-------------------------|-------------------------|-------------------------|
| State Gross Product Growth* | 2.1% | 2.1% | 3.3% | 3.6% |
| Personal Income Growth | 4.4% | 3.9% | 4.0% | 5.1% |
| Wages & Salaries Growth | 5.6% | 4.8% | 4.7% | 5.8% |
| Retail Sales Growth | 3.2% | 4.6% | 6.1% | 6.5% |
| Unemployment Rate | 5.3% | 4.4% | 4.2% | 4.0% |
| Nonfarm Employment Growth | 2.5% | 1.7% | 1.5% | 1.6% |
| Population Growth | 1.0% | 1.0% | 1.1% | 1.1% |

*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, and the pace of growth closely tracked both the expectations at the start of the fiscal year and the stronger pace of growth established in the previous fiscal year. The State added another 72,200 payroll jobs (1.7% growth) on top of the 93,200 (2.5% growth) added the previous fiscal year. Most industries experienced decent gains, but employment in the Information Services and the Manufacturing industries posted declines.

Projections of the State's key economic indicators reflect how the State's recovery is expected to unfold. Gross State Product, a broad measure of the State's economic activity, is expected to show solid growth in the next two fiscal years. Total personal income growth should remain steady, increasing to 4.0% growth in fiscal year 2017-18. For the fiscal year, total personal income rose by 3.9%, still trailing the strong growth of 6 to 7% experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.8% for the fiscal year.

As noted, the recovery in North Carolina moved into a stronger expansionary phase during fiscal year 2016-17, and the State continued solid progress in employment lowering the unemployment rate from 5.3% at the start of the fiscal year to 4.4% at the end. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 4.6%. Going forward, retail sales are expected to recover from years of slow growth by growing faster than the long-term 5.0% average and are forecast to grow by 6.1% in fiscal year 2017-18. A steady increase in wage-income is expected to spur growth in retail consumption the next two years.

As the State's economy continues to progress, employment and income prospects are expected to stabilize. Total payroll employment is projected to grow by 1.5% and 1.6%, respectively. That would be below this year's growth, but would continue to add 65,000 to 75,000 jobs in each of the next two years. Key industries in the State experienced strong growth during the fiscal year, especially the Professional and Business Services sector (5.0% growth), followed by Education and Health Services (2.4%), and Leisure & Hospitality (2.1%). The Construction industry has struggled to regain some of the jobs lost during and after the recession. During fiscal year 2015-16, employment grew in this industry by 3.9% (7,300 jobs). This past year, Construction growth slowed, adding only 1,100 jobs (0.6%). Despite the gains the past several years, there are still 52,900 fewer construction jobs than when the recession began in December 2007.

The State is estimated to have added 104,000 people to its population during the fiscal year, and by 2019 the State's population is projected to grow to just under 10.5 million, an increase of over 300,000 people since 2016. Continued population growth will assist with economic growth by adding demand for housing, durable and non-durable goods, and services. In turn, growth in personal income and retail sales will be bolstered by the State's continued growth.

To summarize, the State's economic conditions experienced steady improvement during the fiscal year. During most of 2016 and into 2017, the State's economy tracked closely, and at times outpaced, the national economy's expansion. The State's economy is projected to maintain growth at a pace faster than the national average throughout the next fiscal year. The anticipated economic strengthening should increase consumer demand, which will help maintain solid employment growth. Rising employment and wage gains continue to improve the overall health of the State's economy.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
October 2, 2017

Long-Term Financial Planning and Major Initiatives

North Carolina Pension Funds

The North Carolina Retirement Systems administer 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, 2017, the State established an employer contribution rate of 10.78% of compensation for TSERS. This includes a base contribution rate of 10.33% along with an additional 0.43% of compensation to pay for a 1% cost of living adjustment (COLA) granted by the General Assembly and 0.02% of compensation to cover legislation extending retirement benefits provided to law enforcement officers to probation and parole officers in future years. The 10.33% contribution rate exceeds the Actuarially Determined Contribution (ADC) rate of 10.08%.

Effective January 21, 2016, the TSERS Board adopted the Employer Contribution Rate Stabilization Policy (ECRSP) which established a mechanism for the Board of Trustees to use for making recommendations to the General Assembly for employer contribution rates for TSERS for the next five years. The purpose of this policy is to aid in mitigating the risk that average investment returns earned on TSERS assets are below the actuarial assumed investment return over the short and medium term.

With the ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is equal to the maximum of the current fiscal year's actuarially determined contribution rate or a rate that is 0.35% greater than the prior fiscal year's appropriated contribution rate. The rate selected is not to exceed a rate determined using a discount rate indexed by the 30-year Treasury rate as of the actuarial valuation date.

North Carolina State Health Plan

New legislation passed during the 2017 Legislative Session will close the Retiree Health Benefit Trust. Members hired on or after January 1, 2021 will not be eligible to receive retiree medical benefits. Under the new 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, in order to be eligible for retiree medical benefits.

Enterprise Resource Planning (ERP)

The North Carolina General Assembly has allocated funds for the 2017-2019 biennium to continue to develop a fully consolidated statewide Enterprise Resource Planning (ERP) solution. The State has determined that the initial phase of this ERP should address replacement of the North Carolina Accounting System (NCAS) and the Cash Management Control System (CMCS). The State plans to release Request for Proposals (RFP) in late 2017. As sufficient funding is allocated, the State will proceed with the NCAS/CMCS replacement.

Hurricane Matthew

On October 8, 2016, Hurricane Matthew hit North Carolina as a Category one storm affecting numerous counties within the State. As of February 2017, 50 counties received Presidential disaster declarations. During a 36-hour period, areas in central and eastern North Carolina impacted by Hurricane Matthew experienced torrential rainfall ranging from 4 to 18 inches. Matthew's devastation followed drenching rains from Tropical Storms Julia and Hermine in September 2016. The disaster met or exceeded the 100-year flood plain for many communities in the eastern part of the State. Hurricane Matthew resulted in at least 25 deaths, and over 100,000 homes, businesses, and government buildings sustained damage estimated at \$1.5 billion. There was also massive damage to the State's infrastructure, and an estimate of approximately \$600 million in agricultural losses.

As of April 2017, it is estimated that an overall funding requirement of \$2.8 billion is required to support the recovery from Hurricane Matthew in addition to the estimated \$2 billion in economic losses to businesses and industry. In November 2016, the State secured \$332 million in funding from its first Congressional unmet needs request for Hurricane Matthew. In May 2017, an additional \$37.96 million

was awarded in the second Congressional request. In addition, \$752 million has been secured from federal Stafford Act recovery programs which requires state matching funds of approximately \$134 million.

In December 2016, the North Carolina General Assembly appropriated \$200.9 million in state funding for disaster recovery efforts. In July 2017, an additional \$100 million was provided by the North Carolina General Assembly for continued disaster recovery efforts. The total state appropriations provided to date for disaster recovery is \$300,928,370. As of September 2017, more than \$151 million of the funding has been expended and/or encumbered.

The most current estimate of unmet needs associated with the damages caused by Hurricane Matthew is at least \$650 million. The State is committed to continuing the assessment of unmet needs and providing the required funding to address those needs.

Relevant Financial Policies

Savings Reserve Account

General Statute 143C-4-2 established the Savings Reserve Account as a reserve in the General Fund. The State Controller “shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.”

The Savings Reserve Account is a component of the unappropriated General Fund balance and serves as the State’s rainy day fund. Funds in the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. 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. It is a goal of the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than 8% of the prior year’s General Fund appropriation budget.

At the beginning of fiscal year 2016-17, the balance of the Savings Reserve Account was \$1.575 billion. Section 4.1 of Session Law 2016-124 authorized the State Controller to transfer \$100.9 million from the Savings Reserve to the Disaster Relief reserve and Golden LEAF (Long-term Economic Advancement Foundation), Inc., a nonmajor component unit of the State. Section 2.2(c) of Session Law 2017-57 authorized the State Controller to transfer \$363.9 million from the unreserved fund balance in the General Fund at June 30, 2017 to the Savings Reserve. The balance at the end of the 2017 fiscal year was \$1.84 billion. This represents 8.46% of the prior year’s General Fund appropriation budget, achieving the State’s goal.

Repairs and Renovations Reserve Account

General Statute 143C-4-3 established the Repairs and Renovations Reserve Account (R&R Account) as a reserve in the General Fund. The State Controller “shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.”

The funds in the R&R Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the R&R Account shall be available for expenditure only upon an act of appropriation by the General Assembly. At the beginning of fiscal year 2016-17, the balance of the R&R Account was \$92.99 million. Session Law 2017-57 authorized the State Controller to make a transfer of \$125 million from the unreserved fund balance to the Repairs and Renovations Reserve. This created a fiscal year-end balance of \$136.59 million.

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 10 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.

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 2017 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 \$181 million in each of the next 10 years. The ratio of debt service to revenues will peak at 3.40% in fiscal year 2019. This rate still will be below the 4% target. The debt service arising from the Connect 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 10 years:

1. Net Tax-Supported Debt service after contributions to unfunded liabilities as a percentage of General Tax Revenues should be targeted at no more than 4.5% and not 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%.

The primary recommendation of the 2017 Committee suggested significant additional money be put toward North Carolina's pension and other post-employment benefit (OPEB) obligations that represent retired employees' health benefits. The Committee recommended the targeted debt limit ratio be raised from 4% to 4.5% of general fund tax revenues, allowing for debt capacity in the General Fund, after placing funds in trust for the purpose of funding the pension and OPEB liabilities.

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 Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the 23rd consecutive year (1994 to 2016) 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

CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

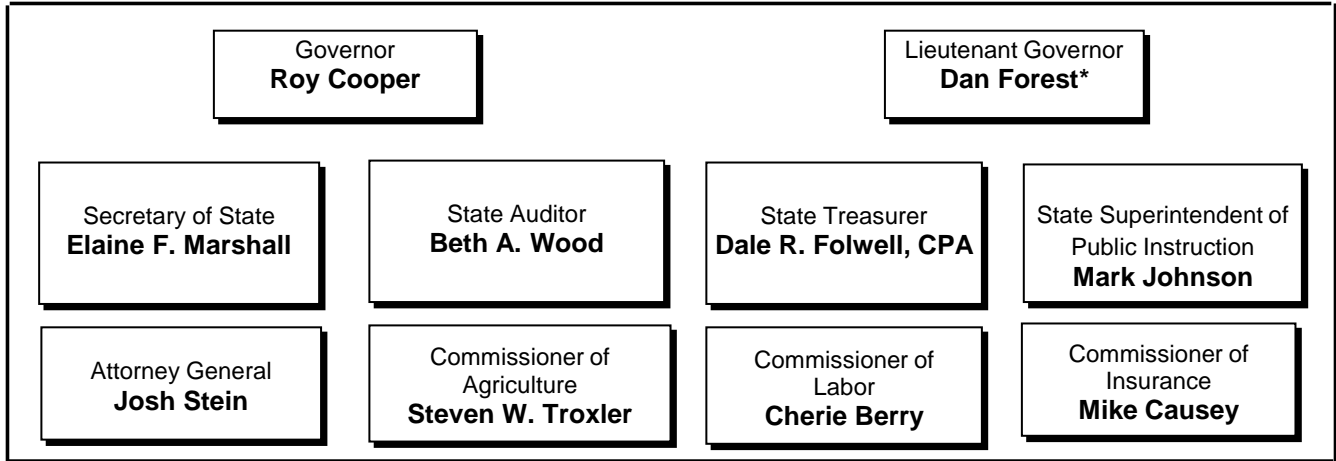
June 30, 2016

Executive Director/CEO

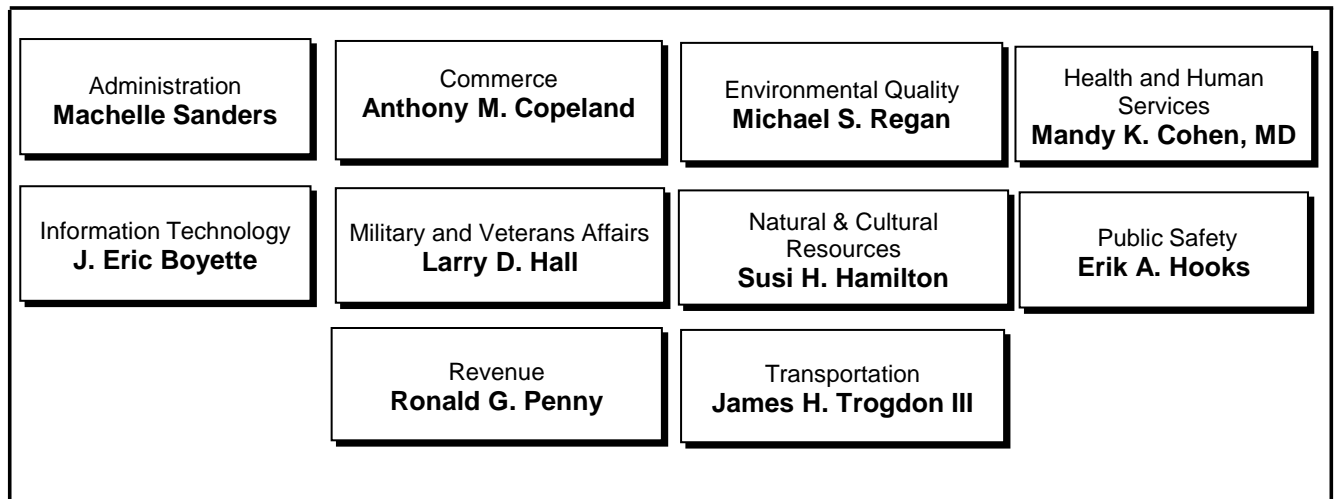
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

EXECUTIVE BRANCH

Council of State



Cabinet Secretaries — Appointed by the Governor



**Appointed by Governor,
Confirmed by Legislature**

**Appointed by State Board of
Community Colleges**

**Appointed by University
Board of Governors**

**State Controller
Dr. Linda Combs**

**Dr. James C. Williamson
President**

**Margaret Spellings
President**

LEGISLATIVE BRANCH

JUDICIAL BRANCH

General Assembly

| | |
|---|---|
| Senate | House of Representatives |
| President Pro Tempore Philip Berger | Speaker Tim Moore |
| Deputy Pres. Pro Tempore Louis Pate | Speaker Pro Tempore Sarah Stevens |
| Majority Leader Harry Brown | Majority Leader John R. Bell, IV |
| Minority Leader Dan Blue | Minority Leader Darren G. Jackson |

*Note:
Article II of the NC Constitution provides that the Lieutenant Governor shall serve as President of the Senate.

North Carolina Supreme Court

Chief Justice
Mark D. Martin

Associate Justices
Paul M. Newby
Robin E. Hudson
Barbara Jackson
Cheri Beasley
Sam Ervin, IV
Michael Morgan

Administrative
Office of the Courts
Judge Marion Warren
Director

Component Units

| | | |
|--|---------------------------|--------------------------|
| University of North Carolina System | Community Colleges | State Health Plan |
| Other Component Units | | |

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FINANCIAL SECTION



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 2 percent and 65 percent, respectively, of the assets and revenues of the business-type activities.
- The financial statements of the North Carolina Turnpike Authority, which is a major enterprise fund and represents 28 percent, 6 percent, and 6 percent, respectively, of the assets, net position, and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 4 percent, 3 percent, and 2 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 11 percent, 2 percent, and 1 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare, which represent 3 percent, 2 percent, and 5 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units.
- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 8 percent, 7 percent, and 6 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- The financial statements of the North Carolina Public Employee Deferred Compensation Plan, which represent 1 percent, 1 percent, and 1 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.
- The financial statements of the North Carolina Department of State Treasurer Investment Programs, which represent 83 percent, 88 percent, and 79 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.
- Cash basis claims and benefits of the State Health Plan, which represent 17 percent of the expenses of the aggregate discretely presented component units.

The financial statements and transactions listed above were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to these amounts, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State Education Assistance Authority and the University of North Carolina System - University of North Carolina Health Care System - Rex Healthcare were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2017, the State implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 the 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The combining fund financial statements and schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of other auditors, the combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue our report dated December 1, 2017, on our consideration of the State of North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of North Carolina's internal control over financial reporting and compliance. The report on internal control over financial reporting and on compliance and other matters will be published at a later date in the State of North Carolina's Single Audit Report.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 1, 2017



*MANAGEMENT'S
DISCUSSION AND
ANALYSIS*

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a narrative overview and analysis of the State of North Carolina's (the State) financial performance for the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

- The State reported total net position of \$55.417 billion, an increase of \$4.2 billion or 8.19% from the previous year. Net position of governmental activities was \$50.178 billion, an increase of \$3.448 billion or 7.38%. Net position of business-type activities was \$5.239 billion, an increase of \$747.67 million or 16.65%.
- Component units reported net position of \$24.6 billion, an increase of \$1.22 billion or 5.24% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements

- The fund balance of the General Fund increased from \$3.76 billion at June 30, 2016 (as restated) to \$4.38 billion at June 30, 2017, an increase of 16.51%.
- The Highway Fund reported fund balance of \$246.6 million, a decrease of 26.60% from the previous year. The decrease is attributable to an increase in construction expenditures that were financed by bonds issued in May 2015.
- The Highway Trust Fund reported fund balance of \$1.77 billion, an increase of 24.71% from the previous year. The fund balance increase was primarily due to revenue growth outpacing expenditures.
- The Unemployment Compensation Fund (Trust Fund) reported net position of \$3 billion at June 30, 2017 compared to \$2.24 billion at June 30, 2016, an increase of 34%. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 4.9% in June 2016 to 4.2% in June 2017, and an increase in the amount of quarterly interest earned on the balance in the Trust Fund.
- The N.C. State Lottery Fund (Lottery) reported net ticket sales of \$2.43 billion, an increase of 1.84% from the previous year. As required by law, the Lottery transferred \$622.51 million to the General Fund to support educational programs.
- The N.C. Turnpike Authority (NCTA) reported net position of \$319.04 million, a decrease of 23.63% from the previous year. Toll revenues increased \$5.2 million or 15.29%, contributing to an increase in operating income of \$1.39 million for the current year. A one-time transfer out of bonds and bond proceeds to the Highway Fund during the fiscal year was the most significant contributing factor to the overall net position decrease. The NCTA received a transfer in from the Highway Trust Fund of \$49 million for gap funding on turnpike bonds.
- The EPA Revolving Loan Fund reported net position of \$1.67 billion, an increase of 3.99% from the previous year. Operating income was \$11.17 million. Net nonoperating revenues of \$44.86 million consisted primarily of federal capitalization grants.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was \$51.15 billion, an increase of 4.58% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for State highway projects (\$1.99 billion), a toll road project (\$578 million), a new psychiatric hospital (\$142 million), and a new system for managing and administering social service benefits (\$424 million). Also, the State completed and placed into service Cherry Hospital, a new regional psychiatric facility.

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness and notes payable) of \$6.96 billion, a decrease of 4.24% from the previous fiscal year-end. The State issued \$200 million in general obligation bonds for its governmental activities. Additionally, the North Carolina Turnpike Authority (NCTA), a business-type activity, issued \$200.515 million in refunding bonds to refinance previously outstanding revenue bonds and \$137.052 million in revenue bonds, with a portion of the bonds being issued for an advance refunding.
- In connection with the general obligation bonds, all three rating agencies affirmed the triple-A credit rating for the State. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (pension and other postemployment benefits trend information and General Fund budgetary schedule) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Position (pages 46 and 47) presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 48 and 49) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In the government-wide financial statements, the State's activities are divided into three categories:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 70. Discretely presented component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 166 and 167).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 218 begins the individual fund data for the nonmajor funds. The State's funds are divided into three categories (governmental, proprietary, and fiduciary) and they use different accounting approaches.

Governmental funds – Most of the State's basic services are reported in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., inflows and outflows of spendable resources) and the balances left at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationships (or differences) between them. Information is presented separately in the governmental fund financial statements for the General Fund, the Highway Fund, and the Highway Trust Fund, all of which are considered to be major funds. Data for all other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds – When the State charges customers for the services it provides, whether to outside customers or to agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, which is the same method used by private sector businesses. Enterprise funds are used to report activities for

which fees are charged to external users for goods and services. The Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are our most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis, such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority, all of which are considered to be major funds. Conversely, separately aggregated columns are presented for the nonmajor enterprise funds and the internal service funds. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These funds include pension and other employee benefit trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 70 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) pension plan and employer trend information related to the net pension liability, employer contributions, and investment returns, 2) information related to the total pension liability for pension plans not administered through a trust, 3) other postemployment benefits (OPEB) trend information related to the net OPEB liability, employer contributions, and investment returns, and 4) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end.

Other Supplementary Information

Other supplementary information includes the introductory section; combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, and nonmajor discretely presented component units; a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements; and the statistical section.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State of North Carolina's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$55.42 billion at the close of the most recent fiscal year (see total primary government column). The following table was derived from the government-wide Statement of Net Position:

Net Position as of June 30, 2017 and 2016 (dollars in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Total Percentage Change 2016-17 |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|--|
| | 2017 | 2016 (as restated) | 2017 | 2016 (as restated) | 2017 | 2016 (as restated) | |
| Current and other non-current assets..... | \$ 13,128,701 | \$ 12,368,792 | \$ 5,429,282 | \$ 5,051,129 | \$ 18,557,983 | \$ 17,419,921 | 6.53% |
| Capital assets, net..... | 49,405,607 | 47,410,902 | 1,747,801 | 1,501,364 | 51,153,408 | 48,912,266 | 4.58% |
| Total assets..... | <u>62,534,308</u> | <u>59,779,694</u> | <u>7,177,083</u> | <u>6,552,493</u> | <u>69,711,391</u> | <u>66,332,187</u> | 5.09% |
| Total deferred outflows of resources..... | 1,762,619 | 609,661 | 41,909 | 4,597 | 1,804,528 | 614,258 | 193.77% |
| Long-term liabilities..... | 9,729,470 | 8,769,985 | 1,638,645 | 1,650,234 | 11,368,115 | 10,420,219 | 9.10% |
| Other liabilities..... | 4,248,255 | 4,665,871 | 338,357 | 412,060 | 4,586,612 | 5,077,931 | (9.68%) |
| Total liabilities..... | <u>13,977,725</u> | <u>13,435,856</u> | <u>1,977,002</u> | <u>2,062,294</u> | <u>15,954,727</u> | <u>15,498,150</u> | 2.95% |
| Total deferred inflows of resources..... | 141,553 | 223,791 | 2,629 | 3,103 | 144,182 | 226,894 | (36.45%) |
| Net position: | | | | | | | |
| Net investment in capital assets..... | 47,264,866 | 45,313,618 | 531,573 | 653,235 | 47,796,439 | 45,966,853 | 3.98% |
| Restricted..... | 1,089,962 | 1,039,216 | 15,040 | 7,043 | 1,105,002 | 1,046,259 | 5.61% |
| Unrestricted..... | <u>1,822,821</u> | <u>376,874</u> | <u>4,692,748</u> | <u>3,831,415</u> | <u>6,515,569</u> | <u>4,208,289</u> | 54.83% |
| Total net position..... | <u>\$ 50,177,649</u> | <u>\$ 46,729,708</u> | <u>\$ 5,239,361</u> | <u>\$ 4,491,693</u> | <u>\$ 55,417,010</u> | <u>\$ 51,221,401</u> | 8.19% |

The largest component of the State's net position (86.2%) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. An additional portion of net position represents restricted net position. These resources are subject to constraints that are externally imposed (e.g., by creditors or grantors) or are imposed by law through constitutional provisions. The remaining balance of \$6.52 billion is unrestricted net position.

The government-wide statement of net position for governmental activities reflects unrestricted net position of \$1.82 billion at June 30, 2017 and \$376.87 million at June 30, 2016. The State of North Carolina issues general obligation debt and special indebtedness and distributes the proceeds to state agencies, local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings throughout the State, including the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the \$5.88 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2017, approximately \$3.6 billion is attributable to debt issued as state aid to component units and local governments. The statement of net position of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net position (reflected in the unrestricted net position component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances.

Additionally, as of June 30, 2017, the State's governmental activities have significant unfunded liabilities for compensated absences of \$432.75 million, pension liabilities of \$2.41 billion, workers' compensation of \$219.34 million, and claims and judgments payable of \$734 million (see Note 8 to the financial statements). These unfunded liabilities reduce unrestricted net position. However, the strong financial results for fiscal year 2017 (i.e., the excess of revenues over expenses of \$2.78 billion) contributed to the increase in unrestricted net position. Also, in fiscal year 2017, the pension plan investment earnings were much lower than projected resulting in the plans reporting a net deferred outflow for the difference between projected and actual investment earnings. For comparison, the plans reported a net deferred inflow in fiscal years 2016 and 2015. Furthermore, the actuarial assumptions used to measure the total pension liability were updated to align with the latest assumptions from the newest experience study. As a result, the collective deferred outflow of resources increased significantly, which also contributed to the increase in unrestricted net position for governmental activities.

The State's overall net position increased \$4.2 billion or 8.19% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$3.45 billion or 7.38% and business-type activities increased \$747.67 million or 16.65%. The following financial information was derived from the government-wide Statement of Activities:

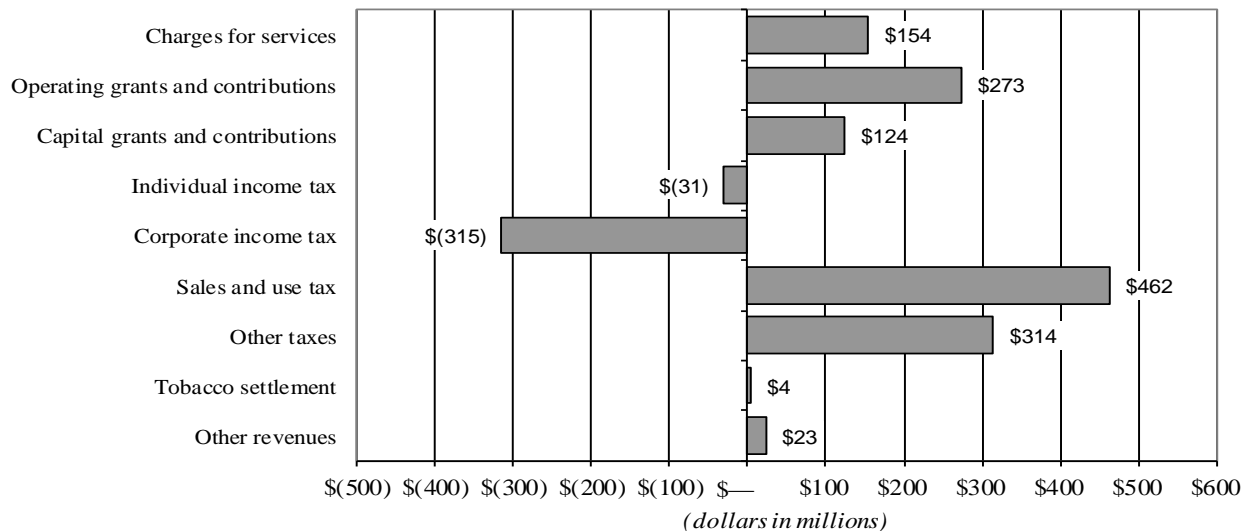
Changes in Net Position for the Fiscal Years Ended June 30, 2017 and 2016
(dollars in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Total Percentage |
|--|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|---------------------|
| | 2017 | 2016 (as restated) | 2017 | 2016 (as restated) | 2017 | 2016 (as restated) | Change 2016-17 |
| Revenues | | | | | | | |
| Program revenues | | | | | | | |
| Charges for services..... | \$ 2,573,484 | \$ 2,419,221 | \$3,605,459 | \$ 3,918,673 | \$ 6,178,943 | \$ 6,337,894 | (2.51%) |
| Operating grants and contributions..... | 16,197,465 | 15,924,934 | 136,197 | 156,515 | 16,333,662 | 16,081,449 | 1.57% |
| Capital grants and contributions..... | 1,064,722 | 940,448 | 10,317 | 14,932 | 1,075,039 | 955,380 | 12.52% |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Individual income tax..... | 11,950,085 | 11,980,791 | — | — | 11,950,085 | 11,980,791 | (0.26%) |
| Corporate income tax..... | 805,062 | 1,120,553 | — | — | 805,062 | 1,120,553 | (28.15%) |
| Sales and use tax..... | 7,646,658 | 7,184,788 | — | — | 7,646,658 | 7,184,788 | 6.43% |
| Gasoline tax..... | 1,945,769 | 1,938,849 | — | — | 1,945,769 | 1,938,849 | 0.36% |
| Franchise tax..... | 749,408 | 521,628 | — | — | 749,408 | 521,628 | 43.67% |
| Highway use tax..... | 784,549 | 728,580 | — | — | 784,549 | 728,580 | 7.68% |
| Insurance tax..... | 517,781 | 503,621 | — | — | 517,781 | 503,621 | 2.81% |
| Beverage tax..... | 394,883 | 380,065 | — | — | 394,883 | 380,065 | 3.90% |
| Tobacco products tax..... | 284,531 | 291,841 | — | — | 284,531 | 291,841 | (2.50%) |
| Other taxes..... | 298,367 | 296,595 | — | — | 298,367 | 296,595 | 0.60% |
| Tobacco settlement..... | 140,569 | 136,561 | — | — | 140,569 | 136,561 | 2.93% |
| Unrestricted investment earnings..... | 62,683 | 43,551 | — | — | 62,683 | 43,551 | 43.93% |
| Miscellaneous..... | 39,194 | 35,246 | 346 | 42 | 39,540 | 35,288 | 12.05% |
| Total revenues..... | <u>45,455,210</u> | <u>44,447,272</u> | <u>3,752,319</u> | <u>4,090,162</u> | <u>49,207,529</u> | <u>48,537,434</u> | 1.38% |
| Expenses | | | | | | | |
| General government..... | 1,220,572 | 1,064,299 | — | — | 1,220,572 | 1,064,299 | 14.68% |
| Primary and secondary education..... | 10,721,373 | 10,372,787 | — | — | 10,721,373 | 10,372,787 | 3.36% |
| Higher education..... | 4,137,922 | 4,003,154 | — | — | 4,137,922 | 4,003,154 | 3.37% |
| Health and human services..... | 18,871,497 | 18,422,804 | — | — | 18,871,497 | 18,422,804 | 2.44% |
| Economic development..... | 475,172 | 402,773 | — | — | 475,172 | 402,773 | 17.98% |
| Environment and natural resources..... | 549,838 | 547,540 | — | — | 549,838 | 547,540 | 0.42% |
| Public safety, corrections and regulation..... | 3,355,982 | 2,960,451 | — | — | 3,355,982 | 2,960,451 | 13.36% |
| Transportation..... | 2,953,576 | 2,767,006 | — | — | 2,953,576 | 2,767,006 | 6.74% |
| Agriculture..... | 196,538 | 179,152 | — | — | 196,538 | 179,152 | 9.70% |
| Interest on long-term debt..... | 194,559 | 199,516 | — | — | 194,559 | 199,516 | (2.48%) |
| Unemployment compensation..... | — | — | 238,193 | 255,851 | 238,193 | 255,851 | (6.90%) |
| N.C. State Lottery..... | — | — | 1,808,537 | 1,752,837 | 1,808,537 | 1,752,837 | 3.18% |
| EPA Revolving Loan..... | — | — | 14,648 | 19,047 | 14,648 | 19,047 | (23.10%) |
| N.C. Turnpike Authority..... | — | — | 108,845 | 87,467 | 108,845 | 87,467 | 24.44% |
| Regulatory programs..... | — | — | 113,780 | 94,857 | 113,780 | 94,857 | 19.95% |
| Insurance programs..... | — | — | 23,828 | 12,502 | 23,828 | 12,502 | 90.59% |
| North Carolina State Fair..... | — | — | 17,459 | 16,183 | 17,459 | 16,183 | 7.88% |
| Other business-type activities..... | — | — | 14,162 | 20,903 | 14,162 | 20,903 | (32.25%) |
| Total expenses..... | <u>42,677,029</u> | <u>40,919,482</u> | <u>2,339,452</u> | <u>2,259,647</u> | <u>45,016,481</u> | <u>43,179,129</u> | 4.26% |
| Increase in net position | | | | | | | |
| before contributions and transfers..... | 2,778,181 | 3,527,790 | 1,412,867 | 1,830,515 | 4,191,048 | 5,358,305 | (21.78%) |
| Contributions to permanent funds..... | 4,561 | 4,718 | — | — | 4,561 | 4,718 | (3.33%) |
| Transfers..... | 665,199 | 518,461 | (665,199) | (518,461) | — | — | 0.00% |
| Increase in net position..... | <u>3,447,941</u> | <u>4,050,969</u> | <u>747,668</u> | <u>1,312,054</u> | <u>4,195,609</u> | <u>5,363,023</u> | (21.77%) |
| Net position - beginning - restated..... | 46,729,708 | 42,678,739 | 4,491,693 | 3,179,639 | 51,221,401 | 45,858,378 | 11.69% |
| Net position - ending..... | <u>\$ 50,177,649</u> | <u>\$ 46,729,708</u> | <u>\$ 5,239,361</u> | <u>\$ 4,491,693</u> | <u>\$ 55,417,010</u> | <u>\$ 51,221,401</u> | 8.19% |

Governmental Activities. For fiscal year 2017, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State’s business-type activities, an increase in net position of \$3.45 billion (or 7.38%) resulted for governmental activities. Total revenues increased by 2.27% (\$1.01 billion) while total expenses increased by 4.3% (\$1.76 billion). The increase in total revenues is attributable to an improved economy and major tax changes enacted by the General Assembly, which included a broadening of the sales and use tax base and tax law changes to franchise tax (i.e. other taxes) increasing the minimum tax and repealing deductions and credits. Operating grants and contributions increased because of more spending in federally supported programs, such as Medicaid and disaster relief. The decrease in corporate income taxes is attributable to tax law changes, which has reduced the corporate tax rate from 6.9% to 3% over the past four years.

The following chart reflects the dollar change in governmental activities revenues by source between fiscal years 2016 and 2017:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2016 and 2017**



Total expenses increased by 4.3% to \$42.68 billion, primarily because of spending increases in the health and human services, public safety, corrections and regulation, and primary and secondary education. The collective pension expense significantly increased this year due to changes of benefit terms and changes in assumptions. The changes of benefit terms were within the control of management and, therefore, the pension expense was recognized in the period of change. As a result, all functional expenses, except interest on long-term debt, had increases related to pension expenses.

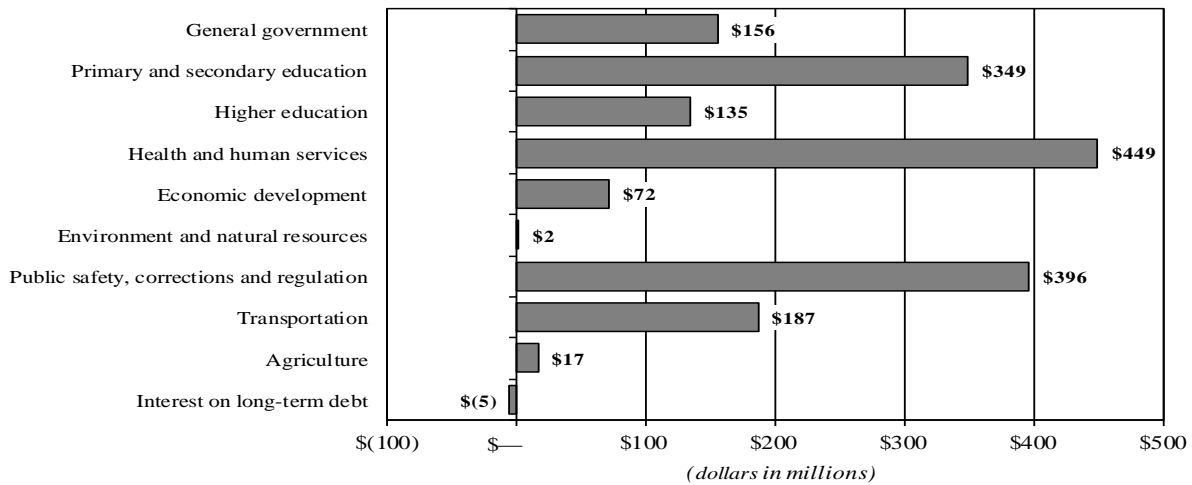
Total health and human services (HHS) spending increased by 2.44% (\$449 million) in 2017. For comparison, HHS spending decreased by 1.51% in 2016 and increased spending by 5.01% in 2015. The increase in health and human services is due primarily to increased spending for Medicaid (the State’s largest public assistance program). The enrollment and utilization for the program increased during the current period. Medicaid is a federal entitlement program, which means individuals found eligible for Medicaid have legal rights to receive services and cannot be denied coverage by the State. In North Carolina, Medicaid is administered by the State and counties and financed with federal and state funds. Medicaid serves as the State’s safety net program for eligible individuals who lose jobs and health insurance coverage. As such, it is sensitive to economic volatility. Higher growth rates occur during years of economic distress and when major Medicaid expansions are enacted. Lower growth rates occur when the Medicaid eligible population is stable or declining.

Total expenses for public safety, corrections and regulation increased 13.36% (\$396 million) in 2017. The significant growth in public safety, corrections and regulation is primarily due to increased pension expenses and expenses related to disaster relief. On October 8, 2016 Hurricane Matthew hit North Carolina, producing record-breaking rainfall and flood events that devastated the people, infrastructure, business and schools of several communities. As a result, additional appropriations and federal money was provided for the damages and thus, increased the public safety, corrections and regulation expenses by providing state aid to other governments, local governments and non-State entities.

Total expenses for primary and secondary education increased by 3.36% to \$10.72 billion in 2017. The growth in primary and secondary education is due to student enrollment increases, an increase in the number of state-funded teachers, and salary increases for state-funded local public-school district employees, including teachers and instructional support and other personnel. The pay for all educators was increased to at least \$35 thousand annually.

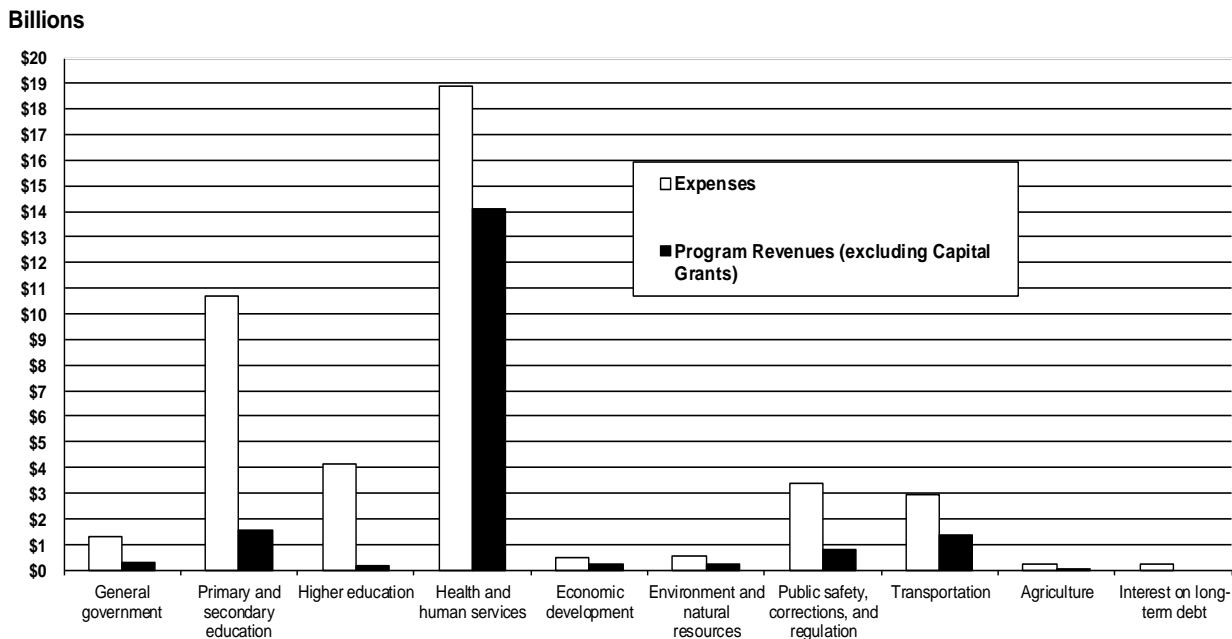
The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2016 and 2017:

**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2016 and 2017**



The following chart depicts the total expenses and total program revenues of the State’s governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

**Expenses - Governmental Activities
For the Fiscal Year Ended June 30, 2017**



Business-type Activities. Business-type activities reflect an overall increase in net position of \$747.67 million or 16.65%, primarily because of the financial results of the Unemployment Compensation Fund. The net position increase of \$760.39 million in the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the continuing decline in the State’s unemployment rate from 4.9% in June 2016 to 4.2% in June 2017. The net position decrease of \$98.7 million for the N.C. Turnpike Authority is due primarily to a one-time transfer out of bonds and bond proceeds to the Highway Fund. The net position increase of \$63.91 million in the EPA Revolving Loan Fund is due primarily to the recognition of federal capitalization grants. The N.C. State Lottery Fund has no net position since its net profits are distributed to the State’s governmental activities, as required by statute. A more detailed discussion of the State’s business-type enterprise activities is provided in the following section (see Enterprise Funds).

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. At June 30, 2017, the State's governmental funds reported combined fund balances of \$8.53 billion, an increase of 15.94% from the prior fiscal year-end (as restated). Of this amount, \$1.97 billion is classified as unassigned fund balance in the General Fund (available for spending at the State's discretion). The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (e.g., inventories), 2) restricted for particular purposes by external sources, 3) committed for particular purposes by the N.C. General Assembly, or 4) assigned for particular purposes by the Office of State Budget and Management. The substantial increase in combined fund balances is explained primarily by fund balance increases in the General Fund and the Highway Trust Fund (see below).

The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund increased \$620.99 million (or 16.51%) to \$4.38 billion at June 30, 2017. The fund balance increase is due, in part, to the General Assembly continuing to increase reserve accounts, specifically the Savings Reserve Account (Account). This Account is a component of the unassigned fund balance, which serves as the rainy-day fund and is available for expenditure only upon an act of appropriation by the General Assembly (see additional details in the transmittal letter and Notes to RSI – Budgetary Reporting). From fiscal year 2014 to 2017, the Account has increased significantly, rising from \$651.6 million to \$1.84 billion. The reserve accounts have increased because the State has experienced greater than anticipated growth in various taxes over the past three years.

Sales and use tax revenues on the modified accrual basis increased 6.36% to \$7.63 billion. This increase can be attributed to an improved economy as well as changes in tax laws related to the sales and use taxes. The improvements in the economy over the last year, as evidenced by the growing number of jobs in the State, has increased the disposable incomes of consumers. In addition, effective March 1, 2016, sales and use tax is levied on the sales price of the gross receipts derived from repair, maintenance, and installation services in accordance with Session Law 2015-241. Additionally, the sale of a service contract for tangible personal property is subject to the 4.75% general State rate of tax even if the tangible personal property may be attached to or becomes part of real property. Prior to March 1, 2016, sales of certain service contracts were not subject to tax. This tax law change positively impacted sales and use tax revenues during fiscal year 2017.

Corporate income tax revenues on the modified accrual basis decreased 27.8% to \$807.21 million. This decrease is attributable to changes in the North Carolina Revenue Laws effective for tax years beginning January 1, 2014. The corporate income tax rate was reduced from 6.9% to 6% for tax year 2014, from 6% to 5% for tax year 2015 and from 5% to 4% for tax year 2016.

Franchise tax revenues increased by 42.49% to \$748.02 million on the modified accrual basis. The increase in franchise tax is attributable to tax law changes in Session Law 2015-241, which increased the minimum tax from \$35 to \$200, increased the cap on holding companies from \$75 thousand to \$150 thousand, repealed the deduction for debt incurred for purchase or improvement of real estate in computing the tangible property base and repealed the credits in General Statute 105-122(d1).

One of the major budget drivers for the General Fund, historically, has been the Medicaid program. Medicaid enrollment increased 4.8% to 2 million individuals (or 19.45% of North Carolina's population). For comparison, Medicaid enrollment increased 3.7% and 6%, respectively, in fiscal years 2016 and 2015. State appropriation expenditures for Medicaid increased by 0.64% to \$3.52 billion. Medicaid ended the fiscal year with unspent State appropriations of \$86 million, which were reverted to the General Fund. Prior to the fiscal year 2014-15, the Medicaid program experienced shortfalls of nearly \$2 billion over a four-year period.

General Fund Budget Variances

The original General Fund budget, including state appropriations and appropriations supported by departmental receipts, serves as a starting point or plan for the Governor to execute the General Fund budget pursuant to the powers granted by the Constitution and State Budget Act. At the state level in North Carolina, it is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate departmental receipts. The General Fund budget supported by state appropriation is a subset of the General Fund financial schedule presented in the CAFR as required supplementary information. The current CAFR schedule reflects all spending required to support the State's General Fund activities and the funding to support those activities, including state tax and non-tax revenues, federal revenues, student tuition, and other fees, licenses, and fines. Under current state budget management practice, particularly related to departmental federal receipts, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

At the state level, budgetary cuts related to state appropriations are implemented by decreasing allowable actual expenditures, as opposed to decreasing the state appropriation through a formal legislative process. The Governor and state agencies maintain legal authority to spend the dollars originally appropriated to them; furthermore, in past years the actual spending has been limited by the collection of tax and non-tax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the authorized and certified state appropriation budget.

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

Variance – Original and Final Budget

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process and the budgeting of federal funds for the fiscal year. The original budget for fiscal year 2016-17 was prepared approximately 18 months prior to the final budget existing on June 30, 2017. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved in the 2016 Session of the General Assembly. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

Additional factors leading to variances between the original and final budget in fiscal year 2016-17 include the following:

- 1) Awarding of new unanticipated federal grants and/or increased or decreased amounts in long-standing federally-supported programs.
- 2) The Department of Public Instruction (DPI) was significantly overbudgeted in federal receipts. For fiscal year 2017-18, the General Assembly directed that DPI's budget be adjusted to more accurately reflect actual federal revenue.
- 3) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2015-16 totaled \$494.92 million, which increased the budget for fiscal year 2016-17 through administrative action.
- 4) Allocation of statewide reserves to agencies and universities, including State Health Plan funds, compensation bonus funds, two economic development reserves being transferred to the Department of Commerce, contingency and emergency funding and disaster relief (Hurricane Matthew) funding.
- 5) Receipts and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations and grants.

Variance - Final Budget and Actual Results

Actual total own-source General Fund revenue collected (both tax and non-tax) was 4.68% above budgeted revenue amounts in fiscal year 2017. This result occurred due to higher than anticipated individual income tax and franchise collections, which more than offset lower than expected corporate income tax collections. For individual income taxes, which account for 55% of total General Fund tax revenue collections, robust wage growth boosted withholding payments above expectations throughout the first nine months of the fiscal year. Quarterly income tax payments, primarily paid by business owners, came in higher than expected, while refunds were lower than expected. Sales and use tax collections, which comprised 32% of total General Fund tax revenue came in slightly above expectations. An unexpected surge in franchise tax payments exceeded a shortfall in anticipated net corporate income tax collections, much of which is explained by idiosyncratic factors related to the timing of enacted changes to corporate income and franchise tax laws. Total General Fund revenue collections from non-tax sources exceeded the budgeted amount with higher-than-expected fees, licenses and fines, investment income and disproportionate share receipts accounting for most of the excess.

Departmental federal funds actually received by agencies were less than the final authorized budgeted federal fund revenues. A variance between the budget and actual federal funds occurs because actual federal fund receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred by an agency, the actual receipt of federal funds could be significantly less than the budget.

Highway Fund

The Highway Fund dates back to 1921, when the General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, the State Highway Patrol, transit, rail and ferry system. The primary revenue sources of the Highway Fund are federal funds, gasoline taxes, vehicle registration fees, and driver's license fees. Session Law 2015-241, which became effective in fiscal year 2016, revised the motor fuels tax distribution formula, directing 71% to the Highway Fund and 29% to the Highway Trust Fund and increased license, registration and other fees attributable to the Highway Fund. Fiscal year 2017 was the first full year of the increase in these fees. The law also eliminated a transfer to the General Fund for the State Highway Patrol leaving more funding for maintenance, system preservation and the bridge program.

Total revenues increased 4.85% to \$3.55 billion, mostly due to an increase in federal funds and fees, licenses and fines. Total expenditures were \$3.84 billion, an increase of 11.37%. Increased capital outlay for major projects including bridges and interstates resulted in an increase in expenditures and allowed for an increase in federal billing revenue. The NCDOT also increased expenditures on maintenance and resurfacing projects during the year.

The fund balance of the Highway Fund decreased 26.6% to \$246.6 million at June 30, 2017. The fund balance decrease is attributable to expenditure growth outpacing revenue growth and increased construction expenditures that were financed by bond proceeds. The State issued \$264.93 million in grant anticipation revenue vehicle bonds (GARVEE's) in May 2015 and continued to spend down the proceeds during the year. This innovative financing tool accelerated the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2017, \$30.75 million of the GARVEE proceeds were unspent.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the transportation system, increased cost of supplies, and declining funding, NCDOT continues to seek solutions to meet the growing needs of the transportation system. Session Law 2015-2 revised the motor fuel tax formula. It sets the tax rate at 36 cents per gallon until December 31, 2015, 35 cents until July 1, 2016 and 34 cents until December 31, 2017. Beginning January 2018, the motor fuel tax computation will include factors for population change and the consumer price index.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.87 million in 2006 to 10.15 million in 2016, an increase of 14.4%. According to the 2014 Maintenance and Operations Performance Analysis Report prepared by the N.C. Division of Highways, over a 10-year period (2004 to 2014), paved lane miles grew by 6.6% while bridge deck area grew by approximately 24%. During this same 10-year period, vehicle miles traveled increased by 11%. This increase places a heavier burden on the existing infrastructure and accentuates the need for additional funding to address the deterioration in service created by the increase in traffic.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet specific highway construction needs in North Carolina. Additionally, the Highway Trust Fund pays the debt service on general obligation bonds issued for highway purposes. The enabling legislation was amended in 2008 to require annual transfers to the N.C. Turnpike Authority to pay its debt service or financing expenses for specified toll road construction projects (see Note 10B to the financial statements). The principal revenue sources of the Highway Trust Fund are highway use taxes, gasoline taxes, and various title and registration fees.

The fund balance of the Highway Trust Fund increased 24.71% to \$1.77 billion at June 30, 2017. The fund balance increase was primarily due to revenue growth outpacing expenditures. Total revenues increased 4.78% to \$1.5 billion, primarily due to the growth in highway use tax; fees, licenses, and fines; and a one-time reimbursement of the Federal Highway Administration required state match for GARVEE funding from the N.C. Turnpike Authority. Sales of passenger cars continued to decline, but the sales of light trucks continued to increase resulting in the overall increase in highway use tax. Title fees were increased by Session Law 2015-241 and 2017 was the first full year of the increase, resulting in an increase of 15.5% in fee revenue. Total transportation expenditures were \$1.16 billion, an increase of 15.08%, due to greater construction contract expenditures for major Strategic Prioritization projects.

Since the passage of the Highway Trust Fund legislation, the NCDOT has paved over 13,000 miles of unpaved secondary roads, leaving only 4,126 miles of secondary roads to be paved. In 2013, the General Assembly passed the Strategic Prioritization Funding Plan which allowed the NCDOT to use its funding more effectively. Projects slated after July 1, 2015 are prioritized on a statewide basis instead of a county-wide basis.

ENTERPRISE FUNDS

The State's enterprise funds or business-type activities provide the same type of information found in the government-wide financial statements, but in more detail. The major enterprise funds are discussed individually below.

Unemployment Compensation Fund

The Unemployment Compensation Fund (Trust Fund) reported net position of \$3 billion at June 30, 2017 compared to \$2.24 billion at June 30, 2016. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the unemployment rate from 4.9% in June 2016 to 4.2% in June 2017, and an increase in the amount of quarterly interest earned on the balance in the Trust Fund.

While the Trust Fund's net position increased during the year, the operating margin (operating revenues less operating expenses) decreased by 34.07% or \$359.16 million to \$694.96 million this year. Employer unemployment contributions decreased 28.81% or

\$375.56 million to \$928 million in 2017 due to a decrease in the base tax rates for employers as a result of the increasing net position and the end of the 20% surcharge on State unemployment contributions. Unemployment benefit expenses, both State and Federal, decreased 6.88% from \$255.79 million in 2016 to \$238.19 million in fiscal year 2017, due to less people filing for unemployment insurance benefits.

In fiscal year 2016-17, nonoperating revenues increased 51.22% to \$65.43 million, due to the previously mentioned quarterly interest earnings on the Trust Fund. With an increasing net position, interest earnings are significantly higher. Although there was a decrease in the change in net position for the fiscal year of 30.79% or \$338.35 million when compared to the previous fiscal year, the overall net position increased by 34% or \$760.39 million for fiscal year 2016-17.

N.C. State Lottery Fund

The enabling legislation for the N.C. Education Lottery (NCEL) contains a requirement that the net revenues of the NCEL are transferred at least four times a year to the State's General Fund. The NCEL transferred \$622.51 million to the General Fund in 2017 to support educational programs for the State. The amount transferred in 2016 was \$634.27 million. At year end, the net position of the NCEL was zero, as required by law. This requirement results in the NCEL having no changes in net position from year to year.

For fiscal year 2016-17, net ticket sales increased 1.84% from the previous fiscal year to \$2.43 billion. With this increase in ticket sales, the NCEL saw a corresponding increase in prize payouts of 3.5% or \$52.13 million, which resulted in an overall decrease in operating income of 1.83% or \$11.66 million. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 341st time; and released 53 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.7 billion.

The NCEL's 2017-18 budget provides for a projected \$616.1 million transfer to the General Fund, representing an 11.69% increase from the previous year's budget. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 56.74% for noninstructional support personnel.
2. 11.57% to support reduction of class size in early grades and to support pre-kindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings.
3. 19.21% for public school construction.
4. 6.4% for Local Educational Agency transportation costs and investments.
5. 6.09% to the State Education Assistance Authority to fund college and university needs-based scholarships and financial aid.

N.C. Turnpike Authority

Major accomplishments for the N.C. Turnpike Authority (NCTA) include the following:

- The NCTA is progressing towards finalization of the addition of two interchanges to the existing Triangle Expressway: The Old Holly Springs-Apex Road interchange, now named the Veridea Parkway interchange, opened to traffic in April 2017; and the Morrisville Parkway interchange is projected to open to traffic in late 2018. Also, a possible southeast extension that would extend the Triangle Expressway to I-40 in southern Wake County is in the study phase.
- The NCTA completed the financing for the Monroe Expressway in prior years. Construction began but was delayed due to litigation challenging the project's environmental documentation. On June 9, 2016, the U.S. Court of Appeals for the 4th Circuit ruled in favor of NCDOT by holding that the agency's environmental study was valid and did not violate any laws. Work continued during this period and an expected substantial completion date of November 27, 2018 is expected.

The results of operations showed continued improvement, with this year's operating income increasing by 33.33%, or \$1.39 million from the prior year. Increases in toll revenues continue to contribute to this growth, as they increased by 15.29% or \$5.2 million from 2016 to 2017.

Funding for administrative expenses continues to be advanced, as needed, from the Highway Trust Fund to be repaid from NCTA revenue collections. Interest continues to accrue on the unpaid balance of the advance.

The high cost of building, operating and maintaining a major highway facility is typically more than the revenue a new road can generate through tolls. The gap between what tolling can pay for and the cost of the road requires additional support from the State, which is known as gap funding. These annual transfers from the Highway Trust Fund to the NCTA are used to pay debt service and fund required reserves on bonds issued to finance turnpike projects. For the current fiscal year, the N.C. General Assembly again appropriated a total of \$49 million for the Triangle Expressway (\$25 million) and Monroe Expressway (\$24 million) projects.

In addition to the gap funding transfers, NCTA also receives amounts from the NCDOT for the Federal Highway Administration (FHWA) required state match. This amount of state match received from NCDOT decreased in fiscal year 2017 due to the transfer of GARVEE funds to the Highway Fund, compared to 2016's increased match due to increased GARVEE expenditures on the Monroe Expressway. The overall result was a decrease of \$52.1 million in transfers in compared to the prior year.

Transfers out increased \$256.8 million in fiscal year 2017 primarily due to a one-time transfer of the 2011 series GARVEE bonds and bond proceeds to the Highway Fund as referenced above. This transfer of interim GARVEE bond proceeds was determined to be necessary due to timing of the Monroe Expressway project completion, immediate funding needs of other projects, and debt service requirements on the GARVEE bond obligations. The increase in the one-time transfer out was the main factor that led to the overall change in net position for the year decreasing by \$98.7 million.

EPA Revolving Loan Fund

The Environmental Protection Agency (EPA) Revolving Loan Fund (Loan Fund) is comprised of the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund established by General Statute 159G-22 and receives federal and state funds. This Loan Fund was established to provide loans and grants as allowed under federal laws for wastewater projects and public water systems to meet the water infrastructure needs of the State.

The net position of the Loan Fund increased 3.99% to \$1.67 billion in 2017. This increase in net position is due to the Loan Fund continuing to focus on streamlining its processes (requiring municipalities to follow specified timelines that resulted in more infrastructure projects being completed during the year), using a cash flow model to better predict fund disbursements and revenue, and prioritizing the spending of funds from the U.S. EPA (federal) capitalization grant for these projects (as opposed to funds from other sources). The amount of new loans made during the current year exceeded the total amount of principal repaid on existing loans which resulted in an increase to notes receivable.

Operating income was \$11.17 million (operating revenues less operating expenses), and net nonoperating revenues were \$44.86 million. Net nonoperating revenues consisted primarily of noncapital grants (federal capitalization grants). Noncapital grants decreased 36.03% to \$48.22 million. Noncapital grants decreased primarily because the U.S. EPA requested that states focus on the first-in first-out methodology of drawing down federal funds for new infrastructure projects. This process has been fully implemented by the State and any future increase or decrease will be reflective of changes in federal funding levels.

CAPITAL ASSET AND DEBT ADMINISTRATION**CAPITAL ASSETS**

As of June 30, 2017, the State's investment in capital assets was \$51.15 billion, an increase of 4.58% from the previous fiscal year-end (see table below).

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2016 | | 2016 | | 2016 | |
| | 2017 | (as restated) | 2017 | (as restated) | 2017 | (as restated) |
| Land and permanent easements..... | \$ 17,761,769 | \$ 17,190,456 | \$ 269,943 | \$ 236,488 | \$ 18,031,712 | \$ 17,426,944 |
| Buildings..... | 2,817,690 | 2,692,538 | 62,339 | 61,661 | 2,880,029 | 2,754,199 |
| Machinery and equipment..... | 752,715 | 732,893 | 7,045 | 6,935 | 759,760 | 739,828 |
| Infrastructure: | | | | | | |
| State highway system..... | 24,667,312 | 23,748,157 | — | — | 24,667,312 | 23,748,157 |
| NC toll road system..... | — | — | 730,186 | 746,316 | 730,186 | 746,316 |
| Other infrastructure..... | 165,163 | 168,572 | 4,086 | 4,160 | 169,249 | 172,732 |
| Computer software..... | 276,429 | 277,844 | 1,003 | 899 | 277,432 | 278,743 |
| Art, literature, and other artifacts..... | 137,088 | 135,669 | 393 | 393 | 137,481 | 136,062 |
| Construction in progress..... | 2,354,493 | 2,087,678 | 672,806 | 444,512 | 3,027,299 | 2,532,190 |
| Computer software in development..... | 472,948 | 377,095 | — | — | 472,948 | 377,095 |
| Total..... | <u>\$ 49,405,607</u> | <u>\$ 47,410,902</u> | <u>\$ 1,747,801</u> | <u>\$ 1,501,364</u> | <u>\$ 51,153,408</u> | <u>\$ 48,912,266</u> |

Total percent change between
fiscal years 2016 and 2017

4.21 %

16.41 %

4.58 %

The largest component of capital assets is the state highway system. North Carolina has a 79,669 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- The N.C. Department of Transportation reported year-end construction in progress of \$1.99 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$578 million for the Monroe Expressway, a toll project in eastern Mecklenburg County. The Monroe Expressway project is expected to improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel.
- The Department of Health and Human Services (DHHS) completed and placed into service Cherry Hospital, a new regional psychiatric facility. The new state-operated hospital began accepting patients in September 2016. The total cost of this facility was \$126.5 million and was financed by special indebtedness bonds approved by the N.C. General Assembly. The DHHS is also constructing another psychiatric hospital as part of the effort to replace aging state-operated psychiatric hospitals. It began construction of a new Broughton Hospital in 2012 and is being financed by special indebtedness bonds approved by the N.C. General Assembly. At year-end, construction in progress for Broughton Hospital totaled \$142.07 million.
- DHHS is also replacing major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$424 million. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013.

As further detailed in Note 21E to the financial statements, the State has commitments of \$4.17 billion for the construction of highway infrastructure (\$4.057 billion for governmental activities and \$113 million for business-type activities), which are expected to be financed by gasoline tax collections, motor vehicle fees, toll collections, federal funds, and debt proceeds. Other commitments of \$27.01 million for the construction of a new mental health facility are expected to be financed by special indebtedness bonds approved by the N.C. General Assembly.

More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$6.96 billion, a decrease of 4.24% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30
Bonds, Special Indebtedness, and Notes Payable
(dollars in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2016 | | 2016 | | 2016 | |
| | 2017 | (as restated) | 2017 | 2016 | 2017 | (as restated) |
| General obligation bonds..... | \$ 2,851,695 | \$ 3,038,655 | \$ — | \$ — | \$ 2,851,695 | \$ 3,038,655 |
| Special Indebtedness: | | | | | | |
| Certificates of participation..... | 102,405 | 124,820 | — | — | 102,405 | 124,820 |
| Limited obligation bonds..... | 1,888,370 | 1,997,070 | — | — | 1,888,370 | 1,997,070 |
| GARVEE bonds..... | 607,685 | 529,755 | — | 145,535 | 607,685 | 675,290 |
| Revenue bonds..... | — | — | 1,096,395 | 1,011,388 | 1,096,395 | 1,011,388 |
| Notes payable..... | 22,089 | 27,196 | 386,900 | 388,827 | 408,989 | 416,023 |
| Total | <u>\$ 5,472,244</u> | <u>\$ 5,717,496</u> | <u>\$ 1,483,295</u> | <u>\$ 1,545,750</u> | <u>\$ 6,955,539</u> | <u>\$ 7,263,246</u> |
| Total percent change between fiscal years 2016 and 2017 | (4.29)% | | (4.04)% | | (4.24)% | |

During the 2016-17 fiscal year, the State issued \$200 million in general obligation bonds for its governmental activities. The bonds were issued pursuant to the provisions of the Connect NC Bond Act of 2015 (see below) and will provide financing for various capital improvements throughout the State as authorized in the Act. Also, the North Carolina Turnpike Authority (NCTA), a business-type activity, issued \$200.515 million in refunding bonds to refinance previously outstanding revenue bonds. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$32 million in debt service costs. Additionally, the NCTA issued \$137.052 million in revenue bonds, with a portion of the bonds being issued for an advance refunding. This advance refunding was undertaken to allow the bonds to be issued with a first lien on revenues of the Monroe Expressway as security. There was no economic gain or loss from the refunding and defeasance other than removal of the lien.

The State issues two types of tax-supported debt: general obligation (GO) bonds and various types of “special indebtedness” (i.e., debt not subject to a vote of the people). GO bonds are secured by the full faith, credit, and taxing power of the State and require approval by a majority of voters. The payments on special indebtedness are subject to appropriation by the General Assembly and may also be secured by a lien on facilities or equipment. The General Statutes (Chapter 142, Article 9) prohibit the issuance of special indebtedness except for projects specifically authorized by the General Assembly. There are different forms of special indebtedness also known as appropriation-supported debt. One form, “financing contract indebtedness”, includes certificates of participation. The other form is limited obligation bonds, which may be issued by the State directly rather than through a conduit issuer. The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments. The GARVEE bonds are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues.

The State’s total long-term debt (bonds, special indebtedness, and notes payable) reported in governmental activities has increased significantly, rising from \$3.48 billion in 2002 to \$5.47 billion in 2017, in part due to large issuances of non-GO debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The NCTA had its first debt issuance in 2010. The NCTA’s long-term debt has increased from \$691.56 million in 2010 to \$1.48 billion in 2017.

The following is a summary of recent debt authorizations.

Connect NC Bond Act of 2015

The 2015-16 Session of the General Assembly authorized, subject to a vote of the qualified voters of the State, the issuance of \$2 billion of general obligation bonds of the State to be secured by a pledge of the faith and credit and taxing power of the State. The Connect NC Bonds were approved by a statewide voter referendum held on March 15, 2016. The general obligation bonds will provide financing for various capital improvements throughout the State as follows: University of North Carolina System (\$980 million), North Carolina Community Colleges (\$350 million), local parks and infrastructure (\$312.5 million), National Guard (\$70 million), agriculture (\$179 million), State parks and attractions (\$100 million), and public safety (\$8.5 million).

Two-Thirds Bonds Act of 2014

The 2013-14 Session of the General Assembly authorized the issuance of up to \$306.9 million of general obligation bonds without requiring voter approval pursuant to authority in the State's constitution that permits the issuance of such bonds to the extent of two-thirds of the amount of general obligation debt that had been retired during the previous biennium. The proceeds of the bonds are to be used to fund projects that had previously been authorized to use the proceeds of special indebtedness and various other state projects. The State issued \$231.36 million of two-thirds bonds in fiscal year 2014-15, which was less than authorized. This was due both to previously realized savings on projects that have been completed and the use of bond premium in prior years to provide project financing.

Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. As a barometer of financial stress, credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay.

The State's general obligation bond credit ratings are as follows:

| State of North Carolina General Obligation Bond Credit Ratings | | |
|---|----------------------|-----------------------|
| <u>Rating Agency</u> | <u>Rating</u> | <u>Outlook</u> |
| Fitch Ratings | AAA | Stable |
| Moody's Investors Service | Aaa | Stable |
| Standard & Poor's Rating Services | AAA | Stable |

These ratings are the highest attainable from all three rating agencies. During the 2016-17 fiscal year, the State issued general obligation bonds. In connection with these bonds, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

Special indebtedness is not subject to a vote of the people and its repayment is based on the State's annual debt service appropriation. For these reasons, special indebtedness is rated lower than the State's general obligation bonds and typically carries a higher interest rate.

Limitations on Debt

The Constitution of North Carolina (Article 5, Section 3) imposes limitations upon the increase of certain state debt. It restricts the General Assembly from contracting debts secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State, except for the following purposes:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;
3. To borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50 percent of such taxes;
4. To suppress riots or insurrections; or to repel invasions;
5. To meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
6. For any other lawful purpose, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the preceding biennium.

The 2013-14 Session of the General Assembly enacted legislation (Session Law 2013-78) to limit the amount of special indebtedness that the State may incur. According to this law, special indebtedness authorized by legislation enacted after January 1, 2013 cannot exceed 25% of the total bond indebtedness of the State supported by the General Fund that was authorized pursuant to legislation enacted after January 1, 2013.

More detailed information about the State's long-term liabilities is presented in Note 8 to the financial statements.

FUTURE OUTLOOK

Next Year's Budget and Rates

During the 2017 session, the General Assembly enacted a fiscal year 2017-18 General Fund budget that provides \$23 billion in net appropriations, a 3.5% increase over the base operating budget. The budget provides salary increases for educators and State employees, increasing the ongoing monthly benefit for retirees, and additional funds for the Savings Reserve, the Repairs and Renovations Reserve and disaster relief efforts. The legislation also includes changes to the individual and corporate income tax rates, Juvenile Justice Reinvestment Act and the Savings Reserve.

Individual income tax changes effective for tax year 2019 include reducing the tax rate from 5.499% to 5.25% and increasing the standard deduction from \$17.5 thousand to \$20 thousand for married couples filing jointing, \$14 thousand to \$15 thousand for head of household and \$8.75 thousand to \$10 thousand for single taxpayers. The child care tax credit for individual income tax is repealed and replaced with a deduction for child care expenses, effective for the 2018 tax year. The corporate income tax rate for tax year 2019 will be reduced from 3% to 2.5%.

The Juvenile Justice Reinvestment Act (Act), increases the age of the juvenile jurisdiction to 18, except in cases of certain violent felonies. Previously, crimes committed in North Carolina by youth age 16 and older were heard in the State's adult court system. While some portions of the Act have already taken effect, the primary policy change of increasing the age will have an effective date of December 1, 2019. The budget contains \$519.6 thousand in fiscal year 2018, \$478 thousand in fiscal year 2019. In addition, capital funds in the amount of \$13.2 million were appropriated for fiscal year 2018 for a new Youth Development Center.

As a part of the 2017 session, the General Assembly appropriated an additional \$99.6 million in disaster relief funding to supplement its earlier efforts in fiscal year 2016. In a separate act, Session Law 2017-119, the Disaster Recovery Act of 2017, allocated the additional recovery funds to various State agencies and expanded the types of disasters covered and the use of the funds. Allocations included an additional \$22.3 million to the State Emergency Response and Disaster Relief Fund to match federal disaster assistance programs.

Savings Reserve Changes

Session Law 2017-5, Strengthen Savings Reserve, made major changes to the State's primary means for addressing revenue shortfalls during an economic downturn or an unforeseen event. Prior to this law's passage, Chapter 143C, the State Budget Act had: 1) required that 25% of the State's unreserved fund balance be transferred to the Savings Reserve at the end of each fiscal year and 2) set a goal to maintain a balance in the Savings Reserve equal to or greater than 8% of the prior year's General Fund operating budget.

Effective October 1, 2017, Session Law 2017-5 replaces the requirements set in General Statute 143C-4-2, and institutes a new savings target for the Savings Reserve, "...sufficient to cover two years of need for nine out of 10 scenarios involving a decline in General Fund revenue from one fiscal year to the next fiscal year." The new law also eliminates the 25% unreserved fund balance transfer directive and instead requires the General Assembly to include in each Current Operations Appropriations Act a transfer into the Savings Reserve of at least 15% of each fiscal year's estimated growth in State tax revenues that are deposited in the General Fund.

The act establishes the following parameters for use of the Savings Reserve:

- Upon a majority vote of each chamber in the General Assembly and in an amount totaling no more than 7.5% of the State's prior year operating budget, and the Reserve may be used to address revenue declines; operating budget shortfalls; costs imposed by a court and for addressing an emergency as defined in General Statute 166A-19.3.
- Upon a two-thirds vote of each chamber in the General Assembly, the amount of funds drawn from the Reserve may exceed the 7.5% cap and be used for the purposes enumerated above.
- Upon a two-thirds vote of each chamber in the General Assembly, the Reserve may be used in an amount determined by and for purposes deemed appropriate at the discretion of the General Assembly.

With Session Law 2017-5 not becoming effective until October 1, 2017, the General Assembly was subject to the prior Savings Reserve requirements in developing the FY 2017-19 Appropriations Act.

State Health Plan

The Board of Trustees of the State Health Plan adopted 2018 benefit changes that reduce the complexity, build value and provide certainty for members of the Plan. Effective January 1, 2018, active employees and pre-65 retirees can choose the 80/20 PPO Plan or the 70/30 PPO Plan. The Consumer-Directed Health Plan 85/15 with a Health Reimbursement Account (HRA) is not available for 2018. Additionally, to reduce complexity, the number of premium wellness activities members are asked to complete is reduced

from three in 2017 to one in 2018. The changes are an initial step by the Plan to address limited funding increases for the State's employer contributions while retaining solid benefits for employees and retirees with affordable individual premiums.

In July 2017, the Board approved premium increases for the employee/retiree and the employee/spouse coverage tiers effective January 1, 2018. The premium increases were in response to anticipated medical and pharmacy cost increases of 7% and 8.5%, respectively.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Accounting and Financial Reporting Section, 1410 Mail Service Center, Raleigh, N.C. 27699-1410. In addition, this financial report is available on the Office of the State Controller's internet home page at <https://www.osc.nc.gov/public-information/reports>.



*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET POSITION

June 30, 2017

(Dollars in Thousands)

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|-------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 3)..... | \$ 7,807,951 | \$ 3,121,863 | \$ 10,929,814 | \$ 3,504,600 |
| Investments (Note 3)..... | 321,316 | 413,160 | 734,476 | 3,477,414 |
| Securities lending collateral (Note 3)..... | 11,829 | 732 | 12,561 | — |
| Receivables, net (Note 4)..... | 3,374,240 | 384,031 | 3,758,271 | 1,583,518 |
| Due from component units (Note 18)..... | 404 | — | 404 | 5,513 |
| Due from primary government (Note 18)..... | — | — | — | 8,730 |
| Internal balances..... | 58,965 | (58,965) | — | — |
| Inventories..... | 173,761 | 912 | 174,673 | 155,312 |
| Prepaid items..... | 5,304 | 9,685 | 14,989 | 69,388 |
| Advances to component units..... | 3,468 | — | 3,468 | — |
| Notes receivable, net (Note 4)..... | 58,814 | 1,223,194 | 1,282,008 | 2,575,646 |
| Investment in joint venture..... | — | — | — | 131,763 |
| Equity interest in component unit..... | 187,851 | — | 187,851 | — |
| Securities held in trust..... | 45,046 | — | 45,046 | — |
| Restricted/designated cash and cash equivalents (Note 3)..... | 528,161 | 22,205 | 550,366 | 2,665,223 |
| Restricted investments (Note 3)..... | 551,591 | 312,465 | 864,056 | 7,890,970 |
| Restricted due from primary government (Note 18)..... | — | — | — | 13,990 |
| Restricted due from component units (Note 18)..... | — | — | — | 1,000 |
| Capital assets-nondepreciable (Note 5)..... | 20,726,298 | 943,142 | 21,669,440 | 1,800,635 |
| Capital assets-depreciable, net (Note 5)..... | 28,679,309 | 804,659 | 29,483,968 | 15,317,201 |
| Total Assets | 62,534,308 | 7,177,083 | 69,711,391 | 39,200,903 |
| Deferred Outflows of Resources | | | | |
| Accumulated decrease in fair value of hedging derivatives..... | — | — | — | 129,841 |
| Deferred loss on refunding..... | 84,250 | 20,349 | 104,599 | 58,353 |
| Forward funded state aid..... | 164,736 | — | 164,736 | — |
| Deferred outflows for pensions (Note 12)..... | 1,513,633 | 21,560 | 1,535,193 | 1,330,175 |
| Other deferred outflows..... | — | — | — | 4,348 |
| Total Deferred Outflows of Resources | 1,762,619 | 41,909 | 1,804,528 | 1,522,717 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities..... | 1,761,282 | 169,358 | 1,930,640 | 1,313,341 |
| Medical claims payable..... | 985,837 | — | 985,837 | 287,703 |
| Unemployment benefits payable..... | — | 4,799 | 4,799 | — |
| Tax refunds payable..... | 964,305 | — | 964,305 | — |
| Obligations under securities lending..... | 11,829 | 732 | 12,561 | — |
| Interest payable..... | 40,518 | 118,445 | 158,963 | 53,809 |
| Short-term debt (Note 6)..... | — | — | — | 68,145 |
| Due to component units (Note 18)..... | 22,720 | — | 22,720 | 6,513 |
| Due to primary government (Note 18)..... | — | — | — | 404 |
| Unearned revenue..... | 384,504 | 41,532 | 426,036 | 491,559 |
| Advance from primary government..... | — | — | — | 3,468 |
| Obligations under reverse repurchase agreements..... | — | — | — | 2,462 |
| Deposits payable..... | 2,722 | 3,491 | 6,213 | 21,724 |
| Funds held for others..... | 74,538 | — | 74,538 | 3,069,018 |
| Hedging derivatives liability (Note 7)..... | — | — | — | 129,841 |
| Long-term liabilities (Note 8): | | | | |
| Due within one year..... | 733,687 | 26,618 | 760,305 | 585,876 |
| Due in more than one year..... | 8,995,783 | 1,612,027 | 10,607,810 | 9,789,637 |
| Total Liabilities | 13,977,725 | 1,977,002 | 15,954,727 | 15,823,500 |
| Deferred Inflows of Resources | | | | |
| SCA revenue applicable to future years..... | — | — | — | 23,169 |
| Deferred state aid..... | — | — | — | 164,736 |
| Deferred inflows for pensions (Note 12)..... | 141,553 | 2,629 | 144,182 | 112,758 |
| Other deferred inflows..... | — | — | — | 2,961 |
| Total Deferred Inflows of Resources | 141,553 | 2,629 | 144,182 | 303,624 |

STATEMENT OF NET POSITION

June 30, 2017

Exhibit A-1

(Dollars in Thousands)

| | Primary Government | | | Component Units |
|---|------------------------------------|-------------------------------------|----------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Net Position | | | | |
| Net investment in capital assets..... | 47,264,866 | 531,573 | 47,796,439 | 12,021,834 |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Environment and natural resources..... | 110,125 | — | 110,125 | — |
| Higher education..... | 479 | — | 479 | 2,703,910 |
| Health and human services..... | — | — | — | 300 |
| Expendable: | | | | |
| Primary and secondary education..... | 2,545 | — | 2,545 | — |
| Higher education..... | 4,184 | — | 4,184 | 3,927,513 |
| Higher education student aid..... | 659,447 | — | 659,447 | — |
| Health and human services..... | 52,355 | — | 52,355 | 297,578 |
| Economic development..... | 20,531 | — | 20,531 | 847,409 |
| Environment and natural resources..... | 62,502 | — | 62,502 | — |
| Public safety, corrections, and regulation..... | 53,344 | — | 53,344 | — |
| Transportation..... | 3,748 | — | 3,748 | — |
| Debt service..... | 107,415 | 5,477 | 112,892 | — |
| Capital projects/repairs and renovations..... | 8,657 | — | 8,657 | — |
| Other purposes..... | 4,630 | 9,563 | 14,193 | — |
| Unrestricted..... | 1,822,821 | 4,692,748 | 6,515,569 | 4,797,952 |
| Total Net Position..... | \$ 50,177,649 | \$ 5,239,361 | \$ 55,417,010 | \$ 24,596,496 |

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|---|----------------------|-------------------------|--|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government | | | | | |
| Governmental Activities | | | | | |
| General government..... | \$ 1,220,572 | \$ 278,021 | \$ 17,607 | \$ 284 | \$ (924,660) |
| Primary and secondary education..... | 10,721,373 | 8,601 | 1,536,490 | — | (9,176,282) |
| Higher education..... | 4,137,922 | 127,085 | 29,245 | — | (3,981,592) |
| Health and human services..... | 18,871,497 | 374,624 | 13,700,013 | — | (4,796,860) |
| Economic development..... | 475,172 | 11,909 | 218,368 | 11,449 | (233,446) |
| Environment and natural resources..... | 549,838 | 157,931 | 95,023 | 24,323 | (272,561) |
| Public safety, corrections, and regulation..... | 3,355,982 | 614,165 | 202,984 | — | (2,538,833) |
| Transportation..... | 2,953,576 | 973,237 | 363,370 | 1,023,971 | (592,998) |
| Agriculture..... | 196,538 | 27,911 | 34,365 | 4,695 | (129,567) |
| Interest on long-term debt..... | 194,559 | — | — | — | (194,559) |
| Total Governmental Activities..... | <u>42,677,029</u> | <u>2,573,484</u> | <u>16,197,465</u> | <u>1,064,722</u> | <u>(22,841,358)</u> |
| Business-type Activities | | | | | |
| Unemployment Compensation..... | 238,193 | 933,147 | 65,434 | — | 760,388 |
| N.C. State Lottery..... | 1,808,537 | 2,433,036 | 1,106 | — | 625,605 |
| EPA Revolving Loan..... | 14,648 | 19,217 | 51,456 | — | 56,025 |
| N.C. Turnpike Authority..... | 108,845 | 45,520 | 14,067 | 5,108 | (44,150) |
| Regulatory programs..... | 113,780 | 127,354 | 1,635 | — | 15,209 |
| Insurance programs..... | 23,828 | 18,425 | 366 | — | (5,037) |
| North Carolina State Fair..... | 17,459 | 16,102 | 765 | 30 | (562) |
| Other business-type activities..... | 14,162 | 12,658 | 1,368 | 5,179 | 5,043 |
| Total Business-type Activities..... | <u>2,339,452</u> | <u>3,605,459</u> | <u>136,197</u> | <u>10,317</u> | <u>1,412,521</u> |
| Total Primary Government..... | <u>\$ 45,016,481</u> | <u>\$ 6,178,943</u> | <u>\$ 16,333,662</u> | <u>\$ 1,075,039</u> | <u>\$ (21,428,837)</u> |
| Component Units | | | | | |
| University of North Carolina System..... | \$ 12,218,401 | \$ 8,381,554 | \$ 1,686,805 | \$ 121,385 | \$ (2,028,657) |
| Community Colleges..... | 2,216,152 | 324,079 | 795,595 | 270,460 | (826,018) |
| State Health Plan..... | 3,293,686 | 3,247,140 | 27,377 | — | (19,169) |
| Other component units..... | 1,019,077 | 511,638 | 307,623 | 30,842 | (168,974) |
| Total Component Units..... | <u>\$ 18,747,316</u> | <u>\$ 12,464,411</u> | <u>\$ 2,817,400</u> | <u>\$ 422,687</u> | <u>\$ (3,042,818)</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2017
 (Dollars in Thousands)

Exhibit A-2

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Changes in Net Position | | | | |
| Net (expense) revenue..... | \$ (22,841,358) | \$ 1,412,521 | \$ (21,428,837) | \$ (3,042,818) |
| General Revenues: | | | | |
| Taxes: | | | | |
| Individual income tax..... | 11,950,085 | — | 11,950,085 | — |
| Corporate income tax..... | 805,062 | — | 805,062 | — |
| Sales and use tax..... | 7,646,658 | — | 7,646,658 | — |
| Gasoline tax..... | 1,945,769 | — | 1,945,769 | — |
| Franchise tax..... | 749,408 | — | 749,408 | — |
| Highway use tax..... | 784,549 | — | 784,549 | — |
| Insurance tax..... | 517,781 | — | 517,781 | — |
| Beverage tax..... | 394,883 | — | 394,883 | — |
| Tobacco products tax..... | 284,531 | — | 284,531 | — |
| Other taxes..... | 298,367 | — | 298,367 | — |
| Tobacco settlement..... | 140,569 | — | 140,569 | — |
| Unrestricted investment earnings..... | 62,683 | — | 62,683 | 123,394 |
| State aid..... | — | — | — | 3,991,269 |
| Miscellaneous..... | 39,194 | 346 | 39,540 | 15,781 |
| Contributions to permanent funds..... | 4,561 | — | 4,561 | — |
| Contributions to endowments..... | — | — | — | 137,066 |
| Transfers..... | 665,199 | (665,199) | — | — |
| Total general revenues, contributions, and transfers..... | 26,289,299 | (664,853) | 25,624,446 | 4,267,510 |
| Change in net position..... | 3,447,941 | 747,668 | 4,195,609 | 1,224,692 |
| Net position — July 1, as restated (Note 23)..... | 46,729,708 | 4,491,693 | 51,221,401 | 23,371,804 |
| Net position — June 30..... | \$ 50,177,649 | \$ 5,239,361 | \$ 55,417,010 | \$ 24,596,496 |

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*FUND FINANCIAL
STATEMENTS*

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2017

Exhibit B-1

(Dollars in Thousands)

| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------|--------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents (Note 3)..... | \$ 4,510,025 | \$ 452,076 | \$ 1,746,773 | \$ 969,393 | \$ 7,678,267 |
| Investments (Note 3)..... | 6,277 | — | — | 281,592 | 287,869 |
| Securities lending collateral (Note 3)..... | 8,270 | 558 | 2,104 | 855 | 11,787 |
| Receivables, net: (Note 4) | | | | | |
| Taxes receivable..... | 1,896,116 | 125,931 | 54,220 | 12,971 | 2,089,238 |
| Accounts receivable..... | 210,477 | 15,062 | 214 | 16,915 | 242,668 |
| Intergovernmental receivable..... | 922,242 | 84,316 | 1,813 | 1,096 | 1,009,467 |
| Interest receivable..... | 7,046 | 503 | 1,600 | 1,177 | 10,326 |
| Contributions receivable..... | 79 | — | — | — | 79 |
| Other receivables..... | — | 3,423 | — | 774 | 4,197 |
| Due from other funds (Note 10)..... | 33,397 | 18,088 | 20,391 | 9,353 | 81,229 |
| Due from component units (Note 18)..... | 7 | — | — | — | 7 |
| Inventories..... | 68,761 | 84,608 | — | 20,278 | 173,647 |
| Advances to other funds (Note 10)..... | — | — | 26,896 | — | 26,896 |
| Advances to component units..... | — | 3,468 | — | — | 3,468 |
| Notes receivable, net: (Note 4)..... | 18,538 | 792 | 35 | 39,449 | 58,814 |
| Securities held in trust..... | 40 | 491 | — | 44,515 | 45,046 |
| Restricted/designated cash and cash equivalents (Note 3).. | 182,965 | — | — | 345,196 | 528,161 |
| Restricted investments (Note 3)..... | 1,993 | 31,242 | — | 518,356 | 551,591 |
| Total Assets..... | 7,866,233 | 820,558 | 1,854,046 | 2,261,920 | 12,802,757 |
| Deferred Outflows of Resources | | | | | |
| Forward funded state aid..... | 127,449 | — | — | 37,287 | 164,736 |
| Total Assets and Deferred Outflows..... | \$ 7,993,682 | \$ 820,558 | \$ 1,854,046 | \$ 2,299,207 | \$ 12,967,493 |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities: | | | | | |
| Accounts payable..... | \$ 170,388 | \$ 341,041 | \$ 61,017 | \$ 29,564 | \$ 602,010 |
| Accrued payroll..... | 1,076 | 25,944 | — | 58 | 27,078 |
| Intergovernmental payable..... | 789,360 | 151,760 | 716 | 8,163 | 949,999 |
| Claims payable..... | — | — | — | 58,000 | 58,000 |
| Medical claims payable..... | 985,837 | — | — | — | 985,837 |
| Tax refunds payable..... | 957,189 | 5,052 | 2,064 | — | 964,305 |
| Obligations under securities lending..... | 8,270 | 558 | 2,104 | 855 | 11,787 |
| Due to fiduciary funds (Note 10)..... | 100,902 | 9,580 | — | — | 110,482 |
| Due to other funds (Note 10)..... | 46,341 | 7,310 | 10,923 | 378 | 64,952 |
| Due to component units (Note 18)..... | 8,717 | — | — | 14,003 | 22,720 |
| Unearned revenue..... | 352,268 | 15,164 | 6,801 | 1,171 | 375,404 |
| Deposits payable..... | 2,719 | — | — | 3 | 2,722 |
| Funds held for others..... | 13,930 | 15,979 | — | 44,629 | 74,538 |
| Total Liabilities..... | 3,436,997 | 572,388 | 83,625 | 156,824 | 4,249,834 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue..... | 174,831 | 1,573 | — | 12,784 | 189,188 |
| Fund Balances (Note 11) | | | | | |
| Nonspendable..... | 72,345 | 84,608 | — | 131,082 | 288,035 |
| Restricted..... | 104,133 | 34,497 | — | 1,141,944 | 1,280,574 |
| Committed..... | 2,021,250 | 127,492 | 1,770,421 | 855,644 | 4,774,807 |
| Assigned..... | 217,747 | — | — | 929 | 218,676 |
| Unassigned..... | 1,966,379 | — | — | — | 1,966,379 |
| Total Fund Balances..... | 4,381,854 | 246,597 | 1,770,421 | 2,129,599 | 8,528,471 |
| Total Liabilities, Deferred Inflows and Fund Balances..... | \$ 7,993,682 | \$ 820,558 | \$ 1,854,046 | \$ 2,299,207 | \$ 12,967,493 |

The accompanying Notes to the Financial Statements are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2017

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 8,528,471

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|---|---------------|----------------------|
| – Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of: | | |
| Cost of capital assets (excluding internal service funds)..... | \$ 49,955,599 | |
| Less: Accumulated depreciation (excluding internal service funds)..... | (681,939) | |
| Net capital assets..... | | 49,273,660 |
| – Some assets , such as receivables, are not available soon enough to pay for current period expenditures and thus, are offset by unavailable revenue in the governmental funds. | | 189,188 |
| – Equity interest in component unit is not a financial resource and, therefore, is not reported in the funds. | | 187,851 |
| – Deferred losses on refundings are reported in the Statement of Net Position (to be amortized as interest expense) but are not reported in the funds. | | 84,250 |
| – Deferred outflows for pensions (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12). | | 1,497,125 |
| – Long-term debt instruments , such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 8). Also, unamortized debt premiums are reported in the Statement of Net Position but are not reported in the funds. These balances consist of: | | |
| General obligation bonds payable..... | (2,851,695) | |
| Certificates of participation payable..... | (102,405) | |
| Limited obligation bonds payable..... | (1,888,370) | |
| GARVEE bonds payable..... | (607,685) | |
| Unamortized debt premiums (to be amortized as interest expense)..... | (434,721) | |
| Notes payable..... | (22,089) | |
| Capital leases payable (excluding internal service funds)..... | (19,980) | |
| Net long-term debt..... | | (5,926,945) |
| – Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 8 as applicable) consist of: | | |
| Accrued interest payable..... | (40,518) | |
| Compensated absences (excluding internal service funds)..... | (426,205) | |
| Obligations for workers' compensation..... | (219,338) | |
| Death benefit payable..... | (40) | |
| Pollution remediation payable..... | (8,610) | |
| Claims and judgments payable..... | (734,003) | |
| Pension liability (excluding internal service funds)..... | (2,385,547) | |
| Total other liabilities..... | | (3,814,261) |
| – Deferred inflows for pensions (excluding internal service funds) are reported in the Statement of Net Position but are not reported in the funds (see Note 12). | | (140,095) |
| – Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position (see Exhibit B-3). | | 298,405 |
| Total net position - governmental activities (see Exhibit A-1) | | <u>\$ 50,177,649</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2017

Exhibit B-2

(Dollars in Thousands)

| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|-----------------|--------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes: | | | | | |
| Individual income tax..... | \$ 11,950,085 | \$ — | \$ — | \$ — | \$ 11,950,085 |
| Corporate income tax..... | 807,208 | — | — | — | 807,208 |
| Sales and use tax..... | 7,634,608 | — | — | 8,073 | 7,642,681 |
| Gasoline tax..... | — | 1,366,180 | 554,831 | 25,508 | 1,946,519 |
| Franchise tax..... | 748,018 | — | — | — | 748,018 |
| Highway use tax..... | — | — | 784,549 | — | 784,549 |
| Insurance tax..... | 516,970 | — | — | — | 516,970 |
| Beverage tax..... | 394,995 | — | — | — | 394,995 |
| Tobacco products tax..... | 291,671 | — | — | — | 291,671 |
| Other taxes..... | 185,373 | — | — | 108,725 | 294,098 |
| Federal funds..... | 15,497,006 | 1,308,869 | — | 90,705 | 16,896,580 |
| Local funds..... | 143,580 | 26,248 | 2,786 | 8,111 | 180,725 |
| Investment earnings..... | 69,250 | 8,773 | 15,408 | 22,575 | 116,006 |
| Interest earnings on loans..... | 259 | — | 229 | 412 | 900 |
| Sales and services..... | 171,639 | 4,856 | 1 | 147,181 | 323,677 |
| Rental and lease of property..... | 16,429 | 4,345 | 1,971 | 2,937 | 25,682 |
| Fees, licenses, and fines..... | 759,326 | 813,321 | 143,989 | 177,576 | 1,894,212 |
| Tobacco settlement..... | 141,054 | — | — | — | 141,054 |
| Contributions, gifts, and grants..... | 43,996 | 11,678 | — | 49,182 | 104,856 |
| Funds escheated..... | — | — | — | 126,701 | 126,701 |
| Miscellaneous..... | 169,340 | 10,237 | 508 | 3,847 | 183,932 |
| Total revenues..... | 39,540,807 | 3,554,507 | 1,504,272 | 771,533 | 45,371,119 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government..... | 1,129,175 | — | — | 40,501 | 1,169,676 |
| Primary and secondary education..... | 10,699,781 | — | — | — | 10,699,781 |
| Higher education..... | 4,048,058 | — | — | 88,774 | 4,136,832 |
| Health and human services..... | 18,859,329 | — | — | 70,953 | 18,930,282 |
| Economic development..... | 463,652 | — | — | 8,385 | 472,037 |
| Environment and natural resources..... | 390,832 | — | — | 127,799 | 518,631 |
| Public safety, corrections, and regulation..... | 3,026,145 | — | — | 263,014 | 3,289,159 |
| Transportation..... | — | 3,737,419 | 1,102,297 | — | 4,839,716 |
| Agriculture..... | 180,937 | — | — | 14,625 | 195,562 |
| Capital outlay..... | — | — | — | 158,793 | 158,793 |
| Debt service: | | | | | |
| Principal retirement..... | 473,306 | 70,151 | 51,786 | 57 | 595,300 |
| Interest and fees..... | 238,259 | 31,670 | 9,656 | 46 | 279,631 |
| Debt issuance costs..... | 471 | — | — | 538 | 1,009 |
| Total expenditures..... | 39,509,945 | 3,839,240 | 1,163,739 | 773,485 | 45,286,409 |
| Excess revenues over (under) expenditures..... | 30,862 | (284,733) | 340,533 | (1,952) | 84,710 |
| Other Financing Sources (Uses) | | | | | |
| General obligation bonds issued..... | — | — | — | 200,000 | 200,000 |
| Other debt issued..... | 630 | — | — | — | 630 |
| Premium on debt issued..... | — | — | — | 30,018 | 30,018 |
| Sale of capital assets..... | 7,126 | 25,185 | 730 | 248 | 33,289 |
| Insurance recoveries..... | 1,963 | 9,817 | — | 345 | 12,125 |
| Transfers in (Note 10)..... | 775,178 | 197,880 | 88,566 | 191,423 | 1,253,047 |
| Transfers out (Note 10)..... | (194,766) | (37,537) | (79,063) | (130,195) | (441,561) |
| Total other financing sources (uses)..... | 590,131 | 195,345 | 10,233 | 291,839 | 1,087,548 |
| Net change in fund balances..... | 620,993 | (89,388) | 350,766 | 289,887 | 1,172,258 |
| Fund balances — July 1, as restated (Note 23)..... | 3,760,861 | 335,985 | 1,419,655 | 1,839,712 | 7,356,213 |
| Fund balances — June 30..... | \$ 4,381,854 | \$ 246,597 | \$ 1,770,421 | \$ 2,129,599 | \$ 8,528,471 |

The accompanying Notes to the Financial Statements are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2017

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ 1,172,258

Amounts reported for governmental activities in the Statement of Activities are different because:

- **Capital outlays** are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|---|--------------|-----------|
| Capital outlays (including construction-in-progress) | \$ 2,901,793 | |
| Less: Depreciation expense (excluding internal service funds) | (885,196) | |
| Net capital outlay adjustment | | 2,016,597 |
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold. (52,845)
- **Donations of capital assets** do not appear in the governmental funds because they are not financial resources, but increase net position in the Statement of Activities. 13,717
- **Retirement Contributions** (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities. 361,972
- **Benefit payments** to the special separation allowance defined benefit pension plan in the current fiscal year are not included on the Statement of Activities (see Note 12). 15,626
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:

| | | |
|---|-----------|---------|
| Debt issued or incurred: | | |
| Bonds and capital leases issued | (200,630) | |
| Premiums on debt issued | (30,018) | |
| Principal repayments: | | |
| Bonds, notes, and similar debt | 590,797 | |
| Capital leases (excluding internal service funds) | 4,503 | |
| Net debt adjustments | | 364,652 |
- **Long-term debt transfer** of GARVEE bonds from business-type activities do not provide current financial resources and are not recognized in the funds because these bonds were issued in a prior fiscal year. (153,260)
- **Some revenues** in the Statement of Activities do not provide current financial resources and, therefore, are deferred inflows of resources in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment. 8,332
- **Change in equity interest** of component unit resulting from changes in stockholder's equity are not current financial resources, and therefore, are not recognized in the funds. 39,100
- **Some expenses** reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:

| | | |
|---|-----------|-----------|
| Accrued interest | 4,143 | |
| Compensated absences (excluding internal service funds) | 13,279 | |
| Workers' compensation | (17,432) | |
| Pension expense (excluding internal service funds) | (435,976) | |
| Pollution remediation | (1,862) | |
| Amortization of deferred amounts | 80,929 | |
| Net expense accruals | | (356,919) |
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4). 18,711

Change in net position - governmental activities (see Exhibit A-2) \$ 3,447,941

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF NET POSITION PROPRIETARY FUNDS

June 30, 2017

(Dollars in Thousands)

| | Business-type Activities — Enterprise Funds | | | |
|--|--|-------------------------------|-------------------------------|-------------------------------|
| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents (Note 3)..... | \$ 2,687,212 | \$ 235,187 | \$ 73,024 | \$ — |
| Investments (Note 3)..... | — | 206,996 | 5,781 | — |
| Securities lending collateral (Note 3)..... | 61 | 281 | 88 | 212 |
| Receivables: (Note 4) | | | | |
| Accounts receivable, net..... | 83,520 | — | 21,065 | 17,531 |
| Intergovernmental receivable..... | 193 | 12 | — | 401 |
| Interest receivable..... | 15,416 | 3,064 | 93 | — |
| Premiums receivable..... | — | — | — | — |
| Contributions receivable, net..... | 229,540 | — | — | — |
| Notes receivable..... | — | 93,604 | — | — |
| Due from other funds (Note 10)..... | 18,980 | — | — | 42 |
| Due from component units (Note 18)..... | — | — | — | — |
| Inventories..... | — | — | — | 240 |
| Prepaid items..... | — | — | 100 | 157 |
| Restricted cash and cash equivalents (Note 3)..... | — | — | — | — |
| Total current assets..... | <u>3,034,922</u> | <u>539,144</u> | <u>100,151</u> | <u>18,583</u> |
| Noncurrent Assets | | | | |
| Investments (Note 3)..... | — | — | 65,361 | — |
| Receivables: (Note 4) | | | | |
| Contributions receivable, net..... | 7,325 | — | — | — |
| Notes receivable..... | — | 1,129,368 | — | — |
| Prepaid items..... | — | — | 42 | 6,253 |
| Restricted/designated cash and cash equivalents (Note 3)..... | — | — | — | 5,477 |
| Restricted investments (Note 3)..... | — | — | — | 312,465 |
| Capital assets-nondepreciable (Note 5)..... | — | — | — | 931,271 |
| Capital assets-depreciable, net (Note 5) | — | 54 | 2,068 | 730,186 |
| Total noncurrent assets..... | <u>7,325</u> | <u>1,129,422</u> | <u>67,471</u> | <u>1,985,652</u> |
| Total Assets..... | <u>3,042,247</u> | <u>1,668,566</u> | <u>167,622</u> | <u>2,004,235</u> |
| Deferred Outflows of Resources | | | | |
| Deferred loss on refunding..... | — | — | — | 20,349 |
| Deferred outflows for pensions..... | — | 2,445 | 6,614 | 394 |
| Total Deferred Outflows of Resources..... | <u>—</u> | <u>2,445</u> | <u>6,614</u> | <u>20,743</u> |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | 23,299 | 131 | 57,612 | 14,209 |
| Accrued payroll..... | — | — | 1,910 | — |
| Intergovernmental payable..... | 17,269 | 127 | — | 1,910 |
| Claims payable..... | — | — | — | — |
| Unemployment benefits payable..... | 4,799 | — | — | — |
| Obligations under securities lending..... | 61 | 281 | 88 | 212 |
| Interest payable..... | — | — | — | 34,922 |
| Due to fiduciary funds (Note 10)..... | — | — | — | 5,827 |
| Due to other funds (Note 10)..... | — | 45 | 30,791 | 20,149 |
| Unearned revenue..... | 303 | — | — | 33 |
| Deposits payable..... | — | — | — | 3,471 |
| Annuity and life income payable (Note 8)..... | — | — | 5,781 | — |
| Notes payable (Note 8)..... | — | — | — | — |
| Capital leases payable (Note 8)..... | — | — | — | — |
| Bonds payable (Note 8)..... | — | — | — | 18,395 |
| Compensated absences (Note 8)..... | — | 51 | 280 | 14 |
| Total current liabilities..... | <u>45,731</u> | <u>635</u> | <u>96,462</u> | <u>99,142</u> |

| Other Enterprise Funds | Total Enterprise Funds | Governmental Activities — Internal Service Funds |
|------------------------------|------------------------------|--|
| \$ 126,440 | \$ 3,121,863 | \$ 129,684 |
| 120,876 | 333,653 | 33,447 |
| 90 | 732 | 42 |
| 2,082 | 124,198 | 17,765 |
| 1,662 | 2,268 | — |
| 302 | 18,875 | 32 |
| 1,825 | 1,825 | 468 |
| — | 229,540 | — |
| 1 | 93,605 | — |
| — | 19,022 | 16,053 |
| — | — | 397 |
| 672 | 912 | 114 |
| 3,133 | 3,390 | 5,304 |
| 3,813 | 3,813 | — |
| <u>260,896</u> | <u>3,953,696</u> | <u>203,306</u> |
| 14,146 | 79,507 | — |
| — | 7,325 | — |
| 221 | 1,129,589 | — |
| — | 6,295 | — |
| 12,915 | 18,392 | — |
| — | 312,465 | — |
| 11,871 | 943,142 | 3,396 |
| 72,351 | 804,659 | 128,551 |
| <u>111,504</u> | <u>3,301,374</u> | <u>131,947</u> |
| <u>372,400</u> | <u>7,255,070</u> | <u>335,253</u> |
| — | 20,349 | — |
| 12,107 | 21,560 | 16,508 |
| <u>12,107</u> | <u>41,909</u> | <u>16,508</u> |
| 6,955 | 102,206 | 8,725 |
| 232 | 2,142 | 3,131 |
| 2 | 19,308 | — |
| 34,543 | 34,543 | 1,857 |
| — | 4,799 | — |
| 90 | 732 | 42 |
| — | 34,922 | — |
| — | 5,827 | — |
| 106 | 51,091 | 261 |
| 41,196 | 41,532 | 9,100 |
| 20 | 3,491 | — |
| — | 5,781 | — |
| 922 | 922 | — |
| — | — | 46 |
| — | 18,395 | — |
| 1,175 | 1,520 | 501 |
| <u>85,241</u> | <u>327,211</u> | <u>23,663</u> |

Continued

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS (Continued)**

June 30, 2017

(Dollars in Thousands)

| | Business-type Activities — Enterprise Funds | | | |
|---|--|-------------------------------|-------------------------------|-------------------------------|
| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority |
| Noncurrent Liabilities | | | | |
| Accounts payable..... | — | — | — | — |
| Interest payable..... | — | — | — | 83,523 |
| Advances from other funds (Note 10)..... | — | — | — | 26,896 |
| Annuity and life income payable (Note 8)..... | — | — | 65,361 | — |
| Notes payable (Note 8)..... | — | — | — | 372,877 |
| Capital leases payable (Note 8)..... | — | — | — | — |
| Bonds payable, net (Note 8)..... | — | — | — | 1,122,756 |
| Compensated absences (Note 8)..... | — | 615 | 1,646 | 156 |
| Net pension liability (Note 8)..... | — | 2,689 | 10,160 | 558 |
| Total noncurrent liabilities..... | — | 3,304 | 77,167 | 1,606,766 |
| Total Liabilities..... | 45,731 | 3,939 | 173,629 | 1,705,908 |
| Deferred Inflows of Resources | | | | |
| Deferred inflows for pensions..... | — | 656 | 607 | 32 |
| Net Position | | | | |
| Net investment in capital assets..... | — | 54 | 2,068 | 459,895 |
| Restricted for: | | | | |
| Debt service..... | — | — | — | 5,477 |
| Capital outlay..... | — | — | — | — |
| Other purposes..... | — | — | — | — |
| Unrestricted..... | 2,996,516 | 1,666,362 | (2,068) | (146,334) |
| Total Net Position..... | <u>\$ 2,996,516</u> | <u>\$ 1,666,416</u> | <u>\$ —</u> | <u>\$ 319,038</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| <u>Other Enterprise Funds</u> | <u>Total Enterprise Funds</u> | <u>Governmental Activities — Internal Service Funds</u> |
|---------------------------------------|---------------------------------------|---|
| 5,332 | 5,332 | — |
| — | 83,523 | — |
| — | 26,896 | — |
| — | 65,361 | — |
| 13,101 | 385,978 | — |
| — | — | 92 |
| — | 1,122,756 | — |
| 5,262 | 7,679 | 6,041 |
| 16,846 | 30,253 | 22,102 |
| <u>40,541</u> | <u>1,727,778</u> | <u>28,235</u> |
| <u>125,782</u> | <u>2,054,989</u> | <u>51,898</u> |
| | | |
| <u>1,334</u> | <u>2,629</u> | <u>1,458</u> |
| | | |
| 69,556 | 531,573 | 131,809 |
| — | 5,477 | — |
| 1,995 | 1,995 | — |
| 7,568 | 7,568 | — |
| 178,272 | 4,692,748 | 166,596 |
| <u>\$ 257,391</u> | <u>\$ 5,239,361</u> | <u>\$ 298,405</u> |

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Business-type Activities — Enterprise Funds | | | |
|---|--|-------------------------------|-------------------------------|-------------------------------|
| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority |
| Operating Revenues | | | | |
| Employer unemployment contributions..... | \$ 928,060 | \$ — | \$ — | \$ — |
| Federal funds..... | 5,087 | — | — | — |
| Sales and services..... | — | 1,715 | 2,427,536 | 670 |
| Student tuition and fees, net..... | — | — | — | — |
| Interest earnings on loans..... | — | 17,455 | — | — |
| Rental and lease earnings..... | — | — | — | — |
| Fees, licenses, and fines..... | — | — | 5,221 | 5,597 |
| Toll revenues..... | — | — | — | 39,199 |
| Insurance premiums..... | — | — | — | — |
| Miscellaneous..... | — | 47 | 279 | 54 |
| Total operating revenues..... | <u>933,147</u> | <u>19,217</u> | <u>2,433,036</u> | <u>45,520</u> |
| Operating Expenses | | | | |
| Personal services..... | — | 6,473 | 21,309 | 1,213 |
| Supplies and materials..... | — | 95 | 972 | 15,429 |
| Services..... | — | 1,255 | 238,671 | 3,080 |
| Cost of goods sold..... | — | — | — | 788 |
| Depreciation..... | — | 34 | 543 | 16,130 |
| Lottery prizes..... | — | — | 1,543,158 | — |
| Claims..... | — | — | — | — |
| Unemployment benefits..... | 238,185 | — | — | — |
| Insurance and bonding..... | — | 14 | 6 | 386 |
| Other..... | — | 180 | 3,863 | 2,946 |
| Total operating expenses..... | <u>238,185</u> | <u>8,051</u> | <u>1,808,522</u> | <u>39,972</u> |
| Operating income..... | <u>694,962</u> | <u>11,166</u> | <u>624,514</u> | <u>5,548</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Noncapital grants..... | 9,057 | 48,216 | — | — |
| Noncapital gifts, net..... | — | — | — | — |
| Investment earnings..... | 55,350 | 3,240 | 1,106 | 2,711 |
| Interest and fees..... | — | — | — | (60,154) |
| Insurance recoveries..... | — | — | — | 8 |
| Grants, aid and subsidies..... | — | (6,568) | — | — |
| Gain on sale of equipment..... | — | — | — | — |
| Federal interest subsidy on debt..... | — | — | — | 11,348 |
| Gain on debt reclassification..... | — | — | — | 153,260 |
| Miscellaneous..... | 1,019 | (29) | (15) | (8,719) |
| Total nonoperating revenues (expenses)..... | <u>65,426</u> | <u>44,859</u> | <u>1,091</u> | <u>98,454</u> |
| Income before contributions and transfers..... | 760,388 | 56,025 | 625,605 | 104,002 |
| Capital contributions..... | — | — | — | 5,108 |
| Transfers in (Note 10)..... | — | 8,870 | — | 49,000 |
| Transfers out (Note 10)..... | — | (981) | (625,605) | (256,809) |
| Change in net position..... | 760,388 | 63,914 | — | (98,699) |
| Net position — July 1, as restated (Note 23)..... | 2,236,128 | 1,602,502 | — | 417,737 |
| Net position — June 30..... | <u>\$ 2,996,516</u> | <u>\$ 1,666,416</u> | <u>\$ —</u> | <u>\$ 319,038</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| Other Enterprise Funds | Total Enterprise Funds | Governmental Activities — Internal Service Funds |
|------------------------------|------------------------------|--|
| \$ — | \$ 928,060 | \$ — |
| — | 5,087 | — |
| 1,931 | 2,431,852 | 309,481 |
| 21 | 21 | — |
| — | 17,455 | — |
| 8,351 | 8,351 | 5 |
| 144,346 | 155,164 | 2,550 |
| — | 39,199 | — |
| 18,425 | 18,425 | 22,681 |
| 1,465 | 1,845 | 501 |
| <u>174,539</u> | <u>3,605,459</u> | <u>335,218</u> |
| 82,784 | 111,779 | 148,259 |
| 3,550 | 20,046 | 14,243 |
| 46,073 | 289,079 | 79,390 |
| 427 | 1,215 | 422 |
| 4,484 | 21,191 | 21,599 |
| — | 1,543,158 | — |
| 20,664 | 20,664 | 4,482 |
| — | 238,185 | — |
| 4,128 | 4,534 | 19,348 |
| 6,499 | 13,488 | 39,897 |
| <u>168,609</u> | <u>2,263,339</u> | <u>327,640</u> |
| <u>5,930</u> | <u>1,342,120</u> | <u>7,578</u> |
| 641 | 57,914 | — |
| 1,933 | 1,933 | — |
| 1,495 | 63,902 | 371 |
| (500) | (60,654) | — |
| — | 8 | 15 |
| — | (6,568) | — |
| 245 | 245 | 2,370 |
| — | 11,348 | — |
| — | 153,260 | — |
| 46 | (7,698) | 1,316 |
| <u>3,860</u> | <u>213,690</u> | <u>4,072</u> |
| 9,790 | 1,555,810 | 11,650 |
| 5,209 | 10,317 | 88 |
| 8,883 | 66,753 | 10,478 |
| (1,817) | (885,212) | (3,505) |
| <u>22,065</u> | <u>747,668</u> | <u>18,711</u> |
| <u>235,326</u> | <u>4,491,693</u> | <u>279,694</u> |
| <u>\$ 257,391</u> | <u>\$ 5,239,361</u> | <u>\$ 298,405</u> |

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Business-type Activities — Enterprise Funds | | | |
|--|--|-------------------------------|-------------------------------|-------------------------------|
| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority |
| Cash Flows From Operating Activities | | | | |
| Receipts from customers..... | \$ 1,041,985 | \$ 1,715 | \$ 2,262,614 | \$ 44,012 |
| Receipts from federal agencies..... | 5,380 | — | — | — |
| Receipts from other funds..... | — | — | — | — |
| Payments to suppliers..... | — | (1,291) | (72,218) | (10,422) |
| Payments to employees..... | — | (6,466) | (19,463) | (1,116) |
| Payments for prizes, benefits, and claims..... | (224,722) | — | (1,532,238) | — |
| Payments to other funds..... | — | — | — | — |
| Other receipts..... | 1,027 | 2 | — | — |
| Other payments..... | — | (125) | — | (5,733) |
| Net cash provided by (used for) operating activities..... | <u>823,670</u> | <u>(6,165)</u> | <u>638,695</u> | <u>26,741</u> |
| Cash Flows From Noncapital Financing Activities | | | | |
| Grant receipts | 9,057 | 48,375 | — | — |
| Grants, aid, and subsidies..... | — | (6,568) | — | — |
| Advances from other funds..... | — | — | — | 778 |
| Transfers from other funds..... | — | 8,870 | — | — |
| Transfers to other funds..... | — | (981) | (662,552) | (256,809) |
| Gifts..... | — | — | — | — |
| Net cash provided by (used for) noncapital financing activities..... | <u>9,057</u> | <u>49,696</u> | <u>(662,552)</u> | <u>(256,031)</u> |
| Cash Flows From Capital and Related Financing Activities | | | | |
| Acquisition and construction of capital assets..... | — | — | (1,064) | (266,621) |
| Proceeds from the sale of capital assets..... | — | — | — | — |
| Proceeds from capital debt..... | — | — | — | 371,485 |
| Transfers from other funds..... | — | — | — | 49,000 |
| Capital contributions..... | — | — | — | 5,321 |
| Principal paid on capital debt..... | — | — | — | (11,960) |
| Interest paid on capital debt..... | — | — | — | (73,495) |
| Payment to bond escrow agent..... | — | — | — | (261,419) |
| Federal subsidy for interest on debt..... | — | — | — | 11,348 |
| Insurance recoveries..... | — | — | — | 8 |
| Debt issuance costs paid..... | — | — | — | (1,103) |
| Net cash provided by (used for) capital and related financing activities..... | <u>—</u> | <u>—</u> | <u>(1,064)</u> | <u>(177,436)</u> |
| Cash Flows From Investing Activities | | | | |
| Proceeds from the sale/maturities of non-State Treasurer investments..... | — | — | — | 4,425,066 |
| Purchase of non-State Treasurer investments..... | — | — | — | (4,020,442) |
| Purchase into State Treasurer investment pool..... | — | (1,104) | — | — |
| Loan issuances..... | — | (157,038) | — | — |
| Loan repayments — interest..... | — | 17,351 | — | — |
| Loan repayments — principal..... | — | 88,847 | — | — |
| Investment earnings..... | 50,032 | 3,143 | 1,085 | 3,312 |
| Net cash provided by (used for) investment activities..... | <u>50,032</u> | <u>(48,801)</u> | <u>1,085</u> | <u>407,936</u> |
| Net increase (decrease) in cash and cash equivalents..... | 882,759 | (5,270) | (23,836) | 1,210 |
| Cash and cash equivalents at July 1, as restated..... | 1,804,453 | 240,457 | 96,860 | 4,267 |
| Cash and cash equivalents at June 30..... | <u>\$ 2,687,212</u> | <u>\$ 235,187</u> | <u>\$ 73,024</u> | <u>\$ 5,477</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| <u>Other Enterprise Funds</u> | <u>Total Enterprise Funds</u> | Governmental Activities — Internal Service Funds |
|---------------------------------------|---------------------------------------|---|
| \$ 164,095 | \$ 3,514,421 | \$ 37,535 |
| — | 5,380 | — |
| — | — | 307,346 |
| (43,734) | (127,665) | (144,559) |
| (78,233) | (105,278) | (146,196) |
| (16,212) | (1,773,172) | (2,837) |
| — | — | (12,713) |
| 13,777 | 14,806 | 1,774 |
| <u>(16,807)</u> | <u>(22,665)</u> | <u>—</u> |
| <u>22,886</u> | <u>1,505,827</u> | <u>40,350</u> |
| 643 | 58,075 | — |
| — | (6,568) | — |
| — | 778 | — |
| 8,883 | 17,753 | 10,478 |
| (1,817) | (922,159) | (3,505) |
| <u>1,939</u> | <u>1,939</u> | <u>—</u> |
| <u>9,648</u> | <u>(850,182)</u> | <u>6,973</u> |
| (1,441) | (269,126) | (39,312) |
| 390 | 390 | 2,933 |
| — | 371,485 | — |
| — | 49,000 | — |
| 4,137 | 9,458 | — |
| (1,926) | (13,886) | (46) |
| (500) | (73,995) | — |
| — | (261,419) | — |
| — | 11,348 | — |
| — | 8 | 15 |
| <u>—</u> | <u>(1,103)</u> | <u>—</u> |
| <u>660</u> | <u>(177,840)</u> | <u>(36,410)</u> |
| 20,323 | 4,445,389 | — |
| (21,524) | (4,041,966) | — |
| — | (1,104) | — |
| — | (157,038) | — |
| — | 17,351 | — |
| — | 88,847 | — |
| <u>1,011</u> | <u>58,583</u> | <u>360</u> |
| <u>(190)</u> | <u>410,062</u> | <u>360</u> |
| 33,004 | 887,867 | 11,273 |
| <u>110,164</u> | <u>2,256,201</u> | <u>118,411</u> |
| <u>\$ 143,168</u> | <u>\$ 3,144,068</u> | <u>\$ 129,684</u> |

Continued

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Business-type Activities — Enterprise Funds | | | |
|--|--|-------------------------------|-------------------------------|-------------------------------|
| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | | | | |
| Operating income..... | \$ 694,962 | \$ 11,166 | \$ 624,514 | \$ 5,548 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation..... | — | 34 | 543 | 16,130 |
| Interest earnings on loans classified as investing activity..... | — | (17,455) | — | — |
| Nonoperating miscellaneous income (expense)..... | 1,027 | — | — | (2,814) |
| Change in assets and deferred outflows: | | | | |
| Receivables..... | 144,808 | — | (803) | (1,494) |
| Due from other funds..... | 183 | — | — | (5) |
| Due from component units..... | — | — | — | — |
| Inventories..... | — | — | — | 594 |
| Prepaid items..... | — | — | 514 | (579) |
| Deferred outflows for pensions..... | — | (2,016) | (5,288) | (313) |
| Change in liabilities and deferred inflows: | | | | |
| Accounts payable and accrued liabilities..... | (16,028) | 116 | 13,813 | 36 |
| Due to other funds..... | — | 12 | — | 7,903 |
| Due to fiduciary funds..... | — | — | — | 635 |
| Compensated absences..... | — | (47) | (257) | 89 |
| Unearned revenue..... | (1,282) | — | — | — |
| Net pension liability..... | — | 1,643 | 6,027 | 333 |
| Deferred inflows for pensions..... | — | 382 | (368) | (20) |
| Deposits payable..... | — | — | — | 698 |
| Net cash provided by (used for) operations..... | <u>\$ 823,670</u> | <u>\$ (6,165)</u> | <u>\$ 638,695</u> | <u>\$ 26,741</u> |
| Noncash Investing, Capital, and Financing Activities | | | | |
| Noncash distributions from the State Treasurer | | | | |
| Long-Term Investment Portfolio and/or other agents..... | \$ — | \$ — | \$ — | \$ — |
| Donated or transferred assets | — | — | — | — |
| Change in construction in progress as a result of accrual of accounts payable..... | — | — | — | 11,390 |
| Assets acquired through the assumption of a liability..... | — | — | — | 1,336 |
| Change in fair value of investments..... | — | — | — | 337 |
| Change in securities lending collateral..... | (2,772) | (29,182) | (5,275) | (17,989) |
| Gain on debt reclassification..... | — | — | — | 153,260 |

| <u>Other Enterprise Funds</u> | <u>Total Enterprise Funds</u> | <u>Governmental Activities — Internal Service Funds</u> |
|---------------------------------------|---------------------------------------|---|
| \$ 5,930 | \$ 1,342,120 | \$ 7,578 |
| 4,484 | 21,191 | 21,599 |
| — | (17,455) | — |
| 119 | (1,668) | 1,321 |
| 2,875 | 145,386 | 9,930 |
| (1) | 177 | (1,253) |
| — | — | (22) |
| 87 | 681 | 83 |
| 189 | 124 | (900) |
| (9,346) | (16,963) | (11,662) |
| 8,706 | 6,643 | (596) |
| (30) | 7,885 | 43 |
| — | 635 | — |
| 50 | (165) | 717 |
| 81 | (1,201) | 1,512 |
| 10,209 | 18,212 | 12,792 |
| (467) | (473) | (792) |
| — | 698 | — |
| <u>\$ 22,886</u> | <u>\$ 1,505,827</u> | <u>\$ 40,350</u> |
| \$ 374 | \$ 374 | \$ 952 |
| 56 | 56 | 88 |
| — | 11,390 | — |
| 1 | 1,337 | — |
| 639 | 976 | (957) |
| (11,567) | (66,785) | (4,332) |
| — | 153,260 | — |

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2017

Exhibit B-6

(Dollars in Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Funds | Private- Purpose Trust Funds | Agency Funds |
|--|---|------------------------------|---------------------------------------|------------------|
| Assets | | | | |
| Cash and cash equivalents (Note 3)..... | \$ 462,920 | \$ 7,922 | \$ 123,375 | \$ 5,311,582 |
| Investments (Note 3): | | | | — |
| U.S. government and agency securities..... | — | — | 103 | — |
| Corporate bonds..... | — | — | — | 1,175 |
| Certificates of deposit..... | — | — | 36,885 | 525 |
| Collective investment funds..... | 194,479 | — | — | — |
| State Treasurer investment pool..... | 94,927,088 | 1,198,240 | 6,733 | — |
| Unallocated insurance contracts..... | 813,752 | — | — | — |
| Synthetic guaranteed investment contracts..... | 1,465,849 | — | — | — |
| Non-State Treasurer pooled investments..... | 7,299,953 | — | — | — |
| Securities lending collateral (Note 3)..... | 705,567 | 866 | 9 | 5,507 |
| Receivables: | | | | |
| Taxes receivable..... | — | — | — | 176,458 |
| Accounts receivable..... | 35,767 | — | — | 9,681 |
| Interest receivable..... | 665 | 2,005 | 7 | 52 |
| Contributions receivable..... | 149,978 | — | — | — |
| Due from other funds (Note 10)..... | 71,978 | — | — | 44,331 |
| Due from component units..... | 18,001 | — | — | — |
| Notes receivable..... | 306,076 | — | — | — |
| Sureties..... | — | — | 865,929 | 81,785 |
| Total Assets..... | <u>106,452,073</u> | <u>1,209,033</u> | <u>1,033,041</u> | <u>5,631,096</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | 1,368 | — | — | 3 |
| Intergovernmental payable..... | — | — | — | 901,487 |
| Benefits payable..... | 5,121 | — | — | — |
| Obligations under securities lending..... | 705,567 | 866 | 9 | 5,507 |
| Deposits payable..... | — | — | — | 1,907 |
| Funds held for others..... | 6,854 | — | — | 4,722,192 |
| Total Liabilities..... | <u>718,910</u> | <u>866</u> | <u>9</u> | <u>5,631,096</u> |
| Net Position | | | | |
| Restricted for: | | | | |
| Pension benefits..... | 102,422,755 | — | — | — |
| Other postemployment benefits..... | 1,634,176 | — | — | — |
| Other employee benefits..... | 1,676,232 | — | — | — |
| Pool participants..... | — | 799,377 | — | — |
| Individuals, organizations, and other governments..... | — | 408,790 | 1,033,032 | — |
| Total Net Position..... | <u>\$ 105,733,163</u> | <u>\$ 1,208,167</u> | <u>\$ 1,033,032</u> | <u>\$ —</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For the Fiscal Year Ended June 30, 2017

Exhibit B-7

(Dollars in Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Funds | Private- Purpose Trust Funds |
|---|---|---------------------------------------|---|
| Additions | | | |
| Contributions: | | | |
| Employer..... | \$ 3,156,180 | \$ — | \$ — |
| Members..... | 1,699,221 | — | — |
| Trustee deposits..... | — | — | 143,778 |
| Other contributions..... | 51,498 | — | — |
| Total contributions..... | <u>4,906,899</u> | <u>—</u> | <u>143,778</u> |
| Investment income: | | | |
| Investment earnings | 10,449,655 | 73,623 | 1,997 |
| Less investment expenses..... | <u>(527,455)</u> | <u>(833)</u> | <u>(2)</u> |
| Net investment income | <u>9,922,200</u> | <u>72,790</u> | <u>1,995</u> |
| Pool share transactions: | | | |
| Reinvestment of dividends..... | — | 73,357 | — |
| Net share purchases/(redemptions)..... | — | <u>(6,648)</u> | — |
| Net pool share transactions..... | <u>—</u> | <u>66,709</u> | <u>—</u> |
| Other additions: | | | |
| Fees, licenses, and fines..... | 3,614 | — | — |
| Interest earnings on loans..... | 12,935 | — | — |
| Miscellaneous..... | <u>3,819</u> | <u>—</u> | <u>—</u> |
| Total other additions..... | <u>20,368</u> | <u>—</u> | <u>—</u> |
| Total additions..... | <u>14,849,467</u> | <u>139,499</u> | <u>145,773</u> |
| Deductions | | | |
| Claims and benefits..... | 6,436,036 | — | — |
| Medical insurance premiums | 916,089 | — | — |
| Refund of contributions..... | 169,905 | — | — |
| Distributions paid and payable..... | — | 73,357 | — |
| Payments in accordance with trust arrangements..... | — | — | 140,166 |
| Administrative expenses..... | 29,341 | — | — |
| Other deductions..... | <u>6,128</u> | <u>—</u> | <u>—</u> |
| Total deductions..... | <u>7,557,499</u> | <u>73,357</u> | <u>140,166</u> |
| Change in net position..... | 7,291,968 | 66,142 | 5,607 |
| Net position — July 1..... | <u>98,441,195</u> | <u>1,142,025</u> | <u>1,027,425</u> |
| Net position — June 30..... | <u>\$ 105,733,163</u> | <u>\$ 1,208,167</u> | <u>\$ 1,033,032</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Financial Reporting Entity**

The accompanying government-wide financial statements present the State of North Carolina and its component units. The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government has a separately elected governing body (the General Assembly), and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. The State's financial accountability is normally determined in one of two ways. First, the State has substantive appointment of a majority of the organization's governing board plus the State is able to either impose its will upon the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. Financial accountability also exists when an organization is fiscally dependent on the State and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

The State's component units are discretely presented. The "Component Units" column in the accompanying financial statements includes the financial data of the State's discretely presented component units. They are combined and reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the State.

Discretely Presented Component Units - Major**University of North Carolina System**

The Board of Governors of the consolidated University of North Carolina (UNC) System is a legally separate body, composed of 32 members elected by the General Assembly. The Board of Governors establishes system-wide administrative policies while budgetary decisions are exercised at the State level. Within the consolidated System are UNC-General Administration, which is the administrative arm of the Board of Governors; the 16 constituent universities; a joint research campus; a constituent high school; and the University of North Carolina Health Care System (UNCHCS). Each of the 16 universities, the joint research campus, and the high school, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNCHCS is governed by a separate board of directors. Funding for the UNC System is accomplished by State appropriations, tuition and fees, sales and services, federal grants, state grants, and private donations and grants.

Also included in the System are the financial data of the universities' significant fund-raising foundations (and similar organizations). Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements. Certain foundations are private not-for-profits that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The financial statement formats of the private foundations were modified to make them compatible with the universities' financial statement formats.

The following constituent institutions comprise the UNC System for financial reporting purposes:

| | |
|--|--|
| UNC General Administration | University of North Carolina School of the Arts |
| Appalachian State University | Western Carolina University |
| East Carolina University | Winston-Salem State University |
| Elizabeth City State University | Gateway University Research Park, Inc. |
| Fayetteville State University | North Carolina School of Science and Mathematics |
| North Carolina Agricultural and Technical State University | University of North Carolina Health Care System |
| North Carolina Central University | |
| North Carolina State University | |
| University of North Carolina at Asheville | |
| University of North Carolina at Chapel Hill | |
| University of North Carolina at Charlotte | |
| University of North Carolina at Greensboro | |
| University of North Carolina at Pembroke | |
| University of North Carolina at Wilmington | |

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

There are currently 58 community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. However, the State is financially accountable for these institutions because the State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college and because the State provides significant funding to these institutions. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no single community college are considered major in relation to the operations of all community colleges in the system. Therefore, aggregated financial information is presented in this CAFR for all community colleges.

The aggregated financial information for community colleges also includes the financial data of the institutions' significant fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. Certain foundations are private not-for-profits that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The financial statement formats of the private foundations were modified to make them compatible with the community colleges' financial statement formats.

The following are the State's 58 community colleges:

| | |
|--|--------------------------------------|
| Alamance Community College | Martin Community College |
| Asheville-Buncombe Technical Community College | Mayland Community College |
| Beaufort County Community College | McDowell Technical Community College |
| Bladen Community College | Mitchell Community College |
| Blue Ridge Community College | Montgomery Community College |
| Brunswick Community College | Nash Community College |
| Caldwell Community College and Technical Institute | Pamlico Community College |
| Cape Fear Community College | Piedmont Community College |
| Carteret Community College | Pitt Community College |
| Catawba Valley Community College | Randolph Community College |
| Central Carolina Community College | Richmond Community College |
| Central Piedmont Community College | Roanoke-Chowan Community College |
| Cleveland Community College | Robeson Community College |
| Coastal Carolina Community College | Rockingham Community College |
| College of The Albemarle | Rowan-Cabarrus Community College |
| Craven Community College | Sampson Community College |
| Davidson County Community College | Sandhills Community College |
| Durham Technical Community College | South Piedmont Community College |
| Edgecombe Community College | Southeastern Community College |
| Fayetteville Technical Community College | Southwestern Community College |
| Forsyth Technical Community College | Stanly Community College |
| Gaston College | Surry Community College |
| Guilford Technical Community College | Tri-County Community College |
| Halifax Community College | Vance-Granville Community College |
| Haywood Community College | Wake Technical Community College |
| Isothermal Community College | Wayne Community College |
| James Sprunt Community College | Western Piedmont Community College |
| Johnston Community College | Wilkes Community College |
| Lenoir Community College | Wilson Community College |

State Health Plan

The State Health Plan (Plan) is a legally separate organization established to provide medical and pharmacy benefits to employees and retirees of the State, most of its component units, and local boards of education that are not part of the reporting entity. The Plan is governed by a ten-member board of trustees including the State Treasurer, an ex officio member who serves as chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the General Assembly. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the board of trustees. The State of North Carolina makes significant contributions to the Plan as an employer and through its funding of local boards of education.

NOTES TO THE FINANCIAL STATEMENTS**Discretely Presented Component Units - Other****The Golden LEAF (Long-term Economic Advancement Foundation), Inc.**

The Golden LEAF, Inc. (Foundation) is a legally separate not-for-profit corporation ordered to be created by the Consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris, et al. The Foundation was established to receive and distribute 50% of the tobacco settlement funds allocated to North Carolina, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. In July 2013, the North Carolina General Assembly enacted Session Law 2013-360, which repealed section 6(1) of Session Law 1999-2 requiring 50% of tobacco settlement funds to be allocated to the Foundation. In fiscal years 2014 and 2015, these funds were distributed to the State's General Fund rather than the Foundation. In September 2015, the North Carolina General Assembly enacted Session Law 2015-241, which provides for the appropriation of \$10 million of tobacco settlement funds to the Foundation each year. The Foundation is governed by a 15-member board, all of whom are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. The Foundation provides grants to State agencies and component units, creating a financial benefit/burden relationship.

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency (Agency) is a legally separate organization established to administer programs to finance housing opportunities for low and moderate income individuals. The Agency has a 13-member board of directors, with 12 appointed by either the Governor or the General Assembly. The 13th member is elected by the other 12. The Agency's mission is defined in its authorizing statute, which is modified or expanded from time to time by the General Assembly. The General Assembly also appropriates funds that assist the Agency in its mission to finance housing for very low income individuals and those with special needs; therefore, a financial benefit/burden relationship exists between the State and the Agency.

State Education Assistance Authority

The State Education Assistance Authority (Authority) is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education by attending public or private educational institutions. The Authority is governed by a nine-member board of directors, seven of whom are appointed by the Governor and two of whom serve ex officio by virtue of their positions with the North Carolina Community College System and the University of North Carolina System. The State provides program subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the 20-member governing board, 19 are voting members. Six of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. Effective July 2011, the General Assembly enacted legislation that made the Authority subject to the direction and supervision of the North Carolina Secretary of Transportation. Also included in the Authority is the financial data of its discretely presented component unit, the North Carolina Global TransPark Foundation.

North Carolina State Ports Authority

The North Carolina State Ports Authority (Authority) is a legally separate authority established to operate the State's port facilities in Wilmington and Morehead City and inland terminals in Charlotte and Greensboro. It is governed by an 11-member board, all of whom are appointed by either the Governor or the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. Effective July 2011, the General Assembly enacted legislation that made the Authority subject to and under the direct supervision of the North Carolina Secretary of Transportation.

North Carolina Railroad Company

The North Carolina Railroad Company (Railroad) is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within North Carolina and advancing the economic interests of the State. The Railroad is governed by a 13-member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad. Also, the State is financially accountable since the State's intent in owning the Railroad's stock is to directly enhance the State's ability to provide governmental services.

The North Carolina Partnership for Children, Inc.

The North Carolina Partnership for Children, Inc. (Partnership) is a legally separate organization established to develop and oversee a comprehensive long-range strategic plan for high-quality early childhood education and development. A 26-member board governs the Partnership. Certain elected state officials appoint 22 of the members, while three members serve ex officio by virtue of their state positions and one serves as the Director of the North Carolina Pre-Kindergarten Program. The State provides significant operating subsidies to the Partnership, creating a financial benefit/burden relationship.

NOTES TO THE FINANCIAL STATEMENTS**North Carolina Biotechnology Center**

The North Carolina Biotechnology Center (NCBiotech) is a legally separate nonprofit corporation established for the purpose of furthering economic development and job creation in North Carolina through life science technology, company and sector development statewide. NCBiotech is governed by a 40-member board. Twelve of the board members are appointed by the Governor or General Assembly; four serve as a result of their positions with the UNC System, a component unit of the State; two serve ex officio by virtue of their state positions; and two serve ex officio by virtue of their positions with private universities. The President of NCBiotech serves as an ex officio member. The other members are elected by the board of directors. The State has provided significant funding to NCBiotech since its inception; therefore, a financial benefit/burden relationship exists between the State and the NCBiotech.

Centennial Authority

The Centennial Authority (Authority) is a legally separate authority created to study, design, plan, construct, own, promote, finance and operate a regional facility in Wake County, North Carolina. The regional facility consists of an arena where sports, fitness, health, recreational, entertainment or cultural activities can be conducted. The Authority is governed by a 21-member board comprised of ten members appointed by the North Carolina General Assembly, four members appointed by the Wake County Board of Commissioners, four members appointed by the Raleigh City Council, one member appointed by the Chancellor of North Carolina State University or the Chancellor's designee, and two members appointed jointly by the mayors of all the cities in Wake County. The facility is located on land owned by the State and leased to the Authority at an annual rent of \$1 per year. Therefore, a financial benefit/burden relationship exists between the State and the Authority.

Economic Development Partnership of North Carolina

Economic Development Partnership of North Carolina (EDPNC) is a legally separate nonprofit corporation created to consolidate and enhance the State's economic development marketing and sales functions previously conducted by the North Carolina Department of Commerce. These functions include export promotion, tourism marketing, existing industry support, small business assistance, and business recruitment. EDPNC is governed by a 17-member board comprised of nine members appointed by the Governor and eight members appointed by the North Carolina General Assembly. The State has the ability to remove board members at will. The State's contract with EDPNC provides recurring financial support to EDPNC, creating a financial benefit/burden relationship.

Availability of Financial Statements

Unless otherwise noted, complete financial statements for the following component units can be obtained from the Office of the State Auditor, 2 South Salisbury Street, 20601 Mail Service Center, Raleigh, N.C. 27699-0600 or can be accessed from the Office of the State Auditor internet home page at www.ncauditor.net.

Constituent institutions in the UNC System (excluding Gateway University Research Park, Inc. and University of North Carolina Health Care System)

North Carolina Global TransPark Authority

North Carolina State Ports Authority

The North Carolina Partnership for Children, Inc.

Complete financial statements for the following component units can be obtained from the respective administrative offices of those units listed below:

The Golden LEAF, Inc.
301 North Winstead Avenue
Rocky Mount, N.C. 27804

North Carolina Railroad Company
2809 Highwoods Boulevard
Raleigh, N.C. 27604-1000

Gateway University Research Park, Inc.
2901 East Lee Street, Suite 2500
Greensboro, N.C. 27401-4904

North Carolina Housing Finance Agency
P.O. Box 28066
Raleigh, N.C. 27611-8066

North Carolina Biotechnology Center
P.O. Box 13547
Research Triangle Park, N.C. 27709-3547

Economic Development Partnership of
North Carolina
15000 Weston Parkway
Cary, NC 27513

State Education Assistance Authority
P.O. Box 14103
Research Triangle Park, N.C. 27709-4103

Centennial Authority
1400 Edwards Mill Road
Raleigh, N.C. 27607

Complete financial statements of the individual community colleges can be obtained from their respective administrative offices. The addresses of the individual community colleges are available on the internet home page for the North Carolina Community College System as follows: <http://www.nccommunitycolleges.edu> (click "Find a College"). The State Health Plan and the University of North Carolina Health Care System do not issue separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS**B. Basis of Presentation**

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. The financial statements of the North Carolina Railroad Company, a for-profit corporation, and the North Carolina Biotechnology Center (discretely presented component units) have been prepared in accordance with Financial Accounting Standards Board (FASB) pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2017, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2016, and the North Carolina Deferred Compensation Plan, the 401(k) Supplemental Retirement Income Plan, and the North Carolina Railroad Company whose statements are as of and for the fiscal year ended December 31, 2016. Occupational licensing boards have financial statements with various fiscal year ending dates.

The basic financial statements include both government-wide (based on the State as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The statement of net position and the statement of activities display information on all the nonfiduciary activities of the primary government (the State) and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the State's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between functions. Elimination of these charges would misstate both the expenses of the purchasing function and the program revenues of the selling function. These statements distinguish between the governmental and business-type activities of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Certain charges to other funds or programs for "centralized" expenses also include an overhead markup that is included in direct expenses. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity (including fees, fines and forfeitures and certain grants and contracts that are essentially contracts for services) and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity (including restricted investment earnings or losses). Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Unrestricted resources internally dedicated by the State's governing body (General Assembly) are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

Highway Fund

This fund accounts for most of the activities of the Department of Transportation, including the maintenance and some construction of the State's primary and secondary road systems. In addition, it supports areas such as the North Carolina Ferry System, the Division of Motor Vehicles, public transportation, and railroad operations. The fund also provides revenue to the North Carolina State Ports Authority to support modernization initiatives. The principal revenues of the Highway Fund are motor fuels taxes, motor vehicle registration fees, driver's license fees, and federal aid. A portion of the motor fuels taxes is distributed to municipalities for local transportation projects.

NOTES TO THE FINANCIAL STATEMENTS**Highway Trust Fund**

This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road construction. The fund also makes transfers to the General Fund, the Highway Fund, and the North Carolina Turnpike Authority. Session Law 2013-183 amends the Highway Trust Fund allocation of resources. It eliminates individually legislated projects and implements a new way for the Department of Transportation to fund and prioritize necessary infrastructure improvements while utilizing existing revenue sources more efficiently. In June 2015, the Board of Transportation approved the 10-year State Transportation Improvement Program, fully implementing the new legislation. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

Unemployment Compensation Fund

This fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The administrative costs of this program are reported in the General Fund and financed through the distribution of employer paid federal unemployment insurance taxes. The state unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund. Now that the fund has a positive net position, the fund is earning interest on a quarterly basis. State unemployment benefits are financed by the employer paid state unemployment insurance taxes. Certain unemployment benefits for civilian and military employees are paid through the trust fund but reimbursed from federal funds. In addition, when triggered, some extended benefits and emergency related benefits are also reimbursed from federal funds.

North Carolina State Lottery Fund

This fund accounts for the activities of the North Carolina Education Lottery Commission. The North Carolina Education Lottery Commission was created as an independent, self-supporting, and revenue raising entity. The purpose of the lottery is to generate funds to provide educational opportunities as directed by the North Carolina General Assembly. The net profits of the fund are transferred periodically to the General Fund as required by general statutes.

EPA Revolving Loan Fund

This fund accounts for the activities of the State's clean water and drinking water revolving loan programs, which provide low cost loans to units of local government for the construction of wastewater facilities and drinking water infrastructure. These programs are financed primarily by federal capitalization grants from the United States Environmental Protection Agency (EPA), interest earnings on loans, loan repayments, and state funds (i.e., bond proceeds and State appropriations).

North Carolina Turnpike Authority

This fund accounts for the activities of the North Carolina Turnpike Authority (Authority), which was created to study, design, plan, construct, finance, and operate a system of toll roads, bridges, and/or tunnels supplementing the traditional non-toll transportation serving the citizens of the State. Effective July 2009, the General Assembly enacted legislation that transferred the functions and funds of the Authority to the Department of Transportation.

Additionally, the State reports the following fund types:

Internal Service Funds

These funds account for state property fire insurance coverages, motor fleet management services, mail services, temporary staffing services, computing and telecommunication services, and surplus property services provided to other departments or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis.

Pension and Other Employee Benefit Trust Funds

These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, defined contribution pension plans, Internal Revenue Code Section 457 plan, death benefit plan, disability income plan, and retiree health benefit fund.

Investment Trust Funds

These funds account for the external portion of the Investment Pool sponsored by the Department of State Treasurer and individual investment accounts held by the Department of State Treasurer for public hospitals that are not part of the State reporting entity.

Private-purpose Trust Funds

These funds account for resources held in trust for insurance carriers, designated beneficiaries by the Administrative Office of the Courts, and other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

NOTES TO THE FINANCIAL STATEMENTS**Agency Funds**

These funds account for sales tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, the Investment Pool's securities lending assets and liabilities allocated to participating component units, insurance company receivership assets, vehicle property tax collections held on behalf of local governments, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments. Insurance company receivership assets are held by the Commissioner of Insurance exclusively in his capacity as Receiver. These assets belong to insurance companies and other entities in receivership and are not the property of the State.

C. Measurement Focus and Basis of Accounting**Government-wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Lottery games are sold to the public by contracted retailers. For the North Carolina Education Lottery Commission's draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, Lucky for Life, and raffles offered, revenue is recognized at the time of sale on a daily basis. For instant games, revenue is recognized at the time a pack of tickets is settled. For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and Lucky for Life, prize expense is recorded at 50% of sales on a daily basis. EZ Match is recorded at 63% of sales on a daily basis. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on the value of packs settled. For the instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

Nonexchange transactions, in which the State receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants (and similar assistance), entitlements, and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Income taxes, sales taxes, and other similar taxes on earnings or consumption are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when the underlying exchange transaction has occurred. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants (and similar assistance), entitlements, and donations are recognized by providers as expenses and by recipients as revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met (excluding time requirements) are reported as assets by the provider and as liabilities by the recipient. Resources received or recognized as a receivable before time requirements are met, but after all other eligibility requirements have been met, are reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient.

Governmental Fund Financial Statements

Governmental funds are reported 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 and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Generally, the State considers revenues reported in the governmental funds to be available if they are collected within 31 days after year-end. Exceptions are individual income tax revenues and federal and county funds accrued for the matching share of medicaid claims payable, which the State considers to be available if they are collected within 12 months after year-end. Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., refunds payable and applied refunds). Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers' compensation, pollution remediation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing pension plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

NOTES TO THE FINANCIAL STATEMENTS**D. Cash and Cash Equivalents**

This classification includes undeposited receipts; petty cash; deposits held by the State Treasurer in the Short-term Investment Fund, a portfolio within the North Carolina Department of State Treasurer External Investment Pool (External Investment Pool); and demand and time deposits with private financial institutions, excluding certificates of deposit. The Short-term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

E. Investments

This classification includes deposits held by the State Treasurer in certain investment portfolios (see Note 3A) as well as investments held separately by the State and its component units. Investments are generally reported at fair value, with significant exceptions as follows. Repurchase agreements and certain money market mutual funds are reported at cost. Fully benefit responsive synthetic guaranteed investment contracts and unallocated insurance contracts that are nonparticipating interest-earning investment contracts are reported at contract value.

The net increase (decrease) in the fair value of investments is recognized as a component of investment income. Additional information regarding investments is provided in Note 3.

F. Securities Lending

Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value with the exception of repurchase agreements, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement. Certain component units of the State deposit funds with the External Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund.

G. Receivables and Payables

Receivables in all funds represent amounts that have arisen in the ordinary course of business and are shown net of allowances for uncollectible amounts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds related to services provided and used, reimbursements, and transfers are classified as "due to/due from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Inventories and Prepaid Items

The inventories of the State and component units are valued at cost using either the first-in, first-out (FIFO); last invoice cost; or average cost method. These inventories consist of general supplies and materials. Institutions of the UNC System and community colleges also use these valuations along with the retail inventory method for some bookstore operations. The State Highway Fund accounts for its maintenance and construction inventories using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Prepaid items of governmental funds are recorded as expenditures when purchased, and balances of prepaid items are not reported as assets.

I. Securities Held in Trust

Securities held in trust include various assets, including securities from insurance companies and bail bondsmen doing business within North Carolina. These securities have been placed in safekeeping with a financial institution or the State Treasurer, as required by applicable general statutes.

NOTES TO THE FINANCIAL STATEMENTS

J. Restricted/Designated Assets

In the government-wide and enterprise fund financial statements, certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. The following resources are not available for current operations and are reported as restricted assets: 1) resources restricted for the acquisition/construction of the government’s own capital assets, 2) resources legally segregated for the payment of principal and interest as required by debt covenants, 3) temporarily invested debt proceeds, and 4) nonexpendable resources of permanent funds. This financial statement caption also includes resources designated by management for the acquisition/construction of the government’s own capital assets and thus not available for current operations.

K. Capital Assets

Capital assets, which include property, plant, equipment; easements; and infrastructure assets (e.g., State highway network, utility systems, and similar items), are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. The State highway network constructed prior to July 1, 2001 is recorded at estimated historical cost. Since July 1, 2001 the State highway network is recorded at cost. The initial estimated historical cost of the network is based on construction expenditures reported by the Department of Transportation less amounts estimated for the cost of right-of-ways and land improvements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation except that capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at the date of donation.

Generally, capital assets are defined by the State and component units as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of two or more years, except for internally generated computer software and other intangible assets, which are capitalized when the value or cost is greater than or equal to \$1 million and \$100 thousand, respectively.

The value of assets constructed by the State and its component units for their own use includes all material direct and indirect construction costs that are incurred as a result of the construction. In proprietary funds and component units, interest costs incurred (if material) are capitalized during the period of construction.

The depreciation methods and estimated useful lives generally used by the State and its component units are as follows:

| <u>Asset Class</u> | <u>Method</u> | <u>Estimated Useful Life</u> |
|---|---|------------------------------|
| Buildings..... | Straight-line | 10-100 years |
| Machinery and Equipment..... | Straight-line Units of output for motor vehicles | 2-30 years 90,000 miles |
| Art, literature, and other artifacts..... | Straight-line | 2-25 years |
| General infrastructure..... | Straight-line | 10-75 years |
| State highway network..... | Composite | 50 years |
| Computer software..... | Straight-line | 2-30 years |
| Other intangible assets..... | Straight-line | 2-100 years |

For the State highway network (including toll roads), depreciation is based on a weighted average of the estimated useful lives of dissimilar assets in the network (e.g., subsurface foundations, roadway surfaces, bridges, traffic control devices, guardrails, markings, signage, etc.).

L. Tax Refund Liabilities

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

M. Compensated Absences

Employees of the State and component units are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The State’s policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward

NOTES TO THE FINANCIAL STATEMENTS

each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at calendar year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30 day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

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

N. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. If material, debt premiums and discounts of the State are deferred and amortized over the life of the debt using the effective interest method. If material, debt premiums and discounts of the University of North Carolina System (component unit) are generally deferred and amortized using the straight-line method. Long-term debt is reported net of the applicable debt premium, and/or discount.

In the fund financial statements, governmental fund types recognize debt premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and premiums received are reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The State and its component units have the following items that qualify for reporting in this category. They are 1) the accumulated decrease in fair value of hedging derivative instruments, 2) deferred loss on refunding, 3) State aid transmitted to a component unit that cannot be spent until a future period (but all other eligibility requirements, if any, have been met), 4) deferred outflows for pensions (i.e., difference between actual and expected experience, change in proportion, differences between employer's contributions and proportionate share of contributions, and contributions subsequent to the measurement date), 5) excess consideration provided in government acquisitions (other deferred outflow), and 6) a deferred loss on a sale-leaseback transaction reported by a community college (other deferred outflow). A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The primary government amortizes the deferred loss on refunding using the effective interest method, and the University of North Carolina System (component unit) generally amortizes this amount using the straight-line method.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The State and a component unit have the following items that qualify for reporting in this category. They are 1) service concession arrangement revenue applicable to future years, 2) State aid received by a component unit that cannot be spent until a future period (but all other eligibility requirements, if any, have been met), 3) deferred inflows for pensions (i.e., difference between actual and expected experience, changes of assumptions, net difference between projected and actual earnings on pension plan investments, change in proportion, and differences between employer's contributions and proportionate share of contributions), 4) a capital lease obligation adjustment by a university due to a change in the provisions of a lease resulting from a refunding by the lessor of tax-exempt debt (other deferred inflow), and 5) unavailable revenues in governmental funds. The governmental funds report unavailable revenues primarily from the following sources: sales and use taxes; other taxes; tobacco settlement; and fees, licenses, and fines. These amounts are deferred and recognized as revenues in the period that the amounts become available.

Deferred inflows of resources resulting from the difference between projected and actual earnings on pension plan investments are included in pension expense over a closed five-year period, beginning in the current measurement period. Deferred outflows of resources, with the exception of employer contributions after the measurement date, and all other deferred inflows of resources are included in pension expense, beginning in the current measurement period, over a closed period (see Note 12). The closed period is equal to the average of the expected remaining service lives of all employees (both active and inactive) that are provided with pensions through the pension plan determined as of the beginning of the measurement period.

NOTES TO THE FINANCIAL STATEMENTS**P. Net Position/Fund Balance**Net Position

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions. Constraints placed on net position use by enabling legislation are not reported as net position restrictions since such constraints are not legally enforceable. Legal enforceability means that the State can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net position is presented as unrestricted.

For governmental activities, the State considers restricted amounts to have been spent first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. For business-type activities and component units, when both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then State appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

Fund Balance

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

- The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.
- Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the North Carolina General Assembly, the State's highest level of decision-making authority. The North Carolina General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.
- Assigned fund balances are constrained by an intent to be used for specific purposes, but are neither restricted nor committed. The Office of State Budget and Management (OSBM) is authorized to assign unexpended funds at year-end as a carryforward of budget authority to the subsequent fiscal year. The North Carolina Constitution (Article III, Sec. 5(3)) provides that the "budget as enacted by the General Assembly shall be administered by the Governor." The Governor has delegated the authority to perform certain powers and duties of the Governor's role as the Director of the Budget to OSBM.
- Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report positive unassigned fund balance but can report negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

For classification of governmental fund balances, the State considers an expenditure 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.

In accordance with General Statute 143C-4-2, the Savings Reserve Account is established as a reserve in the General Fund for budgetary purposes. The State Controller shall reserve to the Savings Reserve Account, one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. Funds reserved to the Savings Reserve Account are available for expenditure only upon an act of appropriation by the General Assembly. 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. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent of the prior year's General Fund appropriation budget. At June 30, 2017, the balance of the Savings Reserve Account was \$1.84 billion, which represents 8.46% of the prior year's General Fund appropriation budget. The Savings Reserve Account is included with unassigned fund balance.

NOTES TO THE FINANCIAL STATEMENTS**Q. Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

R. Food and Nutrition Services

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the State recognizes distributions of food and nutrition services benefits as revenue and expenditures in the General Fund. Revenues and expenditures are recognized based on the fair market value at the time the benefits are distributed to the individual recipients. In North Carolina, benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,*
- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,*
- Statement No. 77, *Tax Abatement Disclosures,*
- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,*
- Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14,*
- Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73,*
- Implementation Guide No. 2016-1, *Implementation Guidance Update – 2016.*

Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. This Statement also made minor technical changes to Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68. The requirements of this Statement that amend Statement Nos. 67 and 68 were effective for the fiscal year ended June 30, 2016. The requirements of this Statement related to assets accumulated for the purpose of providing pensions through defined benefit pension plans that are not administered through trusts were also effective for the fiscal year ending June 30, 2016; however, the State currently has no such assets. The requirements that address the accounting and financial reporting by employers (and governmental nonemployer contributing entities) for pensions that are not within the scope of Statement No. 68 are effective for the fiscal year ending June 30, 2017.

Statement No. 74 replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also replaces the requirements for defined contribution OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*. This Statement covers OPEB plans (defined benefit and defined contribution) administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this Statement requires a statement of fiduciary net position and a statement of changes in fiduciary net position. The notes to the financial statements for these plans must include descriptive information about the OPEB plans and plan investments (including new information about the annual money-weighted rates of return on OPEB plan investments) as well as additional disclosures. The plan's required supplementary information (RSI) must disclose new information for the ten most recent fiscal years as well as explanations of factors that significantly affect trends in the amounts reported. The net OPEB liability must be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The Statement also includes requirements to address financial reporting for defined contribution plans as well as for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

Statement No. 77 establishes requirements for disclosure by governments of a reduction in taxes through agreements made with individuals or entities where the individual or entity promises to take a specific action that contributes to the economic development of the government. The disclosures include descriptive information about the program such as the name and purpose of program, tax being abated, authority to abate the taxes, eligibility criteria, abatement mechanism, recapture provisions, and types of recipient commitments. The disclosure requirements also include the gross dollar amount of taxes being abated or reduced on an accrual basis, the commitments by the government, and a brief description of the quantitative threshold the government used to determine which agreements to disclose individually. This information will allow financial statement users to better assess 1) whether the current-year revenues were sufficient to pay for current-year services, 2) compliance with finance-related legal or contractual requirements, 3) where a government's financial resources come from and how it uses them, and 4) financial position and economic condition of the government and how that economic and financial position has changed over time.

NOTES TO THE FINANCIAL STATEMENTS

Statement No. 78 amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state and local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that 1) is not a state or local governmental pension plan, 2) is used to provide defined benefit pensions both to the employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and 3) has no predominant state or local governmental employer. This standard will have minimal application for the State.

Statement No. 80 amends the blending requirements for the financial statement presentation of component units of state and local governments. It amends the blending requirements of Statement No. 14, *The Financial Reporting Entity*. Statement 80 requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

Statement No. 82 addresses issues with respect to Statement Nos. 67, 68, and 73. The issues addressed include 1) the presentation of payroll-related measures in RSI, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Implementation Guide No. 2016-1 supersedes Implementation Guide No. 2015-1, Questions 5.116.9 and 8.18.3, as well as all questions in Sections 8.69-8.91. This Implementation Guide amends several other questions in Implementation Guide 2015-1. The Implementation Guide addresses questions raised relative to the standards on fair value and tax abatement disclosures.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to invest money with the State Treasurer. Expenditures for the primary government and certain component units are made by wire transfers, ACH transactions, and warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these transactions each day. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, and the Retiree Health Benefit Fund (collectively referred to as the pension and OPEB trust funds in this note), the Register of Deeds' Supplemental Pension Fund, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, the Local Government Other Post-Employment Benefits (OPEB) Trust, public hospitals, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension and OPEB trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

North Carolina Department of State Treasurer External Investment Pool (External Investment Pool)

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for other investment programs, is maintained in the External Investment Pool. Other investment programs may include the public hospitals, certain investments of the Escheat Fund, certain investments of other funds and component units of the reporting entity, the Local Government OPEB Trust, and bond proceeds investment accounts. This pool, a government sponsored external investment pool, consists of the following individual investment portfolios:

Short-term Investment – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund, Highway Fund, Highway Trust Fund, and the remaining portfolios listed below. Other participants include universities and various boards, commissions, community colleges, the Local Government OPEB Trust, and school administrative units that make voluntary deposits with the State Treasurer.

Long-term Investment – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher yield than those held in the Short-term Investment portfolio. The State's pension and OPEB trust funds are the sole participants in this portfolio.

Fixed Income Investment – This portfolio holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. The State's pension and OPEB trust funds are the sole participants in this portfolio.

Equity Investment – This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily holds an equity-based trust. The State's pension and OPEB trust funds are the sole participants in this portfolio.

Real Estate Investment – This portfolio holds investments in real estate-based trust funds, limited partnerships and other limited liability investment vehicles, and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Alternative Investment – This portfolio holds investments in various limited partnerships and limited liability companies, hedge funds, U.S. Treasuries, and equities, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension and OPEB trust funds are the sole participants in this portfolio.

NOTES TO THE FINANCIAL STATEMENTS

Opportunistic Fixed Income Investment – This portfolio may hold investments in debt-related strategies made primarily through limited partnerships or other limited liability vehicles as defined by General Statutes 147-69.2(b)(6c). The State's pension and OPEB trust funds are the sole participants in this portfolio.

Inflation Sensitive Investment – This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation made primarily through limited partnerships or other limited liability vehicles, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension and OPEB trust funds are the sole participants in this portfolio.

All of the preceding investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed previously. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the External Investment Pool. The External Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

The external portion of the External Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the External Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, Fixed Income Investment, Opportunistic Fixed Income Investment, Inflation Sensitive Investment, and Alternative Investment portfolios is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions. The State reports the assets and liabilities arising from securities lending transactions for component units as part of the State's agency funds, rather than allocate them to the component units.

Net investment income earned by the External Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2017, \$9.22 million of investment income associated with other funds was credited to the General Fund.

The External Investment Pool is included in the North Carolina Department of State Treasurer Investment Programs (State Treasurer Investments) separate report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer internet page at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx> in the Audited Financial Statements section.

Bond Index External Investment Pool (BIF)

During fiscal year 2017, the North Carolina Department of State Treasurer established a government sponsored bond index external investment pool (BIF) in which the State Treasurer is authorized to invest funds for governmental entities that are outside the State's pension and OPEB trust funds as defined in this note. The BIF invests in high quality debt securities eligible under General Statute 147-69.2(b) (1 through 6).

Participants in the BIF may include public hospitals, the Local Government OPEB Trust, the Death Benefit Plan of N.C., the Disability Income Plan of N.C., the Register of Deeds' Supplemental Pension Fund, and other funds and component units of the reporting entity with investment authority under General Statute 147-69.2. Participation in the BIF is voluntary.

The deposits are commingled; and therefore, the State Treasurer considers all funds to be part of a single pool. The BIF contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). The BIF is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

The external portion of the BIF is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the BIF is reported in the State's financial statements as an investment asset of those funds or component units. Net investment income earned by the BIF is distributed on a pro rata basis.

The BIF is included in the State Treasurer Investments separate report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer internet page at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx> in the Audited Financial Statements section.

NOTES TO THE FINANCIAL STATEMENTS**Bond Proceeds Investment Accounts**

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. In the State's financial statements, each fund's equity in these accounts is reported as investments.

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

| <u>Investment Type</u> | <u>Carrying Amount</u> | <u>Weighted Average Maturity (Days)</u> |
|-----------------------------|------------------------|---|
| Debt investments: | | |
| Commercial paper | \$ 58,635 | 63 |
| Repurchase agreements | 258,884 | 13 |
| Total investments | <u>\$ 317,519</u> | |

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1 and are invested in short-term maturities and/or securities that bear the highest rating of a least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service.

Custodial Credit Risk. Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial policy related to these investments.

Repurchase agreements are reported at cost. See Note 1E for additional information. Commercial paper is valued at fair value at June 30, 2017 (\$58.6 million) and is classified as a Level 2 in the fair value hierarchy. The valuation technique for these securities is the market approach where data is gathered by the pricing vendor to obtain market yields on new securities. Month-end prices are then updated by applying the national market yields obtained by the pricing vendor.

Equity Index Investment Account (EIF)

The State Treasurer has contracted with an external party (Trustee) to create the equity index investment account (EIF). Participation in this equity index investment account consists of public hospital trusts and the Local Government OPEB Trust (OPEB) funds. These trusts are part of a commingled equity index investment trust (Trust). The Trustee manages the assets in the Trust, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records.

Pursuant to General Statute 159-30.1, the State Treasurer manages the OPEB trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other post-employment benefit plans. As of June 30, 2017, there were sixteen OPEB trust participants in the EIF. Each participant is responsible for making its own investment decision.

The State Treasurer also manages the public hospitals' assets. As of June 30, 2017, there were four participants consisting of the Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust and Watauga Medical Center Trust. One public hospital is also a participant in the BIF.

The Equity Index Investment Account is included in the State Treasurer Investments separate report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer internet page at <https://www.nctreasurer.com/inv/Pages/Annual-Supplemental-Reports.aspx> in the Audited Financial Statements section.

NOTES TO THE FINANCIAL STATEMENTS

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments and recurring fair value measurements (dollars in thousands):

| <u>Investments Measured at the NAV</u> | Fair Value 6/30/2017 | Unfunded Commitments |
|---|-------------------------|-------------------------|
| Private credit limited partnership | \$ 8,769 | \$ 314 |
| Private equity investment partnerships | 28,208 | 54,533 |
| Private natural resources limited partnership | 4,929 | — |
| Total investments measured at the NAV | <u>\$ 41,906</u> | |

Private Credit Limited Partnership. This type includes two private credit funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of non-investment grade or unrated obligations, debt securities and asset-backed securities, including but not limited to bank loans, high yield, mortgage-backed securities, convertibles, whole loans, mezzanine debt, credit default swaps, collateralized debt obligations and sovereign debt. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

Private Equity Investment Partnership. This type includes eight private equity funds. These investments are valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. These investments include a mix of buyout, venture capital, growth equity, and private special situations vehicles. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

Private Natural Resources Limited Partnership. This type includes one private natural resources fund. This investment is valued using net assets valued as of the previous quarter-end, plus current quarter cash flows. This strategy may make non-public equity or debt investments in timberland, energy, agriculture, and other natural resources implementations. Currently, the strategy represented in this category is one which invests in oil and gas properties within the U.S. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5-10 years.

B. Deposits Outside the State Treasurer

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained outside the State Treasurer by the primary government and certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

Primary Government

The majority of the uninsured and uncollateralized deposits held outside the State Treasurer were maintained by the USS N.C. Battleship Commission. The USS N.C. Battleship Commission does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

| | |
|-------------------------------------|-----------------|
| Uninsured and uncollateralized..... | <u>\$ 7,306</u> |
|-------------------------------------|-----------------|

Component Units

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

| | |
|---|-------------------|
| Uninsured and uncollateralized..... | \$ 641,197 |
| Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name... | 1,992 |
| Total..... | <u>\$ 643,189</u> |

NOTES TO THE FINANCIAL STATEMENTS**C. Investments Outside the State Treasurer****Primary Government**

At year-end, 94% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan.

Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan

The Iran Divestment Act (North Carolina General Statutes Sections 147-86.55 through 147-86.63) places investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan). Specifically, pursuant to the North Carolina Department of State Treasurer's "Iran Divestment Policy", adopted in compliance with the statute, the Department of State Treasurer, including the Supplemental Retirement Plans, shall refrain from making investments in companies on the State Treasurer's list of entities engaging in certain investment activities in Iran. The form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care.

At December 31, 2016, the 401(k) and 457 Plans of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands). Investments in the Pooled Account total \$7.3 billion. The 401(k) and 457 Plans' investments are held in a group trust established as of January 4, 2016. Their Board authorized the establishment of the North Carolina Supplemental Retirement Plans Group Trust (the "Group Trust") for the purpose of commingling the corpus of the separate trusts of the Plans; and their Board adopted the Declaration of Trust establishing the Group Trust. The Pooled Account offers nine equity funds, an inflation responsive fund, and two fixed income funds. The actively managed separate account funds have multiple investment managers, and the passively managed separate accounts each have a single investment manager. The remainder of the investments is the Stable Value Fund, which consists of three synthetic guaranteed investment contracts, two separate account guaranteed investment contracts, a pooled stable value fund and a government money market fund.

| Investment Type | Carrying Amount | Investment Maturities (in Years) | | | |
|---|---------------------|----------------------------------|---------------------|-------------------|-------------------|
| | | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| Debt investments: | | | | | |
| U.S. Treasuries..... | \$ 234,431 | \$ 51,870 | \$ 159,774 | \$ 10,042 | \$ 12,745 |
| U.S. Treasury STRIPS..... | 60,023 | 1,664 | 24,263 | 11,941 | 22,155 |
| U.S. agencies..... | 29,540 | 2,884 | 23,906 | 1,435 | 1,315 |
| Mortgage pass-throughs..... | 165,384 | 19,012 | 6,674 | 17,155 | 122,543 |
| Collateralized mortgage obligations..... | 69,009 | 6,653 | 7,034 | 17,118 | 38,204 |
| State and local government..... | 8,635 | 4,108 | 3,651 | 176 | 700 |
| Asset-backed securities..... | 115,229 | 647 | 53,711 | 29,476 | 31,395 |
| Collective investment funds..... | 1,385,142 | 20,648 | 590,848 | 344,115 | 429,531 |
| Pooled debt funds..... | 331,119 | — | — | 331,119 | — |
| Domestic corporate bonds..... | 247,142 | 34,116 | 118,932 | 81,620 | 12,474 |
| Foreign corporate bonds..... | 87,047 | 10,946 | 63,041 | 10,984 | 2,076 |
| Foreign government bonds..... | 10,692 | 802 | 8,108 | 1,645 | 137 |
| | <u>2,743,393</u> | <u>\$ 153,350</u> | <u>\$ 1,059,942</u> | <u>\$ 856,826</u> | <u>\$ 673,275</u> |
| Other investments: | | | | | |
| Equity mutual funds..... | 1,674,601 | | | | |
| Unallocated insurance contracts..... | 813,752 | | | | |
| Domestic stocks..... | 2,725,939 | | | | |
| Foreign stocks..... | 1,296,695 | | | | |
| Hedge/debt mutual fund..... | 403,212 | | | | |
| Short-term investment collective trust..... | 128,921 | | | | |
| Total investments..... | <u>\$ 9,786,513</u> | | | | |

In the above table, the underlying investments of fully benefit-responsive synthetic guaranteed investment contracts (SGICs) are disclosed at fair value. On the Statement of Net Position, SGICs are reported at contract value. At year-end, the fair value of the underlying investments of fully benefit-responsive SGICs exceeded contract value by \$12.13 million.

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk. The 401(k) and 457 Plans have a formal investment policy that limits duration as a means of managing their exposure to fair value losses arising from increasing interest rates. The managers within the NC Fixed Income Fund have duration targets relative to a specified benchmark. Asset-backed securities are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. Collective investment funds include units in the various funds. The interest rate risk in each of the funds is dependent upon the weighted average maturity of each of the collective investment funds which hold securities with maturities ranging from short to intermediate in duration. As a result, the collective investments funds are sensitive to changes in interest rates. Collateralized mortgage obligations generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value sensitive to changes in interest rates. Investments consist of units in various commingled funds, each with an investment objective relative to maturity and liquidity with interest rate risk dependent upon the weighted average maturity of each of the funds.

Credit Risk. The 401(k) and 457 Plans have a formal investment policy on credit risk. The investment policy statement applicable to the NC Fixed Income Fund places restrictions on the total risk exposure of the Fund and specifically the concentration of the debt securities in which the fund invests. At December 31, 2016, the 401(k) and 457 Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type | Carrying Amount by Credit Rating - Moody's/S&P/Fitch | | | | | |
|--------------------------------------|--|-------------------|-------------------|-------------------|----------------------------------|---------------------|
| | Aaa/AAA | Aa/AA | A | Baa/BBB | Less than Investment Grade | Unrated |
| U.S. agencies..... | \$ — | \$ 29,540 | \$ — | \$ — | \$ — | \$ — |
| Mortgage pass-throughs..... | — | 137,396 | — | — | — | — |
| Collateralized mortgage obligations. | 4,907 | 57,446 | 1,204 | 3,241 | 1,483 | 728 |
| State and local government..... | — | 6,015 | 2,465 | 155 | — | — |
| Asset-backed securities..... | 92,443 | 19,436 | 1,131 | 260 | 34 | 1,925 |
| Collective investment funds..... | — | — | — | — | — | 1,385,142 |
| Pooled debt funds..... | — | — | — | — | — | 331,119 |
| Domestic corporate bonds..... | 2,281 | 14,996 | 64,776 | 155,762 | 9,327 | — |
| Foreign corporate bonds..... | 721 | 18,264 | 35,693 | 32,010 | 359 | — |
| Foreign government bonds..... | 5,168 | 3,017 | 1,265 | 1,242 | — | — |
| | <u>\$ 105,520</u> | <u>\$ 286,110</u> | <u>\$ 106,534</u> | <u>\$ 192,670</u> | <u>\$ 11,203</u> | <u>\$ 1,718,914</u> |

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The 401(k) and 457 Plans do not have formal investment policies that address foreign currency risk. At December 31, 2016, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

| Currency | Carrying Amount | |
|-----------------------------|-----------------|----------------|
| | | Foreign stocks |
| Euro..... | \$ | 234,387 |
| British Pound Sterling..... | | 131,879 |
| Japanese Yen..... | | 131,337 |
| Swiss Franc..... | | 68,511 |
| Hong Kong Dollar..... | | 38,191 |
| South Korean Won..... | | 30,300 |
| Swedish Krona..... | | 28,940 |
| New Taiwan Dollar..... | | 26,366 |
| Australian Dollar..... | | 18,386 |
| Singapore Dollar..... | | 16,613 |
| Canadian Dollar..... | | 16,578 |
| South African Rand..... | | 13,736 |
| Danish Krone..... | | 11,739 |
| Indian Rupee..... | | 11,608 |
| Brazilian Real..... | | 10,692 |
| Malaysian Ringgit..... | | 4,830 |
| Thai Baht..... | | 4,541 |
| Other Currencies..... | | 14,191 |
| Total..... | \$ | <u>812,825</u> |

Note: The totals in this table do not agree to the totals disclosed in the previous investment maturities table because the investment maturities table includes foreign stocks that are denominated in U.S. currency.

The fair value measurements of the 401(k) and 457 Plans' investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2016, the investments of these Plans maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

| | 6/30/2017 | Fair Value Measurements Using | |
|--|---------------------|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Investments by fair value level | | | |
| U.S. Treasuries..... | \$ 234,431 | \$ — | \$ 234,431 |
| U.S. Treasury STRIPS | 60,023 | — | 60,023 |
| U.S. agencies..... | 29,540 | — | 29,540 |
| Mortgage pass-throughs..... | 165,384 | — | 165,384 |
| Collateralized mortgage obligations..... | 69,009 | — | 69,009 |
| State and local government..... | 8,635 | — | 8,635 |
| Asset-backed securities..... | 115,229 | — | 115,229 |
| Domestic corporate bonds..... | 247,142 | — | 247,142 |
| Foreign corporate bonds..... | 87,047 | — | 87,047 |
| Foreign government bonds..... | 10,692 | — | 10,692 |
| Domestic stocks..... | 2,725,939 | 2,725,939 | — |
| Foreign stocks..... | 1,296,695 | 1,296,695 | — |
| Total investments by fair value level..... | <u>5,049,766</u> | <u>\$ 4,022,634</u> | <u>\$ 1,027,132</u> |
| Investments measured at the net asset value (NAV) | | | |
| Hedge/Debt Mutual Fund..... | 403,212 | | |
| Short-term investment collective trust..... | 128,921 | | |
| Equity mutual funds..... | 1,674,601 | | |
| Pooled debt funds..... | 331,119 | | |
| Collective investment trusts..... | 1,385,142 | | |
| Total investments measured at the NAV..... | <u>3,922,995</u> | | |
| Total investments measured at fair value..... | <u>\$ 8,972,761</u> | | |

U.S. Treasuries, U.S. Treasury STRIPS, U.S. agencies, mortgage pass-throughs, collateralized mortgage obligations, and state and local government securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities, domestic corporate bonds, foreign corporate bonds, and foreign government bonds classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques.

Investments measured at the net asset value (NAV) per share is presented on the following table (dollars in thousand):

| Investments Measured at the NAV | Fair Value 6/30/2017 | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|-------------------------|--|--------------------------------|
| Hedge/debt mutual fund..... | \$ 403,212 | Daily | 1 day |
| Short-term investment collective trust..... | 128,921 | Daily | 1 day |
| Equity mutual funds..... | 1,674,601 | Daily | 1-2 days |
| Pooled debt funds..... | 331,119 | Daily | 5 days |
| Collective investment funds..... | 1,385,142 | Daily and monthly | 1 day - 12 months |
| Total investments measured at the NAV..... | <u>\$ 3,922,995</u> | | |

Hedge/Debt Mutual Fund – This type includes one fund, the NC Inflation Response Fund. This fund is a real return asset allocation strategy designed to hedge global inflation risks. The fund primarily invests in inflation linked bonds, commodities, emerging market currencies, real estate investment trusts (REITs), and gold. The net asset value is determined by dividing the total value of the fund's portfolio investments and other assets attributable to the fund, less liabilities, by the total number of shares outstanding. The value is determined at the end of each day the New York Stock Exchange is open.

NOTES TO THE FINANCIAL STATEMENTS

Short-term Investment Collective Trust - This fund is invested in the BNY Mellon EB Temporary Investment Fund. The fund primarily invests in instruments issued by the U.S. Government and federal agencies, short-term corporate obligations, commercial paper, and certificates of deposit. The average weighted maturity of these funds does not exceed 60 days. This fund is valued with a NAV at \$1/unit.

Equity Mutual Funds – This type includes three equity index funds. The BlackRock Large Cap Index Fund seeks to replicate the composition and performance of the S&P 500 Index. The BlackRock Small Mid Cap Index Fund seeks to replicate the composition and performance of the Russell 2500 Index. The BlackRock International Index Fund seeks to replicate the composition and performance of the MSCI ACWI Ex-USA Index. Each are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Pooled Debt Funds – This type includes one fund, the PIM Fund in Fixed Income. The fund is an actively managed bond fund that seeks an excess return over the Bloomberg Barclays U.S. Aggregate Bond Index. The fund invests in a diversified portfolio of fixed income securities including corporate obligations, structured products, and U.S. Treasuries. The fund actively allocates to both benchmark and non-benchmark sectors, with heavy emphasis on the credit-oriented sectors. The fund is valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Collective Investment Funds – This type includes five funds, the Commingled BlackRock Fixed Income Index Fund, the Prudential Wrapped Commingled Fund in the Stable Value Fund, the Nationwide Wrapped Commingled Fund in the Stable Value Fund, the Wells Fargo Commingled Fund in the Stable Value Fund, and a small Wells Fargo government money market fund. The Commingled BlackRock Fixed Income Index Fund seeks to replicate the composition and performance of the Bloomberg Barclays Aggregate Index. The Prudential and Nationwide wrapped commingled funds in the Stable Value Fund seeks preservation of principal and an above average level of income with the goal of minimizing overall portfolio risk. The funds primarily invest in U.S. Treasuries, U.S. agencies, corporate obligations, asset-backed securities, and mortgage-backed securities. The Wells Fargo Commingled Fund in the Stable Value Fund is primarily comprised of investment contracts issued by financial companies including guaranteed investment contracts (GICs), separate account GICs, and security-backed investment contracts. The Wells Fargo Commingled Fund seeks safety of principal and consistency of returns while attempting to maintain minimal volatility. The Wells Fargo money market fund seeks current income while preserving capital and liquidity. This fund invests in high quality, short-term money market instruments that consist of U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations. The Commingled BlackRock Fixed Income Index Fund, the Prudential Wrapped Commingled Fund, and the Nationwide Wrapped Commingled Fund are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments. The Wells Fargo Commingled Fund is valued at contract value and its fair value is derived using a market/book ratio. The Wells Fargo money market fund is valued with a NAV at \$1/unit.

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of separate investment accounts held by trustees for special obligation and revenue debt issues to comply with IRS regulations on bond arbitrage, and escheated securities held for owners.

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

| Investment Type | Carrying Amount | Investment Maturities (in Years) | | | |
|----------------------------------|-------------------|----------------------------------|------------------|------------------|------------------|
| | | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| Debt investments: | | | | | |
| U.S. Treasuries..... | \$ 38,276 | \$ 3,342 | \$ 34,547 | \$ 387 | \$ — |
| U.S. agencies..... | 5,608 | — | 4,145 | 1,463 | — |
| State and local government..... | 512 | — | — | 512 | — |
| Repurchase agreements..... | 104,063 | 104,063 | — | — | — |
| Annuity contracts..... | 71,142 | 5,781 | 25,680 | 25,680 | 14,001 |
| Money market mutual funds..... | 98,494 | 98,494 | — | — | — |
| Pooled debt funds..... | 172,278 | — | 172,278 | — | — |
| | <u>490,373</u> | <u>\$ 211,680</u> | <u>\$236,650</u> | <u>\$ 28,042</u> | <u>\$ 14,001</u> |
| Other investments: | | | | | |
| Domestic stocks..... | 96,074 | | | | |
| Total investment securities..... | <u>\$ 586,447</u> | | | | |

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants for certain issues, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank; or 2) any commercial bank, trust company, or national banking association reporting to the Federal Reserve. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate or credit risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type | Carrying Amount by Credit Rating - Moody's/S&P/Fitch | | |
|---------------------------------|--|------------------|-------------------|
| | Aaa/AAA | Aa/AA | Unrated |
| U.S. agencies..... | \$ 5,608 | \$ — | \$ — |
| State and local government..... | 512 | — | — |
| Annuity contracts..... | — | 71,142 | — |
| Money market mutual funds..... | 98,494 | — | — |
| Pooled debt funds..... | — | — | 172,278 |
| Total..... | <u>\$ 104,614</u> | <u>\$ 71,142</u> | <u>\$ 172,278</u> |

Custodial Credit Risk. There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end, there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

The fair value measurements of the other primary government investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At year-end, the other primary government investments maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

| | 6/30/2017 | Fair Value Measurements Using | |
|--|-------------------|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Investments by fair value level: | | | |
| U.S. Treasuries..... | \$ 38,276 | \$ 38,276 | \$ — |
| U.S. agencies..... | 5,608 | 1,533 | 4,075 |
| State and local government..... | 512 | 512 | — |
| Annuity contracts..... | 71,142 | 71,142 | — |
| Pooled debt funds..... | 172,278 | — | 172,278 |
| Domestic stocks..... | 96,074 | 96,074 | — |
| Total investments by fair value level..... | <u>\$ 383,890</u> | <u>\$ 207,537</u> | <u>\$ 176,353</u> |

Note: The total in this table does not agree to the total disclosed in the previous investment maturities table because this table does not include investments reported at cost. See Note 1E for additional information.

U.S. agency securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pooled debt funds classified in Level 2 of the fair value hierarchy are valued based on the ownership interest of the External Investment Pool Short Term Investment Fund (STIF), which is determined on a fair market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTES TO THE FINANCIAL STATEMENTS**Component Units****University of North Carolina System**

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC System). However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill (the University) operates the UNC Investment Fund, LLC (Investment Fund), which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University and other institutions within the UNC System. Separate financial statements for the Investment Fund may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

| Investment Type | Carrying Amount | Investment Maturities (in Years) | | | |
|--|---------------------|----------------------------------|-------------------|-------------------|-------------------|
| | | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| Debt investments: | | | | | |
| U.S. Treasuries..... | \$ 71,743 | \$ 4,119 | \$ 58,987 | \$ 6,547 | \$ 2,090 |
| U.S. agencies..... | 146,246 | 3,174 | 5,890 | 16,285 | 120,897 |
| Mortgage pass-throughs..... | 7,010 | — | 35 | — | 6,975 |
| Collateralized mortgage obligations..... | 89,225 | — | 529 | 16,592 | 72,104 |
| State and local government..... | 2,910 | — | — | — | 2,910 |
| Asset-backed securities..... | 74,038 | — | 4,258 | 8,627 | 61,153 |
| Collective investment funds..... | 72,250 | 72,250 | — | — | — |
| Commercial paper..... | 127 | 127 | — | — | — |
| Annuity contracts..... | 60 | 60 | — | — | — |
| Debt mutual funds..... | 458,261 | 74,393 | 260,016 | 115,870 | 7,982 |
| Money market mutual funds..... | 331,383 | 331,383 | — | — | — |
| Domestic corporate bonds..... | 23,329 | 5,342 | 12,421 | 4,699 | 867 |
| Foreign corporate bonds..... | 16,664 | 129 | 7,366 | 7,584 | 1,585 |
| Foreign government bonds..... | 7,825 | — | 2,694 | 3,465 | 1,666 |
| Other..... | 1,258 | 1,258 | — | — | — |
| | <u>1,302,329</u> | <u>\$ 492,235</u> | <u>\$ 352,196</u> | <u>\$ 179,669</u> | <u>\$ 278,229</u> |
| Other investments: | | | | | |
| Balanced mutual funds..... | 2,959 | | | | |
| International mutual funds..... | 24,105 | | | | |
| Equity mutual funds..... | 112,945 | | | | |
| Investments in real estate..... | 20,961 | | | | |
| Real estate investment trust..... | 37,723 | | | | |
| Hedge funds..... | 2,934,360 | | | | |
| Private equity limited partnerships..... | 1,643,676 | | | | |
| Real assets limited partnerships..... | 346,670 | | | | |
| Other limited partnerships..... | 276,626 | | | | |
| Domestic stocks..... | 307,625 | | | | |
| Foreign stocks..... | 33,367 | | | | |
| Other..... | 2,018 | | | | |
| Total investments..... | <u>\$ 7,045,364</u> | | | | |

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

| Investment Type | Carrying Amount by Credit Rating - Moody's/S&P/Fitch | | | | | |
|--|--|-------------------|------------------|-------------------|-------------------------------|-------------------|
| | Aaa/AAA | Aa/AA | A | Baa/BBB | Less than Investment Grade | Unrated |
| U.S. agencies..... | \$ 4,240 | \$ 120,545 | \$ 735 | \$ 2,387 | \$ 11,336 | \$ 7,003 |
| Mortgage pass-throughs..... | 472 | 275 | 2,024 | 677 | 3,562 | — |
| Collateralized mortgage obligations..... | 7,501 | 2,008 | 2,867 | 11,208 | 62,299 | 3,342 |
| State and local government..... | — | — | — | — | 2,910 | — |
| Asset-backed securities..... | 12,517 | 1,461 | 4,841 | 7,109 | 24,413 | 23,697 |
| Collective investment funds..... | 7,573 | 10,951 | — | — | 1,284 | — |
| Commercial paper..... | — | — | — | — | — | 127 |
| Annuity contracts..... | — | — | — | — | — | 60 |
| Debt mutual funds..... | 54,209 | 10,469 | 76,723 | 156,925 | 102,857 | 57,078 |
| Money market mutual funds..... | 249,542 | 630 | — | — | — | 81,211 |
| Domestic corporate bonds..... | 1,680 | 5,037 | 6,606 | 5,703 | 4,303 | — |
| Foreign corporate bonds..... | 247 | 1,361 | 3,065 | 6,433 | 3,589 | 1,969 |
| Foreign government bonds..... | — | 1,424 | 690 | 3,462 | 2,043 | 206 |
| Other..... | — | — | — | — | — | 1,258 |
| Total..... | <u>\$ 337,981</u> | <u>\$ 154,161</u> | <u>\$ 97,551</u> | <u>\$ 193,904</u> | <u>\$ 218,596</u> | <u>\$ 175,951</u> |

Custodial Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

| Investment Type | Carrying Amount | |
|----------------------|-------------------------|--|
| | Held by Counterparty | Held by Counterparty's Trust Dept. or Agent but not in the entity's name |
| U.S. agencies..... | \$ — | \$ 2,524 |
| Domestic stocks..... | 13,821 | 11,023 |
| Foreign stocks..... | — | 5,895 |
| Total..... | <u>\$ 13,821</u> | <u>\$ 19,442</u> |

Foreign Currency Risk. The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

| Currency | Carrying Amount | | | |
|----------------------------|------------------|--|-------------------------------------|-------------------|
| | Hedge funds | Private equity limited partnerships | Real assets limited partnerships | Foreign stocks |
| Euro..... | \$ 32,438 | \$ 108,348 | \$ 8,943 | \$ — |
| British Pound Sterling.... | — | 35,030 | 4,591 | — |
| Canadian Dollar..... | — | 7,996 | — | 1,601 |
| Australian Dollar..... | — | 507 | — | — |
| Total..... | <u>\$ 32,438</u> | <u>\$ 151,881</u> | <u>\$ 13,534</u> | <u>\$ 1,601</u> |

NOTES TO THE FINANCIAL STATEMENTS

The fair value measurements of the UNC System's investments maintained outside the State Treasurer are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At year-end, the UNC System's investments maintained outside the State Treasurer had the following recurring fair value measurements (dollars in thousands):

| | 6/30/2017 | Fair Value Measurements Using | | |
|--|-------------|---|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level: | | | | |
| U.S. Treasuries..... | \$ 71,743 | \$ 70,894 | \$ 849 | \$ — |
| U.S. agencies..... | 146,246 | 2,524 | 143,722 | — |
| Mortgage pass-throughs..... | 7,010 | — | 7,010 | — |
| Collateralized mortgage obligations..... | 89,225 | — | 89,225 | — |
| State and local government..... | 2,910 | — | 2,910 | — |
| Asset-backed securities..... | 74,038 | — | 74,038 | — |
| Collective investment funds..... | 72,250 | 72,250 | — | — |
| Annuity Contracts..... | 60 | — | 60 | — |
| Debt mutual funds..... | 458,261 | 458,261 | — | — |
| Money market mutual funds..... | 322,700 | 322,700 | — | — |
| Balanced mutual funds..... | 2,959 | 2,959 | — | — |
| International mutual funds..... | 24,105 | 24,105 | — | — |
| Equity mutual funds..... | 112,945 | 112,945 | — | — |
| Domestic corporate bonds..... | 23,329 | 909 | 22,420 | — |
| Foreign corporate bonds..... | 16,664 | — | 16,664 | — |
| Foreign government bonds..... | 7,825 | — | 7,825 | — |
| Domestic stocks..... | 307,625 | 297,699 | — | 9,926 |
| Foreign stocks..... | 33,367 | 33,367 | — | — |
| Investments in real estate..... | 20,961 | 9,360 | 11,027 | 574 |
| Real estate investment trust..... | 35,978 | 35,978 | — | — |
| Other..... | 2,677 | 2,677 | — | — |
| Total investments by fair value level..... | 1,832,878 | \$ 1,446,628 | \$ 375,750 | \$ 10,500 |
| Investments measured at the net asset value (NAV) | | | | |
| Real estate investment trust..... | 1,745 | | | |
| Hedge funds..... | 2,934,360 | | | |
| Private equity limited partnerships..... | 1,643,676 | | | |
| Real assets limited partnerships..... | 346,670 | | | |
| Other limited partnerships..... | 276,626 | | | |
| Other..... | 599 | | | |
| Total investments measured at the NAV..... | 5,203,676 | | | |
| Total investments measured at fair value..... | \$7,036,554 | | | |

The majority of debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing relies on the securities' relationship to other benchmark quoted securities. In general, domestic stocks classified in Level 3 of the fair value hierarchy are valued based on recent company stock valuations. The majority of investments in real estate classified in Level 2 of the fair value hierarchy are valued using a market multiples technique. The market multiples technique uses multiples or ratios derived from identical or similar assets, liabilities, or groups of assets and liabilities to determine the fair value of an asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

The University of North Carolina at Chapel Hill holds the majority of the investments measured at net asset value in the previous table. Below are additional disclosures for these investments.

| Investments Measured at the NAV | Fair Value 6/30/2017 | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|--|-------------------------|-------------------------|--|--------------------------------|
| UNC at Chapel Hill: | | | | |
| Hedge funds..... | \$ 2,924,370 | \$ 25,112 | From 30 days to 3+ years | 1 to 365 days |
| Private equity limited partnerships..... | 1,528,710 | 863,736 | Not currently eligible | 10-15 years |
| Real assets limited partnerships..... | <u>346,275</u> | 246,979 | Not currently eligible | 10-15 years |
| Total investments measured at the NAV..... | <u>\$ 4,799,355</u> | | | |

Hedge Funds. UNC at Chapel Hill reports a combination of the following asset strategies for its hedge funds: long biased equity, long/short equity, diversifying, fixed income, and hedge funds in liquidation. The long biased equity strategy is characterized by primarily holding long positions in publicly listed securities to gain equity market exposure globally. The long/short equity strategy is characterized by buying and/or selling short individual securities that fund managers believe the market has mispriced. The long and short positions are generally independent of one another and typically result in an overall net long exposure to equities. Both long biased equity and long/short equity hedge fund managers occasionally invest in equity index futures, options on equity index futures, and specific risk options. The diversifying strategy is characterized by its lack of correlation with major equity indices. These managers may use derivatives such as fixed income and equity futures both as hedging tools and to gain exposure to specific markets. They may also enter into various swap agreements to manage exposure to specific securities and markets. The fixed income strategy includes credit-based commingled hedge funds and is characterized by a focus on income generation and portfolio diversification. These managers may use futures and options on global fixed income and currency markets and enter into swap agreements to hedge or gain exposure to certain markets. The hedge funds in liquidation strategy is characterized by investment in hedge funds that are either in the process of being terminated or have received notice of termination.

Private Equity Limited Partnerships. Private equity managers typically invest in equity investments and transactions in private companies. These investments are typically illiquid and are expected to control volatility and provide higher returns over the long term than public equity investments. The energy subsection of the private equity strategy, including direct energy investments, energy security investments, and limited partnerships, is primarily used to hedge against unanticipated inflation. The principal attraction of these investments is the lack of correlation with the balance of the portfolio.

Real Assets Limited Partnerships. Real estate managers invest in private portfolio investments focusing on specific niche markets within the real estate sector. Such sectors may include investments in public real estate investment trusts that provide a more liquid means of gaining exposure to this asset class. These investments primarily serve as a hedge against unanticipated general price inflation but are also a source of current income.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 4: RECEIVABLES**

Receivables at June 30, 2017, are reported net of allowances for doubtful accounts as follows (dollars in thousands):

Governmental Activities:

| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | Internal Service Funds | Total |
|--|---------------------|-------------------|--------------------------|--------------------------------|------------------------------|---------------------|
| Receivables, gross (excluding notes).. | \$ 4,324,491 | \$ 292,249 | \$ 57,847 | \$ 559,226 | \$ 18,265 | \$ 5,252,078 |
| Allowance for doubtful accounts..... | (1,288,531) | (63,014) | — | (526,293) | — | (1,877,838) |
| Receivables, net..... | <u>\$ 3,035,960</u> | <u>\$ 229,235</u> | <u>\$ 57,847</u> | <u>\$ 32,933</u> | <u>\$ 18,265</u> | <u>\$ 3,374,240</u> |
| Notes receivable, gross..... | \$ 18,538 | \$ 792 | \$ 35 | \$ 39,484 | \$ — | \$ 58,849 |
| Allowance for doubtful accounts..... | — | — | — | (35) | — | (35) |
| Notes receivable, net..... | <u>\$ 18,538</u> | <u>\$ 792</u> | <u>\$ 35</u> | <u>\$ 39,449</u> | <u>\$ —</u> | <u>\$ 58,814</u> |

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are \$15.53 million of accounts receivables and notes receivables.

Business-Type Activities:

| | Unemployment Compensation Fund | EPA Revolving Loan Fund | N.C. State Lottery Fund | N.C. Turnpike Authority | Other Enterprise Funds | Total |
|--|--------------------------------------|-------------------------------|-------------------------------|----------------------------|------------------------------|-------------------|
| Receivables, gross (excluding notes).. | \$ 457,014 | \$ 3,076 | \$ 21,158 | \$ 17,932 | \$ 5,894 | \$ 505,074 |
| Allowance for doubtful accounts..... | (121,020) | — | — | — | (23) | (121,043) |
| Receivables, net..... | <u>\$ 335,994</u> | <u>\$ 3,076</u> | <u>\$ 21,158</u> | <u>\$ 17,932</u> | <u>\$ 5,871</u> | <u>\$ 384,031</u> |

NOTES TO THE FINANCIAL STATEMENTS**NOTE 5: CAPITAL ASSETS**

Primary Government A summary of changes in capital assets for the year ended June 30, 2017 is presented below (dollars in thousands).

| Governmental Activities | Balance July 1, 2016 (as restated) | Increases | Decreases | Balance June 30, 2017 |
|---|---|---------------------|-----------------------|----------------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 17,190,456 | \$ 583,787 | \$ (12,474) | \$ 17,761,769 |
| Art, literature, and other artifacts | 135,669 | 1,671 | (252) | 137,088 |
| Construction in progress | 2,087,678 | 2,090,986 | (1,824,171) | 2,354,493 |
| Computer software in development | 377,095 | 95,853 | — | 472,948 |
| Total Capital Assets-nondepreciable | <u>19,790,898</u> | <u>2,772,297</u> | <u>(1,836,897)</u> | <u>20,726,298</u> |
| Capital Assets, depreciable | | | | |
| Buildings | 3,947,600 | 215,823 | (25,060) | 4,138,363 |
| Machinery and equipment | 1,819,202 | 138,211 | (109,830) | 1,847,583 |
| General infrastructure | 263,706 | 3,224 | (3,248) | 263,682 |
| State highway system | 34,210,388 | 1,636,085 | (127,785) | 35,718,688 |
| Computer software | 314,464 | 11,713 | (214) | 325,963 |
| Total Capital Assets-depreciable | <u>40,555,360</u> | <u>2,005,056</u> | <u>(266,137)</u> | <u>42,294,279</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (1,255,062) | (76,373) | 10,762 | (1,320,673) |
| Machinery and equipment | (1,086,309) | (97,443) | 88,884 | (1,094,868) |
| General infrastructure | (95,134) | (5,675) | 2,290 | (98,519) |
| State highway system | (10,462,231) | (714,374) | 125,229 | (11,051,376) |
| Computer software | (36,620) | (12,930) | 16 | (49,534) |
| Total accumulated depreciation | <u>(12,935,356)</u> | <u>(906,795)</u> | <u>227,181</u> | <u>(13,614,970)</u> |
| Total Capital Assets-depreciable, net | <u>27,620,004</u> | <u>1,098,261</u> | <u>(38,956)</u> | <u>28,679,309</u> |
| Governmental activities | | | | |
| Capital Assets, net | <u>\$ 47,410,902</u> | <u>\$ 3,870,558</u> | <u>\$ (1,875,853)</u> | <u>\$ 49,405,607</u> |

NOTES TO THE FINANCIAL STATEMENTS**Business-type Activities**

| | Balance July 1, 2016 (as restated) | Increases | Decreases | Balance June 30, 2017 |
|---|--|-------------------|-------------------|--------------------------|
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 236,488 | \$ 33,582 | \$ (127) | \$ 269,943 |
| Art, literature, and other artifacts | 393 | — | — | 393 |
| Construction in progress | 444,512 | 235,895 | (7,601) | 672,806 |
| Total Capital Assets-nondepreciable | <u>681,393</u> | <u>269,477</u> | <u>(7,728)</u> | <u>943,142</u> |
| Capital Assets, depreciable | | | | |
| Buildings | 93,350 | 8,790 | (59) | 102,081 |
| Machinery and equipment | 24,974 | 2,015 | (1,090) | 25,899 |
| General infrastructure | 16,394 | 272 | — | 16,666 |
| NC toll road system | 806,486 | — | — | 806,486 |
| Computer software | 1,206 | 236 | — | 1,442 |
| Total Capital Assets-depreciable | <u>942,410</u> | <u>11,313</u> | <u>(1,149)</u> | <u>952,574</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (31,689) | (8,076) | 23 | (39,742) |
| Machinery and equipment | (18,039) | (1,810) | 995 | (18,854) |
| General infrastructure | (12,234) | (346) | — | (12,580) |
| NC toll road system | (60,170) | (16,130) | — | (76,300) |
| Computer software | (307) | (132) | — | (439) |
| Total accumulated depreciation | <u>(122,439)</u> | <u>(26,494)</u> | <u>1,018</u> | <u>(147,915)</u> |
| Total Capital Assets-depreciable, net | <u>819,971</u> | <u>(15,181)</u> | <u>(131)</u> | <u>804,659</u> |
| Business-type activities | | | | |
| Capital Assets, net | <u>\$ 1,501,364</u> | <u>\$ 254,296</u> | <u>\$ (7,859)</u> | <u>\$ 1,747,801</u> |

Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):**Governmental activities**

| | |
|--|-------------------|
| General government | \$ 28,739 |
| Primary and secondary education | 1,859 |
| Higher education | 121 |
| Health and human services | 28,585 |
| Economic development | 956 |
| Environment and natural resources | 22,974 |
| Public safety, corrections, and regulation | 57,919 |
| Transportation | 758,410 |
| Agriculture | 7,232 |
| Total depreciation expense | <u>\$ 906,795</u> |

Business-type activities

| | |
|--------------------------------------|------------------|
| N.C. State Lottery | \$ 543 |
| EPA Revolving Loan | 34 |
| N.C. Turnpike Authority | 16,130 |
| Regulatory programs | 2,380 |
| North Carolina State Fair | 1,117 |
| Other business-type activities | 987 |
| Total depreciation expense | <u>\$ 21,191</u> |

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2017, was as follows (dollars in thousands):

| University of North Carolina System | Balance | | | Balance |
|--|---|-------------------|---------------------|----------------------|
| | July 1, 2016 (as restated) | Increases | Decreases | |
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 447,793 | \$ 10,527 | \$ (3,629) | \$ 454,691 |
| Art, literature, and other artifacts | 195,697 | 20,975 | (992) | 215,680 |
| Construction in progress | 485,544 | 605,974 | (567,771) | 523,747 |
| Computer software in development | 802 | 4,950 | (4,312) | 1,440 |
| Other intangible assets | 8,705 | 1,300 | — | 10,005 |
| Total capital assets-nondepreciable | <u>1,138,541</u> | <u>643,726</u> | <u>(576,704)</u> | <u>1,205,563</u> |
| Capital Assets, depreciable | | | | |
| Buildings | 13,295,886 | 519,950 | (12,525) | 13,803,311 |
| Machinery and equipment | 2,566,085 | 220,413 | (68,023) | 2,718,475 |
| Art, literature, and other artifacts | 202 | — | — | 202 |
| General infrastructure | 1,994,082 | 32,889 | (2,611) | 2,024,360 |
| Computer software | 357,904 | 46,975 | (587) | 404,292 |
| Other intangible assets | 6,489 | 511 | (3,590) | 3,410 |
| Total capital assets-depreciable | <u>18,220,648</u> | <u>820,738</u> | <u>(87,336)</u> | <u>18,954,050</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (3,985,040) | (328,569) | 10,537 | (4,303,072) |
| Machinery and equipment | (1,663,640) | (149,210) | 47,278 | (1,765,572) |
| Art, literature, and other artifacts | (175) | (5) | — | (180) |
| General infrastructure | (717,423) | (55,971) | 2,348 | (771,046) |
| Computer software | (119,097) | (34,029) | 587 | (152,539) |
| Other intangible assets | (1,610) | (872) | 509 | (1,973) |
| Total accumulated depreciation | <u>(6,486,985)</u> | <u>(568,656)</u> | <u>61,259</u> | <u>(6,994,382)</u> |
| Total capital assets-depreciable, net | <u>11,733,663</u> | <u>252,082</u> | <u>(26,077)</u> | <u>11,959,668</u> |
| University of North Carolina System capital assets, net | <u>\$ 12,872,204</u> | <u>\$ 895,808</u> | <u>\$ (602,781)</u> | <u>\$ 13,165,231</u> |

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2017, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$50.04 million and net depreciable capital assets of \$92.95 million.

Service Concession Arrangement for Noble Hall at Western Carolina University

In August 2016, construction was completed on Noble Hall pursuant to an agreement between Western Carolina University (University) and a third party developer, Collegiate Housing Foundation (Foundation), under which the Foundation designed and built a mixed use facility that includes residential units, commercial, and dining establishments. The building is on land owned by the Board of Trustees of the University's Endowment Fund, a body established under the State of North Carolina, and leased to the Foundation for 40 years. The student housing facility will be managed by the University under the terms of the management agreement. The University will operate the facility with budgetary oversight from the Foundation. At the end of the arrangement, the Foundation will transfer its interest in the facility at no cost to the University or, if directed by the University, to the Board of Trustees of the Endowment Fund.

NOTES TO THE FINANCIAL STATEMENTS

In order to promote economic, cultural, and community development opportunities, including the creation of employment, and the stimulation of economic activity, the University entered into this agreement with the Foundation to construct the facility. Under this arrangement, the University is responsible for providing electricity to the facility over the course of the 40-year lease agreement. The University reports a liability for \$1.78 million, the present value of this obligation. The University also reports the facility as a capital asset with a carrying amount of \$25.43 million at year-end and a related deferred inflow of resources of \$23.17 million. The net effect of this arrangement is reflected in the statement of net position as an increase to net investment in capital assets of \$2.26 million.

Community Colleges

| | Balance | | | Balance |
|---|----------------------|-------------------|---------------------|----------------------|
| | July 1, 2016 | Increases | Decreases | June 30, 2017 |
| | (as restated) | | | |
| Capital Assets, nondepreciable | | | | |
| Land and permanent easements | \$ 183,926 | \$ 8,289 | \$ (240) | \$ 191,975 |
| Art, literature, and other artifacts | 544 | 13 | — | 557 |
| Construction in progress | 144,092 | 173,258 | (119,783) | 197,567 |
| Total capital assets-nondepreciable | <u>328,562</u> | <u>181,560</u> | <u>(120,023)</u> | <u>390,099</u> |
| Capital Assets, depreciable | | | | |
| Buildings | 3,033,278 | 123,992 | (825) | 3,156,445 |
| Machinery and equipment | 451,959 | 39,301 | (12,017) | 479,243 |
| Art, literature, and other artifacts | 748 | — | — | 748 |
| General infrastructure | 190,170 | 8,109 | (105) | 198,174 |
| Computer software | 1,207 | — | — | 1,207 |
| Total capital assets-depreciable | <u>3,677,362</u> | <u>171,402</u> | <u>(12,947)</u> | <u>3,835,817</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (813,711) | (60,838) | 1,601 | (872,948) |
| Machinery and equipment | (184,671) | (26,706) | 8,746 | (202,631) |
| Art, literature, and other artifacts | (161) | (19) | — | (180) |
| General infrastructure | (53,159) | (4,345) | 127 | (57,377) |
| Computer software | (976) | (121) | — | (1,097) |
| Total accumulated depreciation | <u>(1,052,678)</u> | <u>(92,029)</u> | <u>10,474</u> | <u>(1,134,233)</u> |
| Total capital assets-depreciable, net | <u>2,624,684</u> | <u>79,373</u> | <u>(2,473)</u> | <u>2,701,584</u> |
| Community Colleges | | | | |
| capital assets, net | <u>\$ 2,953,246</u> | <u>\$ 260,933</u> | <u>\$ (122,496)</u> | <u>\$ 3,091,683</u> |

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2017, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$9.222 million and net depreciable capital assets of \$6.069 million.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 6: SHORT-TERM DEBT****Component Units****University of North Carolina System**

The University of North Carolina at Chapel Hill issued commercial paper to provide interim financing for the construction of capital projects. In June of 2012, the Board of Governors for the University of North Carolina issued a resolution to limit the cumulative amount of commercial paper for the University of North Carolina at Chapel Hill under this program to \$250 million. The University had net draws during the year totaling \$30 million to bring the total amount of outstanding commercial paper as of June 30, 2017 to \$63 million.

North Carolina State University has available commercial paper program financing for short-term credit up to \$100 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2017, the amount of outstanding commercial paper was \$5 million.

The North Carolina State University Partnership Corporation has a revolving line of credit for an amount up to \$250 thousand to be used for operations at the Lonnie Poole Golf Course. The University had net draws during the year totaling \$45 thousand to bring the total amount outstanding on the revolving line of credit as of June 30, 2017 to \$145 thousand.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2017, is as follows (dollars in thousands):

| | Balance | | | Balance |
|---|---------------------|-------------------|---------------------|----------------------|
| | July 1, 2016 | Draws | Repayments | June 30, 2017 |
| <u>University of North Carolina System</u> | | | | |
| Commercial paper program..... | \$ 73,000 | \$ 255,000 | \$ (260,000) | \$ 68,000 |
| Line of credit..... | 100 | 185 | (140) | 145 |
| Total short-term debt..... | <u>\$ 73,100</u> | <u>\$ 255,185</u> | <u>\$ (260,140)</u> | <u>\$ 68,145</u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: DERIVATIVE INSTRUMENTS

A. Summary Information**Component Unit – University of North Carolina System**

The following table summarizes the University of North Carolina (UNC) System's significant derivative instruments. It includes the fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended (dollars in thousands).

| Type | (a) Changes in Fair Value | (b) Fair Value at June 30, 2017 | Fair Value Measurements Using | | | Notional |
|-------------------------------|---------------------------------|---------------------------------------|---|---|--|-------------|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| UNC at Chapel Hill: | | | | | | |
| Cash flow hedges: | | | | | | |
| Pay-fixed interest rate swaps | \$ 43,718 | \$ (102,925) | \$ — | \$ (102,925) | \$ — | \$ 250,000 |
| Investment derivatives: | | | | | | |
| Pay-fixed interest rate swap | \$ 1,087 | \$ (2,980) | \$ — | \$ (2,980) | \$ — | \$ 15,020 |
| Foreign currency futures | (1,590) | (1,141) | (1,141) | — | — | \$ (98,043) |
| Foreign currency forwards | (827) | 1,457 | 1,457 | — | — | \$ (71,911) |
| Equity Options | 2,035 | 3,086 | 3,086 | — | — | \$ 12,439 |
| Total | \$ 705 | \$ 422 | \$ 3,402 | \$ (2,980) | \$ — | |

- (a) For the fiscal year ended June 30, 2017, the changes in fair value of cash flow hedges are classified as *deferred outflows of resources*, and the changes in fair value of investment derivatives are classified as *operating grants and contributions*.
- (b) At June 30, 2017, the fair value balances of cash flow hedges outstanding are classified as *hedging derivative liability*. The fair value balances of investment derivatives outstanding are classified as *investments*, except that investment derivatives with a negative fair value are classified as *accounts payable and accrued liabilities*. For the UNC System, the total fair value of cash flow hedges at June 30, 2017 was negative \$127.17 million.

The fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The foreign currency futures, foreign currency forwards, and equity options classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The pay-fixed interest rate swaps (cash flow hedges and investment derivatives) classified in Level 2 of the fair value hierarchy are valued using discounted cash flow techniques.

B. Hedging Derivative Instruments**Component Unit – University of North Carolina System**

The following table displays the objectives and terms of the UNC System's significant hedging derivative instruments outstanding at June 30, 2017 (dollars in thousands):

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms |
|------------------------------|---|--------------------|-------------------|------------------|--|
| UNC at Chapel Hill: | | | | | |
| Pay-fixed interest rate swap | Hedge changes in cash flows on variable rate debt | \$100,000 | 12/1/07 | 12/1/36 | Pay 3.314%; receive 67% of one-month LIBOR |
| Pay-fixed interest rate swap | Hedge changes in cash flows on variable rate debt | \$150,000 | 12/1/11 | 12/1/41 | Pay 4.375%; receive 67% of one-month LIBOR |

NOTES TO THE FINANCIAL STATEMENTS

The UNC System's significant hedging derivative instruments are exposed to the following risks that could give rise to financial loss:

UNC at Chapel Hill

Interest rate risk. UNC at Chapel Hill (University) is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2017. The fair values are calculated as of June 30, 2017. As rates rise, the value of the swaps will increase, and as rates fall, the fair value of the swaps will decrease.

Basis risk. The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

Termination risk. The swap agreements use the International Swaps and Derivatives Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swaps may mandatorily terminate if the University fails to perform under terms of the contract.

Information on debt service requirements on long-term debt of the primary government and component units and net cash flows on associated hedging derivative instruments is presented in Note 8E.

C. Investment Derivative Instruments**Primary Government**

The North Carolina Department of State Treasurer External Investment Pool (External Investment Pool) has investments in equity and commodity futures, foreign currency forwards and spot currency contracts. More detailed information about the External Investment Pool is available in a separate report (see Note 3A).

Component Unit – University of North Carolina System

The University of North Carolina System's investment derivative instruments are exposed to the following risks that could give rise to financial loss:

UNC at Chapel Hill

Interest rate risk. UNC at Chapel Hill (University) is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swap, the swap has a negative fair value as of June 30, 2017. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2017. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap will decrease. The University pays 5.24% and receives Securities Industry and Financial Markets Association Swap Index (SIFMA). On June 30, 2017, SIFMA was 0.91%. The interest rate swap has a notional amount of \$15.02 million and matures November 1, 2025.

Foreign currency risk. Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure to fluctuations in the exchange rates of foreign currencies. Futures contracts based in foreign currency obligate the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The University's foreign currency investment derivatives are denominated in U.S. currency. More detailed information about the University of North Carolina System's exposure to foreign currency risk is presented in Note 3C.

Credit risk. The University is exposed to credit risk on its foreign currency forward contracts. A third-party brokerage and advisory firm is used to assist in entering into the contracts. These contracts are used to hedge direct or indirect foreign currency exposure within the University's investment portfolio. If collateral is required to be posted on these types of securities, the broker will request the required margin balance be posted in the appropriate cash account. If the cash balance is reduced in that account (due to ongoing losses on the position), then a margin call may be made. If the margin call is not funded, then the position could be immediately closed out by the broker. In the case of the foreign currency forward contracts that were in effect at June 30, 2017, no margin or collateral was required to be posted on those positions due to the broker's assessment of the fund's credit quality and the three-month contract period.

NOTES TO THE FINANCIAL STATEMENTS

In the case of these foreign currency forward contracts, there is an associated receivable from the counterparty (the foreign currency is sold at the forward price on the contract expiration date) and an associated liability to purchase that foreign currency at the prevailing market price. The receivable and liability result in a net asset or net liability on the position overall. At June 30, 2017, the contract net asset was \$1.46 million. Once the contract is closed out, the net asset balance is received from the broker at settlement, or the brokerage account is funded for any net liability at settlement. The broker settles the other side of the trade with the counterparty accordingly.

The counterparty on the University's foreign currency forward contracts is Bank of America, N.A., a large and reputable domestic financial institution. The brokerage and advisory firm used to assist in hedging foreign currency risk performs constant due diligence and monitoring of the credit risk of the counterparties used. As of June 30, 2017, the credit ratings of Bank of America, N.A. were as follows: Moody's Investors Service (A1), Fitch Ratings (A+), and Standard & Poor's (A+). This indicates a very low level of counterparty credit risk on these instruments, as all three ratings agencies consider Bank of America, N.A. obligations to be of a high-quality investment-grade level.

D. Synthetic Guaranteed Investment Contracts**Primary Government**

In the Supplemental Retirement Income Plan of North Carolina, 401(k) Plan, there are synthetic guaranteed investment contracts (SGICs) within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is a SGIC with The Prudential Insurance Company of America (Prudential), one SGIC with Nationwide Life Insurance Company (Nationwide Life), and one SGIC with American General Life Insurance Company (American General) which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.8%, 1.7%, and 1.28%, respectively. The fair value of the securities covered by the contracts as of December 31, 2016, is \$1.236 billion and the contract value is \$1.225 billion. The contracts are unrated and have a maturity of less than one year.

In the North Carolina Public Employee Deferred Compensation Plan, 457 Plan, there are SGICs within the North Carolina Stable Value Fund. SGICs are unallocated insurance contracts. There is a SGIC with Prudential, one SGIC with Nationwide Life, and one SGIC with American General which are all fully benefit responsive. The SGICs provided an average credit rating yield of 2.8%, 1.7%, and 1.28%, respectively. The fair value of the securities covered by the contracts as of December 31, 2016, is \$242 million and the contract value is \$240 million. The contracts are unrated and have a maturity of less than one year.

Both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan have entered into wrap contracts with Prudential, Nationwide Life, and American General to assure that the crediting rate on participant investments will not be less than zero. The wrap contracts with Prudential, Nationwide Life, and American General were determined to have no value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2017, was as follows (dollars in thousands):

| | Balance July 1, 2016 (as restated) | Increases | Decreases | Balance June 30, 2017 | Due Within One Year |
|--|--|---------------------|-----------------------|--------------------------|------------------------|
| Governmental activities | | | | | |
| Bonds and similar debt payable: | | | | | |
| General obligation bonds | \$ 3,038,665 | \$ 200,000 | \$ (386,970) | \$ 2,851,695 | \$ 397,905 |
| Special indebtedness: | | | | | |
| Certificates of participation | 124,820 | — | (22,415) | 102,405 | 22,935 |
| Limited obligation bonds | 1,997,070 | — | (108,700) | 1,888,370 | 112,295 |
| GARVEE bonds | 529,755 | 145,535 | (67,605) | 607,685 | 70,805 |
| Issuance premium | 505,737 | 37,743 | (108,759) | 434,721 | — |
| Total bonds and similar debt payable | 6,196,047 | 383,278 | (694,449) | 5,884,876 | 603,940 |
| Notes payable | 27,196 | — | (5,107) | 22,089 | 3,769 |
| Capital leases payable | 24,037 | 630 | (4,549) | 20,118 | 4,469 |
| Compensated absences | 445,309 | 272,145 | (284,707) | 432,747 | 33,991 |
| Pension liability (Note 12) | 1,134,699 | 1,272,950 | — | 2,407,649 | 15,626 |
| Workers' compensation | 201,906 | 85,465 | (68,033) | 219,338 | 71,624 |
| Death benefit payable | 40 | — | — | 40 | — |
| Pollution remediation payable | 6,748 | 2,275 | (413) | 8,610 | 268 |
| Claims and judgments payable | 734,003 | — | — | 734,003 | — |
| Governmental activity | | | | | |
| long-term liabilities | <u>\$ 8,769,985</u> | <u>\$ 2,016,743</u> | <u>\$ (1,057,258)</u> | <u>\$ 9,729,470</u> | <u>\$ 733,687</u> |
| Business-type activities | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 1,011,388 | \$ 337,567 | \$ (252,560) | \$ 1,096,395 | \$ 18,395 |
| GARVEE bonds | 145,535 | — | (145,535) | — | — |
| Issuance premium | 20,753 | 33,918 | (9,417) | 45,254 | — |
| Issuance discount | (1,548) | — | 1,050 | (498) | — |
| Total bonds payable | 1,176,128 | 371,485 | (406,462) | 1,141,151 | 18,395 |
| Notes payable | 388,827 | — | (1,927) | 386,900 | 922 |
| Annuity and life income payable | 63,852 | 12,758 | (5,468) | 71,142 | 5,781 |
| Compensated absences | 9,385 | 6,971 | (7,157) | 9,199 | 1,520 |
| Net pension liability (Note 12) | 12,042 | 18,211 | — | 30,253 | — |
| Business-type activity | | | | | |
| long-term liabilities | <u>\$ 1,650,234</u> | <u>\$ 409,425</u> | <u>\$ (421,014)</u> | <u>\$ 1,638,645</u> | <u>\$ 26,618</u> |

For governmental activities, the compensated absences, pension liability, and workers' compensation liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. A portion of compensated absences and the pension liability is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, the following long-term liabilities of internal service funds were included in the above amounts: compensated absences of \$6.54 million, net pension liability of \$22.1 million and capital leases payable of \$138 thousand. The increase in GARVEE bonds payable in governmental activities is due to debt being transferred from business-type activities. Since GARVEE bonds were not issued in the current year, GARVEE bond proceeds are not reported as other financing sources in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds. The unamortized premium on these GARVEE bonds was also transferred to governmental activities so the increase in issuance premium does not agree to the premium on debt issued in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds. More information about this debt transfer is presented in Note 10B to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Component Unit (University of North Carolina System). Long-term liability activity for the year ended June 30, 2017, was as follows (dollars in thousands):

| | Balance July 1, 2016 (as restated) | Increases | Decreases | Balance June 30, 2017 | Due Within One Year |
|--|--|---------------------|---------------------|--------------------------|------------------------|
| University of North Carolina System | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 4,185,111 | \$ 290,973 | \$ (178,771) | \$ 4,297,313 | \$ 217,758 |
| Certificates of participation | 81,225 | — | (75,374) | 5,851 | 1,353 |
| Limited obligation bonds | 165,150 | 72,710 | (3,275) | 234,585 | 4,185 |
| Issuance premium | 140,459 | 14,874 | (9,360) | 145,973 | — |
| Issuance discount | (10,805) | — | 2,365 | (8,440) | — |
| Total bonds payable | 4,561,140 | 378,557 | (264,415) | 4,675,282 | 223,296 |
| Notes payable | 434,440 | 157,869 | (122,112) | 470,197 | 41,909 |
| Capital leases payable | 30,018 | 24,880 | (23,459) | 31,439 | 9,176 |
| Annuity and life income payable | 23,833 | 868 | (2,280) | 22,421 | 1,326 |
| Compensated absences | 384,482 | 376,966 | (342,322) | 419,126 | 56,263 |
| Net pension liability (Note 12) | 638,936 | 802,885 | — | 1,441,821 | — |
| Pollution remediation payable | 10 | 4,803 | — | 4,813 | 102 |
| Liability insurance trust fund payable | 39,536 | 2,693 | (8,811) | 33,418 | 6,687 |
| Total long-term liabilities | <u>\$ 6,112,395</u> | <u>\$ 1,749,521</u> | <u>\$ (763,399)</u> | <u>\$ 7,098,517</u> | <u>\$ 338,759</u> |

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At year-end, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of \$142.928 million, of which \$5.592 million was due within one year and \$137.336 million was due in more than one year.

NOTES TO THE FINANCIAL STATEMENTS**B. Bonds, Special Indebtedness, and Notes Payable**

Bonds, special indebtedness, and notes payable at June 30, 2017 were as follows (dollars in thousands):

| | Interest Rates | Maturing Through Fiscal Year | Original Borrowing | Outstanding Balance |
|--|-------------------|------------------------------------|-----------------------|------------------------|
| Primary Government | | | | |
| <u>Governmental activities</u> | | | | |
| General obligation bonds..... | 2.00% - 5.00% | 2036 | \$ 4,576,845 | \$ 2,851,695 |
| Special indebtedness: | | | | |
| Certificates of participation..... | 4.00% - 5.00% | 2028 | 475,000 | 102,405 |
| Limited obligation bonds..... | 2.25% - 5.25% | 2033 | 2,615,940 | 1,888,370 |
| GARVEE bonds..... | 2.00% - 5.21% | 2030 | 1,120,090 | 607,685 |
| Notes payable..... | 2.41% - 3.86% | 2030 | 48,908 | 22,089 |
| <u>Business-type activities</u> | | | | |
| Revenue bonds**..... | 2.48% - 7.10% | 2055 | \$ 1,408,750 | \$ 1,096,395 |
| Notes payable..... | 0.00% - 4.25% | 2043 | 393,333 | 386,900 |
| Component Units | | | | |
| <u>University of North Carolina System</u> | | | | |
| Revenue bonds**..... | 0.58% - 8.35%* | 2047 | \$ 5,012,911 | \$ 4,297,313 |
| Certificates of participation..... | 2.99% - 4.00% | 2030 | 50,400 | 5,851 |
| Limited obligation bonds..... | 1.85% - 6.23% | 2043 | 240,950 | 234,585 |
| Notes payable..... | 0.00% - 5.10%* | 2037 | 554,352 | 470,197 |

* For variable rate debt, interest rates in effect at June 30, 2017 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The issuer has elected to treat a portion of these obligations as federally taxable "Build America Bonds" for purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury for a specified percentage of the interest payable on these obligations. The outstanding balance of "Build America Bonds" was \$504.73 million for the primary government and \$392.22 million for component units. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness, which include certificates of participation (COPs) and limited obligation bonds, are subject to appropriation by the General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Debt Authorized but Unissued

At June 30, 2017, the State had \$1.8 billion in authorized but unissued general obligation bonds. At June 30, 2017, the State had no authorized but unissued special indebtedness.

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

General Statute 143-64.17 as amended allows state agencies and universities to utilize Guaranteed Energy Savings Contracts to implement and finance major facility upgrades which save energy and reduce utility expenditures. The State and universities currently are authorized to finance up to \$500 million for such projects that provide energy cost savings that are sufficient to pay the debt service on the projects' financing. At June 30, 2017, a total of \$236.5 million of such contracts have been entered into by the State and universities.

NOTES TO THE FINANCIAL STATEMENTS**D. Demand Bonds**

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer’s remarketing or paying agents.

Component Unit**University of North Carolina System***UNC at Chapel Hill*

With regard to the following demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue, Series 2012D

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" (the "2012D Bond") to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence".

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the 2012D Bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). Payments of principal and interest on the 2012D Bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner of the 2012D Bond will be credited against The Board of Governors of the University of North Carolina’s (the “Board”) obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner of the 2012D Bond for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee. The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee. When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted London Interbank Offered Rate (LIBOR) Rate. “Adjusted LIBOR Rate” means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by adding (1) the one month LIBOR plus (2) 1% per annum, which shall be adjusted monthly on the first day of each LIBOR interest period; provided, however, for any particular LIBOR interest period, the Adjusted LIBOR Rate will not be less than 1.4% per annum.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take out agreements. On June 1, 2015, the terms of the 2012D Bond were modified, changing the principal amount to \$30 million and extending the maturity to June 1, 2042. All other terms remained the same.

N.C. State University

With regard to the following demand bonds, the issuer has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

General Revenue Bonds, Series 2003B

On June 20, 2003, the University issued tax-exempt variable rate revenue demand bonds in the amount of \$45.66 million that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The

NOTES TO THE FINANCIAL STATEMENTS

University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, U.S. Bank, N.A. Upon notice from the paying agent, the Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee (U.S. Bank, N.A.) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.36% of the available commitment, payable quarterly in arrears, beginning on February 1, 2016 and on each May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Base Rate (the greater of the bank prime commercial lending rate plus 1%, the federal funds rate plus 2%, and 7%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each quarter in which Liquidity Provider Bonds are outstanding. At June 30, 2017, there were no Liquidity Provider Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on November 18, 2020, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 6 semi-annual installments, beginning 181 days from the date of the last draw at the Term Loan Rate (Base Rate + 1%). In the event the outstanding \$42.21 million of demand bonds was "put" and not resold, the University would be required to pay \$16.1 million a year for three years under this agreement assuming an 8% interest rate.

UNC Hospitals

With regard to the following demand bonds, the Hospitals has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of \$55 million (2001A) and \$55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for \$75 million spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agent has agreed to exercise its best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears, on the first business day of each March, June, September, and December, commencing December 1, 2015 and is equal to 0.05% of the outstanding principal amount of the bonds assigned to the agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thüringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each April, July, October and January thereafter until the expiration date or the termination date of the Agreements. This long-term agreement was renegotiated in July 2013 with a decrease in liquidity fee to 0.35% effective October 11, 2013 through December 31, 2015. Effective September 1, 2015, UNC Hospitals entered a new multiple year agreement with Landesbank Hessen-Thüringen to provide liquidity service at a fee of 0.28%. The applicable percentage will be determined based upon the long-term ratings of the Bonds (without regard to any credit enhancement), as follows:

NOTES TO THE FINANCIAL STATEMENTS

| <u>S&P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| AA- or better | Aa3 | 0.28% |
| A+ | A1 | 0.38% |
| A | A2 | 0.48% |
| A- | A3 | 0.73% |
| BBB+ or lower | Baa1 | 1.78% |

In the event that there is a disparity between Moody's and S&P's ratings on the bonds, the lower rating will prevail for the purpose of calculating the commitment fee. In addition, should any Event of Default occur or the long-term unenhanced ratings on the Bonds or any parity debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the fee rate shall automatically increase to 1.78% per annum.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase to and including the 60th day thereafter and while they are Bank Bonds, bear interest at the Formula Rate (base rate equal to the higher of the Prime Rate plus 1% for such day or the sum of 1% plus the Federal Funds Rate) and from and including the 61st day following the purchase date and thereafter bear interest at the higher of the Formula Rate or 7%, subject to a maximum rate as permitted by law; provided however, that at no time shall the base rate be less than the applicable rate of interest on the bonds which are not Bank Bonds. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2017, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July, and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding \$88.4 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$23.15 million, \$22.17 million, \$20.93 million, \$19.69 million, and \$18.45 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 5.25% (Prime Rate plus 1%) for the first 60 days and a maximum rate of 7% thereafter. The current expiration date of the Agreements is September 20, 2020. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of \$63.77 million (2003A) and \$34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund \$88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, U.S. Bank, N.A. The Hospitals' Remarketing Agents, Banc of America Securities, LLC (Series 2003A) and Wells Fargo Bank, N.A. (Series 2003B), have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals, Bank of America, N.A. (Series 2003A) and Wells Fargo Bank, N.A. (Series 2003B), Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, N.A. required a commitment fee of 0.33% for fiscal year 2017. Payments were made quarterly in arrears, on the first business day of each November, February, May, and August until July 2, 2018. The commitment rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

| <u>S&P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| A | A2 | 0.53% |
| A- or lower | A3 or lower | 0.73% |

NOTES TO THE FINANCIAL STATEMENTS

However, the commitment rate shall be increased (A) by 150 basis points (1.5%) upon the occurrence and during the continuance of an Event of Default, and (B) by 150 basis points (1.5%) if either Moody's or S&P withdraws or suspends its rating for any reason (other than for the payment in full or defeasance of the Bonds). Any such increase in the commitment rate shall take effect as of the date of any such event described in the preceding sentence. All such increases in the commitment rate contemplated above shall be cumulative.

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime Rate plus 1.5% or the Federal Funds Rate plus 3%, the base rate, for the first 90 days and then the base rate plus 0.5% from the 91st day to the 367th day following the date of purchase and the base rate plus 1% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2017, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem Bank Bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding \$52.87 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$20.58 million, \$19.7 million, and \$18.51 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 5.75% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2017. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2018. The commitment fee remains in effect over the life of the Agreement, however, the commitment rate shall be increased to the per annum percentage described in the table below if (i) the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, falls to the corresponding levels specified in such table, (ii) such rating is withdrawn or suspended or (iii) an Event of Default occurs and is continuing hereunder. After any such increases are made, the commitment rate shall be decreased to the per annum percentage described in the table below if the debt rating assigned by Moody's or S&P to the long-term debt of UNC Hospitals, without regard to third-party credit enhancement, rises to the corresponding levels specified in such table. Any such increases (or decreases, as the case may be) in the commitment rate shall be effective as of the date of such downgrade, upgrade, withdrawal, suspension or Event of Default, as applicable. The commitment rate shall be the fee listed below which corresponds to the lowest debt rating assigned to UNC Hospitals specified in the table below:

| <u>S&P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|------------------------|------------------------|------------------------|
| A | A2 | 0.5% |
| A- | A3 | 0.65% |
| BBB+ | Baa1 | 0.85% |
| BBB | Baa2 | 1.1% |
| BBB- | Baa3 | 1.4% |
| Below Investment Grade | Below Investment Grade | 2.4% |

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate equal to the greater of the Prime Rate plus 1%; the Federal Funds Rate plus 2% or 7%, subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2017, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem Bank Bonds in 11 equal quarterly installments of principal, on the first business day of each February, May, August, and November beginning on the first of such dates that occurs at least 90 days after the purchase date of such Bank Bonds. The Hospitals shall pay interest of the base rate plus 2% in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding \$28.43 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$9.54 million, \$11.98 million, and \$11 million in years one, two and three respectively following the purchase date of the Bank Bonds assuming a base rate of 7%.

NOTES TO THE FINANCIAL STATEMENTS*Revenue Refunding Bonds, Series 2009A*

On February 12, 2009, the Hospitals issued series 2009A tax-exempt variable rate demand bonds in the amount of \$44.29 million that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2010. The proceeds were used to advance refund \$43.51 million of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, TD Securities, LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2009A.

Effective September 21, 2015, the Hospitals contracted with TD Bank, N.A. as the Liquidity Provider for Series 2009A bonds through a Standby Bond Purchase Agreement (2009A Agreement). Under the 2009A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at rate equal to the Base Rate until 180 days after the initial date of purchase, and thereafter at the Base Rate plus 1% per annum and thereafter. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond.

The 2009A Agreement with TD Bank, N.A. requires a commitment fee of 0.32% commencing November 1, 2015. Payments are made quarterly in arrears, on the first business day of each February, May, August and November, commencing November 1, 2015. The commitment rate remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A+/A1 or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A+ or A1, respectively, the commitment rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

| <u>S&P</u> | <u>Moody's</u> | <u>Commitment Rate</u> |
|----------------|----------------|------------------------|
| A1 or higher | A+ | 0.32% |
| A2 | A | 0.57% |
| A3 | A- | 0.89% |

In the event that there is a disparity between Moody's and S&P's ratings on the Bonds, the lower rating will prevail for the purpose of calculating the commitment fee. In addition, should any Event of Default occur or the long-term unenhanced ratings on the Bonds or any parity debt be withdrawn or suspended by one or more of the rating agencies for credit-related reasons, the fee rate shall automatically increase to 1.5% per annum. All such increases in the commitment rate contemplated above will be adjusted at the beginning of the quarter following the rate change.

Included in the 2009A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 365 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2009A Agreement allows the Hospitals to redeem Bank Bonds in monthly installments of principal beginning on the first business day of the month until the fourth anniversary of the purchase date, until fully paid. If the take out agreement were to be exercised because the entire outstanding \$23.79 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$6.93 million, \$6.73 million, \$6.43 million, and \$6.12 million in years one, two, three and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 4.25%.

The current expiration date of the agreement is September 21, 2020. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

NOTES TO THE FINANCIAL STATEMENTS**E. Debt Service Requirements**

The following schedules show the debt service requirements for the primary government (governmental activities and business-type activities) and component unit (University of North Carolina System). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2017, and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, and notes payable are as follows (dollars in thousands).

Primary Government

| Fiscal Year Ending June 30 | Governmental Activities | | | | | |
|-------------------------------|--------------------------|-------------------|-------------------------------|------------------|--------------------------|-------------------|
| | General Obligation Bonds | | Certificates of Participation | | Limited Obligation Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 397,905 | \$ 132,132 | \$ 22,935 | \$ 4,538 | \$ 112,295 | \$ 87,803 |
| 2019 | 400,350 | 113,134 | 3,750 | 3,391 | 135,015 | 82,252 |
| 2020 | 368,970 | 94,107 | 3,750 | 3,241 | 154,015 | 75,196 |
| 2021 | 289,880 | 76,815 | 3,750 | 3,054 | 155,240 | 67,678 |
| 2022 | 271,625 | 63,464 | 3,750 | 2,904 | 159,800 | 59,916 |
| 2023-2027 | 860,265 | 149,887 | 44,270 | 11,857 | 711,565 | 188,876 |
| 2028-2032 | 188,005 | 28,676 | 20,200 | 827 | 443,115 | 51,883 |
| 2033-2037 | 74,695 | 5,576 | — | — | 17,325 | 520 |
| Total | <u>\$ 2,851,695</u> | <u>\$ 663,791</u> | <u>\$ 102,405</u> | <u>\$ 29,812</u> | <u>\$ 1,888,370</u> | <u>\$ 614,124</u> |

| Fiscal Year Ending June 30 | Governmental Activities | | | |
|-------------------------------|-------------------------|-------------------|------------------|-----------------|
| | GARVEE Bonds | | Notes Payable | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 70,805 | \$ 28,586 | \$ 3,769 | \$ 575 |
| 2019 | 74,200 | 25,192 | 1,848 | 446 |
| 2020 | 56,260 | 21,739 | 1,609 | 395 |
| 2021 | 58,955 | 19,045 | 1,677 | 354 |
| 2022 | 61,675 | 16,323 | 1,747 | 312 |
| 2023-2027 | 181,525 | 49,624 | 9,873 | 859 |
| 2028-2032 | 104,265 | 10,596 | 1,566 | 31 |
| Total | <u>\$ 607,685</u> | <u>\$ 171,105</u> | <u>\$ 22,089</u> | <u>\$ 2,972</u> |

| Fiscal Year Ending June 30 | Business-type Activities | | | |
|-------------------------------|--------------------------|---------------------|-------------------|-------------------|
| | Revenue Bonds | | Notes Payable | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 18,395 | \$ 51,388 | \$ 922 | \$ 18,741 |
| 2019 | 22,060 | 56,376 | 1,035 | 18,713 |
| 2020 | 24,580 | 55,305 | 811 | 18,659 |
| 2021 | 27,270 | 54,065 | 837 | 18,684 |
| 2022 | 39,295 | 52,669 | 9,010 | 18,630 |
| 2023-2027 | 198,819 | 234,691 | 9,265 | 92,448 |
| 2028-2032 | 245,698 | 184,066 | 42,364 | 92,168 |
| 2033-2037 | 230,007 | 264,207 | 85,500 | 83,930 |
| 2038-2042 | 172,421 | 81,225 | 199,316 | 70,427 |
| 2043-2047 | 30,400 | 26,728 | 37,840 | 7,030 |
| 2048-2052 | 48,420 | 17,461 | — | — |
| 2053-2057 | 39,030 | 3,990 | — | — |
| Total | <u>\$ 1,096,395</u> | <u>\$ 1,082,171</u> | <u>\$ 386,900</u> | <u>\$ 439,430</u> |

NOTES TO THE FINANCIAL STATEMENTS**Component Unit****University of North Carolina System**

| Fiscal Year Ending June 30 | Revenue Bonds | | | Certificates of Participation | | Limited Obligation Bonds | |
|-------------------------------|---------------------|---------------------|-----------------------------|-------------------------------|-----------------|--------------------------|-------------------|
| | Principal | Interest | Interest Rate Swaps, Net | Principal | Interest | Principal | Interest |
| 2018 | \$ 152,284 | \$ 155,825 | \$ 10,693 | \$ 1,353 | \$ 185 | \$ 4,185 | \$ 9,862 |
| 2019 | 324,592 | 150,764 | 11,757 | 317 | 134 | 5,615 | 9,759 |
| 2020 | 176,541 | 144,470 | 7,021 | 327 | 125 | 5,970 | 9,566 |
| 2021 | 164,245 | 139,470 | 5,295 | 336 | 115 | 8,230 | 9,350 |
| 2022 | 150,705 | 134,441 | 4,156 | 346 | 105 | 8,945 | 9,017 |
| 2023-2027 | 792,346 | 591,064 | 10,693 | 1,894 | 364 | 52,060 | 39,066 |
| 2028-2032 | 855,051 | 436,927 | 881 | 1,278 | 77 | 63,855 | 26,896 |
| 2033-2037 | 965,669 | 245,547 | — | — | — | 64,280 | 12,916 |
| 2038-2042 | 465,110 | 101,621 | — | — | — | 20,170 | 2,690 |
| 2043-2047 | 250,770 | 18,866 | — | — | — | 1,275 | 64 |
| Total | <u>\$ 4,297,313</u> | <u>\$ 2,118,995</u> | <u>\$ 50,496</u> | <u>\$ 5,851</u> | <u>\$ 1,105</u> | <u>\$ 234,585</u> | <u>\$ 129,186</u> |

| Fiscal Year Ending June 30 | Notes Payable | |
|-------------------------------|-------------------|------------------|
| | Principal | Interest |
| 2018 | \$ 41,909 | \$ 13,186 |
| 2019 | 96,619 | 11,903 |
| 2020 | 36,996 | 10,562 |
| 2021 | 44,391 | 9,402 |
| 2022 | 38,326 | 8,093 |
| 2023-2027 | 149,131 | 24,368 |
| 2028-2032 | 33,812 | 8,536 |
| 2033-2037 | 29,013 | 4,513 |
| Total | <u>\$ 470,197</u> | <u>\$ 90,563</u> |

For revenue bonds of the University of North Carolina System, the fiscal year 2018 principal requirements exclude demand bonds classified as current liabilities (see Note 8D).

NOTES TO THE FINANCIAL STATEMENTS**F. Bond Defeasances**

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net position.

Primary Government**Business-type Activities**

On March 30, 2017, the North Carolina Turnpike Authority issued \$200.5 million in Triangle Expressway System Senior Lien Turnpike Revenue Refunding Bonds, Series 2017 (Series 2017) with an average interest rate of 4.93%. These bonds are dated March 30, 2017, and bear interest from that date. Interest on the Series 2017 bonds will be payable semiannually on each January 1 and July 1, commencing July 1, 2017. The Series 2017 bonds will mature from January 1, 2018 to January 1, 2039, and were issued at coupon rates ranging from 3.13% to 5%. The Series 2017 bonds were issued to advance refund \$234.3 million of outstanding Triangle Expressway System Senior Lien Revenue Bonds, Series 2009A with an average interest rate of 5.55%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$65.5 million over the next 22 years and resulted in an economic gain of \$32 million. At June 30, 2017, the outstanding balance was \$234.3 million for the defeased bonds.

On January 25, 2017, the North Carolina Turnpike Authority issued \$119.5 million tax-exempt Monroe Expressway Toll Revenue Bonds, Series 2016A (Series 2016A). A portion of the Series 2016A bonds were issued for an advance refunding of \$6.29 million of outstanding Monroe Connector System Senior Lien Turnpike Revenue Bonds, Series 2011, with an average interest rate of 2.48%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to allow the Series 2016A Bonds to be issued with a first lien on revenues of the Monroe Expressway as security. There was no economic gain or loss from the refunding and defeasance other than removal of the lien. At June 30, 2017, the outstanding balance was \$6.29 million for the defeased bonds.

Component Unit**University of North Carolina System**

Significant bond defeasances of the University of North Carolina System are as follows:

The University of North Carolina at Wilmington

On July 6, 2016, the University issued \$57.24 million in Refunding Limited Obligation Bonds, Series 2016 with an average interest rate of 3.58%. The bonds were issued to advance refund \$57.58 million of outstanding Certificates of Participation Bonds, Series 2008 with an average interest rate of 4.79%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability was removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$8.2 million over the next 22 years and resulted in an economic gain of \$7.72 million. At June 30, 2017, the outstanding balance was \$56.73 million for the defeased Certificates of Participation Bonds, Series 2008.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net position. At June 30, 2017, the outstanding balance of prior year defeased bonds was \$469.25 million for the primary government and \$407.98 million for the University of North Carolina System (component unit).

NOTES TO THE FINANCIAL STATEMENTS**G. Pollution Remediation Payable****Primary Government****Governmental Activities**

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environmental Quality (DEQ) assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 36 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

The N.C. Department of Natural and Cultural Resources is responsible for cleaning up hazardous substances at the Tryon Palace Barbour Boatworks Site (Boatworks Site). The N.C. Department of Natural and Cultural Resources has agreed upon a remedial action plan with the Hazardous Sites Branch of DEQ to voluntarily clean up the Boatworks Site.

At year-end, the State recognized a pollution remediation liability of \$8.61 million, of which \$8.36 million was for leaking underground fuel tanks at DOT and \$250 thousand was for the polluted site at the N.C. Department of Natural and Cultural Resources. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Component Unit**University of North Carolina System**

N.C. State University recognized a pollution remediation liability of \$4.79 million for remediation of a lot the University used as a burial site for hazardous chemical and low level radioactive waste generated in its laboratories. The amount of the liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Fayetteville State University recognized a pollution remediation liability of \$25 thousand for underground storage tank removal at a campus building and for asbestos removal in campus buildings. The amount of the liability was calculated from the estimated costs of the removal.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for communications, computer, and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when incurred. For the year ended June 30, 2017, total operating lease expenditures were \$78.09 million for Primary Government, \$90.55 million for the University of North Carolina System, and \$9.04 million for Community Colleges. Capital leases of nongovernmental component units of the University of North Carolina System are excluded from the amounts below. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2017 are as follows (dollars in thousands):

| Fiscal Year | Operating Leases | | | | Capital Leases | | |
|---|----------------------------|-----------------------------|--------------------------|-----------------------|----------------------------|--------------------------|-----------------------|
| | Primary Government | | Component Units | | Primary Government | Component Units | |
| | Governmental Activities | Business-type Activities | University of | | Governmental Activities | University of | |
| | | | North Carolina System | Community Colleges | | North Carolina System | Community Colleges |
| 2018 | \$ 41,240 | \$ 3,324 | \$ 77,077 | \$ 7,776 | \$ 5,067 | \$ 8,276 | \$ 3,595 |
| 2019 | 32,215 | 3,130 | 64,344 | 6,623 | 5,098 | 7,586 | 3,577 |
| 2020 | 24,726 | 2,929 | 58,116 | 5,839 | 2,703 | 9,161 | 3,486 |
| 2021 | 15,728 | 2,456 | 50,149 | 4,766 | 2,050 | 1,479 | 3,376 |
| 2022 | 12,194 | 2,264 | 45,927 | 3,957 | 1,948 | 1,213 | 3,463 |
| 2023 - 2027 | 28,789 | 13,279 | 164,405 | 12,369 | 5,901 | 2,585 | 17,127 |
| 2028 - 2032 | 9,080 | — | 42,514 | 4,724 | — | 943 | 11,030 |
| 2033 - 2037 | 8,071 | — | 11,047 | 160 | — | 2,556 | 4,692 |
| 2038 - 2042 | 8,072 | — | 226 | 41 | — | — | 6,692 |
| 2043 - 2047 | 8,072 | — | 160 | — | — | — | — |
| 2048 - 2052 | 8,072 | — | — | — | — | — | — |
| 2053 - Beyond | — | — | — | — | — | — | — |
| Total Future Minimum Lease Payments.. | \$ 196,259 | \$ 27,382 | \$ 513,965 | \$ 46,255 | 22,767 | 33,799 | 57,038 |
| Less: Amounts Representing Interest | | | | | (2,649) | (2,360) | (20,806) |
| Present Value of Future Minimum Lease Payments | | | | | \$ 20,118 | \$ 31,439 | \$ 36,232 |

At June 30, 2017, capital assets acquired under capital leases are as follows (dollars in thousands):

| | Primary | Component Units | |
|----------------------------------|----------------------------|--------------------------|-----------------------|
| | Government | University of | |
| | Governmental Activities | North Carolina System | Community Colleges |
| Buildings..... | \$ 25,487 | \$ 3,547 | \$ 38,066 |
| Machinery and Equipment..... | 15,106 | 59,654 | 759 |
| Other..... | 279 | 567 | — |
| Total Capital Assets..... | \$ 40,872 | \$ 63,768 | \$ 38,825 |

Depreciation for capital assets acquired under capital leases is included as part of depreciation expense (see Note 5).

NOTES TO THE FINANCIAL STATEMENTS**NOTE 10: INTERFUND BALANCES AND TRANSFERS****A. Interfund Balances****Due To/From Fiduciary Funds**

The General Fund balance of \$100.9 million due to fiduciary funds is composed of \$28.92 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as \$71.98 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of \$9.58 million and the N.C. Turnpike Authority balance of \$5.83 million due to fiduciary funds is related to fines and penalties collected by the Highway Fund and the N.C. Turnpike Authority and due to the agency fund.

Amounts payable to or receivable from fiduciary funds are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net position.

Due To/From Other Funds

Balances due to/from other funds at June 30, 2017, consisted of the following (dollars in thousands):

| | Due From Other Funds | | | | | | | Total |
|-------------------------------|-----------------------------|------------------|--------------------|--------------------------|--------------------------------|-------------------------|------------------------|-------------------|
| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | Unemployment Compensation Fund | N.C. Turnpike Authority | Internal Service Funds | |
| Due To Other Funds | | | | | | | | |
| General Fund..... | \$ — | \$ 6,936 | \$ — | \$ 7,570 | \$ 18,980 | \$ — | \$ 12,855 | \$ 46,341 |
| Highway Fund..... | 2,445 | — | 509 | 1,764 | — | 7 | 2,585 | 7,310 |
| Highway Trust Fund..... | — | 10,888 | — | — | — | 35 | — | 10,923 |
| Other Governmental Funds..... | 92 | — | — | 19 | — | — | 267 | 378 |
| EPA Revolving Loan Fund..... | — | — | — | — | — | — | 45 | 45 |
| N.C. State Lottery Fund..... | 30,791 | — | — | — | — | — | — | 30,791 |
| N.C. Turnpike Authority..... | — | 264 | 19,882 | — | — | — | 3 | 20,149 |
| Other Enterprise Funds..... | 68 | — | — | — | — | — | 38 | 106 |
| Internal Service Funds..... | 1 | — | — | — | — | — | 260 | 261 |
| Total..... | <u>\$33,397</u> | <u>\$ 18,088</u> | <u>\$20,391</u> | <u>\$ 9,353</u> | <u>\$ 18,980</u> | <u>\$ 42</u> | <u>\$ 16,053</u> | <u>\$ 116,304</u> |

These balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the funds as interfund receivables and payables were eliminated in the governmental and business-type activities columns of the government-wide statement of net position, except for the net residual amounts due between governmental and business-type activities, which were presented as internal balances.

Advances To/From Other Funds

The advance of \$26.9 million to the North Carolina Turnpike Authority from the Highway Trust Fund is related to operating costs.

NOTES TO THE FINANCIAL STATEMENTS**B. Interfund Transfers**

Transfers in/out of other funds for the fiscal year ended June 30, 2017 consisted of the following (dollars in thousands):

| | Transfers In | | | | | | | | Total |
|-------------------------------|-------------------|-------------------|--------------------|--------------------------|-------------------------|------------------------------|------------------------|------------------------|---------------------|
| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | EPA Revolving Loan Fund | N.C. Turnpike Authority Fund | Other Enterprise Funds | Internal Service Funds | |
| Transfers Out | | | | | | | | | |
| General Fund..... | \$ — | \$ — | \$ — | \$ 169,824 | \$ 8,712 | \$ — | \$ 8,883 | \$ 7,347 | \$ 194,766 |
| Highway Fund..... | 23,445 | — | — | 14,092 | — | — | — | — | 37,537 |
| Highway Trust Fund..... | 426 | 29,637 | — | — | — | 49,000 | — | — | 79,063 |
| Other Governmental Funds..... | 125,145 | — | — | 4,883 | 158 | — | — | 9 | 130,195 |
| EPA Revolving Loan Fund..... | 797 | — | — | 184 | — | — | — | — | 981 |
| N.C. State Lottery Fund..... | 624,605 | — | — | 1,000 | — | — | — | — | 625,605 |
| N.C. Turnpike Authority | — | 168,243 | 88,566 | — | — | — | — | — | 256,809 |
| Other Enterprise Funds..... | 702 | — | — | 1,115 | — | — | — | — | 1,817 |
| Internal Service Funds..... | 58 | — | — | 325 | — | — | — | 3,122 | 3,505 |
| Total..... | \$ 775,178 | \$ 197,880 | \$ 88,566 | \$ 191,423 | \$ 8,870 | \$ 49,000 | \$ 8,883 | \$ 10,478 | \$ 1,330,278 |

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

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005-344], all “Net Revenues” of the N.C. State Lottery Fund are required to be transferred to the Education Lottery Fund (General Fund) for educational purposes. Transfers of \$622.51 million were made to the Education Lottery Fund for this fiscal year, as set forth in General Statute 18C-164. The remaining \$2.1 million transfer to the General Fund was made to the Alcohol Law Enforcement Branch for gambling enforcement activities as directed by House Bill 97 [Session Law 2015-241].

House Bill 817 [Session Law 2013-183], amends the law that created the Highway Trust Fund. The amendment directs that funds are to be transferred to the N.C. Turnpike Authority (NCTA) to pay debt service or related financing expenses on revenue bonds or notes issued for the following toll road construction projects: Triangle Expressway and Monroe Connector/Bypass. Debt has been issued for the Triangle Expressway and the Monroe Connector/Bypass, and \$49 million was transferred to the NCTA during fiscal year 2017.

During fiscal year 2017, the North Carolina Department of Transportation’s Bond Counsel decided to transfer the proceeds of the Series 2011 GARVEE Bonds from the NCTA to the N.C. Highway Fund. This transfer was done to fund other GARVEE eligible projects in the N.C. Highway Fund. Transfers of \$159.21 million were made to the N.C. Highway Fund as part of this debt reclassification. Additionally, \$88.57 million was transferred from NCTA to the N.C. Highway Trust Fund to repay the Trust Fund for expenses paid on the 2011 GARVEE Bonds.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11: FUND BALANCE**

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2017 are as follows (dollars in thousands):

| Fund Balance | Governmental Funds | | | | |
|---|---------------------|-------------------|---------------------|--------------------------|--------------------------|
| | General Fund | Highway Fund | Highway Trust Fund | Other Governmental Funds | Total Governmental Funds |
| Nonspendable: | | | | | |
| Inventories..... | \$ 68,761 | \$ 84,608 | \$ — | \$ 20,278 | \$ 173,647 |
| Permanent corpus..... | — | — | — | 110,804 | 110,804 |
| Long-term portion of notes receivable..... | 3,584 | — | — | — | 3,584 |
| Restricted for: | | | | | |
| General government..... | 3,755 | — | — | 875 | 4,630 |
| Primary and secondary education..... | 2,545 | — | — | — | 2,545 |
| Higher education..... | 4,183 | — | — | 1 | 4,184 |
| Higher education student aid..... | — | — | — | 659,447 | 659,447 |
| Health and human services..... | 51,219 | — | — | 936 | 52,155 |
| Economic development..... | 20,531 | — | — | — | 20,531 |
| Environment and natural resources..... | 9,746 | — | — | 52,756 | 62,502 |
| Public safety, corrections, and regulation..... | 12,154 | — | — | 41,190 | 53,344 |
| Transportation..... | — | 3,380 | — | — | 3,380 |
| Highway Construction/ Preservation..... | — | 31,117 | — | — | 31,117 |
| Debt service..... | — | — | — | 138,301 | 138,301 |
| Capital projects/repairs and renovations..... | — | — | — | 248,438 | 248,438 |
| Committed to: | | | | | |
| General government..... | 268,110 | — | — | 40,095 | 308,205 |
| Primary and secondary education..... | 328,718 | — | — | — | 328,718 |
| Public school capital projects/repairs and renovations..... | 119,527 | — | — | — | 119,527 |
| Higher education..... | 186,283 | — | — | — | 186,283 |
| Health and human services..... | 508,303 | — | — | 43,338 | 551,641 |
| Economic development..... | 184,057 | — | — | 19,245 | 203,302 |
| Environment and natural resources..... | 113,616 | — | — | 219,745 | 333,361 |
| Public safety, corrections, and regulation..... | 73,376 | — | — | 168,436 | 241,812 |
| Transportation..... | — | 34,550 | — | 180 | 34,730 |
| Highway construction/preservation..... | — | 54,822 | 1,770,421 | — | 1,825,243 |
| Highway maintenance..... | — | 38,120 | — | — | 38,120 |
| Agriculture..... | 48,608 | — | — | 24,792 | 73,400 |
| Disaster relief..... | 54,067 | — | — | — | 54,067 |
| Capital projects/repairs and renovations..... | 136,585 | — | — | 339,813 | 476,398 |
| Assigned to: | | | | | |
| General government..... | 37,686 | — | — | — | 37,686 |
| Primary and secondary education..... | 8,353 | — | — | — | 8,353 |
| Higher education..... | 434 | — | — | — | 434 |
| Health and human services..... | 137,432 | — | — | — | 137,432 |
| Economic development..... | 8,602 | — | — | — | 8,602 |
| Environment and natural resources..... | 7,725 | — | — | — | 7,725 |
| Public safety, corrections, and regulation..... | 16,641 | — | — | — | 16,641 |
| Agriculture..... | 874 | — | — | — | 874 |
| Capital projects/repairs and renovations..... | — | — | — | 929 | 929 |
| Unassigned..... | 1,966,379 | — | — | — | 1,966,379 |
| Total fund balance..... | \$ 4,381,854 | \$ 246,597 | \$ 1,770,421 | \$ 2,129,599 | \$ 8,528,471 |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12: RETIREMENT PLANS

The State reports nine retirement plans as pension trust funds, seven defined benefit public employee retirement plans administered by the State, as well as two defined contribution plans, one of which is administered by the State and the other is overseen and administered by a third party under the auspices of the State. Although the assets of the plans directly administered by the State are commingled for investment purposes, each plan’s assets may be used only for payment of benefits to the members of that plan and for the administrative costs in accordance with the terms of each plan. Nine of the plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information (RSI)* section of this CAFR. The Supplemental Retirement Income Plan of North Carolina (401(k) Plan) issues separately audited financial statements. Information on how to obtain the 401(k) Plan financial statements is found in Section B.9. The State also provides a defined benefit special separation allowance for eligible sworn law enforcement officers and a defined contribution optional retirement plan for university employees.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are 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.

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. The Teachers’ and State Employees’ Retirement System, the Local Governmental Employees’ Retirement System, the Firefighters’ and Rescue Squad Workers’ Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund are the sole participants in the Long-term Investment, the 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 Registers of Deeds’ Supplemental Pension Fund is invested in the Bond Index External Investment Pool.

The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the External Investment Pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems’ participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

1. TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Teachers’ and State Employees’ Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly. At June 30, 2017, the number of participating employers was as follows:

| | |
|---|------------|
| State of North Carolina..... | 1 |
| LEAs | 116 |
| Charter Schools..... | 61 |
| Community Colleges..... | 58 |
| University of North Carolina System.... | 19 |
| Other Component Units..... | 5 |
| | <u>260</u> |

NOTES TO THE FINANCIAL STATEMENTS

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service (not including sick leave) regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor’s Alternate Benefit for life or a return of the member’s contributions.

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members 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 State and other participating employers’ contractually required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. This was greater than the actuarially determined contribution of 9.96%. This amount, combined with plan member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to any other retirement or survivor benefit provided by TSERS.

2. LOCAL GOVERNMENTAL EMPLOYEES’ RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Local Governmental Employees’ Retirement System (LGERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide benefits for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities. Benefit provisions are established by General Statute 128-27 and may be amended only by the North Carolina General Assembly. At June 30, 2017, the number of participating local governments was as follows:

| | |
|-------------------------|------------|
| Cities | 427 |
| Counties | 100 |
| Special Districts | 368 |
| | <u>895</u> |

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

NOTES TO THE FINANCIAL STATEMENTS

Benefits provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% 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. 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. 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 (age 55 for firefighters and rescue squad workers). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad workers who are killed in the line of duty) 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. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of creditable service as an LEO and have reached age 50, or have completed five years of creditable service as an LEO and have reached age 55, or have completed 15 years of creditable service as an LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The actuarially determined contribution rate for employers is set annually by the LGERS Board of Trustees. For the fiscal year ended June 30, 2017, all employers made contributions of 8% of covered payroll for law enforcement officers and 7.25% for general employees and firefighters. These were greater than the actuarially determined contributions of 7.12% for law enforcement officers and 5.5% for general employees and firefighters. These amounts, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only.

Refunds of contributions. Members who have terminated service as a contributing member, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LGERS.

3. FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

Plan administration. The Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) is a cost sharing, defined benefit pension plan with a special funding situation in that the State of North Carolina is not the employer but is legally obligated to contribute to the plan. The State established the plan to provide pension benefits for all eligible firefighters and rescue squad workers. Membership is comprised of both volunteer and locally employed firefighters and emergency medical personnel who elect membership. Benefit provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. At June 30, 2017, there were 1,681 participating fire and rescue units.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

Benefits provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of fully credited service as a firefighter or rescue squad worker regardless of whether the member has terminated paid employment. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected. A survivorship benefit for members was added effective June 1, 2016 and provides that beneficiaries will receive the same benefit the deceased member would have received beginning when the deceased would have reached age 55.

Contributions. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by a \$10 monthly contribution by the member, investment income and an actuarially based state appropriation. Actual contributions are reported in Section F of this note.

NOTES TO THE FINANCIAL STATEMENTS

Refunds of contributions. Members who are no longer eligible or choose not to participate in the fund may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by FRSWPF.

4. REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND

Plan administration. The State of North Carolina administers the Registers of Deeds' Supplemental Pension Fund (RODSPF) which is a cost-sharing, multiple-employer, defined benefit pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is comprised of registers of deeds who are retired from the Local Governmental Employees' Retirement System or an equivalent locally sponsored plan and have met the statutory eligibility requirements. At June 30, 2017, there were 101 individuals receiving benefits in the plan with 100 counties participating. Benefit provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. The State's only cost in the plan is administration.

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

Benefits provided. An individual's eligibility to receive benefits under the RODSPF is based on at least 10 years of service as a register of deeds. An individual's benefit amount in a given year is limited to the lesser of the following:

1. the member's years of service multiplied by the value of one share of accumulated contributions available for benefits for that year, as specified in G.S. 161-50.3; and
2. when the benefit amount is combined with the individual's maximum retirement allowance upon retirement under the Local Governmental Employees' Retirement System or equivalent locally sponsored retirement plan, the benefit amount is limited to the lesser of the following:
 - a. seventy-five percent (75%) of a member's annual compensation, computed on the latest monthly rate (including any and all supplements); or
 - b. one thousand five hundred dollars (\$1,500).

Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and in the foreseeable future is zero. Registers of Deeds do not contribute.

Single-Employer Defined Benefit Plans**5. CONSOLIDATED JUDICIAL RETIREMENT SYSTEM**

Plan administration. The State of North Carolina administers the Consolidated Judicial Retirement System (CJRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys, public defenders and clerks of court. Benefit provisions are established by General Statute 135-58 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

Benefits provided. The plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's final compensation times the member's years of creditable service. The percentage used is determined by the position held by the member. A member's final compensation is the annual equivalent of the rate of compensation most recently applicable to the retiree as a member of the Retirement System. Plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, or at age 50 with 24 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with five years of membership service. The reduced benefit is calculated using the same formula as a service retirement benefit, multiplied by a reduction percentage based on the member's age and/or service at early retirement. Survivor benefits are available to spouses of members who die while in active service after reaching age 50 with five years of service. The plan does not provide for automatic post-retirement benefit increases.

NOTES TO THE FINANCIAL STATEMENTS

Contributions. Contribution provisions are established by General Statutes 135-68 and 135-69 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 6% of their annual pay. The contribution rate for the State 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 State's contractually required contribution for the year ended June 30, 2017 was 29.46% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refund of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by CJRS.

6. LEGISLATIVE RETIREMENT SYSTEM

Plan administration. The State of North Carolina administers the Legislative Retirement System (LRS). This plan is a single-employer, defined benefit pension plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly. The benefit will not be payable while the retiree is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System or Consolidated Judicial Retirement System. Benefit provisions are established by General Statute 120-4.21 and may be amended only by the North Carolina General Assembly.

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

Benefits provided. LRS provides retirement, disability and survivor benefits. Retirement benefits are determined as 4.02% of the highest annual compensation as a member of the General Assembly times years of creditable service. A member's highest annual compensation is the 12 consecutive months of salary authorized during the member's final legislative term for the highest position ever held as a member of the General Assembly. Plan members are eligible to retire with full retirement benefits at age 65 after five years of service. Plan members are eligible to retire with partial retirement benefits at age 60 after five years of service or at age 50 with 20 years of service. Survivor benefits are available to eligible beneficiaries of contributing members of the General Assembly who die while in active service. The beneficiary will receive a return of the member's contributions with interest. If the member dies while in active service after 12 years of creditable service or after reaching age 60 with five years of service, the surviving beneficiary may choose to receive a lifetime monthly benefit instead of a return of contributions with interest.

Contributions. Contribution provisions are established by General Statutes 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Plan members are required to contribute 7% of their annual pay. The contribution rate for the State is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially determined rate recommended by the actuary. For the fiscal year ended June 30, 2017, the State's contractually required contribution was 18.22% of covered payroll. This was equal to the actuarially determined contribution. This amount, combined with member contributions and investment income fund the benefits earned by plan members during the year and administrative expenses. Actual contributions are reported in Section F of this note.

Refunds of contributions. Members who have terminated service as a contributing member may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to any other retirement or survivor benefit provided by LRS.

7. NORTH CAROLINA NATIONAL GUARD PENSION FUND

Plan administration. The North Carolina National Guard Pension Fund (NGPF) is a single-employer, defined benefit pension plan established by the State of North Carolina to provide pension benefits for members of the North Carolina National Guard (NCNG). Membership is comprised of members and former members of the NCNG who have served and qualified for at least 20 years of creditable military service, have at least 15 years of aforementioned service as a member of the NCNG, and have received an honorable discharge from the NCNG. This is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan. Benefit provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

Benefits provided. NGPF provides a pension of \$105 per month for 20 years of creditable military service with an additional \$10.50 per month for each additional year of such service; provided, however that the total pension shall not exceed \$210 per month.

Contributions. Contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly. Plan member benefits and administrative expenses are funded by investment income and an actuarially determined state appropriation. NGPF members do not contribute. Actual contributions are reported in Section F of this note.

Defined Contribution Plans

8. SHERIFFS' SUPPLEMENTAL PENSION FUND

This plan is a defined contribution pension plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2017, there were 96 sheriffs and three beneficiaries enrolled in the plan with 81 of the State's 100 counties participating.

An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan. If the plan purchases any investments, they are held as part of the State Treasurer's External Investment Pool. The State's only cost in the plan is administration.

Receipts collected by each county's Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2017, the Clerks remitted \$834 thousand. All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes and may be amended only by the North Carolina General Assembly.

9. IRC SECTION 401 (K) PLAN

Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the 401(k) Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC, as well as law enforcement officers as defined under North Carolina General Statutes 143-166.30 and 143-166.50, are eligible to enroll in the 401(k) Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. The assets of the 401(k) Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. All contributions and costs of administering the 401(k) Plan are the responsibility of the participants. All contributions are immediately vested in the name of each participant. At December 31, 2016, there were approximately 245,500 employees enrolled with 1,036 participating employers. Benefit and contribution provisions are established by State and Federal law and the plan document.

The 401(k) Plan is a defined contribution pension plan and benefits of the Plan depend solely on amounts contributed to the plan plus investment earnings. Members of the 401(k) Plan may receive their benefits upon retirement, disability, termination, hardship, or death. Participants may choose from several options, including systematic withdrawals, full or partial lump-sum withdrawals, or transfer of their balance to an eligible employer-sponsored retirement plan or IRA.

The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for oversight and major decisions of the 401(k) Plan. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2016, are presented in this financial report as a pension and other employee benefit trust fund. The 401(k) Plan's financial statements are prepared using the accrual basis of accounting. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Insurance and Annuity Company (Prudential) provides third

NOTES TO THE FINANCIAL STATEMENTS

party administration of the 401(k) Plan. The 401(k) Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 and 143-166.50 requires employer contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and local governments. Participation begins at the date of employment. Employers are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. In addition, State law enforcement officers receive \$.50 for each court cost assessed and collected under General Statute 7A-304, while \$1.25 of this assessment goes to local law enforcement officers. All contributions are immediately vested in the name of each participant. At December 31, 2016, 52 state agencies and component units along with 453 local governmental units outside our reporting entity contributed the required 5%. In addition, 10 state agencies and 472 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,900 LEOs actively contributing to the 401(k) Plan and approximately 24,900 LEOs receiving employer contributions as of December 31, 2016.

The 401(k) Plan reported total member contributions of \$325.848 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2016, amounted to \$166.3 million for the State, \$27.23 million for universities, and \$7.06 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$8.31 million, by universities for \$1.36 million, and by the remaining component units, public schools and community colleges for \$353 thousand. In addition, the State contributed \$342 thousand for required court cost assessments. The amount of pension expense recognized in the current fiscal year is equal to the employer contributions.

The 401(k) Plan (Supplemental Retirement Plan) discloses a related party transaction in Note 20 of this CAFR. The Supplemental Retirement Plan's investment risks are described in Note 3.

10. OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University of North Carolina (UNC) System may join the ORP instead of the Teachers' and State Employees' Retirement System. The ORP is administered by the UNC System. At June 30, 2017, the plan had 20,163 participants with 19 constituent institutions of the UNC System participating.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association (TIAA) and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statutes 135-5.1 and may be amended only by the North Carolina General Assembly. Participants are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the university's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the university contributes 6.84%. The universities contributed \$121.62 million for the fiscal year ended June 30, 2017. Annual covered payroll was \$1.78 billion and employer contributions expressed as a percentage of annual payroll were 6.84% for the period. Employee contributions expressed as a percentage of annual covered payroll were the required 6% with actual employee contributions of \$106.69 million for the fiscal year ended June 30, 2017. The amount of pension expense recognized in the current fiscal year related to ORP was \$117.09 million. Forfeitures reduced the universities' pension expense by \$4.53 million for the fiscal year ended June 30, 2017. Any liabilities reported by the universities are immaterial to this CAFR.

NOTES TO THE FINANCIAL STATEMENTS**C. Plan Membership**

The following table summarizes membership information by plan at the actuarial valuation date:

| | Cost-Sharing, Multiple-Employer | | | | Single-Employer | | |
|---|---------------------------------|--------------------|--------------------------------|---------------------|-----------------------|-------------|-------------------------------|
| | Teachers' and State Employees' | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard |
| Inactive plan members or beneficiaries currently receiving benefits | 208,443 | 65,930 | 13,940 | 103 | 654 | 293 | 4,541 |
| Inactive plan members entitled to but not yet receiving benefits | 151,581 | 63,682 | 139 | - | 42 | 91 | 5,538 |
| Active plan members | 312,490 | 126,647 | 42,445 | 100 | 560 | 170 | 5,953 |
| | <u>672,514</u> | <u>256,259</u> | <u>56,524</u> | <u>203</u> | <u>1,256</u> | <u>554</u> | <u>16,032</u> |
| Valuation date | 12-31-16 | 12-31-16 | 12-31-16 | 12-31-16 | 12-31-16 | 12-31-16 | 12-31-16 |

D. Investments

Investment policy. The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

For all plans participating in the External Investment Pool, the following table displays the adopted asset allocation policy as of June 30, 2017.

| Asset Class | Target Allocation |
|----------------------------|-------------------|
| Fixed Income | 29% |
| Global Equity | 42% |
| Real Estate | 8% |
| Alternatives | 8% |
| Opportunistic Fixed Income | 7% |
| Inflation Sensitive | 6% |
| Total | <u>100%</u> |

The Registers of Deeds' Supplemental Pension fund is 100% invested in the Bond Index External Investment Pool.

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was:

| | Cost-Sharing, Multiple-Employer | | | | Single-Employer | | |
|-------------------------------|---------------------------------|--------------------|--------------------------------|---------------------|-----------------------|-------------|-------------------------------|
| | Teachers' and State Employees' | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard |
| Money-weighted Rate of Return | 10.75% | 10.74% | 10.76% | (0.03%) | 10.75% | 10.72% | 10.63% |

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO THE FINANCIAL STATEMENTS**E. Net Pension Liability of Participating Employers**

The components of the net pension liability of the participating employers at June 30, 2017, were as follows (dollars in thousands):

| | Cost-Sharing, Multiple-Employer | | | | Single-Employer | | |
|--|---------------------------------|---------------------|--------------------------------|---------------------|-----------------------|-----------------|-------------------------------|
| | Teachers' and State Employees' | Local Governmental | Firefighters' and Rescue Squad | Registers of Deeds' | Consolidated Judicial | Legislative | North Carolina National Guard |
| Total pension liability | \$ 75,639,901 | \$ 26,230,733 | \$ 455,675 | \$ 31,743 | \$ 651,830 | \$ 29,410 | \$ 174,972 |
| Plan fiduciary net position | 67,705,460 | 24,703,010 | 407,163 | 48,812 | 569,103 | 27,689 | 121,127 |
| Net pension liability (asset) | <u>\$ 7,934,441</u> | <u>\$ 1,527,723</u> | <u>\$ 48,512</u> | <u>\$ (17,069)</u> | <u>\$ 82,727</u> | <u>\$ 1,721</u> | <u>\$ 53,845</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 89.51% | 94.18% | 89.35% | 153.77% | 87.31% | 94.15% | 69.23% |

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement. The total pension liability was then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

| | Cost-Sharing, Multiple-Employer | | | | Single-Employer | | |
|-------------------------------|------------------------------------|------------------------|--------------------------------|-------------------------|---------------------------|-----------------|-------------------------------|
| | Teachers' and State Employees' (1) | Local Governmental (1) | Firefighters' and Rescue Squad | Registers of Deeds' (1) | Consolidated Judicial (1) | Legislative (1) | North Carolina National Guard |
| Valuation date | 12/31/16 | 12/31/16 | 12/31/16 | 12/31/16 | 12/31/16 | 12/31/16 | 12/31/16 |
| Inflation | 3% | 3% | 3.5% | 3% | 3% | 3% | 3% |
| Salary Increases | 3.50% - 8.10% | 3.50% - 7.75% | N/A | 3.50% - 7.75% | 3.50% - 5.50% | 5.50% | N/A |
| Investment Rate of Return (2) | 7.20% | 7.20% | 7.20% | 3.75% | 7.20% | 7.20% | 7.20% |

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.

N/A - Not Applicable

During the fiscal year ended June 30, 2017, retirees in the TSERS, CJRS, and LRS whose retirement began on or before September 1, 2016 received a one-time pension supplement payment equal to 1.6% of the retiree's annual retirement allowance as of September 1, 2016. Retirees in the LGERS received a 0.105% cost-of-living (COLA) adjustment for the fiscal year ended June 30, 2017. Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS and LRS as of July 1, 2016 received a 1.0% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between August 1, 2016 and June 1, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly. These enhancements were reflected as liabilities in the valuations described above.

The retirement 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 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, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA 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

NOTES TO THE FINANCIAL STATEMENTS

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, 2017 (see the discussion of the pension plan's investment policy in Section D) are summarized in the following table:

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

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount rate. The discount rate used to measure the total pension liability was 7.20% except for Registers of Deeds' Supplemental Pension Fund which was 3.75%. The discount rate for the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This 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 plans' 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 Plans' net pension liability to changes in the discount rate. The following presents the net pension liability of the plans at June 30, 2017 calculated using the discount rate of 7.20% (3.75% for RODSPF), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%; RODSPF 2.75%) or 1-percentage-point higher (8.20%; RODSPF 4.75%) than the current rate (dollars in thousands):

| | 1% Decrease (6.20%) | Current Discount Rate (7.20%) | 1% Increase (8.20%) |
|--|------------------------|-------------------------------------|------------------------|
| <u>Cost-Sharing, Multiple-Employer</u> | | | |
| TSERS' net pension liability | \$ 16,332,364 | \$ 7,934,441 | \$ 898,052 |
| LGERS' net pension liability (asset) | 4,586,259 | 1,527,723 | (1,025,189) |
| FRSWPF' net pension liability | 105,209 | 48,512 | 1,908 |
| <u>Single-Employer</u> | | | |
| CJRS' net pension liability | \$ 149,016 | \$ 82,727 | \$ 25,987 |
| LRS' net pension liability (asset) | 4,372 | 1,721 | (559) |
| NCNGs' net pension liability | 75,110 | 53,845 | 36,354 |
| | 1% Decrease (2.75%) | Current Discount Rate (3.75%) | 1% Increase (4.75%) |
| <u>Cost-Sharing, Multiple-Employer</u> | | | |
| RODs' net pension asset | \$ (13,416) | \$ (17,069) | \$ (20,141) |

NOTES TO THE FINANCIAL STATEMENTS**F. GASB Statement 68 Employer Reporting****1. EMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the pension plans at June 30, 2017 (dollars in thousands):

| | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard | Total |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------|---------------|--|-------------------|
| Primary Government | \$ 325,836 | \$ 17,602 | \$ 19,592 | \$ 675 | \$ 8,517 | \$ 372,222 |
| Component Units | | | | | | |
| University of North Carolina System | \$ 219,780 | \$ — | \$ — | \$ — | \$ — | \$ 219,780 |
| Community Colleges | 89,417 | — | — | — | — | 89,417 |
| Other Component Units | 2,710 | — | — | — | — | 2,710 |
| Total Contributions | <u>\$ 637,743</u> | <u>\$ 17,602</u> | <u>\$ 19,592</u> | <u>\$ 675</u> | <u>\$ 8,517</u> | <u>\$ 684,129</u> |

2. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

As of June 30, 2017, the primary government and component units reported net pension liabilities for defined benefit pension plans administered by the State as follows (dollars in thousands):

| | Primary Government | Component Units | | |
|--|-----------------------|--|-----------------------|--|
| | | University of North Carolina System ⁽¹⁾ | Community Colleges | Other Component Units ⁽²⁾ |
| Proportionate Share of the Net Pension Liability | | | | |
| Teachers' and State Employees' Retirement System | \$ 2,015,414 | \$ 1,325,896 | \$ 543,846 | \$ 14,653 |
| Net Pension Liability | | | | |
| Firefighters' and Rescue Squad | 66,819 | — | — | — |
| Consolidated Judicial | 95,402 | — | — | — |
| Legislative Retirement | 2,233 | — | — | — |
| North Carolina National Guard | 59,381 | — | — | — |
| Total Net Pension Liability | <u>\$ 2,239,249</u> | <u>\$ 1,325,896</u> | <u>\$ 543,846</u> | <u>\$ 14,653</u> |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. The net pension liability of Rex's retirement plan is excluded from the above amounts. At June 30, 2017, Rex Healthcare had a net pension liability of \$115.925 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. The net pension liability of Centennial Authority's retirement plan is excluded from the above amounts. At June 30, 2017, Centennial Authority had a net pension liability of \$85 thousand.

Each net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate each net pension liability was determined by an actuarial valuation as of December 31, 2015. Update procedures were used to roll forward the total pension liability to June 30, 2016. For TSERS, the primary government's and each component unit's proportion of the collective net pension liability was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net pension liability was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year pension contributions.

NOTES TO THE FINANCIAL STATEMENTS

The primary government's and component units' proportions of the collective net pension liability for the Teachers' and State Employees' Retirement System as of June 30, 2016 and 2015 were as follows:

| | Primary Government | Component Units | | |
|--|-----------------------|---|-----------------------|-----------------------------|
| | | University of North Carolina System | Community Colleges | Other Component Units |
| Teachers' and State Employees' Retirement System | | | | |
| Proportion – June 30, 2016 | 21.93% | 14.43% | 5.92% | 0.16% |
| Proportion – June 30, 2015 | 22.47% | 14.45% | 5.89% | 0.17% |
| Change – Increase (Decrease) | (0.54) | (0.02) | 0.03 | (0.01) |

For the year ended June 30, 2017, the primary government and component units recognized pension expense for defined benefit pension plans administered by the State as follows (dollars in thousands):

| | Primary Government | Component Units | | |
|--|-----------------------|---|-----------------------|-----------------------------|
| | | University of North Carolina System | Community Colleges | Other Component Units |
| Pension Expense | | | | |
| Teachers' and State Employees' Retirement System | \$ 387,346 | \$ 258,486 | \$ 107,872 | \$ 2,826 |
| Consolidated Judicial | 20,828 | – | – | – |
| Legislative | 2,554 | – | – | – |
| Total Pension Expense | <u>\$ 410,728</u> | <u>\$ 258,486</u> | <u>\$ 107,872</u> | <u>\$ 2,826</u> |

As a result of its requirement to contribute, the primary government recognized expense of \$10.67 million for FRSWPF and \$11.1 million for NGPF for the year ended June 30, 2017. The primary government's proportion of the collective net pension liability for Firefighters' and Rescue Squad Workers' and for North Carolina National Guard was 100% and 100%, respectively, as of June 30, 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2017, the primary government and component units reported deferred outflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

| | Deferred Outflows of Resources | | | | | Total |
|--|--------------------------------|--------------------------------|-----------------------|-----------------|-------------------------------|---------------------|
| | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard | |
| Primary Government: | | | | | | |
| Difference between actual and expected experience | \$ — | \$ 1,946 | \$ — | \$ — | \$ 17 | \$ 1,963 |
| Changes of assumptions | 297,220 | 11,971 | 21,302 | 2,799 | 8,356 | 341,648 |
| Net difference between projected and actual earnings on pension plan investments | 718,750 | 19,557 | 27,440 | 1,381 | 5,727 | 772,855 |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 27,629 | — | — | — | — | 27,629 |
| Contributions subsequent to the measurement date | 325,836 | 17,602 | 19,592 | 675 | 8,517 | 372,222 |
| Total | <u>\$ 1,369,435</u> | <u>\$ 51,076</u> | <u>\$ 68,334</u> | <u>\$ 4,855</u> | <u>\$ 22,617</u> | <u>\$ 1,516,317</u> |
| Component Units: | | | | | | |
| University of North Carolina System | | | | | | |
| Changes of assumptions | \$ 195,537 | | | | | |
| Net difference between projected and actual earnings on pension plan investments | 472,857 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 20,498 | | | | | |
| Contributions subsequent to the measurement date | 219,780 | | | | | |
| Total ⁽¹⁾ | <u>\$ 908,672</u> | | | | | |
| Community Colleges | | | | | | |
| Changes of assumptions | \$ 80,204 | | | | | |
| Net difference between projected and actual earnings on pension plan investments | 193,953 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 13,999 | | | | | |
| Contributions subsequent to the measurement date | 89,417 | | | | | |
| Total | <u>\$ 377,573</u> | | | | | |
| Other Component Units | | | | | | |
| Changes of assumptions | \$ 2,161 | | | | | |
| Net difference between projected and actual earnings on pension plan investments | 5,225 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 130 | | | | | |
| Contributions subsequent to the measurement date | 2,710 | | | | | |
| Total ⁽²⁾ | <u>\$ 10,226</u> | | | | | |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. Deferred outflows of resources of Rex's retirement plan are excluded from the above amounts. At June 30, 2017, Rex Healthcare had deferred outflows of resources of \$33.630 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. Deferred outflows of resources of Centennial Authority's retirement plan are excluded from the above amounts. At June 30, 2017, Centennial Authority had deferred outflows of resources of \$74 thousand.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2017, the primary government and component units reported deferred inflows of resources related to defined benefit pension plans administered by the State from the following sources (dollars in thousands):

| | Deferred Inflows of Resources | | | | | Total |
|--|--------------------------------|--------------------------------|-----------------------|---------------|-------------------------------|-------------------|
| | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard | |
| Primary Government: | | | | | | |
| Difference between actual and expected experience | \$ 95,251 | \$ 3,876 | \$ 5,756 | \$ 372 | \$ 44 | \$ 105,299 |
| Changes of assumptions | — | 11,969 | — | — | — | 11,969 |
| Net difference between projected and actual earnings on pension plan investments | 3 | — | — | — | — | 3 |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 25,905 | — | — | — | — | 25,905 |
| Total | <u>\$ 121,159</u> | <u>\$ 15,845</u> | <u>\$ 5,756</u> | <u>\$ 372</u> | <u>\$ 44</u> | <u>\$ 143,176</u> |
| Component Units: | | | | | | |
| University of North Carolina System | | | | | | |
| Difference between actual and expected experience | \$ 62,664 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 11,345 | | | | | |
| Total⁽¹⁾ | <u>\$ 74,009</u> | | | | | |
| Community Colleges | | | | | | |
| Difference between actual and expected experience | \$ 25,703 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 4,954 | | | | | |
| Total | <u>\$ 30,657</u> | | | | | |
| Other Component Units | | | | | | |
| Difference between actual and expected experience | \$ 692 | | | | | |
| Change in proportion and differences between agency's contributions and proportionate share of contributions | 141 | | | | | |
| Total⁽²⁾ | <u>\$ 833</u> | | | | | |

(1) Rex Healthcare is part of the University of North Carolina Health Care System and administers its own Rex Employees' Retirement Plan. It does not participate in TSERS. Deferred inflows of resources of Rex's retirement plan are excluded from the above amounts. At June 30, 2017, Rex Healthcare had deferred inflows of resources of \$7.255 million.

(2) Centennial Authority is a component unit of the State of North Carolina and participates in the Local Governmental Employees' Retirement System (LGERS). It does not participate in TSERS. Deferred inflows of resources of Centennial Authority's retirement plan are excluded from the above amounts. At June 30, 2017, Centennial Authority had deferred inflows of resources of \$4 thousand.

NOTES TO THE FINANCIAL STATEMENTS

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

Teachers' and State Employees'

| Year Ending June 30 | Component Units | | | |
|---------------------|--------------------|-------------------------------------|--------------------|-----------------------|
| | Primary Government | University of North Carolina System | Community Colleges | Other Component Units |
| 2018 | \$ 154,410 | \$ 105,245 | \$ 45,017 | \$ 1,132 |
| 2019 | 157,417 | 106,336 | 45,544 | 1,148 |
| 2020 | 391,035 | 257,771 | 107,159 | 2,820 |
| 2021 | 219,579 | 145,531 | 59,779 | 1,583 |

Other Plans

| Year Ending June 30 | Primary Government | | | |
|---------------------|--------------------------------|-----------------------|-------------|-------------------------------|
| | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard |
| 2018 | \$ 4,414 | \$ 7,614 | \$ 2,212 | \$ 7,664 |
| 2019 | 4,416 | 7,641 | 587 | 2,469 |
| 2020 | 10,249 | 16,254 | 648 | 2,503 |
| 2021 | 4,316 | 11,343 | 361 | 1,420 |
| 2022 | (1,615) | 133 | | |
| Thereafter | (4,151) | | | |

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | Teachers' and State Employees' | Firefighters' and Rescue Squad | Consolidated Judicial | Legislative | North Carolina National Guard |
|-------------------------------|--------------------------------|--------------------------------|-----------------------|-------------|-------------------------------|
| | (1) | | (1) | (1) | |
| Valuation date | 12/31/15 | 12/31/15 | 12/31/15 | 12/31/15 | 12/31/15 |
| Inflation | 3% | 3.5% | 3% | 3% | 3% |
| Salary Increases | 3.50% - 8.10% | N/A | 3.50% - 5.50% | 5.50% | N/A |
| Investment Rate of Return (2) | 7.25% | 7.25% | 7.25% | 7.25% | 7.25% |

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return includes inflation assumption and is net of pension plan investment expense.

N/A - Not Applicable

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Fixed Income | 29% | 1.4% |
| Global Equity | 42% | 5.3% |
| Real Estate | 8% | 4.3% |
| Alternatives | 8% | 8.9% |
| Opportunistic Fixed Income | 7% | 6.0% |
| Inflation Sensitive | 6% | 4.0% |
| Total | 100% | |

Sensitivity of the net pension liability to changes in the discount rate. The following presents the primary government's and component units' net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate (dollars in thousands):

| | <u>Net Pension Liability</u> | | |
|---|--------------------------------|--|--------------------------------|
| | <u>1% Decrease (6.25%)</u> | <u>Current Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
| Teachers' and State Employees' Proportionate Share | | | |
| Primary Government | \$ 3,790,603 | \$ 2,015,413 | \$ 522,722 |
| University of North Carolina System | 2,493,754 | 1,325,896 | 343,887 |
| Community Colleges | 1,022,870 | 543,846 | 141,053 |
| Other Component Units | 27,560 | 14,653 | 3,801 |
| Firefighters' and Rescue Squad | \$ 122,146 | \$ 66,819 | \$ 21,335 |
| Consolidated Judicial | \$ 158,863 | \$ 95,402 | \$ 41,098 |
| Legislative | \$ 4,827 | \$ 2,233 | \$ 5,000 |
| North Carolina National Guard | \$ 80,176 | \$ 59,381 | \$ 42,267 |

NOTES TO THE FINANCIAL STATEMENTS**3. CHANGES IN NET PENSION LIABILITY (ASSET) FOR SINGLE-EMPLOYER, DEFINED-BENEFIT PLANS**

The following schedule presents the changes in the net pension liability for the single-employer, defined-benefit plans as of June 30, 2017 (dollars in thousands):

| | <u>Consolidated Judicial</u> | <u>Legislative</u> |
|---|----------------------------------|--------------------|
| Total pension liability | | |
| Service Cost | \$ 16,904 | \$ 822 |
| Interest | 42,009 | 1,708 |
| Changes of benefit terms | 332 | 22 |
| Differences between expected and actual experience | (4,295) | (520) |
| Changes of assumptions | 26,588 | 5,151 |
| Benefit payments, including refunds of member contributions | (40,462) | (2,430) |
| Net change in total pension liability | <u>41,076</u> | <u>4,753</u> |
| Total pension liability - beginning (a) | 582,766 | 23,952 |
| Total pension liability - ending (c) | <u>\$ 623,842</u> | <u>\$ 28,705</u> |
| Plan fiduciary net position | | |
| Contributions-employer | \$ 18,908 | \$ 65 |
| Contributions-member | 7,561 | 253 |
| Net investment income | 3,972 | 181 |
| Benefit payments, including refunds of member contributions | (40,462) | (2,430) |
| Administrative expense | (73) | (53) |
| Net change in plan fiduciary net position | <u>(10,094)</u> | <u>(1,984)</u> |
| Plan fiduciary net position - beginning (b) | 538,534 | 28,456 |
| Plan fiduciary net position - ending (d) | <u>\$ 528,440</u> | <u>\$ 26,472</u> |
| Net pension liability (asset) - beginning (a) - (b) | 44,232 | (4,504) |
| Net pension liability - ending (c) - (d) | <u>\$ 95,402</u> | <u>\$ 2,233</u> |

G. GASB Statement 73 Reporting**1. SPECIAL SEPARATION AND ALLOWANCE**

Plan administration. The State provides a special separation allowance (SSA), a single-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11c) or General Statutes 143-166.30(a)(4) that were employed by State agencies and retired on a basic service retirement under the provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement.

Benefits provided. Each eligible officer is paid an annual separation allowance equal to 0.85% of the officer's most recent base rate of compensation for each year of creditable service. These benefits are funded on a pay-as-you-go basis with each state agency responsible for the benefits to their former employees. The benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

There is no statewide administration of the SSA. The SSA is not administered through a trust and therefore no assets are accumulated. Funds for this allowance are appropriated annually in the budget of each affected state agency.

NOTES TO THE FINANCIAL STATEMENTS

Plan membership. The following table summarizes membership information at the actuarial valuation date of December 31, 2015:

| | Special Separation Allowance |
|--|------------------------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 874 |
| Active plan members | 2,782 |
| | <u>3,656</u> |

Total pension liability. As of June 30, 2017, the primary government reported a pension liability of \$198.653 million. The primary government's pension liability was measured as of June 30, 2016. The total pension liability was determined by an actuarial valuation as of December 31, 2015. Update procedures were used to roll forward the total pension liability to June 30, 2016.

Actuarial Assumptions. The actuarial assumptions used to measure the total pension liability of the SSA are the same as the actuarial valuation assumptions used for the TSERS and are described in Section E above. Mortality rates are based on the same mortality tables used for the TSERS as described in Section E above. The inflation rate for both general and wage inflation was 3% at June 30, 2016.

The withdrawal rates, retirement rates, mortality assumption, annual rate of salary increase, and leave conversion assumption were changed to align with the latest assumptions that were adopted for use with the December 31, 2015 actuarial valuation of TSERS, based on the experience study prepared as of December 31, 2014 and adopted by the TSERS Board of Trustees on January 21, 2016.

Discount Rate. The discount rate used to measure the total pension liability was 2.71% at June 30, 2016. The economic assumptions used for the discount rate are based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date. The discount rate was updated from 3.73% at June 30, 2015 to 2.71% at June 30, 2016.

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions. As of June 30, 2017, the primary government recognized pension expense for SSA of \$13.893 million.

At June 30, 2017, the primary government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between actual and expected experience | \$ 3,250 | \$ — |
| Changes of assumptions | — | 1,006 |
| Transactions subsequent to the measurement date | 15,626 | — |
| Total | <u>\$ 18,876</u> | <u>\$ 1,006</u> |

The \$15.626 million reported as deferred outflows of resources related to transactions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

| Year Ending June 30 | Special Separation Allowance |
|---------------------|------------------------------------|
| 2018 | \$ 467 |
| 2019 | 467 |
| 2020 | 467 |
| 2021 | 467 |
| 2022 | 376 |

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the total pension liability to changes in the discount rate. The following presents the total pension liability calculated using the discount rate of 2.71%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.71%) or 1-percentage-point higher (3.71%) than the current rate (dollars in thousands):

| | <u>Total Pension Liability</u> | | |
|------------------------------|--------------------------------|--|--------------------------------|
| | <u>1% Decrease (1.71%)</u> | <u>Current Discount Rate (2.71%)</u> | <u>1% Increase (3.71%)</u> |
| Special Separation Allowance | \$ 212,781 | \$ 198,653 | \$ 185,634 |

Changes in the total pension liability. The following schedule presents the changes in the total pension liability for the Special Separation Allowance plan as of June 30, 2017 (dollars in thousands):

| | <u>Special Separation Allowance</u> |
|---|---|
| Total pension liability | |
| Service Cost | \$ 6,112 |
| Interest | 7,314 |
| Differences between expected and actual experience | 3,927 |
| Change of assumptions | (1,216) |
| Benefit payments, including refunds of member contributions | <u>(14,895)</u> |
| Net change in total pension liability | 1,242 |
| Total pension liability - beginning | <u>197,411</u> |
| Total pension liability - ending | <u><u>\$ 198,653</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: DEFERRED COMPENSATION PLANS

1. IRC SECTION 457 PLAN

General Statute 143B-426.24 authorized the creation of the North Carolina Public Employee Deferred Compensation Plan (the 457 Plan) to offer a uniform deferred compensation plan to the employees of the State, any county or municipality, the North Carolina Community College System, and any political subdivision of the State. The 457 Plan is administered in accordance with Internal Revenue Code (IRC) Section 457. At December 31, 2016, there were approximately 52,600 plan members with 435 employers adopting the 457 Plan.

Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering the 457 Plan. The 457 Plan is a defined contribution pension plan. Benefits of the 457 Plan depend solely on amounts contributed to the plan plus investment earnings. The assets of the 457 Plan are held in trust for the exclusive benefit of participants and their beneficiaries and for paying the reasonable costs of the plan. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for oversight and major decisions of the 457 Plan. The audited statements for the year ended December 31, 2016 are presented in this financial report as a pension and other employee benefit trust fund. The 457 Plan's financial statements are prepared using the accrual basis of accounting. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Insurance and Annuity Company (Prudential) provides third party administration of the 457 Plan. The 457 Plan's financial statements are available by contacting the N.C. Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604-1668.

The 457 Plan discloses a related party transaction in Note 20 of this CAFR. The 457 Plan's investment risks are described in Note 3.

2. IRC SECTION 403(B) PLANS

Effective January 1, 2009, the University of North Carolina System established the UNC System 403(b) Plan for all constituent institutions. Employees can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). All employees who receive compensation reportable on a W-2 and pay FICA are eligible to participate in the 403(b) Plan, so long as the employee elects to contribute at least \$200 each calendar year. The University System administers the UNC 403(b) Plan and Teachers Insurance and Annuity Association (TIAA) and Fidelity serve as the record keepers of the plan. The plan is designed to provide a low-cost retirement savings option to university employees. At December 31, 2016, there were 14,025 employees participating in the plan. No direct costs are incurred by the State.

Effective July 1, 2011, the Department of State Treasurer was granted authority by General Statute 115C-341.2 to establish a State sponsored 403(b) Plan entitled the North Carolina Public School Teachers' and Professional Educators' Investment Plan (the NC 403(b) Plan). Pursuant to General Statutes 115C-341.2 and 115D-25.4, the NC 403(b) Plan is available to all local school Boards of Education and community colleges across the State. Each individual employer has the discretion to adopt the NC 403(b) Plan. The N.C. Department of State Treasurer administers the NC 403(b) Plan and the Teachers' Insurance and Annuity Association (TIAA) served as the record keeper through February 21, 2017. As of February 22, 2017, Prudential assumed record keeping and communication responsibility. The NC 403(b) Plan is designed to provide a low-cost supplemental retirement savings option to public school and community college employees. At June 30, 2017, there were 50 school districts enrolled in the Plan with 1,186 employees participating.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

The State administers three postemployment benefit plans, the Retiree Health Benefit Fund, the Disability Income Plan of North Carolina and the Retirees’ Contributory Death Benefit Plan as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan’s assets may be used only for payment of benefits to members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information* section of this Comprehensive Annual Financial Report (CAFR). The Retirees’ Contributory Death Benefit Plan is included in Note 16 in the Death Benefit Plan of N.C. column.

A. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of these plans are 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.

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 and the assets of the Retirees’ Contributory Death Benefit Plan are invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds’ participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

B. Plan Descriptions

Cost-Sharing, Multiple-Employer, Defined Benefit Plans

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 financial reporting entity also participate. The Plan is reported as a major component unit. Management of the Plan is vested in the State Health Plan Board of Trustees, which consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the Senate, two appointed by the state House of Representatives, and the State Treasurer and the Director of State Budget and Management who serve as ex officio members. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the 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 former employees of the State, the University of North Carolina System, and community colleges. In addition, Local Education Agencies (LEAs), charter schools and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2017, the number of participating employers was as follows:

| | |
|--|------------|
| State of North Carolina..... | 1 |
| LEAs..... | 116 |
| Charter Schools..... | 61 |
| Community Colleges..... | 58 |
| University of North Carolina System..... | 19 |
| Other Component Units..... | 5 |
| Local governments..... | <u>11</u> |
| Total..... | <u>271</u> |

NOTES TO THE FINANCIAL STATEMENTS

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State superintendent and the Director of the Office of State Human Resources who serve as ex officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health 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 State Health Plan.

Benefits provided. Plan benefits received by retired employees and disabled employees from RHBF are other postemployment benefits (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 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options or the self-funded Traditional 70/30 Preferred Provider Organization (PPO) 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 (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the 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 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 after January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year, the State and the other employers contributed the legislatively mandated 5.60% of covered payroll from July 1, 2016 through December 31, 2016 and 6.02% of covered payroll from January 1, 2017 through June 30, 2017. RHBF is reported as an employee benefit trust fund. Actual contributions are reported in Section F of this note.

NOTES TO THE FINANCIAL STATEMENTS

2. DISABILITY INCOME

Plan administration. As discussed in Note 15, 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 the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. At June 30, 2017, the number of participating employers was as follows:

| | |
|--|------------|
| State of North Carolina..... | 1 |
| LEAs | 116 |
| Charter Schools..... | 61 |
| Community Colleges..... | 58 |
| University of North Carolina System..... | 19 |
| Other Component Units..... | <u>5</u> |
| | <u>260</u> |

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

Benefits provided. Long-term disability benefits are payable as an other postemployment benefit 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 the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, 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 the 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 the 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 the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

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.

NOTES TO THE FINANCIAL STATEMENTS

Contributions. Although the 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 General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2017, the State and the other employers made a statutory contribution of 0.38% of covered payroll. This was equal to the actuarially required contribution. Actual contributions are reported in Section F of this note.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Single-Employer Defined Benefit Plans**3. RETIREES' CONTRIBUTORY DEATH BENEFIT PLAN**

Plan administration. The State of North Carolina administers the Retirees' Contributory Death Benefit Plan (CDBP), which is a single-employer defined benefit plan that provides a group life insurance option to all retired members of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System (LGERS), the Consolidated Judicial Retirement System, and the Legislative Retirement System. This plan is optional and members must enroll in this option at the time of their retirement to be eligible for the benefits.

Management of the Plan is vested in the TSERS Board of Trustees and in the LGERS Board of Trustees. The TSERS Board of Trustees consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members. The LGERS Board of Trustees consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members.

Benefits provided. Benefits payable under this plan are supported entirely by the contributions of participants and the investment earnings on these contributions. Upon receipt of proof of death of the participant, a lump-sum death benefit will be paid to the surviving spouse or estate. The death benefit shall be equal to (1) \$10,000 if death occurs on or after 24 months of coverage or (2) the total of the monthly contributions plus interest at an annual rate determined by the Board of Trustees if death occurs before 24 months of coverage.

Contributions. The retired member has to elect, when first eligible, to make continuous required contributions as determined by the Board of Trustees on a full contributory basis, through retirement allowance deductions or other methods adopted by the Board of Trustees, to a group death benefit trust fund administered by the Board of Trustees. Monthly member contributions vary between \$12.54 and \$66.14 per month, depending on the age of the member at the time of retirement. There is no contractually required contribution by the State.

Benefit and contribution provisions are established by Chapter 135-5 (1), Article 1 of the General Statutes and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS**C. Plan Membership**

The following tables summarize membership information by plan at the actuarial valuation date:

| | Retiree Health Benefit Fund | Disability Income Plan of N.C. |
|--|-----------------------------------|--------------------------------------|
| Retired members and beneficiaries | | |
| currently receiving benefits | 213,425 | N/A |
| Retired members and survivors of deceased | | |
| members currently receiving benefits | N/A | 6,617 |
| Terminated members entitled to but not yet | | |
| receiving benefits | 39,230 | - |
| Active members | 338,158 | 323,469 |
| Total | <u>590,813</u> | <u>330,086</u> |
| | | |
| Date of valuation | <i>12/31/16</i> | <i>12/31/16</i> |

N/A - Not Applicable

| | Retirees' Contributory Death Benefit Plan |
|--------------------------------------|--|
| Retired members currently covered | |
| under death benefit plan | 119,708 |
| Terminated members eligible to elect | |
| coverage under death benefit plan | |
| at retirement | 71,484 |
| Active members eligible to elect | |
| coverage under death benefit plan | |
| at retirement | 439,867 |
| Total | <u>631,059</u> |
| | |
| Date of valuation | <i>12/31/16</i> |

D. Investments

Investment policy. The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

NOTES TO THE FINANCIAL STATEMENTS

The adopted asset allocation policies for the Disability Income Plan of North Carolina and for the Retirees' Contributory Death Benefit Plan are primarily in the Bond Index Investment Pool as of June 30, 2017 as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|----------------------------|--------------------------|
| Fixed Income | 29% |
| Global Equity | 42% |
| Real Estate | 8% |
| Alternatives | 8% |
| Opportunistic Fixed Income | 7% |
| Inflation Sensitive | 6% |
| Total | <u><u>100%</u></u> |

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense was:

| | <u>Cost-Sharing, Multiple-Employer</u> | | <u>Single-Employer</u> |
|----------------------------------|--|---|--|
| | <u>Retiree Health Benefit Fund</u> | <u>Disability Income Plan of N.C.</u> | <u>Retirees' Contributory Death Benefit Plan</u> |
| Money-weighted Rate of Return | 9.31% | (0.06%) | (0.02%) |

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net OPEB Liability of Participating Employers

The components of the net OPEB liability of the participating employers at June 30, 2017, were as follows (dollars in thousands):

| | <u>Retiree Health Benefit Fund</u> | <u>Disability Income Plan of N.C.</u> | <u>Retirees' Contributory Death Benefit Plan</u> |
|--|--|---|--|
| Total OPEB liability | \$ 33,983,195 | \$ 376,486 | \$ 331,144 |
| Plan fiduciary net position | 1,196,570 | 437,606 | 246,995 |
| Net OPEB liability (asset) | <u><u>\$ 32,786,625</u></u> | <u><u>\$ (61,120)</u></u> | <u><u>\$ 84,149</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 3.52% | 116.23% | 74.59% |

NOTES TO THE FINANCIAL STATEMENTS

Actuarial Assumptions. The total OPEB liabilities for RHBF, DIPNC and CDBP were determined by actuarial valuations as of December 31, 2016, 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, 2017 utilizing update procedures incorporating the actuarial assumptions.

| | Retiree Health Benefit Fund | Disability Income Plan of N.C. | Retirees' Contributory Death Benefit Plan |
|---|-----------------------------------|--------------------------------------|--|
| | (1) | (1) | |
| Valuation Date | 12/31/2016 | 12/31/2016 | 12/31/2016 |
| Inflation | 2.75% | 3.00% | 3.00% |
| Salary Increases | 3.50% - 8.10% | 3.50% - 8.10% | N/A |
| Investment Rate of Return (2) | 7.20% | 3.75% | 3.75% |
| Healthcare Cost Trend Rate - Medical | 5.00% - 6.50% | N/A | N/A |
| Healthcare Cost Trend Rate - Prescription Drug | 5.00% - 7.25% | N/A | N/A |
| Healthcare Cost Trend Rate - Medicare Advantage | 4.00% - 5.00% | N/A | N/A |
| Healthcare Cost Trend Rate - Administrative | 3.00% | N/A | N/A |

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - 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 based on 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 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. DIPNC and CDBP are primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2017 (see the discussion of the OPEB plans' investment policy in Section D) are summarized in the following table:

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

The information in the preceding table is based on 30 year expectations developed with the consulting actuary and is part of the asset liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

NOTES TO THE FINANCIAL STATEMENTS

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 the 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 the 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, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount rate. The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB liability for DIPNC was 3.75%. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plans' 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.

The discount rate used to measure the total OPEB liability for CDBP was 3.65%. The projection of cash flow used to determine the discount rate assumed that no contributions would be made other than those made by retirees who elect coverage at retirement. Based on the above assumptions and the assumed investment return of 3.75% used in the actuarial valuation as of June 30, 2017, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. In order to develop the blended discount rate of 3.65%, 3.75% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.13% was used during the period that the plan was projected to have no fiduciary net position. The 3.13% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the plans at June 30, 2017, as well as what the plans' net OPEB liability 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 (dollars in thousands):

Cost-Sharing, Multiple-Employer

| | 1% Decrease (2.58%) | Current Discount Rate (3.58%) | 1% Increase (4.58%) |
|-------------------------|------------------------|-------------------------------------|------------------------|
| RHBF net OPEB liability | \$ 39,112,560 | \$ 32,786,625 | \$ 27,769,260 |

| | 1% Decrease (2.75%) | Current Discount Rate (3.75%) | 1% Increase (4.75%) |
|----------------------|------------------------|-------------------------------------|------------------------|
| DIPNC net OPEB asset | \$ (51,961) | \$ (61,120) | \$ (70,300) |

Single-Employer

| | 1% Decrease (2.65%) | Current Discount Rate (3.65%) | 1% Increase (4.65%) |
|---------------------------------|------------------------|-------------------------------------|------------------------|
| CDBP net OPEB liability (asset) | \$ 204,919 | \$ 84,149 | \$ (3,243) |

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability 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:

| | 1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25% Med. Advantage - 3.00 - 4.00% Administrative - 2.00%) | Current Healthcare Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25% Med. Advantage - 4.00 - 5.00% Administrative - 3.00%) | 1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25% Med. Advantage - 5.00 - 6.00% Administrative - 4.00%) |
|---------------------------------|--|--|--|
| RHBF net OPEB liability | \$ 26,783,653 | \$ 32,786,625 | \$ 40,765,341 |
| DIPNC net OPEB asset | N/A | N/A | N/A |
| CDBP net OPEB liability (asset) | N/A | N/A | N/A |

NOTES TO THE FINANCIAL STATEMENTS**F. GASB Statement 45 Employer Reporting**

The following table presents the three-year trend of the contractually required contributions for the Retiree Health Benefit Fund and the annual required contributions (ARC) for the Disability Income Plan of North Carolina for the State and its component units made to the plans. For the Retiree Health Benefit Fund, the contractually required contribution is determined by the General Assembly and does not reflect the actuary-based ARC. For the Disability Income Plan of North Carolina, the ARC equals the State's OPEB cost as an employer.

Required Contributions as an Employer
For the Years Ended June 30, 2015 through June 30, 2017
(dollars in thousands)

| | Retiree Health Benefit Fund | Disability Income Plan of N.C. |
|--------------------------------|-----------------------------------|--------------------------------------|
| Primary Government: | | |
| 2017 | \$ 201,087 | \$ 13,152 |
| 2016 | 185,760 | 13,600 |
| 2015 | 182,167 | 13,604 |
| Component units: | | |
| Universities: | | |
| 2017 | \$ 239,140 | \$ 15,641 |
| 2016 | 219,435 | 16,066 |
| 2015 | 206,262 | 15,404 |
| Community Colleges: | | |
| 2017 | \$ 52,305 | \$ 3,421 |
| 2016 | 48,905 | 3,581 |
| 2015 | 47,511 | 3,548 |
| Other Component Units: | | |
| 2017 | \$ 502 | \$ 33 |
| 2016 | 441 | 32 |
| 2015 | 426 | 32 |
| Percentage Contributed: | | |
| 2017 | 100% | 100% |
| 2016 | 100% | 100% |
| 2015 | 100% | 100% |

For 2017 and the two preceding years, the primary government and component units together contributed 100% of the required contributions for RHBF and DIPNC.

The Retirees' Contributory Death Benefit Plan does not have an ARC since there is no contractually required contribution by the State. Contributions to the CDBP come from retired members who elect to participate in the Plan.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 15: RISK MANAGEMENT AND INSURANCE****A. Public Entity Risk Pool****Public School Insurance Fund**

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 87 out of 116 LEAs and 31 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period. The Fund does not hold any annuity contracts. The Fund does not agree to structured settlements to pay specific amounts on fixed or determinable dates.

The only acquisition costs are related to proposal costs and inspection costs for insured members. Since the Fund can only insure the LEAs and the community colleges, new contracts are immaterial. Since existing contracts are renewed once a year, the Fund's costs are for policy maintenance. Therefore, acquisition costs do not need to be amortized.

The following schedule shows the changes in the reported liability for the past two years (dollars in thousands):

| | Fiscal Year | |
|--|--------------------|-------------|
| | 2017 | 2016 |
| Unpaid claims at beginning of year | \$ 5,794 | \$ 10,176 |
| Incurred claims: | | |
| Provision for insured events | | |
| of the current year | 16,149 | 943 |
| Increases (decreases) in provision | | |
| for insured events of prior years | (2,354) | (337) |
| Total incurred claims | 13,795 | 606 |
| Payments: | | |
| Claims attributable to insured | | |
| events of the current year | 4,188 | 872 |
| Claims attributable to insured | | |
| events of the prior years | 3,439 | 4,116 |
| Total payments | 7,627 | 4,988 |
| Total unpaid claims at end | | |
| of the year | \$ 11,962 | \$ 5,794 |

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than \$10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is \$45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of \$15 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, there are no claims for reinsurance. There were no premium deficiencies in fiscal year 2017. Investment income was not considered in the determination of premium deficiencies.

NOTES TO THE FINANCIAL STATEMENTS**B. Employee Benefit Plans****1. State Health Plan**

In accordance with Chapter 135, Article 3B, Part 1, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. These benefits are extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

The Plan is reported as a major component unit. Coverage for active employees, non-Medicare retirees, and some Medicare retirees is self funded. Medicare retirees also had the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options in Calendar Year 2016 and two fully-insured MA-PDP options in Calendar Year 2017. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Some of the plans also require an employee or retiree contribution, depending on the plan selected or the employee's or retiree's willingness to participate in wellness activities that reduce or eliminate employee contributions. Contributions for dependent coverage are made by employees and retirees. As described in Note 14, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on allowed amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan provides an unlimited lifetime benefit for the PPO plans. The authority for the PPO plans is provided in General Statute 135-48.2.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 285,033 | \$ 2,777,913 | \$ (2,798,310) | \$ 264,636 |
| 2016-17 | 264,636 | 2,987,829 | (2,964,762) | 287,703 |

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of \$25,000 and to a maximum of \$50,000.

For the period July 1, 2016 to June 30, 2017, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.16 % of covered payroll (as defined in Note 14) to fund the Death Benefit Plan for the period July 2016 to June 2017.

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported).

NOTES TO THE FINANCIAL STATEMENTS

Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 2,560 | \$ 50,486 | \$ (50,187) | \$ 2,859 |
| 2016-17 | 2,859 | 53,831 | (52,754) | 3,936 |

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. The 60 day waiting period is determined from the last actual day of service, the day of the disabling event if the disabling event occurred on a day other than a normal workday, or the day following at least 365 calendar days of employment as a State teacher or State employee, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. Short-term benefits during the initial short-term disability period are payable for a period of up to 365 days following the waiting period. The first six months of benefits are payable by the employer outside of DIPNC. The remaining six months are paid by the employer outside of DIPNC, but the employer is reimbursed by DIPNC quarterly. The Board of Trustees may extend the short-term disability benefits of a beneficiary beyond the benefit period of 365 days for an additional period of not more than 365 days; provided the Medical Board determines that the beneficiary's disability is temporary and likely to end within the extended period of short-term disability benefits. During the extended period of short-term disability benefits, payment of benefits shall be made by DIPNC directly to the beneficiary. As discussed in Note 14, long-term disability benefits are payable as an other postemployment benefit 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. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

C. Other Risk Management and Insurance Activities**1. Automobile, Fire and Other Property Losses**

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first \$1 million of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than \$1 million up to \$10 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums. The Fund insures losses up to \$2.5 million per occurrence. All 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.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of \$50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach

NOTES TO THE FINANCIAL STATEMENTS

\$5 million in any one annual period, the Fund's retention for the remainder of the annual period is \$100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims of \$10,000 or higher are paid when the Council of State approves the request for payment. Claims less than \$10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated. Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 1,612 | \$ 264 | \$ (1,083) | \$ 793 |
| 2016-17 | 793 | 4,482 | (3,418) | 1,857 |

2. Medical Malpractice Protection**a. Professional Liability Insurance for State Medical Personnel**

Agencies of the State and participating component units are insured under the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. This act allows partial waiver of sovereign immunity up to \$1 million that the State may pay cumulatively to all claimants on account of injury and damage to any one person arising out of a single occurrence. The State has purchased commercial liability insurance for state employees which is in excess over recovery from the Tort Claims Act and Defense of State Employees Act; however, claims involving medical malpractice are generally excluded from this coverage.

The University of North Carolina at Chapel Hill Medical School and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. East Carolina University (ECU) provides medical malpractice insurance for the Brody School of Medicine faculty physicians and independently licensed allied health providers. There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice insurance is with a private insurance company with coverage of \$3 million per occurrence, \$5 million annual aggregate, and a \$200,000 deductible; as well as an excess policy in the amount of \$10 million. All other universities purchase medical professional liability insurance.

Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environmental Quality, and the Department of Public Safety to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of \$1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environmental Quality, and the Department of Public Safety purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is \$1 million per individual, claim, or incidence, and \$3 million total or aggregate. Some departments and institutions have purchased higher limits to provide additional coverage above that provided by the primary policy for medical liability. The policies are written on a claims made or occurrence basis, with the majority of the policies being claims made. The claims liabilities are not measurable.

b. Self-Insurance through the Liability Insurance Trust Fund

The Liability Insurance Trust Fund (Trust Fund) is an unincorporated entity created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill (the Hospitals) and the University of North Carolina at Chapel Hill Faculty Physicians (UNCFP). The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ending June 30, 2016 and June 30, 2017, the Trust Fund provided coverage on an occurrence basis of \$3 million per individual and \$7 million in the aggregate per claim. Excess reinsurance coverage was not purchased for the policy years ending June 30, 2016 and June 30, 2017, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed \$10 million in the aggregate into the Reimbursement Fund during previous fiscal years for future losses.

For the fiscal year ending June 30, 2017, the Trust Fund purchased a direct insurance policy to cover the first \$1 million per occurrence and \$3 million in the aggregate for dental residents. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to \$30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of \$39.536 million and \$33.418 million are the present values of the aggregate actuarially determined claims liabilities of \$31.835 million and \$23.023 million, discounted at 1.5% at June 30, 2016 and 2.5% at June 30, 2017.

These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 36,846 | \$ 9,667 | \$ (6,977) | \$ 39,536 |
| 2016-17 | 39,536 | 2,693 | (8,811) | 33,418 |

3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides \$10 million excess insurance over the \$1 million statutory limit payable for any one claim under the State Tort Claims Act. The first \$150,000 of an award against a state agency is the responsibility of the state agency's General Fund budget code or up to \$1 million if a Non-General Fund budget code. For General Fund budget codes, any award greater than \$150,000 but less than \$1 million is funded by proportionate shares of estimated lapse salaries from all agencies' General Fund budget codes. Since state agencies and component units are responsible for funding any tort claims of \$1 million or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of \$5 million per occurrence, subject to a 10% participation in each loss and a \$100,000 deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. A small number of state agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

5. Statewide Workers' Compensation Program

The State has two separate workers' compensation programs that cover employees statewide. The workers' compensation program authorized by Chapter 143, Article 63 administered by the Office of State Human Resources (OSHR) covers workplace injuries of State employees, universities, and community college employees paid with State funds. The workers' compensation program authorized by Chapter 115C, Article 23, and Chapter 115, Article 2 administered by the Department of Public Instruction (DPI) covers workplace injuries of employees of Local Education Agencies (LEAs).

NOTES TO THE FINANCIAL STATEMENTS

The State and its component units are self-insured for workers' compensation liabilities. The OSHR and DPI programs separately contract with third party administrators and other vendors to handle their program's respective claims. Workers' compensation budgets for most state agencies and participating component units are based on the prior year's loss experience. Workers' compensation liabilities are recognized when probable and reasonably estimated. This liability is presented as a component of the Governmental Activities Long-Term Liabilities.

The third party administrators receive claim administration fees and draw down funds daily to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act, Chapter 97 of the General Statutes. Each state agency and participating component unit is billed for claims costs and administrative fees by their respective third party administrator. State agencies and participating component units contribute to a fund administered by the Office of the State Controller (OSC) to cover their workers' compensation claims. This fund is reported in the general fund.

An injury is covered under the State's Workers' Compensation Act, Chapter 97, if it is caused by an accident or specific traumatic incident that arose out of and in the course and scope of employment. Also, certain occupational diseases specifically designated in state law are compensable. The employee has the responsibility to claim compensation. If the injured employee or his representative does not notify the employer within thirty (30) days from the date of injury, the employer may refuse compensation. A claim must be filed with the North Carolina Industrial Commission (NCIC), the governing body that administers the Workers' Compensation Act, within two years from the date of knowledge thereof; otherwise, the claim is barred by law and no further compensation is allowable. When an employee is injured, the employer's primary responsibility is to direct medical treatment and pay all benefits due. The employer tries to provide the best possible medical care for injured employees to help them reach maximum medical improvement and return to work as soon as possible.

Losses payable by these programs include loss of wages, medical expenses, permanent bodily injury, and death benefits. Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly wages subject to a statutory minimum and annually adjusted maximum compensation rate established per statute by the NCIC. The NCIC is also statutorily required to establish a medical fee schedule that sets maximum reimbursement rates for included medical treatment. Death benefits are payable for 500 weeks at 66 2/3% of an employee's average weekly wages. In certain circumstances, death benefits may be extended beyond 500 weeks.

The following schedule shows the changes in the reported liability for the past two fiscal years for the OSHR and DPI programs (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 202,163 | \$ 59,180 | \$ (59,437) | \$ 201,906 |
| 2016-17 | 201,906 | 85,465 | (68,033) | 219,338 |

6. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Workers' Compensation Fund is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from state income tax under General Statute 105-130.11. These eligible units are not part of the reporting entity. Benefits are payable for compensable injuries or deaths which occurred on or after July 1, 1996. The Fund is financed by transfers from General Fund and by per capita fixed dollar amounts for each member of a participating eligible unit's roster. The per capita fixed dollar amount is set annually by the Commission and is paid by the eligible units to the Commission on or before July 1 of each year for credit to the Fund. If payment is not received by July 1, the eligible unit shall not receive workers' compensation coverage for that fiscal year. As of June 30, 2017, the Fund consisted of 1,121 eligible units representing approximately 40,693 members.

The liability for unpaid claims is based on an actuarial determination and represents a reasonable estimate of the ultimate cost of open claims and claim settlement expenses that are unpaid as of the fiscal year end, including incurred but not reported losses. The liability for unpaid claims is continually reviewed, and as adjustments become necessary such adjustments are included in current operations. Claim liabilities do not include nonincremental claims adjustment expenses. The Fund considers anticipated investment income in determining if a premium deficiency exists. The Fund recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 2017, there was no reduction for subrogation.

NOTES TO THE FINANCIAL STATEMENTS

Acquisition costs consist of commission payments to independent insurance agents for marketing, promotional and administrative assistance with policy maintenance to eligible units. As coverage is renewed annually, acquisition costs are not amortized.

The Fund maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Fund's retention of \$500,000 per occurrence and a \$1.5 million limit for employer's liability above the Fund's retention of \$500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Fund's excess of loss and aggregate reinsurance policies. As of June 30, 2017, there are claims recoverable from reinsurers in the amount of \$13 thousand.

The following schedule shows the changes in the reported liability for the past two fiscal years (dollars in thousands):

| | Beginning of Fiscal Year Liability | Current-Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|---------|--|---|-------------------|----------------------------------|
| 2015-16 | \$ 26,026 | \$ 6,762 | \$ (7,537) | \$ 25,251 |
| 2016-17 | 25,251 | 5,142 | (7,845) | 22,548 |

NOTES TO THE FINANCIAL STATEMENTS**NOTE 16: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2017 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

(Dollars in Thousands)

| | <i>Teachers' and State Employees' Retirement System</i> | <i>Consolidated Judicial Retirement System</i> | <i>Legislative Retirement System</i> | <i>Firefighters' and Rescue Squad Workers' Pension Fund</i> | <i>North Carolina National Guard Pension Fund</i> | <i>Local Governmental Employees' Retirement System</i> |
|---|---|--|--------------------------------------|---|---|--|
| Assets | | | | | | |
| Cash and cash equivalents..... | \$ 196,986 | \$ 439 | \$ 77 | \$ 669 | \$ 1,957 | \$ 51,570 |
| Investments: | | | | | | |
| Collective investment funds..... | — | — | — | — | — | — |
| Unallocated insurance contracts..... | — | — | — | — | — | — |
| Synthetic guaranteed investment contracts.... | — | — | — | — | — | — |
| State Treasurer investment pool..... | 67,391,677 | 566,559 | 27,491 | 406,460 | 119,157 | 24,592,313 |
| Non-State Treasurer pooled investments..... | — | — | — | — | — | — |
| Securities lending collateral..... | 505,374 | 4,247 | 206 | 3,047 | 895 | 184,402 |
| Receivables: | | | | | | |
| Accounts receivable..... | 3,328 | 3 | 56 | 34 | 11 | 4,156 |
| Interest receivable..... | 374 | 2 | — | 1 | 2 | 103 |
| Contributions receivable..... | 59,920 | — | 76 | — | — | 55,283 |
| Due from other funds..... | 49,219 | 2,158 | — | — | — | — |
| Due from component units..... | 11,042 | — | — | — | — | — |
| Notes receivable..... | — | — | — | — | — | — |
| Total Assets..... | <u>68,217,920</u> | <u>573,408</u> | <u>27,906</u> | <u>410,211</u> | <u>122,022</u> | <u>24,887,827</u> |
| Liabilities | | | | | | |
| Accounts payable and accrued liabilities: | | | | | | |
| Accounts payable..... | — | — | — | — | — | — |
| Benefits payable..... | 480 | 2 | 4 | 1 | — | 391 |
| Obligations under securities lending..... | 505,374 | 4,247 | 206 | 3,047 | 895 | 184,402 |
| Funds held for others..... | 6,606 | 56 | 7 | — | — | 24 |
| Total Liabilities..... | <u>512,460</u> | <u>4,305</u> | <u>217</u> | <u>3,048</u> | <u>895</u> | <u>184,817</u> |
| Net Position | | | | | | |
| Restricted for: | | | | | | |
| Pension benefits..... | 67,705,460 | 569,103 | 27,689 | 407,163 | 121,127 | 24,703,010 |
| Other Postemployment benefits..... | — | — | — | — | — | — |
| Other employment benefits..... | — | — | — | — | — | — |
| Total Net Position..... | <u>\$ 67,705,460</u> | <u>\$ 569,103</u> | <u>\$ 27,689</u> | <u>\$ 407,163</u> | <u>\$ 121,127</u> | <u>\$ 24,703,010</u> |

NOTES TO THE FINANCIAL STATEMENTS

| <i>401(k) Supplemental Retirement Income Plan</i> | <i>457 Deferred Compensation Plan</i> | <i>Death Benefit Plan of N.C.</i> | <i>Retiree Health Benefit Fund</i> | <i>Disability Income Plan of N.C.</i> | <i>Sheriffs' Pension Fund</i> | <i>Register of Deeds' Supplemental Pension Fund</i> | Totals |
|---|---|---|--|---|---------------------------------------|---|-----------------------|
| \$ — | \$ — | \$ 4,973 | \$ 193,103 | \$ 12,156 | \$ 859 | \$ 131 | \$ 462,920 |
| 162,584 | 31,895 | — | — | — | — | — | 194,479 |
| 680,297 | 133,455 | — | — | — | — | — | 813,752 |
| 1,225,449 | 240,400 | — | — | — | — | — | 1,465,849 |
| — | — | 425,556 | 952,972 | 396,306 | — | 48,597 | 94,927,088 |
| 6,477,345 | 822,608 | — | — | — | — | — | 7,299,953 |
| — | — | 6 | 7,374 | 15 | 1 | — | 705,567 |
| 1,442 | 282 | — | — | 26,455 | — | — | 35,767 |
| — | — | 5 | 164 | 13 | 1 | — | 665 |
| 6,537 | 657 | 898 | 24,958 | 1,565 | — | 84 | 149,978 |
| — | — | 497 | 18,932 | 1,172 | — | — | 71,978 |
| — | — | 111 | 6,441 | 407 | — | — | 18,001 |
| 286,942 | 19,134 | — | — | — | — | — | 306,076 |
| <u>8,840,596</u> | <u>1,248,431</u> | <u>432,046</u> | <u>1,203,944</u> | <u>438,089</u> | <u>861</u> | <u>48,812</u> | <u>106,452,073</u> |
| 1,065 | 209 | 94 | — | — | — | — | 1,368 |
| — | — | 3,936 | — | 307 | — | — | 5,121 |
| — | — | 6 | 7,374 | 15 | 1 | — | 705,567 |
| — | — | — | — | 161 | — | — | 6,854 |
| <u>1,065</u> | <u>209</u> | <u>4,036</u> | <u>7,374</u> | <u>483</u> | <u>1</u> | <u>—</u> | <u>718,910</u> |
| 8,839,531 | — | — | — | — | 860 | 48,812 | 102,422,755 |
| — | — | — | 1,196,570 | 437,606 | — | — | 1,634,176 |
| — | 1,248,222 | 428,010 | — | — | — | — | 1,676,232 |
| <u>\$ 8,839,531</u> | <u>\$ 1,248,222</u> | <u>\$ 428,010</u> | <u>\$ 1,196,570</u> | <u>\$ 437,606</u> | <u>\$ 860</u> | <u>\$ 48,812</u> | <u>\$ 105,733,163</u> |

NOTES TO THE FINANCIAL STATEMENTS**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | <i>Teachers' and State Employees' Retirement System</i> | <i>Consolidated Judicial Retirement System</i> | <i>Legislative Retirement System</i> | <i>Firefighters' and Rescue Squad Workers' Pension Fund</i> | <i>North Carolina National Guard Pension Fund</i> | <i>Local Governmental Employees' Retirement System</i> |
|-----------------------------------|---|--|--------------------------------------|---|---|--|
| Additions | | | | | | |
| Contributions: | | | | | | |
| Employer..... | \$ 1,441,194 | \$ 19,592 | \$ 675 | \$ — | \$ — | \$ 461,329 |
| Members..... | 894,538 | 7,399 | 253 | 2,594 | — | 391,459 |
| Other contributions..... | — | — | — | 17,602 | 8,517 | — |
| Total contributions..... | <u>2,335,732</u> | <u>26,991</u> | <u>928</u> | <u>20,196</u> | <u>8,517</u> | <u>852,788</u> |
| Investment Income: | | | | | | |
| Investment earnings (loss)..... | 7,034,851 | 58,935 | 2,900 | 42,201 | 12,290 | 2,551,244 |
| Less investment expenses..... | (378,200) | (3,173) | (155) | (2,273) | (664) | (137,486) |
| Net investment income (loss)..... | <u>6,656,651</u> | <u>55,762</u> | <u>2,745</u> | <u>39,928</u> | <u>11,626</u> | <u>2,413,758</u> |
| Other additions: | | | | | | |
| Fees, licenses and fines..... | — | — | — | — | — | 2,780 |
| Interest earnings on loans..... | — | — | — | — | — | — |
| Miscellaneous..... | 809 | — | — | 15 | — | 551 |
| Total other additions..... | <u>809</u> | <u>—</u> | <u>—</u> | <u>15</u> | <u>—</u> | <u>3,331</u> |
| Total additions..... | <u>8,993,192</u> | <u>82,753</u> | <u>3,673</u> | <u>60,139</u> | <u>20,143</u> | <u>3,269,877</u> |
| Deductions | | | | | | |
| Claims and benefits..... | 4,435,295 | 41,933 | 2,368 | 27,834 | 8,677 | 1,263,799 |
| Medical insurance premiums | — | — | — | — | — | — |
| Refund of contributions..... | 110,001 | 120 | 70 | 1,236 | — | 58,478 |
| Administrative expenses..... | 11,265 | 37 | 18 | 919 | 168 | 4,264 |
| Other deductions..... | — | — | — | — | — | 1 |
| Total deductions..... | <u>4,556,561</u> | <u>42,090</u> | <u>2,456</u> | <u>29,989</u> | <u>8,845</u> | <u>1,326,542</u> |
| Change in net position..... | 4,436,631 | 40,663 | 1,217 | 30,150 | 11,298 | 1,943,335 |
| Net position — July 1..... | 63,268,829 | 528,440 | 26,472 | 377,013 | 109,829 | 22,759,675 |
| Net position — June 30..... | <u>\$ 67,705,460</u> | <u>\$ 569,103</u> | <u>\$ 27,689</u> | <u>\$ 407,163</u> | <u>\$ 121,127</u> | <u>\$ 24,703,010</u> |

NOTES TO THE FINANCIAL STATEMENTS

| <i>401(k) Supplemental Retirement Income Plan</i> | <i>457 Deferred Compensation Plan</i> | <i>Death Benefit Plan of N.C.</i> | <i>Retiree Health Benefit Fund</i> | <i>Disability Income Plan of N.C.</i> | <i>Sheriffs' Pension Fund</i> | <i>Registers of Deeds' Supplemental Pension Fund</i> | <i>Totals</i> |
|---|---|---|--|---|---------------------------------------|--|-----------------------|
| \$ 190,606 | \$ 1,586 | \$ 27,862 | \$ 950,813 | \$ 61,654 | \$ — | \$ 869 | \$ 3,156,180 |
| 325,848 | 77,130 | — | — | — | — | — | 1,699,221 |
| — | — | 25,379 | — | — | — | — | 51,498 |
| <u>516,454</u> | <u>78,716</u> | <u>53,241</u> | <u>950,813</u> | <u>61,654</u> | <u>—</u> | <u>869</u> | <u>4,906,899</u> |
| 572,013 | 75,733 | 67 | 99,450 | (36) | 9 | (2) | 10,449,655 |
| — | — | (90) | (5,318) | (86) | — | (10) | (527,455) |
| <u>572,013</u> | <u>75,733</u> | <u>(23)</u> | <u>94,132</u> | <u>(122)</u> | <u>9</u> | <u>(12)</u> | <u>9,922,200</u> |
| — | — | — | — | — | 834 | — | 3,614 |
| 12,138 | 797 | — | — | — | — | — | 12,935 |
| 2,019 | 392 | — | — | 33 | — | — | 3,819 |
| <u>14,157</u> | <u>1,189</u> | <u>—</u> | <u>—</u> | <u>33</u> | <u>834</u> | <u>—</u> | <u>20,368</u> |
| <u>1,102,624</u> | <u>155,638</u> | <u>53,218</u> | <u>1,044,945</u> | <u>61,565</u> | <u>843</u> | <u>857</u> | <u>14,849,467</u> |
| 448,350 | 79,623 | 53,831 | — | 71,729 | 803 | 1,794 | 6,436,036 |
| — | — | 195 | 915,894 | — | — | — | 916,089 |
| — | — | — | — | — | — | — | 169,905 |
| 8,850 | 1,680 | 495 | 490 | 1,050 | 86 | 19 | 29,341 |
| — | — | — | 6,127 | — | — | — | 6,128 |
| <u>457,200</u> | <u>81,303</u> | <u>54,521</u> | <u>922,511</u> | <u>72,779</u> | <u>889</u> | <u>1,813</u> | <u>7,557,499</u> |
| 645,424 | 74,335 | (1,303) | 122,434 | (11,214) | (46) | (956) | 7,291,968 |
| <u>8,194,107</u> | <u>1,173,887</u> | <u>429,313</u> | <u>1,074,136</u> | <u>448,820</u> | <u>906</u> | <u>49,768</u> | <u>98,441,195</u> |
| <u>\$ 8,839,531</u> | <u>\$ 1,248,222</u> | <u>\$ 428,010</u> | <u>\$ 1,196,570</u> | <u>\$ 437,606</u> | <u>\$ 860</u> | <u>\$ 48,812</u> | <u>\$ 105,733,163</u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PLEDGED REVENUES

Primary Government**Governmental Activities**

The State has pledged future federal transportation revenues to repay \$607.685 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2017. These bonds were issued in October 2007, August 2009, December 2011, January 2012 and May 2015. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds of governmental activities are expected to require less than 12% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is \$778.790 million, payable through 2030. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$99.388 million and \$1.143 billion, respectively.

Business-type Activities**North Carolina Turnpike Authority**

The State has pledged, as security for revenue bonds issued by the North Carolina Turnpike Authority (NCTA), net revenues from the operation of the Triangle Expressway System and the Monroe Connector System. On July 29, 2009, NCTA issued Triangle Expressway System State Annual Appropriation Revenue Bonds (\$352.675 million) and Triangle Expressway System Senior Lien Revenue Bonds (\$270.083 million). In October 2010, NCTA issued Monroe Connector System State Annual Appropriation Revenue Bonds (\$233.92 million). In November 2011, NCTA issued State Annual Appropriation Revenue Bonds (\$214.505 million). In January 2017, NCTA issued Monroe Expressway Toll Revenue Bonds (\$137.052 million – for construction, right of way and other project costs and advance refunding of the 2011 Senior Lien Revenue Bonds). In March 2017, NCTA issued Triangle Expressway System Senior Lien Revenue Refunding Bonds (\$200.515 million – advance refunding certain maturities of the 2009A Triangle Expressway System Senior Lien Revenue Bonds). For the Senior Lien and Toll Revenue bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway System. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of federal interest subsidy payments and investment income.

The State has elected to treat the State Annual Appropriation Revenue Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on these bonds.

Proceeds from the bonds are being used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System, a 19-mile toll road facility built in Durham and Wake counties that was fully opened in January 2013. Additionally, proceeds from the bonds are being used to pay the costs of design, construction, and equipping of the Monroe Connector System, a 19.7-mile toll road facility to be built in Mecklenburg and Union counties. The total principal and interest remaining to be paid on the bonds is \$2.179 billion, payable through fiscal year 2055 (final maturity date). For the current fiscal year, principal and interest paid, and available revenues (toll revenues, fees, federal interest subsidy, federal transportation funds and investment revenues) were \$67.138 million and \$58.787 million respectively.

NOTES TO THE FINANCIAL STATEMENTS**Component Units****University of North Carolina System**

The University of North Carolina System has pledged future revenues, net of specific operating expenses, to repay revenue bonds and special indebtedness as shown in the table below (dollars in thousands):

| Purpose | Revenue Source | Future Revenues Pledged | | Current Year | | Final Maturity Date | Payable as of 6/30/2017 |
|-----------------------------|-----------------------------|-------------------------|---------------------------|-----------------------------------|---------------------------------|---------------------|-------------------------|
| | | (1) Amount | % of Total Revenue Source | Pledged Revenues, Net of Expenses | Principal and Interest Payments | | |
| Revenue Bonds | | | | | | | |
| Housing and Dining | Housing and Dining Revenues | \$ 47,623 | 16% - 74% | \$ 4,436 | \$ 2,361 | 2035 | \$ 35,575 |
| Utilities | Utilities Revenues | 47,017 | 7% - 26% | 26,929 | 9,160 | 2026 | 46,560 |
| Health Care Facilities | Patient Service Revenues | 400,743 | 16% - 100% | 79,043 | 16,094 | 2034 | 118,865 |
| Total | | <u>\$ 495,383</u> | | <u>\$ 110,408</u> | <u>\$ 27,615</u> | | <u>\$ 201,000</u> |
| Special Indebtedness | | | | | | | |
| Student Housing System | Housing Revenues | \$ 117,994 | 50% - 100% | \$ 8,786 | \$ 7,403 | 2042 | \$ 93,481 |

(1) The Future Revenues Pledged amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18: COMPONENT UNITS — FINANCIAL INFORMATION

Financial statements as of and for the fiscal year ended June 30, 2017 are presented below (dollars in thousands).

Statement of Net Position

| | University of North Carolina System | Community Colleges | State Health Plan | Other Component Units | Total |
|---|---|-----------------------|-------------------------|-----------------------------|--------------|
| Assets | | | | | |
| Cash and cash equivalents..... | \$ 2,170,085 | \$ 315,171 | \$ 911,975 | \$ 107,369 | \$ 3,504,600 |
| Investments..... | 2,317,122 | 94,841 | — | 1,065,451 | 3,477,414 |
| Receivables, net..... | 1,284,967 | 104,718 | 120,491 | 73,342 | 1,583,518 |
| Due from component units..... | — | 3,041 | — | 2,472 | 5,513 |
| Due from primary government..... | 8,730 | — | — | — | 8,730 |
| Inventories..... | 136,874 | 17,699 | — | 739 | 155,312 |
| Prepaid items..... | 57,937 | 7,867 | — | 3,584 | 69,388 |
| Notes receivable, net..... | 202,333 | 234 | — | 2,373,079 | 2,575,646 |
| Investment in joint venture..... | 131,763 | — | — | — | 131,763 |
| Restricted/designated cash and cash equivalents..... | 1,432,250 | 96,949 | — | 1,136,024 | 2,665,223 |
| Restricted investments..... | 5,184,141 | 254,715 | — | 2,452,114 | 7,890,970 |
| Restricted due from primary government..... | 334 | 13,656 | — | — | 13,990 |
| Restricted due from component units..... | — | 1,000 | — | — | 1,000 |
| Capital assets-nondepreciable..... | 1,255,603 | 399,321 | — | 145,711 | 1,800,635 |
| Capital assets-depreciable, net..... | 12,052,618 | 2,707,653 | — | 556,930 | 15,317,201 |
| Total Assets..... | 26,234,757 | 4,016,865 | 1,032,466 | 7,916,815 | 39,200,903 |
| Deferred Outflows of Resources | | | | | |
| Accumulated decrease in fair value of hedging derivatives.... | 127,168 | — | — | 2,673 | 129,841 |
| Deferred loss on refunding..... | 58,353 | — | — | — | 58,353 |
| Deferred outflow s for pensions..... | 942,302 | 377,573 | 1,120 | 9,180 | 1,330,175 |
| Other deferred outflow s..... | 1,438 | 2,910 | — | — | 4,348 |
| Total Deferred Outflow s of Resources..... | 1,129,261 | 380,483 | 1,120 | 11,853 | 1,522,717 |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities..... | 1,000,924 | 75,242 | 32,724 | 204,451 | 1,313,341 |
| Medical claims payable..... | — | — | 287,703 | — | 287,703 |
| Interest payable..... | 38,141 | 29 | — | 15,639 | 53,809 |
| Short-term debt..... | 68,145 | — | — | — | 68,145 |
| Due to component units..... | — | — | — | 6,513 | 6,513 |
| Due to primary government..... | 358 | 19 | 4 | 23 | 404 |
| Unearned revenue..... | 345,996 | 20,761 | 34,257 | 90,545 | 491,559 |
| Advance from primary government..... | — | — | — | 3,468 | 3,468 |
| Obligations under reverse repurchase agreements..... | 2,462 | — | — | — | 2,462 |
| Deposits payable..... | 15,331 | 3 | — | 6,390 | 21,724 |
| Funds held for others..... | 988,594 | 7,761 | — | 2,072,663 | 3,069,018 |
| Hedging derivatives liability..... | 127,168 | — | — | 2,673 | 129,841 |
| Long-term liabilities: | | | | | |
| Due w ithin one year..... | 344,351 | 15,589 | 33 | 225,903 | 585,876 |
| Due in more than one year..... | 6,897,094 | 667,907 | 1,776 | 2,222,860 | 9,789,637 |
| Total Liabilities..... | 9,828,564 | 787,311 | 356,497 | 4,851,128 | 15,823,500 |

NOTES TO THE FINANCIAL STATEMENTS**Statement of Net Position**

| | University of North Carolina System | Community Colleges | State Health Plan | Other Component Units | Total |
|---|---|-----------------------|-------------------------|-----------------------------|---------------|
| Deferred Inflows of Resources | | | | | |
| SCA revenue applicable to future years..... | 23,169 | — | — | — | 23,169 |
| Deferred state aid..... | 34,840 | — | — | 129,896 | 164,736 |
| Deferred inflow s for pensions..... | 81,264 | 30,657 | 109 | 728 | 112,758 |
| Other deferred inflow s..... | 2,961 | — | — | — | 2,961 |
| Total Deferred Inflow s of Resources..... | 142,234 | 30,657 | 109 | 130,624 | 303,624 |
| Net Position | | | | | |
| Net investment in capital assets..... | 8,383,023 | 3,049,222 | — | 589,589 | 12,021,834 |
| Restricted for: | | | | | |
| Nonexpendable: | | | | | |
| Higher education..... | 2,499,082 | 204,828 | — | — | 2,703,910 |
| Health and human services..... | 300 | — | — | — | 300 |
| Expendable: | | | | | |
| Higher education..... | 3,175,969 | 255,499 | — | 496,045 | 3,927,513 |
| Health and human services..... | 297,540 | — | — | 38 | 297,578 |
| Economic development..... | — | — | — | 847,409 | 847,409 |
| Unrestricted..... | 3,037,306 | 69,831 | 676,980 | 1,013,835 | 4,797,952 |
| Total Net Position..... | \$ 17,393,220 | \$ 3,579,380 | \$ 676,980 | \$ 2,946,916 | \$ 24,596,496 |

Statement of Activities

| | University of North Carolina System | Community Colleges | State Health Plan | Other Component Units | Total |
|---|---|-----------------------|-------------------------|-----------------------------|---------------|
| Total expenses..... | \$ 12,218,401 | \$ 2,216,152 | \$ 3,293,686 | \$ 1,019,077 | \$ 18,747,316 |
| Program revenues: | | | | | |
| Charges for services..... [1] | 8,381,554 | 324,079 | 3,247,140 | 511,638 | 12,464,411 |
| Operating grants and contributions: | | | | | |
| State aid - program..... | — | — | — | 185,877 | 185,877 |
| Other operating grants and contributions..... | 1,686,805 | 795,595 | 27,377 | 121,746 | 2,631,523 |
| Capital grants and contributions: | | | | | |
| State capital aid..... | 63,555 | 61,223 | — | 25,523 | 150,301 |
| Other capital grants and contributions..... | 57,830 | 209,237 | — | 5,319 | 272,386 |
| Net program expense..... | (2,028,657) | (826,018) | (19,169) | (168,974) | (3,042,818) |
| Non-tax general revenues: | | | | | |
| Unrestricted investment earnings..... | — | — | — | 123,394 | 123,394 |
| State aid - general..... | 2,824,063 | 1,005,890 | — | 161,316 | 3,991,269 |
| Miscellaneous..... | 605 | (245) | — | 15,421 | 15,781 |
| Total non-tax general revenues..... | 2,824,668 | 1,005,645 | — | 300,131 | 4,130,444 |
| Contributions to endow ments..... | 129,774 | 7,292 | — | — | 137,066 |
| Change in net position..... | 925,785 | 186,919 | (19,169) | 131,157 | 1,224,692 |
| Net position — July 1, as restated | 16,467,435 | 3,392,461 | 696,149 | 2,815,759 | 23,371,804 |
| Net position — June 30..... | \$ 17,393,220 | \$ 3,579,380 | \$ 676,980 | \$ 2,946,916 | \$ 24,596,496 |

[1] The State Health Plan's charges for services include \$1.3 billion from the primary government.

Significant Transactions Between Component Units

| | University of North Carolina System | Community Colleges | State Health Plan | Other Component Units | Total |
|--|---|-----------------------|----------------------|-----------------------------|-------|
| State Health Plan - premium revenue (expense)..... | \$ (318,438) | \$ (87,423) | \$ 408,084 | \$ (2,223) | \$ — |

NOTES TO THE FINANCIAL STATEMENTS**Intra-Entity Balances — Between Primary Government and Component Units**

| | Due From/Restricted Due From Component Units | | | Due From/Restricted Due From Primary Government | | |
|--|---|---------------|---------------|--|-----------------------|------------------|
| | General Fund | Other Funds | Total | University of North Carolina System | Community Colleges | Total |
| Due To Component Units: | | | | | | |
| General Fund..... | \$ — | \$ — | \$ — | \$ 8,717 | \$ — | \$ 8,717 |
| Other Governmental Funds..... | — | — | — | 347 | 13,656 | 14,003 |
| Due To Primary Government: | | | | | | |
| University of North Carolina System..... | 7 | 351 | 358 | — | — | — |
| Community Colleges..... | — | 19 | 19 | — | — | — |
| State Health Plan | — | 4 | 4 | — | — | — |
| Other Component Units..... | — | 23 | 23 | — | — | — |
| Total..... | <u>\$ 7</u> | <u>\$ 397</u> | <u>\$ 404</u> | <u>\$ 9,064</u> | <u>\$ 13,656</u> | <u>\$ 22,720</u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate private nonprofit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a board of directors comprised of two members appointed by the Governor; up to four members appointed by the president of the University of North Carolina System, a component unit of the State; up to six members elected by the majority vote of persons then constituting the MCNC Board; and one member elected by the majority vote of persons then constituting the MCNC Management Advisory Committee. Any director may be removed from office by the MCNC Board with cause.

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority (Authority) is a legally separate authority created to administer the financing of loans to farmers and agribusiness at reasonable terms and interest rates. The Authority is governed by a 10-member board comprised of three members appointed by the Governor; six members appointed by the General Assembly; and serving ex officio, the Commissioner of Agriculture or the Commissioner's designee.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20: RELATED PARTY TRANSACTIONS

Primary Government**Supplemental Retirement Income Plan of North Carolina and North Carolina Public Employee Deferred Compensation Plan**

General Statute 135-96 established the Supplemental Retirement Board of Trustees (Board) to administer both the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan. The Plan document for each Plan designates that the general administration and responsibility for carrying out the provisions of the Plan, as directed by the Board, shall be placed with the Retirement Systems Division of the Department of State Treasurer as Primary Administrator. The Board and Primary Administrator have entered into an agreement with Prudential Financial, Inc. to perform recordkeeping, administration and investment management services for both Plans.

The Plans contract Galliard Capital Management, Inc. (Galliard), a subsidiary of Wells Fargo Bank N.A., to act as a fiduciary investment advisor for the North Carolina Stable Value Fund. Galliard has the discretion over the benefit responsive contracts and the underlying investment managers, subject to approval by the Board and the Department of State Treasurer. Galliard also has the authority to invest in securities subject to guidelines agreed upon by the Board. As an advisor, Galliard is primarily responsible for ensuring that negotiated investment contracts are adhered to by the insurance companies, bank or other eligible providers who have entered into such contracts. Not less than quarterly, Galliard reports the financial condition of the investment contracts and whether the contracts are being administered according to their respective terms. The fees for wrap coverage, investment management and advisory services are deducted from participants' account balances.

Prudential Retirement, a specialized unit of the Prudential Financial Investment Division, provides administrative services related to the North Carolina Stable Value Fund and the Pooled Account. Prudential Retirement is also the provider of record keeping and participant services. The fees to Prudential are deducted from the participants' account balances. One of the funds within the North Carolina Fixed Income Fund is a commingled vehicle offered by Prudential Trust Company and managed by Prudential Investment Management, Inc. Jennison Associates, a registered investment advisory division within Prudential Global Investment Management, manages a portion of the North Carolina Stable Value Fund. Affiliates of Prudential Retirement also are a wrap provider (Prudential Insurance Company of America) and an investment manager (PGIM, Inc.) for the North Carolina Stable Value Fund.

The Bank of New York Mellon Corporation serves as the custodian for the Plans and provides global custody services related to the Pooled Account. These fees are deducted from the participants' account balances. Bank of New York Mellon also provides a short term cash vehicle for the temporary investment of funds until they are invested on a longer term basis.

Component Units**University of North Carolina System and Community College Foundations**

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net position, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2017, this support totaled \$102.16 million for the UNC System and \$3.05 million for community colleges.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2049, the outstanding principal of such bonds and notes as of June 30, 2017, was \$6.6 billion with interest rates varying from 1% to 7.75%.

The North Carolina Capital Facilities Finance Agency (Agency) is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industrial (in connection with manufacturing) or pollution control facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds issued by the Agency are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The outstanding principal of such bonds and notes as of June 30, 2017, was \$2.8 billion carrying both fixed interest rates and variable interest rates which can be reset periodically.

The North Carolina Department of Transportation (Department) is authorized by General Statute 136-18(39) and General Statute 136-18(39a) to enter into private partnership agreements to finance by tolls and other financing methods the cost of constructing transportation infrastructures. Such agreement was entered into on June 26, 2014 with I-77 Mobility Partners LLC to design, build, finance and operate the I-77 High Occupancy Toll (HOT) Lanes Project. The Department, as a conduit issuer, issued \$100 million of senior private activity bonds (PABs) on behalf of I-77 Mobility Partners LLC and will provide additional direct funds of \$94.7 million. The PABs are not an obligation of the Department or the State. The Department has a contingent obligation up to a maximum of \$75 million over the life of the project in the event of certain revenue shortfalls.

The North Carolina Agricultural Finance Authority (Authority) has issued Agricultural Development Revenue Bonds to provide financial assistance to North Carolina farmers and agribusinesses for the acquisition, construction, and equipping of various agricultural projects deemed to be in furtherance of the Authority's purpose. The bonds are secured by an Indenture of Trust and a Letter of Credit and are payable solely from payments received on the underlying loan obligations. Neither the Authority nor the State of North Carolina is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2017, there were three series of Agricultural Development Revenue Bonds outstanding with an aggregate principal amount payable of \$28.18 million.

B. Litigation

Hoke County et al. v. State of North Carolina and State Board of Education — Right to a Sound Basic Education (formerly Leandro). In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State Constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the Constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which

NOTES TO THE FINANCIAL STATEMENTS

the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of State resources which may ultimately be required cannot be determined at this time, however, the total cost could exceed \$100 million.

On June 15, 2011, the General Assembly enacted legislation which placed certain restrictions on the North Carolina Pre-Kindergarten Program (NC Pre-K) which had been established by the General Assembly in 2001. Following a hearing requested by the plaintiffs, the trial court entered an order prohibiting the enforcement of legislation having the effect of restricting participation in the NC Pre-K program. On appeal, the North Carolina Court of Appeals affirmed the trial court's order prohibiting the state from denying any eligible "at risk" children admission to the NC Pre-K program. The State has appealed this decision and the North Carolina Supreme Court in November, 2013, held that amendments to the 2011 legislation had rendered the appeal moot. The case has now been remanded to the Superior Court for further proceedings.

Lake v. State Health Plan - The main issue is whether the State wrongfully charged a monthly premium to retired State employees for the State's 80/20 coinsurance health plan. The general theme of the Complaint is that the State established vesting requirements under which if the employee fulfilled the requirements the State contracted with each employee to provide 80/20 insurance coverage at no monthly cost to the retiree for the duration of each retiree's retirement. Similarly, the plaintiffs allege that the State terminated an optional 90/10 health plan to which they had vested rights. Plaintiffs claim (1) breach of contract; (2) unconstitutional impairment of contract; (3) unconstitutional denial of equal protection; and (4) unconstitutional denial of due process. The plaintiffs also allege a variety of equitable claims (e.g., specific performance, common fund) that piggy-back on the legal claims.

The State moved to dismiss and, after a hearing, the trial court denied the motion. The State appealed to the North Carolina Court of Appeals regarding only the defense of sovereign immunity, and the case was sent back to Superior Court. On May 19, 2017, the Court issued an order granting plaintiffs' motion for partial summary judgment and denying defendants' motion for summary judgment as to liability. The Court held that plaintiffs, and all class members, are entitled to the version of the 80/20 plan in existence in September 2011, or its equivalent, with no premium for their lifetimes; and that the damages for retirees who remained on the 80/20 plan will be the amount of premiums they actually paid. The damages for retirees who switched to the zero-premium 70/30 plan are yet to be determined. All damages, as well as injunctive relief, will be stayed pending final resolution of the case after all appeals have concluded. On June 2, 2017, defendants filed a notice of appeal with the Superior Court.

The State Treasurer has stated that if the ruling stands the costs to the State could exceed \$100 million.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Any disallowance as a result of questioned costs could become a liability of the State.

An audit conducted by the United States Department of Health and Human Services Office of Inspector General concluded that the State did not comply with Federal and State requirements when making Medicaid cost-sharing payments for professional medical services during fiscal years 2012 and 2013. Based on the audit, the Office of Inspector General recommended that the State refund \$41.2 million to the Federal Government for non-compliant payments. The State disagrees with the findings and recommendation. Once a final determination of liability is made, the amount will be paid to Centers for Medicaid Services (CMS).

As of June 30, 2017, the State is unable to estimate what liabilities may result from additional audits of Federal grants and entitlements.

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal years 2011-2013, the State received more than \$34.8 million in unallowable performance bonus payments under the Children's Health Insurance Program Reauthorization Act. The overpayments were the result of the overstatement of the enrollment numbers in its request. Once a final determination of the liability is made, the amount will be paid to Centers for Medicaid Services (CMS).

The State refunds federal shares of drug rebate collections to the Center for Medicaid Services (CMS). As of June 30, 2017, the amount due to CMS was \$59.57 million.

D. Highway Construction

The State has placed on deposit in court \$171.56 million for a potential liability to property owners for contested rights-of-way acquisition costs in condemnation proceedings. The State may also be liable for an additional \$48.7 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of \$12.91 million. These costs have not been included in project-to-date costs.

E. Construction and Other Commitments

At June 30, 2017, the State had commitments of \$4.17 billion for construction of highway infrastructure. Of this amount, \$2.926 billion relates to the Highway Fund, \$113 million relates to the N.C. Turnpike Authority, and \$1.131 billion relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$78.35 million (including \$27.01 million for the Division of Mental Health within the Department of Health and Human Services) with \$18.47 million for the Department of Cultural Resources. The Department of Environmental Quality has other significant commitments of \$278.89 million for clean water and other cost reimbursement grants.

At June 30, 2017, the University of North Carolina System (component unit) had outstanding construction commitments of \$633.95 million (including \$100.33 million for University of North Carolina at Charlotte, \$93.73 million for University of North Carolina at Chapel Hill, \$81.57 million for East Carolina University, \$59.54 million for North Carolina School of Science and Math, \$58.12 million for UNC Healthcare System, and \$50.59 million for North Carolina State University).

At June 30, 2017, community colleges (component units) had outstanding construction commitments of \$176.43 million (including \$58.90 million for Central Piedmont Community College, \$23.97 million for Wake Technical Community College, \$15.42 million for Central Carolina Community College, \$15.41 million for Catawba Community College and \$10.29 million for Guilford Technical Community College).

The 911 Board (Board), part of the Department of Information Technology Services, sets aside a portion of its fund balance annually to support local Public Safety Answering Points (PSAPs). The PSAPs apply to the Board for the funds with improvement project proposals that the Board evaluates and either approves or denies. At June 30, 2017, the 911 Fund (special revenue fund) had outstanding commitments on these cost-reimbursement grants and contracts to the PSAPs totaling \$8.57 million.

At June 30, 2017, the Department of Natural and Cultural Resources had outstanding commitments of \$49.5 million for clean water grants to nongovernmental organizations and local and state government.

The UNC Investment Fund, LLC (UNC Investment Fund) at the University of North Carolina at Chapel Hill has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2017, the UNC Investment Fund had approximately \$1.14 billion unfunded committed capital.

F. Tobacco Settlement

In 1998, North Carolina, along with 45 other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the State will receive approximately \$4.74 billion from the inception of the agreement through the year 2025. Since the inception, the State has received approximately \$2.99 billion in MSA payments. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco

NOTES TO THE FINANCIAL STATEMENTS

industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue in the government-wide statements for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

G. Other Contingencies

The Civil Rights Division of the U.S. Department of Justice investigated the state's mental health system and found the State to be in violation of Title II of the Americans with Disabilities Act of 1990 (ADA), 42 U.S.C. Sec 12131, and the following, as interpreted by the U.S. Supreme Court in *Olmstead v. L.C.*, 527 U.S. 581 (1999), and Section 504 of the Rehabilitation Act of 1973 (Rehab Act), 29 U.S.C. Sec 794(a). On August 23, 2012, the Civil Rights Division and the State entered into an agreement that addresses the corrective measures that will ensure that the State will willingly meet the requirements of the ADA, Section 504 of the Rehab Act, and the *Olmstead* decision. Through the agreement, it is intended that the goals of community integration and self-determination will be achieved. The State is responsible for determining and identifying the amount of appropriation funding that is needed to fulfill this agreement which will be phased in over eight years (2013-2020). In House Bill 950 [Session Law 2012-142 Section 10.23A.(e)], \$10.3 million was appropriated as recurring funds to support the Department of Health and Human Services in the implementation of its plan for transitioning individuals with severe mental illness to community living arrangements, including establishing a rental assistance program. In Senate Bill 402 [Session Law 2013-360], additional money was appropriated in the expansion budget for \$3.83 million for 2013-14 and \$9.39 million for 2014-15. Both parties of the agreement have selected a reviewer to monitor the State's implementation of this agreement. The reviewer will have full authority to independently assess, review, and report annually on the State's implementation of and compliance with the provisions of this agreement. The potential liability to the State cannot be reasonably estimated. If the State fails to comply with this agreement, the United States can seek an appropriate judicial remedy. To date, the State has demonstrated good faith effort in the early stage of the settlement agreement by providing sufficient funding essential to the initial development of the services.

In House Bill 97 [Session Law 2015-241], the North Carolina Housing Finance Agency, in consultation with the Department of Health and Human Services (DHHS), was authorized to administer the Community Living Housing Fund (CLHF) in order to provide permanent community-based housing in integrated settings appropriate for individuals with severe mental illness and severe and persistent mental illness. DHHS transferred \$2.89 million dollars to the Community Living Housing Fund in 2014-15. House Bill 1030 authorized the North Carolina Housing Finance Agency to expend receipts of \$5.52 million transferred from the Department of Health and Human Services to the Community Living Housing Fund in 2016-17. Senate Bill 257 provided funds of \$4.2 million transferred from the Department of Health and Human Services to the CLHF.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22: TAX ABATEMENTS

As of June 30, 2017, the State provides tax abatements through one program, the Job Development Investment Grant (JDIG). The purpose of the JDIG program is to stimulate economic activity and benefit citizens throughout the State through the creation of new jobs, resulting in an enlargement of the overall tax base, an expansion and diversification of the State's industrial base, and an increase in revenue to the State and its political subdivisions.

The tax being abated is the State income tax withheld by employers under North Carolina General Statute 105-163.2. The authority for the abatement falls under North Carolina General Statute Chapter 143B Article 10 Part 2G.

The eligibility criteria for the abatement include the following:

- The project proposed by the business will create, during the term of the engagement, a net increase in employment in the State by the business.
- The project will benefit the people of the State by increasing opportunities for employment and by strengthening the State's economy by, for example, providing worker training opportunities, constructing and enhancing critical infrastructure, increasing development in strategically important industries, or increasing the State and local tax base.
- The project is consistent with economic development goals for the State and for the area where the project will be located.
- A grant is necessary for the completion of the project in the State.
- The total benefits of the project to the State outweigh the costs and render the grant appropriate for the project.
- For a project located in a tier three development area, the affected local governments have participated in recruitment and offered incentives in a manner appropriate for the project.

The amount of the grant awarded in each case shall be a percentage of the State income tax withholdings of eligible positions for a period of years. The percentage shall be no more than 80% for a tier one development area and no more than 75% for any other area.

The North Carolina Department of Commerce annually ranks the State's 100 counties based on the economic well-being and assigns each a tier designation. County tiers are calculated using four factors: the average unemployment rate, the median household income, the percentage growth in population, and the adjusted property tax base per capita. The 40 most distressed counties are designated as tier one, the next 40 as tier two, and the 20 least distressed counties as tier three.

If the business receiving a grant fails to meet or comply with any condition or requirement set forth in an agreement, the amount of the grant or the term of the agreement shall be reduced, the agreement may be terminated, or both. If a business fails to maintain employment at the levels stipulated in the agreement or otherwise fails to comply with any condition of the agreement for any two consecutive years, the grant payment will be withheld for any consecutive year after the second consecutive year remaining in the base period in which the business fails to comply with any condition of the agreement. If the business is no longer within the base period, the agreement shall be terminated.

The business commits to creating a minimum of 10 eligible positions in a tier one area, 20 eligible positions in a tier two area, or 50 eligible positions in a tier three area. The business must provide health insurance for all applicable full-time employees on the project with respect to which the grant is made.

The amount of taxes abated for fiscal year end June 30, 2017 on an accrual basis as a result of the agreements with the State is \$44.6 million. The State has made no other commitments other than to abate taxes.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS**

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The adjustments in the "Reporting Entity Change" column result from the inclusion of additional Licensing Board components. The amounts in the "Other Adjustments" column are primarily due to the correction of errors related to prior periods.

| | July 1, 2016 Fund Equity as Previously Reported | Reporting Entity Change | Other Adjustments | July 1, 2016 Fund Equity as Restated |
|---|--|----------------------------|----------------------|--|
| Primary Government | | | | |
| Major Governmental Funds: | | | | |
| General Fund | \$ 3,761,763 | \$ — | \$ (902) | \$ 3,760,861 |
| Highway Fund | 287,654 | — | 48,331 | 335,985 |
| Highway Trust Fund | 1,455,471 | — | (35,816) | 1,419,655 |
| Other Governmental Funds: | | | | |
| Special Revenue Funds | 1,117,215 | — | — | 1,117,215 |
| Capital Projects Funds | 587,000 | — | — | 587,000 |
| Permanent Funds | 135,497 | — | — | 135,497 |
| Total Governmental Funds | <u>7,344,600</u> | <u>—</u> | <u>11,613</u> | <u>7,356,213</u> |
| Internal Service Funds | 277,905 | — | 1,789 | 279,694 |
| Government-wide adjustments: | | | | |
| Equity interest in component unit | 148,751 | — | — | 148,751 |
| Capital assets | 47,280,325 | — | 15,866 | 47,296,191 |
| Deferred losses on refundings | 112,080 | — | — | 112,080 |
| Deferred outflows for pensions | 357,392 | — | 14,895 | 372,287 |
| Deferred inflows for pensions | (221,541) | — | — | (221,541) |
| Unavailable revenue | 182,081 | — | (1,225) | 180,856 |
| Long-term liabilities | (8,553,050) | — | (201,616) | (8,754,666) |
| Accrued interest payable | (44,661) | — | — | (44,661) |
| Pension assets | 4,504 | — | — | 4,504 |
| Total Government-wide adjustments | <u>39,265,881</u> | <u>—</u> | <u>(172,080)</u> | <u>39,093,801</u> |
| Total Governmental Activities | <u>\$ 46,888,386</u> | <u>\$ —</u> | <u>\$ (158,678)</u> | <u>\$ 46,729,708</u> |
| Business-type Activities - Enterprise Funds: | | | | |
| Unemployment Compensation Fund | 2,236,128 | — | — | 2,236,128 |
| EPA Revolving Loan Fund | 1,602,502 | — | — | 1,602,502 |
| N.C. Turnpike Authority | 417,737 | — | — | 417,737 |
| Other enterprise funds | 230,109 | 5,217 | — | 235,326 |
| Total Business-type Activities - Enterprise Funds ... | <u>\$ 4,486,476</u> | <u>\$ 5,217</u> | <u>\$ —</u> | <u>\$ 4,491,693</u> |
| Component Units | | | | |
| University of North Carolina System | \$ 16,497,176 | \$ — | \$ (29,741) | \$ 16,467,435 |
| Community Colleges | 3,324,367 | — | 68,094 | 3,392,461 |
| State Health Plan | 696,149 | — | — | 696,149 |
| Other component units | 2,813,185 | — | 2,574 | 2,815,759 |
| Total Component Units | <u>\$ 23,330,877</u> | <u>\$ —</u> | <u>\$ 40,927</u> | <u>\$ 23,371,804</u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Equity Deficit**Primary Government**

At June 30, 2017, the following internal service fund reported a net position deficit: Mail Service Center, \$573 thousand.

B. Material Violations of Legal or Contractual Provisions**Component Units**

Chatham Hospital, Inc (the Hospital) which is a part of the University of North Carolina System (a component unit of the State), issued \$30.54 million of FHA Insured North Carolina Medical Care Commission Mortgage Revenue Bonds, Series 2007 on February 8, 2007. The issued bonds are subject to mandatory sinking fund requirements prior to their due dates. There are certain covenants associated with the Series 2007 bonds that are outlined in the master trust indenture, loan agreement, and regulatory agreement. The most restrictive of these covenants requires maintenance of a long term debt service coverage ratio, as defined, of greater than 1.5. The Hospital also had a loss from operations that was equal or greater than 1% of total operating revenues. Management acknowledges that the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2017.

In accordance with the agreements, the Hospital is in the process of complying with such covenants and requirements by taking corrective action. In 2017, the Hospital engaged consultants with Critical Access Hospital expertise to (1) review the services offered at the Hospital to determine if opportunities exist for expansion or contraction of services lines with the goal of improving profitability; (2) benchmark the operations with high performing Critical Access Hospitals and recommend changes; and (3) review the Medicare/Medicaid cost report and recommend strategies to enhance cost recovery.

In 2016, the Hospital opened a satellite outpatient rehabilitation clinic and an independent diagnostic testing facility (IDTF) in Pittsboro, North Carolina. Also, in 2016, the Hospital participated in a healthcare system campaign called "Carolina Value" to reduce costs and improve operational efficiencies.

In 2017, Chatham Hospital was able to obtain the services of an orthopedic surgeon and an Ear, Nose and Throat surgeon. The addition of these two surgeons are expected to provide new clinic patient visits through the surgical specialty practice and increase surgeries performed at the Hospital.

Another initiative explored but not yet implemented is the creation of an electronic Intensive Care Unit (eICU) to allow the Hospital to retain patients that otherwise would require transfer to a tertiary care facility. This technology allows intensivists to provide patient care support to Chatham Hospital via telemedicine.

Hospital management believes these actions will produce results to bring the Hospital in compliance with the covenants.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25: SUBSEQUENT EVENTS

Primary Government*Installment Financing Agreement*

On July 14, 2017, the Department of Transportation (Department) entered into an installment financing agreement with the Banc of America Public Capital Corp for an aggregate principal amount of \$32.3 million for the purposes of financing energy conservation measures within the Department. The agreement was entered into pursuant to the State Energy Conservation Finance Act, Article 8 of Chapter 142 of the North Carolina General Statutes; and the proceeds will be used to fund energy efficient lighting upgrades on State-owned roadways and in Department buildings, and a lighting monitoring and control system. Interest is computed at a rate of 2.1% per annum, with interest payments from the Highway Fund commencing August 1, 2017. Future interest and principal payments will be due on each February 1, May 1, August 1, and November 1, with the final payment due February 1, 2033.

Component Units*University of North Carolina System – University of North Carolina at Charlotte – General Revenue Bonds Series 2017*

On October 12, 2017, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Charlotte, issued \$76.38 million in General Revenue Bonds, Series 2017. The bonds are dated October 12, 2017 and will bear interest from that date. Interest on the bonds will be payable semiannually on each April 1 and October 1, commencing April 1, 2018. The bonds consist of serial bonds that will mature from October 1, 2018 to October 1, 2038, with interest rates ranging from 4% to 5%. The bonds also consist of term bonds that will mature on October 1, 2042 and October 1, 2047, with an interest rate of 5%. The bonds were issued to provide funds for the renovation of a campus residence hall, to construct and equip a campus health and wellness center, and pay certain costs in connection with the issuance of the bonds. A portion of the bonds will also be used to defease the outstanding \$14.25 million of the University of North Carolina at Charlotte General Revenue Bond Anticipation Note, Series 2016.

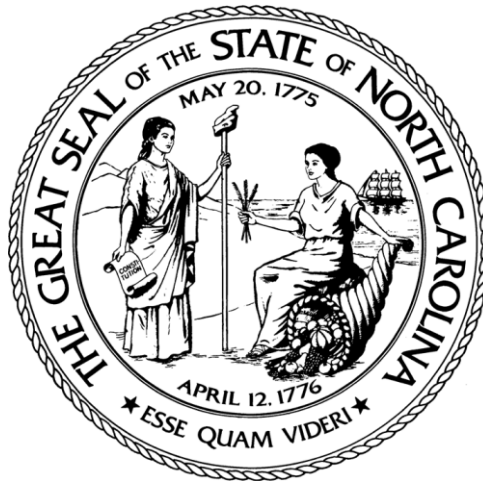
University of North Carolina System - East Carolina University – Taxable General Revenue Bond Anticipation Note, Series 2017

On October 26, 2017, the Board of Governors of the University of North Carolina, on behalf of East Carolina University closed on a \$55 million taxable General Revenue Bond Anticipation Note, Series 2017 from Branch Banking and Trust Company. The note is dated October 26, 2017 and will bear interest from that date. Interest on the note will be payable commencing December 1, 2017 and on the first day of each month thereafter until paid in full. Interest will be calculated using a variable rate computed on the basis of a 360-day year, and will adjust monthly with changes in the 1-month London Interbank Offered Rate (LIBOR) plus 0.40%. The note will mature on October 26, 2019. The proceeds of the note will be used to renovate the south side of Dowdy-Ficklen stadium and to pay the costs incurred in connection with the issuance of the note.



REQUIRED
SUPPLEMENTARY
INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION PENSION PLANS

Required supplementary information for pension plans provides information on the sources of changes in net pension liabilities, information about the components of net pension liabilities, employer contributions, and investment returns.

The Required Supplementary Information for Pension Plans includes the following schedules:

Schedule of Changes in the Net Pension Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Changes in the Net Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Schedule of Employer and Nonemployer Contributions: Single-Employer, Defined Benefit Pension Plans

Schedule of Investment Returns: All Defined Benefit Pension Plans

Notes to Required Supplementary Information: Schedule of Employer Contributions

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Four Fiscal Years

(Dollars in Thousands)

| | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|
| Teachers' and State Employees' | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 1,469,395 | \$ 1,580,544 | \$ 1,562,846 | \$ 1,556,027 |
| Interest | 5,195,104 | 4,937,464 | 4,803,766 | 4,648,995 |
| Changes of benefit terms | 449,563 | 35,605 | - | 355,224 |
| Differences between expected and actual experience | 229,339 | (190,178) | (278,170) | (345,392) |
| Changes of assumptions | 381,934 | 1,743,836 | - | - |
| Benefit payments, including refunds of member contributions | (4,545,296) | (4,339,637) | (4,184,410) | (3,989,397) |
| Net change in total pension liability | <u>3,180,039</u> | <u>3,767,634</u> | <u>1,904,032</u> | <u>2,225,457</u> |
| Total pension liability - beginning | <u>72,459,862</u> | <u>68,692,228</u> | <u>66,788,196</u> | <u>64,562,739</u> |
| Total pension liability - ending (a) | <u>\$ 75,639,901</u> | <u>\$ 72,459,862</u> | <u>\$ 68,692,228</u> | <u>\$ 66,788,196</u> |
| Plan fiduciary net position | | | | |
| Contributions-employer | \$ 1,441,194 | \$ 1,275,003 | \$ 1,262,988 | \$ 1,177,341 |
| Contributions-member | 894,538 | 864,151 | 854,306 | 825,548 |
| Net investment income | 6,656,652 | 472,174 | 1,468,624 | 9,121,005 |
| Benefit payments, including refunds of member contributions | (4,545,296) | (4,339,637) | (4,184,410) | (3,989,397) |
| Administrative expense | (11,265) | (10,217) | (10,646) | (10,762) |
| Other | 808 | 325 | 393 | 320 |
| Net change in plan fiduciary net position | <u>4,436,631</u> | <u>(1,738,201)</u> | <u>(608,745)</u> | <u>7,124,055</u> |
| Plan fiduciary net position - beginning | <u>63,268,829</u> | <u>65,007,030</u> | <u>65,615,775</u> | <u>58,491,720</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 67,705,460</u> | <u>\$ 63,268,829</u> | <u>\$ 65,007,030</u> | <u>\$ 65,615,775</u> |
| TSERS's net pension liability - ending (a) - (b) | <u>\$ 7,934,441</u> | <u>\$ 9,191,033</u> | <u>\$ 3,685,198</u> | <u>\$ 1,172,421</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 89.51% | 87.32% | 94.64% | 98.24% |
| Covered payroll | \$ 14,440,822 | \$ 13,934,459 | \$ 13,803,148 | \$ 13,548,227 |
| Net pension liability as a percentage of covered payroll | 54.94% | 65.96% | 26.70% | 8.65% |
| Local Governmental Employees' | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 656,231 | \$ 684,288 | \$ 670,936 | \$ 654,735 |
| Interest | 1,803,590 | 1,707,699 | 1,628,373 | 1,555,958 |
| Changes of benefit terms | - | 12,581 | 65,914 | (7,790) |
| Differences between expected and actual experience | 73,083 | 50,205 | (72,177) | (80,590) |
| Changes of assumptions | 138,096 | 183,019 | - | - |
| Benefit payments, including refunds of member contributions | (1,322,277) | (1,251,918) | (1,172,578) | (1,106,799) |
| Net change in total pension liability | <u>1,348,723</u> | <u>1,385,874</u> | <u>1,120,468</u> | <u>1,015,514</u> |
| Total pension liability - beginning | <u>24,882,010</u> | <u>23,496,136</u> | <u>22,375,668</u> | <u>21,360,154</u> |
| Total pension liability - ending (a) | <u>\$ 26,230,733</u> | <u>\$ 24,882,010</u> | <u>\$ 23,496,136</u> | <u>\$ 22,375,668</u> |
| Plan fiduciary net position | | | | |
| Contributions-employer | \$ 461,329 | \$ 414,168 | \$ 408,694 | \$ 413,175 |
| Contributions-member | 391,459 | 375,572 | 363,863 | 346,961 |
| Net investment income | 2,413,758 | 175,189 | 520,578 | 3,161,964 |
| Benefit payments, including refunds of member contributions | (1,322,277) | (1,251,918) | (1,172,578) | (1,106,799) |
| Administrative expense | (4,264) | (3,926) | (4,086) | (3,974) |
| Other | 3,330 | 3,248 | 3,285 | 3,297 |
| Net change in plan fiduciary net position | <u>1,943,335</u> | <u>(287,667)</u> | <u>119,756</u> | <u>2,814,624</u> |
| Plan fiduciary net position - beginning | <u>22,759,675</u> | <u>23,047,342</u> | <u>22,927,586</u> | <u>20,112,962</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 24,703,010</u> | <u>\$ 22,759,675</u> | <u>\$ 23,047,342</u> | <u>\$ 22,927,586</u> |
| LGERS's net pension liability (asset) - ending (a) - (b) | <u>\$ 1,527,723</u> | <u>\$ 2,122,335</u> | <u>\$ 448,794</u> | <u>\$ (551,918)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 94.18% | 91.47% | 98.09% | 102.47% |
| Covered payroll | \$ 6,192,808 | \$ 5,860,574 | \$ 5,650,694 | \$ 5,553,383 |
| Net pension liability (asset) as a percentage of covered payroll | 24.67% | 36.21% | 7.94% | (9.94%) |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Four Fiscal Years

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| Firefighters' and Rescue Squad Workers' | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 4,841 | \$ 5,610 | \$ 5,884 | \$ 5,710 |
| Interest | 31,475 | 30,035 | 29,671 | 29,394 |
| Changes of benefit terms | - | 118 | - | 8,770 |
| Differences between expected and actual experience | 2,048 | (2,177) | (2,799) | 2,714 |
| Changes of assumptions | 2,549 | 15,577 | - | (16,688) |
| Benefit payments, including refunds of member contributions | <u>(29,070)</u> | <u>(27,998)</u> | <u>(26,912)</u> | <u>(25,614)</u> |
| Net change in total pension liability | 11,843 | 21,165 | 5,844 | 4,286 |
| Total pension liability - beginning | 443,832 | 422,667 | 416,823 | 412,537 |
| Total pension liability - ending (a) | <u>\$ 455,675</u> | <u>\$ 443,832</u> | <u>\$ 422,667</u> | <u>\$ 416,823</u> |
| Plan fiduciary net position | | | | |
| Contributions-member | \$ 2,594 | \$ 2,778 | \$ 2,822 | \$ 2,781 |
| Contributions-nonemployer | 17,602 | 13,900 | 13,900 | 14,627 |
| Net investment income | 39,928 | 2,867 | 8,711 | 53,842 |
| Benefit payments, including refunds of member contributions | (29,070) | (27,998) | (26,912) | (25,614) |
| Administrative expense | (919) | (860) | (1,622) | (1,045) |
| Other | 15 | 18 | 4 | 2 |
| Net change in plan fiduciary net position | 30,150 | (9,295) | (3,097) | 44,593 |
| Plan fiduciary net position - beginning | 377,013 | 386,308 | 389,405 | 344,812 |
| Plan fiduciary net position - ending (b) | <u>\$ 407,163</u> | <u>\$ 377,013</u> | <u>\$ 386,308</u> | <u>\$ 389,405</u> |
| FRSWPF's net pension liability - ending (a) - (b) | <u>\$ 48,512</u> | <u>\$ 66,819</u> | <u>\$ 36,359</u> | <u>\$ 27,418</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 89.35% | 84.94% | 91.40% | 93.42% |
| Covered payroll | N/A | N/A | N/A | N/A |
| Net pension liability as a percentage of covered payroll | N/A | N/A | N/A | N/A |
| Registers of Deeds' | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 860 | \$ 579 | \$ 578 | \$ 563 |
| Interest | 1,164 | 1,354 | 1,372 | 1,342 |
| Differences between expected and actual experience | 440 | (45) | (558) | 302 |
| Changes of assumptions | - | 7,082 | - | - |
| Benefit payments, including refunds of member contributions | <u>(1,793)</u> | <u>(1,718)</u> | <u>(1,715)</u> | <u>(1,666)</u> |
| Net change in total pension liability | 671 | 7,252 | (323) | 541 |
| Total pension liability - beginning | 31,072 | 23,820 | 24,143 | 23,602 |
| Total pension liability - ending (a) | <u>\$ 31,743</u> | <u>\$ 31,072</u> | <u>\$ 23,820</u> | <u>\$ 24,143</u> |
| Plan fiduciary net position | | | | |
| Contributions-employer | \$ 869 | \$ 817 | \$ 802 | \$ 817 |
| Net investment income | (13) | 3,722 | 1,114 | 2,714 |
| Benefit payments, including refunds of member contributions | (1,793) | (1,718) | (1,715) | (1,666) |
| Administrative expense | (19) | (47) | (16) | (18) |
| Net change in plan fiduciary net position | (956) | 2,774 | 185 | 1,847 |
| Plan fiduciary net position - beginning | 49,768 | 46,994 | 46,809 | 44,962 |
| Plan fiduciary net position - ending (b) | <u>\$ 48,812</u> | <u>\$ 49,768</u> | <u>\$ 46,994</u> | <u>\$ 46,809</u> |
| RODSPF's net pension asset - ending (a) - (b) | <u>\$ (17,069)</u> | <u>\$ (18,696)</u> | <u>\$ (23,174)</u> | <u>\$ (22,666)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 153.77% | 160.17% | 197.29% | 193.88% |
| Covered payroll | N/A | N/A | N/A | N/A |
| Net pension asset as a percentage of covered payroll | N/A | N/A | N/A | N/A |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Four Fiscal Years

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Consolidated | | | | |
| Judicial | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 15,630 | \$ 16,904 | \$ 16,812 | \$ 16,637 |
| Interest | 44,837 | 42,009 | 40,846 | 39,405 |
| Changes of benefit terms | 4,349 | 332 | - | 3,031 |
| Differences between expected and actual experience | 2,193 | (4,295) | (2,289) | (2,484) |
| Changes of assumptions | 3,032 | 26,588 | - | - |
| Benefit payments, including refunds of member contributions | (42,053) | (40,462) | (38,364) | (35,428) |
| Net change in total pension liability | <u>27,988</u> | <u>41,076</u> | <u>17,005</u> | <u>21,161</u> |
| Total pension liability - beginning | 623,842 | 582,766 | 565,761 | 544,600 |
| Total pension liability - ending (a) | <u>\$ 651,830</u> | <u>\$ 623,842</u> | <u>\$ 582,766</u> | <u>\$ 565,761</u> |
| Plan fiduciary net position | | | | |
| Contributions-employer | \$ 19,592 | \$ 18,908 | \$ 18,949 | \$ 21,390 |
| Contributions-member | 7,399 | 7,561 | 6,238 | 5,598 |
| Net investment income | 55,762 | 3,972 | 12,176 | 74,294 |
| Benefit payments, including refunds of member contributions | (42,053) | (40,462) | (38,364) | (35,428) |
| Administrative expense | (37) | (73) | (30) | (48) |
| Other | - | - | 1 | 3 |
| Net change in plan fiduciary net position | <u>40,663</u> | <u>(10,094)</u> | <u>(1,030)</u> | <u>65,809</u> |
| Plan fiduciary net position - beginning | 528,440 | 538,534 | 539,564 | 473,755 |
| Plan fiduciary net position - ending (b) | <u>\$ 569,103</u> | <u>\$ 528,440</u> | <u>\$ 538,534</u> | <u>\$ 539,564</u> |
| CJRS's net pension liability - ending (a) - (b) | <u>\$ 82,727</u> | <u>\$ 95,402</u> | <u>\$ 44,232</u> | <u>\$ 26,197</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 87.31% | 84.71% | 92.41% | 95.37% |
| Covered payroll | \$ 66,504 | \$ 69,489 | \$ 69,638 | \$ 76,367 |
| Net pension liability as a percentage of covered payroll | 124.39% | 137.29% | 63.52% | 34.30% |
| Legislative | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 872 | \$ 822 | \$ 844 | \$ 747 |
| Interest | 2,056 | 1,708 | 1,742 | 1,678 |
| Changes of benefit terms | 215 | 22 | - | 146 |
| Differences between expected and actual experience | (122) | (520) | (579) | 762 |
| Changes of assumptions | 121 | 5,151 | - | - |
| Benefit payments, including refunds of member contributions | (2,437) | (2,430) | (2,473) | (2,614) |
| Net change in total pension liability | <u>705</u> | <u>4,753</u> | <u>(466)</u> | <u>719</u> |
| Total pension liability - beginning | 28,705 | 23,952 | 24,418 | 23,699 |
| Total pension liability - ending (a) | <u>\$ 29,410</u> | <u>\$ 28,705</u> | <u>\$ 23,952</u> | <u>\$ 24,418</u> |
| Plan fiduciary net position | | | | |
| Contributions-employer | \$ 675 | \$ 65 | \$ - | \$ - |
| Contributions-member | 253 | 253 | 253 | 253 |
| Net investment income | 2,744 | 181 | 642 | 4,293 |
| Benefit payments, including refunds of member contributions | (2,437) | (2,430) | (2,473) | (2,614) |
| Administrative expense | (18) | (53) | (17) | (37) |
| Net change in plan fiduciary net position | <u>1,217</u> | <u>(1,984)</u> | <u>(1,595)</u> | <u>1,895</u> |
| Plan fiduciary net position - beginning | 26,472 | 28,456 | 30,051 | 28,156 |
| Plan fiduciary net position - ending (b) | <u>\$ 27,689</u> | <u>\$ 26,472</u> | <u>\$ 28,456</u> | <u>\$ 30,051</u> |
| LRS's net pension liability (asset) - ending (a) - (b) | <u>\$ 1,721</u> | <u>\$ 2,233</u> | <u>\$ (4,504)</u> | <u>\$ (5,633)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 94.15% | 92.22% | 118.80% | 123.07% |
| Covered payroll | \$ 3,705 | \$ 3,616 | \$ 3,611 | \$ 3,608 |
| Net pension liability (asset) as a percentage of covered payroll | 46.45% | 61.75% | (124.73%) | (156.13%) |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Four Fiscal Years

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| North Carolina | | | | |
| National Guard | | | | |
| Total pension liability | | | | |
| Service Cost | \$ 305 | \$ 593 | \$ 550 | \$ 512 |
| Interest | 11,975 | 10,700 | 9,916 | 9,330 |
| Changes of benefit terms | - | - | 8,734 | 5,752 |
| Differences between expected and actual experience | 1,204 | 30 | (198) | 192 |
| Changes of assumptions | 955 | 15,149 | - | - |
| Benefit payments, including refunds of member contributions | (8,677) | (8,512) | (7,958) | (7,502) |
| Net change in total pension liability | <u>5,762</u> | <u>17,960</u> | <u>11,044</u> | <u>8,284</u> |
| Total pension liability - beginning | <u>169,210</u> | <u>151,250</u> | <u>140,206</u> | <u>131,922</u> |
| Total pension liability - ending (a) | <u>\$ 174,972</u> | <u>\$ 169,210</u> | <u>\$ 151,250</u> | <u>\$ 140,206</u> |
| Plan fiduciary net position | | | | |
| Contributions-nonemployer | \$ 8,517 | \$ 7,066 | \$ 6,039 | \$ 7,007 |
| Net investment income | 11,626 | 842 | 2,493 | 14,942 |
| Benefit payments, including refunds of member contributions | (8,677) | (8,512) | (7,958) | (7,502) |
| Administrative expense | (168) | (97) | (75) | (73) |
| Other | - | 1 | - | 1 |
| Net change in plan fiduciary net position | <u>11,298</u> | <u>(700)</u> | <u>499</u> | <u>14,375</u> |
| Plan fiduciary net position - beginning | <u>109,829</u> | <u>110,529</u> | <u>110,030</u> | <u>95,655</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 121,127</u> | <u>\$ 109,829</u> | <u>\$ 110,529</u> | <u>\$ 110,030</u> |
| NGPF's net pension liability - ending (a) - (b) | <u>\$ 53,845</u> | <u>\$ 59,381</u> | <u>\$ 40,721</u> | <u>\$ 30,176</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 69.23% | 64.91% | 73.08% | 78.48% |
| Covered payroll | N/A | N/A | N/A | N/A |
| Net pension liability as a percentage of covered payroll | N/A | N/A | N/A | N/A |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

| Teachers' and State Employees' | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------------|--------------------|-------------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 1,438,306 | \$ 1,210,904 | \$ 1,262,988 | \$ 1,177,341 | \$ 1,078,783 |
| Contractually required contribution | 1,441,194 | 1,275,003 | 1,262,988 | 1,177,341 | 1,120,482 |
| Contributions in relation to the actuarially determined contribution | 1,441,194 | 1,275,003 | 1,262,988 | 1,177,341 | 1,120,482 |
| Contribution deficiency (excess) | <u>\$ (2,888)</u> | <u>\$ (64,099)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (41,699)</u> |
| Covered payroll | \$ 14,440,822 | \$ 13,934,459 | \$ 13,803,148 | \$ 13,548,227 | \$ 13,451,164 |
| Contributions as a percentage of covered payroll | 9.98% | 9.15% | 9.15% | 8.69% | 8.33% |
| Local Governmental Employees' | | | | | |
| Actuarially determined contribution | \$ 453,193 | \$ 393,920 | \$ 402,429 | \$ 397,462 | \$ 370,152 |
| Contractually required contribution | 461,329 | 414,168 | 408,694 | 413,175 | 383,889 |
| Contributions in relation to the actuarially determined contribution | 461,329 | 414,168 | 408,694 | 413,175 | 383,889 |
| Contribution excess | <u>\$ (8,136)</u> | <u>\$ (20,248)</u> | <u>\$ (6,265)</u> | <u>\$ (15,713)</u> | <u>\$ (13,737)</u> |
| Covered payroll | \$ 6,192,808 | \$ 5,860,574 | \$ 5,650,694 | \$ 5,553,383 | \$ 5,421,364 |
| Contributions as a percentage of covered payroll | 7.45% | 7.07% | 7.23% | 7.44% | 7.08% |
| Firefighters' and Rescue Squad Workers' * | | | | | |
| Actuarially determined contribution | \$ 17,705 | \$ 13,241 | \$ 13,900 | \$ 14,620 | \$ 14,074 |
| Contractually required contribution | 17,602 | 13,900 | 13,900 | 14,627 | 15,447 |
| Contributions in relation to the actuarially determined contribution | 17,602 | 13,900 | 13,900 | 14,627 | 15,447 |
| Contribution deficiency (excess) | <u>\$ 103</u> | <u>\$ (659)</u> | <u>\$ -</u> | <u>\$ (7)</u> | <u>\$ (1,373)</u> |
| Covered payroll | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered payroll | N/A | N/A | N/A | N/A | N/A |
| Registers of Deeds' | | | | | |
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contractually required contribution | 869 | 817 | 802 | 817 | 937 |
| Contributions in relation to the actuarially determined contribution | 869 | 817 | 802 | 817 | 937 |
| Contribution excess | <u>\$ (869)</u> | <u>\$ (817)</u> | <u>\$ (802)</u> | <u>\$ (817)</u> | <u>\$ (937)</u> |
| Covered payroll | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered payroll | N/A | N/A | N/A | N/A | N/A |

* Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------|-------------------|---------------|---------------|--------------------|
| \$ 1,015,762 | \$ 926,429 | \$ 492,779 | \$ 492,689 | \$ 429,064 |
| 1,015,762 | 680,670 | 492,779 | 492,689 | 468,669 |
| 1,015,762 | 680,670 | 492,779 | 492,689 | 468,669 |
| <u>\$ -</u> | <u>\$ 245,759</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (39,605)</u> |
| \$ 13,652,715 | \$ 13,806,691 | \$ 13,803,324 | \$ 14,663,363 | \$ 13,976,026 |
| 7.44% | 4.93% | 3.57% | 3.36% | 3.35% |

| | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$ 376,340 | \$ 342,910 | \$ 230,121 | \$ 257,982 | \$ 241,533 |
| 389,399 | 361,998 | 273,337 | 271,363 | 256,612 |
| 389,399 | 361,998 | 273,337 | 271,363 | 256,612 |
| <u>\$ (13,059)</u> | <u>\$ (19,088)</u> | <u>\$ (43,216)</u> | <u>\$ (13,381)</u> | <u>\$ (15,079)</u> |
| \$ 5,402,147 | \$ 5,329,651 | \$ 5,320,927 | \$ 5,284,862 | \$ 4,948,042 |
| 7.21% | 6.79% | 5.14% | 5.13% | 5.19% |

| | | | | |
|---------------|-----------------|---------------|---------------|-------------|
| \$ 14,389 | \$ 12,243 | \$ 10,074 | \$ 9,757 | \$ 8,734 |
| 14,398 | 10,110 | 10,080 | 9,762 | 8,734 |
| 14,398 | 10,110 | 10,080 | 9,762 | 8,734 |
| <u>\$ (9)</u> | <u>\$ 2,133</u> | <u>\$ (6)</u> | <u>\$ (5)</u> | <u>\$ -</u> |
| N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A |

| | | | | |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 843 | 772 | 736 | 754 | 926 |
| 843 | 772 | 736 | 754 | 926 |
| <u>\$ (843)</u> | <u>\$ (772)</u> | <u>\$ (736)</u> | <u>\$ (754)</u> | <u>\$ (926)</u> |
| N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

| Consolidated | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------|-----------------|-------------|-------------------|-------------------|
| Judicial | | | | | |
| Actuarially determined contribution | \$ 19,592 | \$ 18,324 | \$ 18,949 | \$ 21,390 | \$ 18,992 |
| Contractually required contribution | 19,592 | 18,908 | 18,949 | 21,390 | 18,992 |
| Contributions in relation to the actuarially determined contribution | 19,592 | 18,908 | 18,949 | 21,390 | 18,992 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ (584)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 66,504 | \$ 69,489 | \$ 69,638 | \$ 76,367 | \$ 71,533 |
| Contributions as a percentage of covered payroll | 29.46% | 27.21% | 27.21% | 28.01% | 26.55% |
| Legislative | | | | | |
| Actuarially determined contribution | \$ 675 | \$ 65 | \$ - | \$ - | \$ - |
| Contractually required contribution | 675 | 65 | - | - | - |
| Contributions in relation to the actuarially determined contribution | 675 | 65 | - | - | - |
| Contribution excess | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 3,705 | \$ 3,616 | \$ 3,611 | \$ 3,608 | \$ 3,600 |
| Contributions as a percentage of covered payroll | 18.22% | 1.80% | 0.00% | 0.00% | 0.00% |
| North Carolina | | | | | |
| National Guard * | | | | | |
| Actuarially determined contribution | \$ 8,517 | \$ 7,066 | \$ 6,039 | \$ 5,349 | \$ 5,667 |
| Contractually required contribution | 8,517 | 7,066 | 6,039 | 7,007 | 7,007 |
| Contributions in relation to the actuarially determined contribution | 8,517 | 7,066 | 6,039 | 7,007 | 7,007 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,658)</u> | <u>\$ (1,340)</u> |
| Covered payroll | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered payroll | N/A | N/A | N/A | N/A | N/A |

* Nonemployer contributing entity

Note: Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the pension RSI tables.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------|-----------------|-------------|-----------------|-------------------|
| \$ 18,956 | \$ 13,322 | \$ 10,740 | \$ 10,017 | \$ 8,214 |
| 18,956 | 10,457 | 10,740 | 10,603 | 40,844 |
| 18,956 | 10,457 | 10,740 | 10,603 | 10,844 |
| <u>\$ -</u> | <u>\$ 2,865</u> | <u>\$ -</u> | <u>\$ (586)</u> | <u>\$ (2,630)</u> |
| \$ 75,673 | \$ 69,206 | \$ 71,079 | \$ 80,265 | \$ 64,678 |
| 25.05% | 15.11% | 15.11% | 13.21% | 16.77% |

| | | | | |
|-------------|-------------|-------------|-------------|-----------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | 209 |
| - | - | - | - | 209 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (209)</u> |
| \$ 3,314 | \$ 4,029 | \$ 3,657 | \$ 3,686 | \$ 3,614 |
| 0.00% | 0.00% | 0.00% | 0.00% | 5.78% |

| | | | | |
|-----------------|-------------------|-------------------|---------------|-----------------|
| \$ 6,075 | \$ 5,719 | \$ 5,682 | \$ 6,248 | \$ 6,232 |
| 7,007 | 7,007 | 7,008 | 5,892 | 7,007 |
| 7,007 | 7,007 | 7,008 | 5,892 | 7,007 |
| <u>\$ (932)</u> | <u>\$ (1,288)</u> | <u>\$ (1,326)</u> | <u>\$ 356</u> | <u>\$ (775)</u> |
| N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A |

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENT RETURNS
 ALL DEFINED BENEFIT PENSION PLANS**

Last Four Fiscal Years

| Annual money-weighted rate of return, net of investment expense | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|
| <i>Cost-Sharing, Multiple Employer</i> | | | | |
| Teachers' and State Employees' | 10.75% | 0.74% | 2.27% | 15.88% |
| Local Governmental Employees' | 10.74% | 0.77% | 2.27% | 15.86% |
| Firefighters' and Rescue Squad Workers' | 10.76% | 0.75% | 2.26% | 15.62% |
| Registers of Deeds' | (0.03%) | 8.04% | 2.26% | 6.04% |
| <i>Single-Employer</i> | | | | |
| Consolidated Judicial | 10.75% | 0.75% | 2.27% | 15.87% |
| Legislative | 10.72% | 0.66% | 2.25% | 15.91% |
| North Carolina National Guard | 10.63% | 0.77% | 2.25% | 15.63% |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2017

Changes of benefit terms.

| | <u>Cost of Living Increase</u> | | | | | | | | | |
|---|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| <u>Cost-Sharing, Multiple-Employer</u> | | | | | | | | | | |
| Teachers' and State Employees' | N/A | N/A | N/A | 1.00% | N/A | N/A | N/A | 2.20% | 2.20% | 3.00% |
| Local Governmental Employees' | 0.11% | 0.63% | N/A | N/A | N/A | N/A | 0.10% | 2.15% | 2.20% | 2.80% |
| Firefighters' and Rescue Squad Workers' (1) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Registers of Deeds' | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| <u>Single-Employer</u> | | | | | | | | | | |
| <u>Consolidated</u> | | | | | | | | | | |
| Judicial | N/A | N/A | N/A | 1.00% | N/A | N/A | N/A | 2.20% | 2.20% | 3.00% |
| Legislative | N/A | N/A | N/A | 1.00% | N/A | N/A | N/A | 2.20% | 2.20% | 3.00% |
| <u>North Carolina</u> | | | | | | | | | | |
| National Guard (2) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Beginning in FY 2015, with the implementation of GASB 68, the above table reflects COLA's in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan NPL.

(1) In 2007, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from \$163 to \$165. In 2008, retirement benefits increased from \$165 to \$167. In 2009, retirement benefits were increased from \$167 to \$170.

(2) In 2007, the National Guard Pension Fund increased basic benefits from \$75 to \$80 and total potential benefits from \$150 to \$160. In 2008, basic benefits were increased from \$80 to \$95 and total potential benefits were increased from \$160 to \$190. In 2015, basic benefits were increased from \$95 to \$99 and total potential benefits were increased from \$190 to \$198. In 2016, basic benefits were increased from \$99 to \$105 and total benefits were increased from \$198 to \$210.

N/A - not applicable

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017 and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

During the fiscal year ended June 30, 2017, retirees in the TSERS, CJRS and LRS whose retirement began on or before September 1, 2016 received a one-time pension supplement payment equal to 1.6% of the retiree's annual retirement allowance as of September 1, 2016. Retirees in the LGERS received a 0.105% cost-of-living adjustment for the fiscal year ended June 30, 2017. Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS, CJRS and LRS as of July 1, 2016 received a 1.0% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between August 1, 2016 and June 1, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

Method and assumptions used in calculations of actuarially determined contributions.

An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 12 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

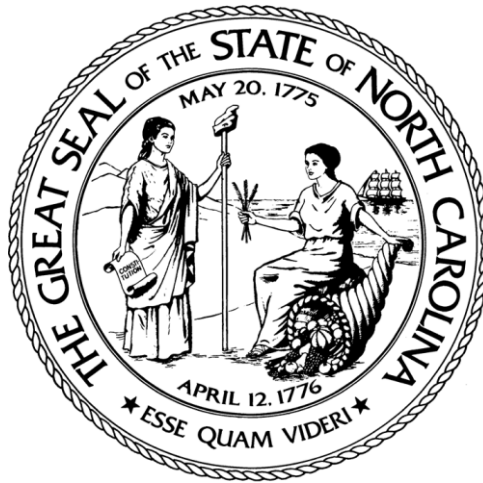
For the Fiscal Year Ended June 30, 2017

determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. These assumptions pertain to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund.

In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. Also, as a result of market conditions and the allocation of assets in the Register of Deeds' Supplemental Pension Fund, the discount rate used in calculating the plan's liabilities was lowered from 5.75% to 3.75%. The discount rate for Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Boards of Trustees also adopted new actuarial cost methods for the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Registers of Deeds' Supplemental Pension Fund. These plans now use the Entry Age Normal cost method to determine plan liabilities and funding requirements. Finally, the Boards of Trustees adopted a new asset valuation method for the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Registers of Deeds' Pension Fund, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard Pension Fund. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.



REQUIRED SUPPLEMENTARY INFORMATION PENSIONS — EMPLOYERS (PRIMARY GOVERNMENT AND COMPONENT UNITS)

Required supplementary information for employers provides information on the allocations of net pension liabilities and employer contributions.

The Required Supplementary Information for Employers includes the following schedules:

Schedule of the Primary Government's and Component Units' Proportionate Share of the Net Pension Liability

Schedule of the Primary Government's (Nonemployer) Proportionate Share of the Net Pension Liability

Schedule of the Primary Government's and Component Units' Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Note: For information about the net pension liability of Consolidated Judicial and Legislative (single employer plans) and the primary government's contributions to Consolidated Judicial, Legislative, Firefighters' and Rescue Squad Workers', and North Carolina National Guard, refer to the preceding section on required supplementary information for pension plans. Firefighters' and Rescue Squad Workers' and the North Carolina National Guard are special funding situations in which the State is not the employer but is the only contributing entity. The net pension liabilities of pension plans were measured as of June 30, 2017. The net pension liabilities of employers were measured as of June 30, 2016.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Four Fiscal Years*

*(Dollars in Thousands)***Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

| Teachers' and State Employees' | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|
| Primary Government | | | | |
| Proportion of the net pension liability | 21.93% | 22.47% | 22.78% | 22.95% |
| Proportionate share of the net pension liability | \$ 2,015,413 | \$ 828,018 | \$ 267,119 | \$ 1,393,385 |
| Covered payroll | \$ 3,311,814 | \$ 3,498,284 | \$ 3,255,443 | \$ 3,203,001 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 60.86% | 23.67% | 8.21% | 43.50% |
| Component Units | | | | |
| University of North Carolina System | | | | |
| Proportion of the net pension liability | 14.43% | 14.45% | 14.79% | 14.48% |
| Proportionate share of the net pension liability | \$ 1,325,896 | \$ 532,624 | \$ 173,441 | \$ 878,936 |
| Covered payroll | \$ 2,117,672 | \$ 2,053,148 | \$ 2,089,885 | \$ 1,987,497 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 62.61% | 25.94% | 8.30% | 44.22% |
| Community Colleges | | | | |
| Proportion of the net pension liability | 5.92% | 5.89% | 5.87% | 5.80% |
| Proportionate share of the net pension liability | \$ 543,846 | \$ 216,890 | \$ 68,803 | \$ 352,004 |
| Covered payroll | \$ 871,399 | \$ 861,639 | \$ 853,383 | \$ 1,165,333 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 62.41% | 25.17% | 8.06% | 30.21% |
| Other Component Units | | | | |
| Proportion of the net pension liability | 0.16% | 0.17% | 0.17% | 0.17% |
| Proportionate share of the net pension liability | \$ 14,653 | \$ 6,224 | \$ 2,049 | \$ 10,605 |
| Covered payroll | \$ 25,454 | \$ 25,574 | \$ 25,673 | \$ 39,228 |
| Proportionate share of the net pension liability as a percentage of covered payroll | 57.57% | 24.34% | 7.98% | 27.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.32% | 94.64% | 98.24% | 90.60% |

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S (NONEMPLOYER)
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Last Four Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

| Firefighters' and Rescue Squad Workers' | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|
| Primary Government | | | | |
| Proportion of the net pension liability | 100.00% | 100.00% | 100.00% | 100.00% |
| Proportionate share of the net pension liability | \$ 66,819 | \$ 36,359 | \$ 27,418 | \$ 67,725 |
| Plan fiduciary net position as a percentage of the total pension liability | 84.94% | 91.40% | 93.42% | 83.58% |

Single-Employer, Defined Benefit Pension Plans

**North Carolina
National Guard**

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Primary Government | | | | |
| Proportion of the net pension liability | 100.00% | 100.00% | 100.00% | 100.00% |
| Proportionate share of the net pension liability | \$ 59,381 | \$ 40,721 | \$ 30,176 | \$ 36,267 |
| Plan fiduciary net position as a percentage of the total pension liability | 64.91% | 73.08% | 78.48% | 72.51% |

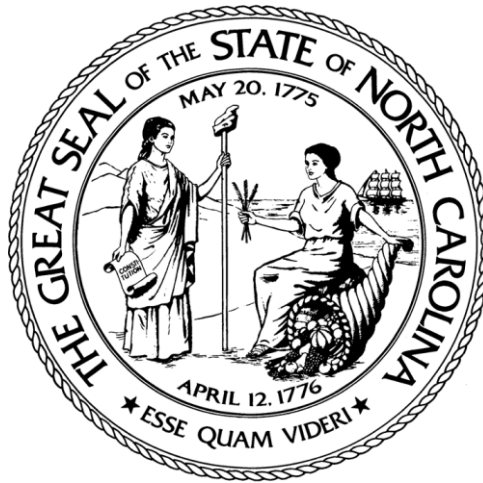
* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Four Fiscal Years

(Dollars in Thousands)

| Teachers' and State Employees' | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|--------------|--------------|
| Primary Government | | | | |
| Contractually required contribution | \$ 325,836 | \$ 303,031 | \$ 320,093 | \$ 282,898 |
| Contributions in relation to the contractually required contribution | 325,836 | 303,031 | 320,093 | 282,898 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 3,264,890 | \$ 3,311,814 | \$ 3,498,284 | \$ 3,255,443 |
| Contributions as a percentage of covered payroll | 9.98% | 9.15% | 9.15% | 8.69% |
| Component Units | | | | |
| University of North Carolina System | | | | |
| Contractually required contribution | \$ 219,780 | \$ 193,767 | \$ 187,863 | \$ 181,611 |
| Contributions in relation to the contractually required contribution | 219,780 | 193,767 | 187,863 | 181,611 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 2,202,204 | \$ 2,117,672 | \$ 2,053,148 | \$ 2,089,885 |
| Contributions as a percentage of covered payroll | 9.98% | 9.15% | 9.15% | 8.69% |
| Community Colleges | | | | |
| Contractually required contribution | \$ 89,417 | \$ 79,733 | \$ 78,840 | \$ 74,159 |
| Contributions in relation to the contractually required contribution | 89,417 | 79,733 | 78,840 | 74,159 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | \$ 895,962 | \$ 871,399 | \$ 861,639 | \$ 853,383 |
| Contributions as a percentage of covered payroll | 9.98% | 9.15% | 9.15% | 8.69% |
| Other Component Units | | | | |
| Contractually required contribution | \$ 2,710 | \$ 2,329 | \$ 2,340 | \$ 2,231 |
| Contributions in relation to the contractually required contribution | 2,710 | 2,329 | 2,340 | 2,231 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Payroll | \$ 27,154 | \$ 25,454 | \$ 25,574 | \$ 25,673 |
| Contributions as a percentage of covered payroll | 9.98% | 9.15% | 9.15% | 8.69% |



REQUIRED SUPPLEMENTARY INFORMATION PENSIONS — GASB STATEMENT 73

Required supplementary information for pensions that are not administered through a trust provides information on the sources of changes in the total pension liability and information about the components of the pension liability.

The Required Supplementary Information for pensions not administered through a trust includes the following schedules:

Schedule of Changes in the Total Pension Liability and Related Ratios: Single-Employer, Defined Benefit Pension Plan

Notes to Required Supplementary Information: Schedule of the Total Pension Liability

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT PENSION PLAN

(Dollars in Thousands)

| | <u>2017</u> |
|--|-------------------|
| Special Separation Allowance | |
| Total pension liability | |
| Service Cost | \$ 6,112 |
| Interest | 7,314 |
| Differences between expected and actual experience | 3,927 |
| Changes of assumptions | (1,216) |
| Benefit payments, including refunds of member contributions | <u>(14,895)</u> |
| Net change in total pension liability | 1,242 |
| Total pension liability - beginning | 197,411 |
| Total pension liability - ending | <u>\$ 198,653</u> |
| Covered-employee payroll | \$ 161,416 |
| Total pension liability as a percentage of covered-employee payroll | 123.07% |

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOTAL PENSION LIABILITY**

For the Fiscal Year Ended June 30, 2017

The Special Separation Allowance (SSA) is a single-employer, defined benefit pension plan in which there are no accumulated assets in a trust fund to pay the benefits to the retired law enforcement officers (LEOs). These benefits are funded on a pay-as-you-go basis from budget appropriated annually of each affected state agency.

Changes in assumptions since the prior measurement date. The discount rate was updated from 3.73% at June 30, 2015 to 2.71% at June 30, 2016. The withdrawal rates, the retirement rates, the mortality assumption, the annual rate of salary increase, and the leave conversion assumption were changed to align with the latest assumptions that were adopted for use with the December 31, 2015 actuarial valuation of TSERS, based on the experience study prepared as of December 31, 2014 and adopted by the TSERS Board of Trustees on January 21, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFIT PLANS

Required supplementary information for other postemployment benefit plans provides information on the sources of changes in net OPEB liabilities, information about the components of net OPEB liabilities, employer contributions, and investment returns.

The Required Supplementary Information for Other Postemployment Benefit plans includes the following schedules:

Schedule of Changes in the Net OPEB Liability and Related Ratios: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Schedule of Changes in the Net OPEB Liability and Related Ratios: Single-Employer, Defined Benefit OPEB Plans

Schedule of Employer Contributions: Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans

Schedule of Investment Returns: All Defined Benefit OPEB Plans

Notes to Required Supplementary Information: Schedule of Employer Contributions

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS

(Dollars in Thousands)

| | <u>2017</u> |
|--|----------------------|
| Retiree | |
| Health Benefit | |
| Total OPEB liability | |
| Service Cost | \$ 2,650,984 |
| Interest | 1,332,874 |
| Differences between expected and actual experience | (2,821,033) |
| Changes of assumptions | (10,835,144) |
| Benefit payments, including refunds of member contributions | (922,021) |
| Net change in total OPEB liability | <u>(10,594,340)</u> |
| Total OPEB liability - beginning | 44,577,535 |
| Total OPEB liability - ending (a) | <u>\$ 33,983,195</u> |
| Plan fiduciary net position | |
| Contributions-employer | \$ 950,813 |
| Net investment income | 94,132 |
| Benefit payments, including refunds of member contributions | (922,021) |
| Administrative expense | (490) |
| Net change in plan fiduciary net position | <u>122,434</u> |
| Plan fiduciary net position - beginning | 1,074,136 |
| Plan fiduciary net position - ending (b) | <u>\$ 1,196,570</u> |
| Retiree Health Benefit net OPEB liability - ending (a) - (b) | <u>\$ 32,786,625</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 3.52% |
| Covered payroll | \$ 16,365,112 |
| Net OPEB liability as a percentage of covered payroll | 200.34% |
| Disability | |
| Income | |
| Total OPEB liability | |
| Service Cost | \$ 25,441 |
| Interest | 14,111 |
| Changes of benefit terms | (403) |
| Differences between expected and actual experience | 22,345 |
| Benefit payments, including refunds of member contributions | (71,728) |
| Net change in total OPEB liability | <u>(10,234)</u> |
| Total OPEB liability - beginning | 386,720 |
| Total OPEB liability - ending (a) | <u>\$ 376,486</u> |
| Plan fiduciary net position | |
| Contributions-employer | \$ 61,654 |
| Net investment income | (122) |
| Benefit payments, including refunds of member contributions | (71,728) |
| Administrative expense | (1,050) |
| Other | 32 |
| Net change in plan fiduciary net position | <u>(11,214)</u> |
| Plan fiduciary net position - beginning | 448,820 |
| Plan fiduciary net position - ending (b) | <u>\$ 437,606</u> |
| Disability Income's net OPEB asset - ending (a) - (b) | <u>\$ (61,120)</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 116.23% |
| Covered payroll | \$ 16,224,737 |
| Net OPEB asset as a percentage of covered payroll | (0.38%) |

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
SINGLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS**

(Dollars in Thousands)

| | <u>2017</u> |
|---|-------------------|
| Retirees' Contributory Death Benefit | |
| Total OPEB liability | |
| Service Cost | \$ (1,901) |
| Interest | 11,574 |
| Differences between expected and actual experience | 4,241 |
| Changes of assumptions | (8,291) |
| Benefit payments and member contributions | <u>(1,161)</u> |
| Net change in total OPEB liability | 4,462 |
| Total OPEB liability - beginning | 326,682 |
| Total OPEB liability - ending (a) | <u>\$ 331,144</u> |
| Plan fiduciary net position | |
| Contributions-member | \$ 25,380 |
| Net investment income | 643 |
| Benefit payments | (26,541) |
| Administrative expense | <u>(236)</u> |
| Net change in plan fiduciary net position | (754) |
| Plan fiduciary net position - beginning | 247,749 |
| Plan fiduciary net position - ending (b) | <u>\$ 246,995</u> |
| Retirees' Contributory Death Benefit net OPEB liability - ending (a) - (b) | <u>\$ 84,149</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 74.59% |
| Covered payroll | N/A |
| Net OPEB liability as a percentage of covered payroll | N/A |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS

Last Ten Fiscal Years

(Dollars in Thousands)

| Retiree | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Health Benefit | | | | | |
| Actuarially determined contribution | \$ 2,728,064 | \$ 2,516,706 | \$ 2,211,436 | \$ 2,226,586 | \$ 2,072,951 |
| Contractually required contribution | 950,813 | 880,847 | 854,383 | 815,157 | 813,223 |
| Contributions in relation to the actuarially determined contribution | 950,813 | 880,847 | 854,383 | 815,157 | 813,223 |
| Contribution deficiency | <u>\$ 1,777,251</u> | <u>\$ 1,635,859</u> | <u>\$ 1,357,053</u> | <u>\$ 1,411,429</u> | <u>\$ 1,259,728</u> |
| Covered payroll | \$ 16,365,112 | \$ 15,729,411 | \$ 15,562,532 | \$ 15,095,500 | \$ 15,343,830 |
| Contributions as a percentage of covered payroll | 5.81% | 5.60% | 5.49% | 5.40% | 5.30% |
| Disability Income | | | | | |
| Actuarially determined contribution | \$ 24,337 | \$ 63,963 | \$ 63,267 | \$ 65,878 | \$ 64,969 |
| Contractually required contribution | 61,654 | 63,963 | 63,267 | 65,878 | 64,969 |
| Contributions in relation to the actuarially determined contribution | 61,654 | 63,963 | 63,267 | 65,878 | 64,969 |
| Contribution excess | <u>\$ (37,317)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 16,224,737 | \$ 15,600,732 | \$ 15,430,976 | \$ 14,972,273 | \$ 14,765,682 |
| Contributions as a percentage of covered payroll | 0.38% | 0.41% | 0.41% | 0.44% | 0.44% |

Note: Changes in benefit terms, methods and assumptions are presented in Notes to the Required Supplementary Information (RSI) schedules following the OPEB RSI tables.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 2,371,490 | \$ 2,926,070 | \$ 3,001,667 | \$ 2,713,290 | \$ 2,638,677 |
| 710,027 | 743,659 | 678,769 | 635,685 | 601,032 |
| 710,027 | 743,659 | 678,769 | 635,685 | 601,032 |
| <u>\$ 1,661,463</u> | <u>\$ 2,182,411</u> | <u>\$ 2,322,898</u> | <u>\$ 2,077,605</u> | <u>\$ 2,037,645</u> |
| \$ 14,200,540 | \$ 15,176,714 | \$ 15,083,756 | \$ 15,504,512 | \$ 14,659,317 |
| 5.00% | 4.90% | 4.50% | 4.10% | 4.10% |

| | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 71,244 | \$ 69,229 | \$ 73,303 | \$ 78,443 | \$ 71,468 |
| 80,537 | 78,259 | 77,791 | 79,981 | 75,844 |
| 80,537 | 78,259 | 77,791 | 79,981 | 75,844 |
| <u>\$ (9,293)</u> | <u>\$ (9,030)</u> | <u>\$ (4,488)</u> | <u>\$ (1,538)</u> | <u>\$ (4,376)</u> |
| \$ 15,487,885 | \$ 15,049,808 | \$ 14,959,808 | \$ 15,380,962 | \$ 14,585,385 |
| 0.52% | 0.52% | 0.52% | 0.52% | 0.52% |

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
ALL DEFINED BENEFIT OPEB PLANS**

| Annual money-weighted rate of return, net of investment expense | 2017 |
|--|-------------|
| Retiree Health Benefit | 9.31% |
| Disability Income | (0.06%) |
| Retirees' Contributory Death Benefit Plan | (0.02%) |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2017

Changes of benefit terms. Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and assumptions used in calculations of actuarially determined contributions. An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

In 2017, the Retirees' Contributory Death Benefit Plan OPEB Liability was determined using an assumption that 50% of members who are not currently retired will elect coverage under the plan upon retirement (65% for members who are disabled at retirement). Previous valuations did not include this assumption.

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REQUIRED SUPPLEMENTARY INFORMATION BUDGET

Required supplementary information for budget provides information on budget versus actual revenues, expenditures and changes in fund balance and related note disclosures for budgetary reporting.

The following schedules are included in the Required Supplementary Information for Budget:

Schedule of Revenues, Expenditures and Changes in Fund Balance: Budget and Actual (Budgetary Basis—Non-GAAP):
General Fund

Notes to Required Supplementary Information: Budgetary Reporting

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, 2017

(Dollars in Thousands)

| | <i>Budgeted Amounts</i> | | <i>Actual</i> | <i>Variance with Final Budget</i> |
|--|-------------------------|---------------------|---------------------|---------------------------------------|
| | <i>Original</i> | <i>Final</i> | | |
| Revenues | | | | |
| Taxes: | | | | |
| Individual income..... | \$ 11,618,300 | \$ 11,618,300 | \$ 11,969,651 | \$ 351,351 |
| Corporate income..... | 911,500 | 911,500 | 752,173 | (159,327) |
| Sales and use..... | 6,970,700 | 6,970,700 | 7,003,964 | 33,264 |
| Franchise..... | 551,900 | 551,900 | 748,077 | 196,177 |
| Insurance..... | 505,100 | 505,100 | 492,098 | (13,002) |
| Beverage..... | 341,300 | 341,300 | 353,604 | 12,304 |
| Tobacco products..... | 253,800 | 253,800 | 261,752 | 7,952 |
| Other..... | 151,100 | 151,100 | 155,847 | 4,747 |
| Non-Tax: | | | | |
| Fees, licenses and fines..... | 242,600 | 242,600 | 723,615 | 481,015 |
| Investment income..... | 37,500 | 37,500 | 61,906 | 24,406 |
| Disproportionate share receipts..... | 147,000 | 147,000 | 164,075 | 17,075 |
| Other..... | 261,750 | 184,750 | 255,063 | 70,313 |
| Tobacco settlement..... | 127,400 | 127,400 | 141,054 | 13,654 |
| Departmental: | | | | |
| Federal funds..... | 15,900,933 | 14,729,728 | 13,322,528 | (1,407,200) |
| Local funds..... | 692,497 | 784,402 | 772,936 | (11,466) |
| Inter-agency grants and allocations..... | 23,197 | 33,974 | 28,750 | (5,224) |
| Intra-governmental transactions..... | 3,968,514 | 4,725,518 | 4,601,708 | (123,810) |
| Sales and services..... | 245,635 | 265,645 | 166,743 | (98,902) |
| Rental and lease of property..... | 15,471 | 16,854 | 17,405 | 551 |
| Fees, licenses and fines..... | 1,632,280 | 520,679 | 544,152 | 23,473 |
| Contributions, gifts and grants..... | 377,642 | 1,152,755 | 1,142,684 | (10,071) |
| Miscellaneous..... | 147,860 | 213,565 | 205,095 | (8,470) |
| Total Revenues..... | 45,123,979 | 44,486,070 | 43,884,880 | (601,190) |
| Expenditures | | | | |
| Current: | | | | |
| General government..... | 1,431,417 | 1,153,267 | 1,135,583 | 17,684 |
| Primary and secondary education..... | 13,409,860 | 12,063,416 | 11,361,738 | 701,678 |
| Higher education..... | 4,961,511 | 5,101,024 | 5,087,163 | 13,861 |
| Health and human services..... | 19,993,064 | 20,693,704 | 20,111,716 | 581,988 |
| Environment and natural resources..... | 317,792 | 737,104 | 598,917 | 138,187 |
| Economic development..... | 604,635 | 938,607 | 650,983 | 287,624 |
| Public safety, corrections, and regulation..... | 2,958,556 | 3,460,715 | 3,297,247 | 163,468 |
| Agriculture..... | 233,917 | 257,182 | 241,532 | 15,650 |
| Capital outlay..... | 26,073 | 26,073 | 26,073 | — |
| Debt service..... | 964,377 | 763,030 | 711,237 | 51,793 |
| Total Expenditures..... | 44,901,202 | 45,194,122 | 43,222,189 | 1,971,933 |
| Excess (deficiency) of revenues over expenditures..... | 222,777 | (708,052) | 662,691 | 1,370,743 |
| Total Fund Balance at July 1..... | 3,843,544 | 3,843,544 | 3,843,544 | — |
| Total Fund Balance at June 30..... | \$ 4,066,321 | \$ 3,135,492 | \$ 4,506,235 | \$ 1,370,743 |
| Fund balance reserved: | | | | |
| Statutory..... | | | \$ 2,834,955 | |
| Non-reverting purposes..... | | | 1,199,829 | |
| Fund balance unreserved..... | | | 471,451 | |
| Total Fund Balance at June 30..... | | | \$ 4,506,235 | |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

A. General Fund Budgetary Process

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

On July 20, 2006, the General Assembly passed Session Law 2006-203, House Bill 914, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007 and affected budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the 16 universities within the University of North Carolina System and the North Carolina School of Science and Mathematics to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All 16 universities and the North Carolina School of Science and Mathematics have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances, the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the department requesting the carryforward amount through OSBM and making required entries to the North Carolina Accounting System (NCAS) in the current year expensing the funds from the agency budget codes. The Office of State Controller (OSC) then transfers the funds to the Carryforward Reserve Fund. The funds are held by OSC pending approval from OSBM to return the funds to the agencies. Upon OSBM approval, the funds are transferred back to the agency budget codes. The agency then makes an entry to NCAS recording the revenue in the subsequent fiscal year.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

B. Special Fund Budgetary Process

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

C. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) 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 funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences. A significant variance between budgetary practices and GAAP is any time-restricted appropriations. Section 11.26 of Session Law 2014-100 restricts the use of funds appropriated to the UNC-Need Based Financial Aid Forward Funding Reserve in the current fiscal year to the subsequent fiscal year. Section 11A.3.(f) of Session Law 2016-94 restricts the use of funds appropriated to the Opportunity Scholarship Grant Fund Reserve in the current fiscal year to the subsequent fiscal year. This time-restriction prevented the

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

revenue/expense from being recognized on GAAP basis, which resulted in the recognition of a deferred inflow of resources (deferred state aid) by the recipient and a deferred outflow of resources (forward funded state aid) by the provider. So while the cash is paid to the recipient in the current fiscal year, it will not be recognized as an expense (by the provider) or revenue (by the recipient) until the subsequent fiscal year.

The following table presents a reconciliation of resulting basis and timing differences in the fund balances (budgetary basis) at June 30, 2017 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

| | <u>General Fund</u> |
|--|-------------------------|
| Fund balance (budgetary basis) | |
| June 30, 2017..... | \$ 4,506,235 |
| <u>Reconciling Adjustments</u> | |
| Basis Differences | |
| Accrued revenues | |
| Taxes receivable..... | 1,828,454 |
| Less tax refunds payable..... | (957,189) |
| Accounts receivable and other receivables..... | 376,741 |
| Federal funds, net..... | 735,121 |
| Unearned revenue..... | (336,298) |
| Total accrued revenues..... | <u>1,646,829</u> |
| Accrued expenditures | |
| Medical claims payable..... | (985,837) |
| Accounts payable, accrued liabilities, and other payables..... | (1,000,121) |
| Total accrued expenditures..... | <u>(1,985,958)</u> |
| Other Adjustments | |
| Notes receivable..... | 18,538 |
| Inventories..... | 68,761 |
| Timing Differences | |
| Authorized carryforward for specific encumbrances | — |
| Forward funded state aid..... | <u>127,449</u> |
| Fund balance (GAAP basis) | |
| June 30, 2017..... | <u>\$ 4,381,854</u> |

D. Budgetary Reserves

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

Savings Reserve Account (General Statute 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. 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. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

At the beginning of fiscal year 2016-17, the balance of the Savings Reserve Account was \$1.575 billion. In accordance with Session Law 2016-124 Section 4.1 \$100.9 million was transferred from the Savings Reserve to the Disaster Relief reserve and Golden L.E.A.F. Also

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

in accordance with Session Law 2017-57 Section 2.2(c), the State Controller was authorized by the General Assembly to transfer \$363.9 million from unreserved fund balance to the Savings Reserve. At the end of the fiscal year 2016-17, the balance of this reserve was \$1.838 billion.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2017-57 Section 2.2(b), the State Controller was authorized by the General Assembly to transfer \$125 million from unreserved fund balance to the Repairs and Renovations Reserve. At the end of the fiscal year 2016-17, the balance of this reserve was \$136.59 million.

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005, \$248.17 million was transferred to the Disaster Relief Reserve. This \$248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. The balance on July 1, 2016 was \$3.9 million. In accordance with Session Law 2016-124, Disaster Recovery Act of 2016, the State Controller was authorized by the General Assembly to transfer \$75.9 million from the Savings Reserve to the Disaster Relief Reserve for fiscal year 2016-17 for Hurricane Matthew relief. At the end of the fiscal year 2016-17, the balance of this reserve was \$54.07 million.

Medicaid Contingency Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 12H.38.(a) established in the General Fund the Medicaid Contingency Reserve. Funds in the Medicaid Contingency Reserve shall be used only for budget shortfalls in the Medicaid Program. At the end of the fiscal year 2016-17, the balance of this reserve was \$186.37 million.

Medicaid Transformation Reserve Fund (Session Law 2015-241, House Bill 97). In accordance with Session Law 2015-241, House Bill 97, Section 12H.29 Medicaid Transformation Fund. The Medicaid Transformation Fund is established in the Office of State Budget and Management as a nonreverting reserve in the General Fund. The purpose of the Medicaid Transformation Fund is to provide funds for converting from a fee-for-services payment system to a capitated payment system. The sum of \$150 million in nonrecurring funds was reserved for fiscal year 2016-17. At the end of the fiscal year 2016-17, the balance of this reserve was \$225 million.

Carryforward Reserve (Session Law 2014-100, Senate Bill 744). In accordance with Session Law 2014-100, Senate Bill 744, Section 6.7, the General Assembly required the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, to review current budgeting practices in the General Fund. After review, the Office of State Budget and Management and the Office of the State Controller, in consultation with the Fiscal Research Division, established stronger internal controls over the carryforward process. In fiscal year 2017 this process included all State agencies with the exception of higher education. Carryforward funds were transferred from the agencies' General Fund appropriations and placed in the Carryforward Reserve. At the end of the fiscal year 2016-17, the balance of this reserve was \$394.71 million.

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*COMBINING FUND
STATEMENTS
AND
SCHEDULES*

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*NONMAJOR
GOVERNMENTAL
FUNDS*

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2017

Exhibit C-1

(Dollars in Thousands)

| | Special Revenue Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------|------------------------------|--------------------|--|
| Assets | | | | |
| Cash and cash equivalents | \$ 968,452 | \$ — | \$ 941 | \$ 969,393 |
| Investments | 281,592 | — | — | 281,592 |
| Securities lending collateral | 764 | 74 | 17 | 855 |
| Receivables, net: | | | | |
| Taxes receivable..... | 12,971 | — | — | 12,971 |
| Accounts receivable..... | 16,915 | — | — | 16,915 |
| Intergovernmental receivable..... | 1,096 | — | — | 1,096 |
| Interest receivable..... | 562 | 378 | 237 | 1,177 |
| Other receivables..... | 774 | — | — | 774 |
| Due from other funds | 9,353 | — | — | 9,353 |
| Inventories..... | 20,278 | — | — | 20,278 |
| Notes receivable, net..... | 926 | 38,523 | — | 39,449 |
| Securities held in trust..... | 44,515 | — | — | 44,515 |
| Restricted/designated cash and cash equivalents..... | — | 331,930 | 13,266 | 345,196 |
| Restricted investments..... | — | 390,247 | 128,109 | 518,356 |
| Total Assets..... | <u>1,358,198</u> | <u>761,152</u> | <u>142,570</u> | <u>2,261,920</u> |
| Deferred Outflows of Resources | | | | |
| Forward funded state aid..... | 37,287 | — | — | 37,287 |
| Total Assets and Deferred Outflows..... | <u>\$ 1,395,485</u> | <u>\$ 761,152</u> | <u>\$ 142,570</u> | <u>\$ 2,299,207</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | \$ 10,621 | \$ 18,943 | \$ — | \$ 29,564 |
| Accrued payroll..... | 58 | — | — | 58 |
| Intergovernmental payable..... | 7,933 | 230 | — | 8,163 |
| Claims payable..... | 58,000 | — | — | 58,000 |
| Obligations under securities lending..... | 764 | 74 | 17 | 855 |
| Due to other funds | 369 | 9 | — | 378 |
| Due to component units | 13 | 13,990 | — | 14,003 |
| Unearned revenue..... | 746 | 425 | — | 1,171 |
| Deposits payable..... | 3 | — | — | 3 |
| Funds held for others..... | 44,629 | — | — | 44,629 |
| Total Liabilities..... | <u>123,136</u> | <u>33,671</u> | <u>17</u> | <u>156,824</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue..... | 12,784 | — | — | 12,784 |
| Fund Balances | | | | |
| Nonspendable..... | 20,278 | — | 110,804 | 131,082 |
| Restricted..... | 724,347 | 386,739 | 30,858 | 1,141,944 |
| Committed..... | 514,940 | 339,813 | 891 | 855,644 |
| Assigned..... | — | 929 | — | 929 |
| Total Fund Balances..... | <u>1,259,565</u> | <u>727,481</u> | <u>142,553</u> | <u>2,129,599</u> |
| Total Liabilities, Deferred Inflows and Fund Balances..... | <u>\$ 1,395,485</u> | <u>\$ 761,152</u> | <u>\$ 142,570</u> | <u>\$ 2,299,207</u> |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

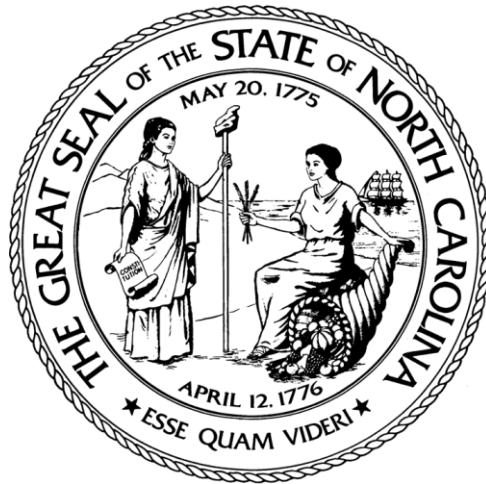
For the Fiscal Year Ended June 30, 2017

Exhibit C-2

(Dollars in Thousands)

| | Special Revenue Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|---|--------------------------------------|---------------------------------------|----------------------------|--|
| Revenues | | | | |
| Taxes: | | | | |
| Sales and use tax..... | \$ 8,073 | \$ — | \$ — | \$ 8,073 |
| Gasoline tax..... | 25,508 | — | — | 25,508 |
| Other taxes..... | 108,725 | — | — | 108,725 |
| Federal funds..... | 84,859 | 5,846 | — | 90,705 |
| Local funds..... | 8,111 | — | — | 8,111 |
| Investment earnings..... | 12,641 | 2,530 | 7,404 | 22,575 |
| Interest earnings on loans..... | 1 | 411 | — | 412 |
| Sales and services..... | 146,008 | 1,173 | — | 147,181 |
| Rental and lease of property..... | 2,937 | — | — | 2,937 |
| Fees, licenses, and fines..... | 172,240 | 737 | 4,599 | 177,576 |
| Contributions, gifts, and grants..... | 28,534 | 20,642 | 6 | 49,182 |
| Funds escheated..... | 126,701 | — | — | 126,701 |
| Miscellaneous..... | 3,466 | 381 | — | 3,847 |
| Total revenues..... | <u>727,804</u> | <u>31,720</u> | <u>12,009</u> | <u>771,533</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government..... | 40,227 | 274 | — | 40,501 |
| Higher education..... | 43,156 | 45,592 | 26 | 88,774 |
| Health and human services..... | 70,953 | — | — | 70,953 |
| Economic development..... | 7,470 | 915 | — | 8,385 |
| Environment and natural resources..... | 118,743 | 9,010 | 46 | 127,799 |
| Public safety, corrections, and regulation..... | 263,014 | — | — | 263,014 |
| Agriculture..... | 14,625 | — | — | 14,625 |
| Capital outlay..... | — | 158,793 | — | 158,793 |
| Debt service: | | | | |
| Principal retirement..... | 57 | — | — | 57 |
| Interest and fees..... | 13 | 33 | — | 46 |
| Debt issuance costs..... | — | 538 | — | 538 |
| Total expenditures..... | <u>558,258</u> | <u>215,155</u> | <u>72</u> | <u>773,485</u> |
| Excess revenues over (under) expenditures..... | <u>169,546</u> | <u>(183,435)</u> | <u>11,937</u> | <u>(1,952)</u> |
| Other Financing Sources (Uses) | | | | |
| General obligation bonds issued..... | — | 200,000 | — | 200,000 |
| Premium on debt issued..... | — | 30,018 | — | 30,018 |
| Sale of capital assets..... | 135 | 113 | — | 248 |
| Insurance recoveries..... | 49 | 296 | — | 345 |
| Transfers in..... | 85,632 | 105,791 | — | 191,423 |
| Transfers out..... | (113,012) | (12,302) | (4,881) | (130,195) |
| Total other financing sources (uses)..... | <u>(27,196)</u> | <u>323,916</u> | <u>(4,881)</u> | <u>291,839</u> |
| Net change in fund balances..... | 142,350 | 140,481 | 7,056 | 289,887 |
| Fund balances — July 1..... | 1,117,215 | 587,000 | 135,497 | 1,839,712 |
| Fund balances — June 30..... | <u>\$ 1,259,565</u> | <u>\$ 727,481</u> | <u>\$ 142,553</u> | <u>\$ 2,129,599</u> |

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NONMAJOR SPECIAL REVENUE FUNDS

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.

The following are included in the nonmajor special revenue funds:

- Escheat Fund
- Correction Enterprises Fund
- Leaking Petroleum Underground Storage Tank Cleanup Fund
- 911 Fund
- Environment Management Protection Funds
- Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2017

(Dollars in Thousands)

| | Escheat Fund | Correction Enterprises Fund | Leaking Petroleum Underground Storage Tank Cleanup Fund | 911 Fund |
|--|-------------------|-----------------------------------|---|------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 419,658 | \$ 16,307 | \$ 38,828 | \$ 63,933 |
| Investments | 258,903 | — | — | — |
| Securities lending collateral | 503 | — | — | 78 |
| Receivables, net: | | | | |
| Taxes receivable..... | — | — | 1,585 | — |
| Accounts receivable..... | — | 1,876 | 386 | 6,107 |
| Intergovernmental receivable..... | — | 398 | — | — |
| Interest receivable..... | 392 | — | — | 59 |
| Other receivables..... | 774 | — | — | — |
| Due from other funds | — | 2,537 | — | 2,583 |
| Inventories..... | — | 16,258 | — | — |
| Notes receivable..... | — | — | 648 | — |
| Securities held in trust..... | — | — | — | — |
| Total Assets..... | <u>680,230</u> | <u>37,376</u> | <u>41,447</u> | <u>72,760</u> |
| Deferred Outflows of Resources | | | | |
| Forward funded state aid..... | 37,287 | — | — | — |
| Total Assets and Deferred Outflows..... | <u>\$ 717,517</u> | <u>\$ 37,376</u> | <u>\$ 41,447</u> | <u>\$ 72,760</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | \$ 93 | \$ 2,319 | \$ 153 | \$ 471 |
| Accrued payroll..... | — | 2 | — | — |
| Intergovernmental payable..... | — | 1 | — | 5,739 |
| Claims payable..... | 58,000 | — | — | — |
| Obligations under securities lending..... | 503 | — | — | 78 |
| Due to other funds | — | 32 | — | 2 |
| Due to component units | — | — | — | — |
| Unearned revenue..... | — | 131 | — | — |
| Deposits payable..... | — | — | — | — |
| Funds held for others..... | — | — | — | — |
| Total Liabilities..... | <u>58,596</u> | <u>2,485</u> | <u>153</u> | <u>6,290</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue..... | — | — | — | — |
| Fund Balances | | | | |
| Nonspendable..... | — | 16,258 | — | — |
| Restricted..... | 658,921 | — | — | — |
| Committed..... | — | 18,633 | 41,294 | 66,470 |
| Total Fund Balances..... | <u>658,921</u> | <u>34,891</u> | <u>41,294</u> | <u>66,470</u> |
| Total Liabilities, Deferred Inflows and Fund Balances... | <u>\$ 717,517</u> | <u>\$ 37,376</u> | <u>\$ 41,447</u> | <u>\$ 72,760</u> |

| Environment Management Protection Funds | Departmental Funds | Total Nonmajor Special Revenue Funds |
|--|-----------------------|--|
| \$ 166,942 | \$ 262,784 | \$ 968,452 |
| 22,318 | 371 | 281,592 |
| 61 | 122 | 764 |
| 647 | 10,739 | 12,971 |
| 5,397 | 3,149 | 16,915 |
| — | 698 | 1,096 |
| 50 | 61 | 562 |
| — | — | 774 |
| 4,233 | — | 9,353 |
| — | 4,020 | 20,278 |
| 63 | 215 | 926 |
| 44,515 | — | 44,515 |
| <u>244,226</u> | <u>282,159</u> | <u>1,358,198</u> |
| — | — | 37,287 |
| <u>\$ 244,226</u> | <u>\$ 282,159</u> | <u>\$ 1,395,485</u> |
| | | |
| \$ 2,661 | \$ 4,924 | \$ 10,621 |
| — | 56 | 58 |
| 752 | 1,441 | 7,933 |
| — | — | 58,000 |
| 61 | 122 | 764 |
| 89 | 246 | 369 |
| — | 13 | 13 |
| — | 615 | 746 |
| — | 3 | 3 |
| 44,515 | 114 | 44,629 |
| <u>48,078</u> | <u>7,534</u> | <u>123,136</u> |
| | | |
| <u>1,877</u> | <u>10,907</u> | <u>12,784</u> |
| | | |
| — | 4,020 | 20,278 |
| 21,931 | 43,495 | 724,347 |
| 172,340 | 216,203 | 514,940 |
| <u>194,271</u> | <u>263,718</u> | <u>1,259,565</u> |
| <u>\$ 244,226</u> | <u>\$ 282,159</u> | <u>\$ 1,395,485</u> |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Escheat Fund | Correction Enterprises Fund | Leaking Petroleum Underground Storage Tank Cleanup Fund | 911 Fund |
|---|-------------------|-----------------------------------|---|------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Sales and use tax..... | \$ — | \$ — | \$ — | \$ — |
| Gasoline tax..... | — | — | 17,647 | — |
| Other taxes..... | — | — | — | 79,274 |
| Federal funds..... | — | — | — | — |
| Local funds..... | — | — | — | — |
| Investment earnings (loss)..... | 10,542 | — | — | 603 |
| Interest earnings on loans..... | — | — | — | — |
| Sales and services..... | — | 87,766 | — | 718 |
| Rental and lease of property..... | — | 544 | — | — |
| Fees, licenses, and fines..... | — | — | 10,085 | — |
| Contributions, gifts, and grants..... | — | — | — | — |
| Funds escheated..... | 126,701 | — | — | — |
| Miscellaneous..... | — | 90 | — | — |
| Total revenues..... | <u>137,243</u> | <u>88,400</u> | <u>27,732</u> | <u>80,595</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government..... | — | — | — | — |
| Higher education..... | 42,511 | — | — | — |
| Health and human services..... | — | — | — | — |
| Economic development..... | — | — | — | — |
| Environment and natural resources..... | — | — | 18,965 | — |
| Public safety, corrections, and regulation... | — | 84,269 | — | 72,668 |
| Agriculture..... | — | — | — | — |
| Debt service: | | | | |
| Principal retirement..... | — | — | — | — |
| Interest and fees..... | — | — | — | — |
| Total expenditures..... | <u>42,511</u> | <u>84,269</u> | <u>18,965</u> | <u>72,668</u> |
| Excess revenues over (under) expenditures.. | <u>94,732</u> | <u>4,131</u> | <u>8,767</u> | <u>7,927</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets..... | — | 70 | — | — |
| Insurance recoveries..... | — | — | — | — |
| Transfers in..... | — | 202 | — | — |
| Transfers out..... | (22,856) | (4,508) | (3,811) | — |
| Total other financing sources (uses)..... | <u>(22,856)</u> | <u>(4,236)</u> | <u>(3,811)</u> | <u>—</u> |
| Net change in fund balances..... | 71,876 | (105) | 4,956 | 7,927 |
| Fund balances — July 1..... | 587,045 | 34,996 | 36,338 | 58,543 |
| Fund balances — June 30..... | <u>\$ 658,921</u> | <u>\$ 34,891</u> | <u>\$ 41,294</u> | <u>\$ 66,470</u> |

| Environment Management Protection Funds | Departmental Funds | Total Nonmajor Special Revenue Funds |
|--|-------------------------------|---|
| \$ 8,073 | \$ — | \$ 8,073 |
| 7,861 | — | 25,508 |
| 10,047 | 19,404 | 108,725 |
| 4,046 | 80,813 | 84,859 |
| 1,711 | 6,400 | 8,111 |
| 552 | 944 | 12,641 |
| 1 | — | 1 |
| 83 | 57,441 | 146,008 |
| 23 | 2,370 | 2,937 |
| 56,086 | 106,069 | 172,240 |
| 14,265 | 14,269 | 28,534 |
| — | — | 126,701 |
| 1,030 | 2,346 | 3,466 |
| <u>103,778</u> | <u>290,056</u> | <u>727,804</u> |
| — | 40,227 | 40,227 |
| — | 645 | 43,156 |
| — | 70,953 | 70,953 |
| — | 7,470 | 7,470 |
| 96,129 | 3,649 | 118,743 |
| — | 106,077 | 263,014 |
| — | 14,625 | 14,625 |
| — | 57 | 57 |
| — | 13 | 13 |
| <u>96,129</u> | <u>243,716</u> | <u>558,258</u> |
| <u>7,649</u> | <u>46,340</u> | <u>169,546</u> |
| — | 65 | 135 |
| — | 49 | 49 |
| 24,656 | 60,774 | 85,632 |
| <u>(13,482)</u> | <u>(68,355)</u> | <u>(113,012)</u> |
| <u>11,174</u> | <u>(7,467)</u> | <u>(27,196)</u> |
| 18,823 | 38,873 | 142,350 |
| 175,448 | 224,845 | 1,117,215 |
| <u>\$ 194,271</u> | <u>\$ 263,718</u> | <u>\$ 1,259,565</u> |

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Escheat Fund | | | Correction Enterprises Fund | | | Leaking Petroleum Underground Storage Tank Cleanup Fund | | |
|--|------------------|-------------------|----------------------|-----------------------------|------------------|----------------------|---|------------------|----------------------|
| | Final | | Variance | Final | | Variance | Final | | Variance |
| | Budget | Actual | with Final Budget | Budget | Actual | with Final Budget | Budget | Actual | with Final Budget |
| Revenues | | | | | | | | | |
| Departmental: | | | | | | | | | |
| Federal funds..... | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Local funds..... | — | — | — | — | — | — | — | — | — |
| Inter-agency grants and allocations..... | — | — | — | — | — | — | — | — | — |
| Intra-governmental transactions..... | — | — | — | 202 | 202 | — | 17,353 | 18,719 | 1,366 |
| Sales and services..... | — | — | — | 92,155 | 86,774 | (5,381) | — | — | — |
| Sale, rental, and lease of property.. | — | — | — | 356 | 725 | 369 | — | — | — |
| Fees, licenses, and fines..... | — | — | — | — | — | — | 10,000 | 10,069 | 69 |
| Contributions, gifts, and grants..... | — | — | — | — | — | — | — | — | — |
| Miscellaneous..... | 193,296 | 59,433 | (133,863) | 123 | 96 | (27) | — | — | — |
| Total revenues..... | 193,296 | 59,433 | (133,863) | 92,836 | 87,797 | (5,039) | 27,353 | 28,788 | 1,435 |
| Expenditures | | | | | | | | | |
| Current: | | | | | | | | | |
| General government..... | — | — | — | — | — | — | — | — | — |
| Higher education..... | 66,431 | 65,392 | 1,039 | — | — | — | — | — | — |
| Health and human services..... | — | — | — | — | — | — | — | — | — |
| Economic development..... | — | — | — | — | — | — | — | — | — |
| Environmental and natural resources..... | — | — | — | — | — | — | 55,235 | 25,168 | 30,067 |
| Public safety and corrections..... | — | — | — | 94,387 | 86,756 | 7,631 | — | — | — |
| Agriculture..... | — | — | — | — | — | — | — | — | — |
| Total expenditures..... | 66,431 | 65,392 | 1,039 | 94,387 | 86,756 | 7,631 | 55,235 | 25,168 | 30,067 |
| Excess revenues over (under) expenditures | <u>\$126,865</u> | <u>(5,959)</u> | <u>\$(132,824)</u> | <u>\$ (1,551)</u> | <u>1,041</u> | <u>\$ 2,592</u> | <u>\$ (27,882)</u> | <u>3,620</u> | <u>\$ 31,502</u> |
| Fund balances (budgetary basis) | | | | | | | | | |
| at July 1, as restated..... | | <u>668,340</u> | | | <u>15,266</u> | | | <u>35,208</u> | |
| Fund balances (budgetary basis) | | | | | | | | | |
| at June 30..... | | <u>\$ 662,381</u> | | | <u>\$ 16,307</u> | | | <u>\$ 38,828</u> | |

| 911 Fund | | | Environment Management Protection Funds | | | Departmental Funds | | | Total Nonmajor Special Revenue Funds | | |
|--------------------|------------------|----------------------------------|--|-------------------|----------------------------------|--------------------|-------------------|----------------------------------|---|---------------------|----------------------------------|
| Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| \$ — | \$ — | \$ — | \$ 6,455 | \$ 4,049 | \$ (2,406) | \$ 99,248 | \$ 80,950 | \$ (18,298) | \$ 105,703 | \$ 84,999 | \$ (20,704) |
| — | — | — | 3,509 | 1,701 | (1,808) | 7,620 | 6,424 | (1,196) | 11,129 | 8,125 | (3,004) |
| — | — | — | 18,558 | 15,767 | (2,791) | 15,432 | 11,469 | (3,963) | 33,990 | 27,236 | (6,754) |
| — | — | — | 72,600 | 77,552 | 4,952 | 105,868 | 93,744 | (12,124) | 196,023 | 190,217 | (5,806) |
| 733 | 720 | (13) | 30 | 83 | 53 | 58,931 | 57,465 | (1,466) | 151,849 | 145,042 | (6,807) |
| — | — | — | 23 | 23 | — | 2,316 | 2,434 | 118 | 2,695 | 3,182 | 487 |
| 89,630 | 79,254 | (10,376) | 99,472 | 58,401 | (41,071) | 109,603 | 131,259 | 21,656 | 308,705 | 278,983 | (29,722) |
| — | — | — | 374 | 64 | (310) | 4,414 | 2,676 | (1,738) | 4,788 | 2,740 | (2,048) |
| 450 | 571 | 121 | 1,246 | 390 | (856) | 31,099 | 18,866 | (12,233) | 226,214 | 79,356 | (146,858) |
| <u>90,813</u> | <u>80,545</u> | <u>(10,268)</u> | <u>202,267</u> | <u>158,030</u> | <u>(44,237)</u> | <u>434,531</u> | <u>405,287</u> | <u>(29,244)</u> | <u>1,041,096</u> | <u>819,880</u> | <u>(221,216)</u> |
| — | — | — | — | — | — | 69,849 | 44,298 | 25,551 | 69,849 | 44,298 | 25,551 |
| — | — | — | — | — | — | 995 | 672 | 323 | 67,426 | 66,064 | 1,362 |
| — | — | — | — | — | — | 157,742 | 95,759 | 61,983 | 157,742 | 95,759 | 61,983 |
| — | — | — | — | — | — | 26,622 | 7,895 | 18,727 | 26,622 | 7,895 | 18,727 |
| — | — | — | 211,804 | 134,403 | 77,401 | 6,563 | 3,716 | 2,847 | 273,602 | 163,287 | 110,315 |
| 109,672 | 72,463 | 37,209 | — | — | — | 214,731 | 191,214 | 23,517 | 418,790 | 350,433 | 68,357 |
| — | — | — | — | — | — | 22,846 | 18,374 | 4,472 | 22,846 | 18,374 | 4,472 |
| <u>109,672</u> | <u>72,463</u> | <u>37,209</u> | <u>211,804</u> | <u>134,403</u> | <u>77,401</u> | <u>499,348</u> | <u>361,928</u> | <u>137,420</u> | <u>1,036,877</u> | <u>746,110</u> | <u>290,767</u> |
| <u>\$ (18,859)</u> | 8,082 | <u>\$ 26,941</u> | <u>\$ (9,537)</u> | 23,627 | <u>\$ 33,164</u> | <u>\$ (64,817)</u> | 43,359 | <u>\$ 108,176</u> | <u>\$ 4,219</u> | 73,770 | <u>\$ 69,551</u> |
| | <u>55,851</u> | | | <u>166,188</u> | | | <u>218,432</u> | | | <u>1,159,285</u> | |
| | <u>\$ 63,933</u> | | | <u>\$ 189,815</u> | | | <u>\$ 261,791</u> | | | <u>\$ 1,233,055</u> | |

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NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets, as well as capital grants to component units and other governmental entities. They are financed principally by debt proceeds and transfers from the General Fund.

The following activities are included in the nonmajor capital projects funds:

Non-Debt Supported Fund

Debt Supported Fund

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS**

June 30, 2017

Exhibit C-6

(Dollars in Thousands)

| | Non-Debt Supported Fund | Debt Supported Fund | Total Nonmajor Capital Projects Funds |
|--|-------------------------------|---------------------------|---|
| Assets | | | |
| Securities lending collateral..... | \$ 74 | \$ — | \$ 74 |
| Receivables, net: | | | |
| Interest receivable..... | 124 | 254 | 378 |
| Notes receivable, net..... | 38,523 | — | 38,523 |
| Restricted/designated cash and cash equivalents..... | 331,930 | — | 331,930 |
| Restricted investments..... | — | 390,247 | 390,247 |
| Total Assets..... | <u>\$ 370,651</u> | <u>\$ 390,501</u> | <u>\$ 761,152</u> |
| Liabilities | | | |
| Accounts payable and accrued liabilities: | | | |
| Accounts payable..... | \$ 6,858 | \$ 12,085 | \$ 18,943 |
| Intergovernmental payable..... | 230 | — | 230 |
| Obligations under securities lending..... | 74 | — | 74 |
| Due to other funds | 9 | — | 9 |
| Due to component units..... | 13,656 | 334 | 13,990 |
| Unearned revenue..... | 425 | — | 425 |
| Total Liabilities..... | <u>21,252</u> | <u>12,419</u> | <u>33,671</u> |
| Fund Balances | | | |
| Restricted..... | 8,657 | 378,082 | 386,739 |
| Committed..... | 339,813 | — | 339,813 |
| Assigned..... | 929 | — | 929 |
| Total Fund Balances..... | <u>349,399</u> | <u>378,082</u> | <u>727,481</u> |
| Total Liabilities and Fund Balances..... | <u>\$ 370,651</u> | <u>\$ 390,501</u> | <u>\$ 761,152</u> |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS**

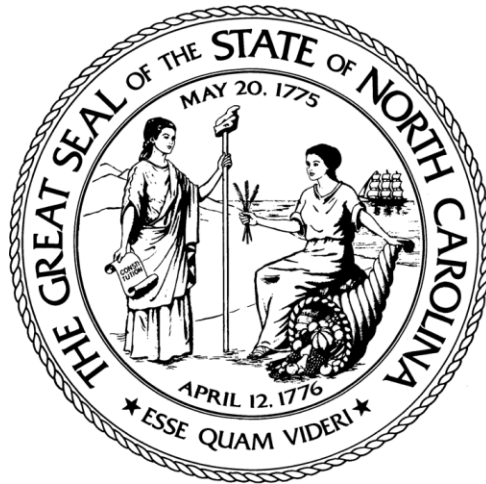
For the Fiscal Year Ended June 30, 2017

Exhibit C-7

(Dollars in Thousands)

| | Non-Debt Supported Fund | Debt Supported Fund | Total Nonmajor Capital Projects Funds |
|--|-------------------------------|---------------------------|---|
| Revenues | | | |
| Federal funds..... | \$ 5,846 | \$ — | \$ 5,846 |
| Investment earnings..... | 531 | 1,999 | 2,530 |
| Interest earnings on loans..... | 411 | — | 411 |
| Sales and services..... | 1,173 | — | 1,173 |
| Fees, licenses, and fines..... | 737 | — | 737 |
| Contributions, gifts, and grants..... | 20,642 | — | 20,642 |
| Miscellaneous..... | 381 | — | 381 |
| Total revenues..... | <u>29,721</u> | <u>1,999</u> | <u>31,720</u> |
| Expenditures | | | |
| Current: | | | |
| General government..... | — | 274 | 274 |
| Higher education..... | 5,381 | 40,211 | 45,592 |
| Economic development..... | — | 915 | 915 |
| Environment and natural resources..... | 8,406 | 604 | 9,010 |
| Capital outlay..... | 81,628 | 77,165 | 158,793 |
| Debt service: | | | |
| Interest and fees..... | — | 33 | 33 |
| Debt issuance costs..... | — | 538 | 538 |
| Total expenditures..... | <u>95,415</u> | <u>119,740</u> | <u>215,155</u> |
| Excess revenues over (under) expenditures..... | <u>(65,694)</u> | <u>(117,741)</u> | <u>(183,435)</u> |
| Other Financing Sources (Uses) | | | |
| General obligation bonds issued..... | — | 200,000 | 200,000 |
| Premium on debt issued..... | — | 30,018 | 30,018 |
| Sale of capital assets..... | 113 | — | 113 |
| Insurance recoveries..... | 296 | — | 296 |
| Transfers in..... | 105,791 | — | 105,791 |
| Transfers out..... | (957) | (11,345) | (12,302) |
| Total other financing sources (uses)..... | <u>105,243</u> | <u>218,673</u> | <u>323,916</u> |
| Net change in fund balances..... | 39,549 | 100,932 | 140,481 |
| Fund balances — July 1..... | 309,850 | 277,150 | 587,000 |
| Fund balances — June 30..... | <u>\$ 349,399</u> | <u>\$ 378,082</u> | <u>\$ 727,481</u> |

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

June 30, 2017

Exhibit C-8

(Dollars in Thousands)

| | Wildlife Endowment Fund | Departmental Funds | Total Nonmajor Permanent Funds |
|--|--|-------------------------------|---|
| Assets | | | |
| Cash and cash equivalents..... | \$ — | \$ 941 | \$ 941 |
| Securities lending collateral..... | 2 | 15 | 17 |
| Receivables, net: | | | |
| Interest receivable..... | 225 | 12 | 237 |
| Restricted/designated cash and cash equivalents..... | 1,463 | 11,803 | 13,266 |
| Restricted investments..... | 127,629 | 480 | 128,109 |
| Total Assets..... | <u>\$ 129,319</u> | <u>\$ 13,251</u> | <u>\$ 142,570</u> |
| Liabilities | | | |
| Obligations under securities lending..... | <u>\$ 2</u> | <u>\$ 15</u> | <u>\$ 17</u> |
| Fund Balances | | | |
| Nonspendable..... | 98,522 | 12,282 | 110,804 |
| Restricted..... | 30,795 | 63 | 30,858 |
| Committed..... | — | 891 | 891 |
| Total Fund Balances..... | <u>129,317</u> | <u>13,236</u> | <u>142,553</u> |
| Total Liabilities and Fund Balances..... | <u>\$ 129,319</u> | <u>\$ 13,251</u> | <u>\$ 142,570</u> |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS**

For the Fiscal Year Ended June 30, 2017

Exhibit C-9

(Dollars in Thousands)

| | Wildlife Endowment Fund | Departmental Funds | Total Nonmajor Permanent Funds |
|--|-------------------------------|-----------------------|---|
| Revenues | | | |
| Investment earnings..... | \$ 7,287 | \$ 117 | \$ 7,404 |
| Fees, licenses, and fines..... | 3,571 | 1,028 | 4,599 |
| Contributions, gifts, and grants..... | 6 | — | 6 |
| Total revenues..... | <u>10,864</u> | <u>1,145</u> | <u>12,009</u> |
| Expenditures | | | |
| Current: | | | |
| Higher education..... | — | 26 | 26 |
| Environment and natural resources..... | — | 46 | 46 |
| Total expenditures..... | <u>—</u> | <u>72</u> | <u>72</u> |
| Excess revenues over (under) expenditures..... | <u>10,864</u> | <u>1,073</u> | <u>11,937</u> |
| Other Financing Sources (Uses) | | | |
| Transfers out..... | <u>(4,831)</u> | <u>(50)</u> | <u>(4,881)</u> |
| Net change in fund balances..... | 6,033 | 1,023 | 7,056 |
| Fund balances — July 1..... | 123,284 | 12,213 | 135,497 |
| Fund balances — June 30..... | <u>\$ 129,317</u> | <u>\$ 13,236</u> | <u>\$ 142,553</u> |

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR PERMANENT FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Wildlife Endowment Fund | | | Departmental Funds | | |
|---|-------------------------|-------------------|----------------------------|--------------------|------------------|----------------------------|
| | Final Budget | Actual | Variance with Final Budget | Final Budget | Actual | Variance with Final Budget |
| Revenues: | | | | | | |
| Departmental: | | | | | | |
| Intra-governmental transactions..... | \$ 5,266 | \$ 3,071 | \$ (2,195) | \$ — | \$ — | \$ — |
| Fees, licenses, and fines..... | 3,764 | 3,599 | (165) | 938 | 1,028 | 90 |
| Contributions, gifts, and grants..... | 9 | 6 | (3) | — | — | — |
| Miscellaneous..... | 6,141 | 8,048 | 1,907 | 134 | 126 | (8) |
| Total revenues..... | <u>15,180</u> | <u>14,724</u> | <u>(456)</u> | <u>1,072</u> | <u>1,154</u> | <u>82</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Higher education..... | — | — | — | 26 | 19 | 7 |
| Health and human services..... | — | — | — | 50 | 50 | — |
| Environmental and natural resources..... | 10,682 | 7,903 | 2,779 | 170 | 44 | 126 |
| Total expenditures..... | <u>10,682</u> | <u>7,903</u> | <u>2,779</u> | <u>246</u> | <u>113</u> | <u>133</u> |
| Excess revenues over (under) expenditures | <u>\$ 4,498</u> | 6,821 | <u>\$ 2,323</u> | <u>\$ 826</u> | 1,041 | <u>\$ 215</u> |
| Fund balances (budgetary basis) | | | | | | |
| at July 1, as restated..... | | <u>118,427</u> | | | <u>12,206</u> | |
| Fund balances (budgetary basis) | | | | | | |
| at June 30..... | | <u>\$ 125,248</u> | | | <u>\$ 13,247</u> | |

Total Nonmajor Permanent Funds

| Final Budget | Actual | Variance with Final Budget |
|-------------------------|-------------------|---|
| \$ 5,266 | \$ 3,071 | \$ (2,195) |
| 4,702 | 4,627 | (75) |
| 9 | 6 | (3) |
| <u>6,275</u> | <u>8,174</u> | <u>1,899</u> |
| <u>16,252</u> | <u>15,878</u> | <u>(374)</u> |
| 26 | 19 | 7 |
| 50 | 50 | — |
| <u>10,852</u> | <u>7,947</u> | <u>2,905</u> |
| <u>10,928</u> | <u>8,016</u> | <u>2,912</u> |
| <u>\$ 5,324</u> | <u>7,862</u> | <u>\$ 2,538</u> |
| | <u>130,633</u> | |
| | <u>\$ 138,495</u> | |

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PROPRIETARY FUNDS

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for and report activities for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

- Public School Insurance
- North Carolina State Fair
- USS North Carolina Battleship Commission
- Agricultural Farmers Market
- Workers' Compensation
- Utilities Commission
- State Banking Commission
- ABC Commission
- Occupational Licensing Boards
- Departmental Funds

**COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS**

June 30, 2017

(Dollars in Thousands)

| | Public School Insurance | North Carolina State Fair | USS North Carolina Battleship Commission | Agricultural Farmers Market | Workers' Compensation | Utilities Commission |
|---|-------------------------------|------------------------------------|---|-----------------------------------|--------------------------|-------------------------|
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents..... | \$ 20,064 | \$ 4,636 | \$ 7,260 | \$ 3,898 | \$ 23,133 | \$ 8,623 |
| Investments..... | 88,952 | — | — | — | 13,137 | — |
| Securities lending collateral..... | 24 | — | 5 | — | 28 | 9 |
| Receivables: | | | | | | |
| Accounts receivable, net..... | — | 289 | 366 | 21 | 13 | 38 |
| Intergovernmental receivable..... | — | — | — | — | — | — |
| Interest receivable..... | 18 | — | — | — | 16 | 8 |
| Premiums receivable..... | 1,824 | — | — | — | 1 | — |
| Notes receivable..... | — | — | — | — | — | — |
| Inventories..... | — | 157 | 236 | 19 | — | 32 |
| Prepaid items..... | 2,308 | — | 162 | — | 33 | — |
| Restricted cash and cash equivalents..... | — | — | 2,638 | — | — | — |
| Total current assets..... | <u>113,190</u> | <u>5,082</u> | <u>10,667</u> | <u>3,938</u> | <u>36,361</u> | <u>8,710</u> |
| Noncurrent Assets | | | | | | |
| Investments..... | — | — | — | — | — | — |
| Notes receivable..... | — | — | — | — | — | — |
| Restricted/designated cash and cash equivalents..... | — | — | 1,944 | — | — | — |
| Capital assets-nondepreciable..... | — | 1,345 | 466 | 3,740 | — | — |
| Capital assets-depreciable, net..... | — | 13,874 | 2,161 | 6,822 | — | 112 |
| Total noncurrent assets..... | <u>—</u> | <u>15,219</u> | <u>4,571</u> | <u>10,562</u> | <u>—</u> | <u>112</u> |
| Total Assets..... | <u>113,190</u> | <u>20,301</u> | <u>15,238</u> | <u>14,500</u> | <u>36,361</u> | <u>8,822</u> |
| Deferred Outflows of Resources | | | | | | |
| Deferred outflows for pensions..... | 160 | 1,417 | 477 | 404 | — | 4,033 |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued liabilities: | | | | | | |
| Accounts payable..... | 20 | 238 | 289 | 45 | 16 | 23 |
| Accrued payroll..... | — | 21 | 86 | 4 | — | — |
| Intergovernmental payable..... | — | — | — | — | — | — |
| Claims payable..... | 11,962 | — | — | — | 22,548 | — |
| Obligations under securities lending..... | 24 | — | 5 | — | 28 | 9 |
| Due to other funds..... | 2 | 7 | — | 2 | — | — |
| Unearned revenue..... | 4,756 | 2,118 | 2,638 | — | 4,548 | — |
| Deposits payable..... | — | 20 | — | — | — | — |
| Notes payable..... | — | — | — | — | — | — |
| Compensated absences..... | 8 | 28 | 16 | 12 | — | 110 |
| Total current liabilities..... | <u>16,772</u> | <u>2,432</u> | <u>3,034</u> | <u>63</u> | <u>27,140</u> | <u>142</u> |
| Noncurrent Liabilities | | | | | | |
| Accounts payable..... | — | — | — | — | — | — |
| Notes payable..... | — | — | — | — | — | — |
| Compensated absences..... | 91 | 414 | 114 | 180 | — | 1,259 |
| Net pension liability..... | 238 | 1,956 | 677 | 582 | — | 5,597 |
| Total noncurrent liabilities..... | <u>329</u> | <u>2,370</u> | <u>791</u> | <u>762</u> | <u>—</u> | <u>6,856</u> |
| Total Liabilities..... | <u>17,101</u> | <u>4,802</u> | <u>3,825</u> | <u>825</u> | <u>27,140</u> | <u>6,998</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred inflows for pensions..... | 16 | 92 | 202 | 27 | — | 380 |
| Net Position | | | | | | |
| Net investment in capital assets..... | — | 15,219 | 2,419 | 10,562 | — | 112 |
| Restricted for: | | | | | | |
| Capital outlay..... | — | — | 1,995 | — | — | — |
| Other purposes..... | — | — | — | — | — | — |
| Unrestricted..... | 96,233 | 1,605 | 7,274 | 3,490 | 9,221 | 5,365 |
| Total Net Position..... | <u>\$ 96,233</u> | <u>\$ 16,824</u> | <u>\$ 11,688</u> | <u>\$ 14,052</u> | <u>\$ 9,221</u> | <u>\$ 5,477</u> |

| State Banking Commission | ABC Commission | Occupational Licensing Boards | Departmental Funds | Total Nonmajor Enterprise Funds |
|--------------------------------|-------------------|-------------------------------------|-----------------------|--|
| \$ 5,197 | \$ 9,706 | \$ 37,941 | \$ 5,982 | \$ 126,440 |
| — | — | 18,787 | — | 120,876 |
| — | — | 19 | 5 | 90 |
| 4 | 411 | 862 | 78 | 2,082 |
| — | 1,662 | — | — | 1,662 |
| — | — | 256 | 4 | 302 |
| — | — | — | — | 1,825 |
| — | — | 1 | — | 1 |
| — | 4 | 121 | 103 | 672 |
| — | — | 630 | — | 3,133 |
| — | — | 1,175 | — | 3,813 |
| <u>5,201</u> | <u>11,783</u> | <u>59,792</u> | <u>6,172</u> | <u>260,896</u> |
| — | — | 14,146 | — | 14,146 |
| — | — | 221 | — | 221 |
| — | — | 10,971 | — | 12,915 |
| — | 550 | 5,276 | 494 | 11,871 |
| <u>56</u> | <u>1,817</u> | <u>37,985</u> | <u>9,524</u> | <u>72,351</u> |
| <u>56</u> | <u>2,367</u> | <u>68,599</u> | <u>10,018</u> | <u>111,504</u> |
| <u>5,257</u> | <u>14,150</u> | <u>128,391</u> | <u>16,190</u> | <u>372,400</u> |
| <u>3,173</u> | <u>929</u> | <u>398</u> | <u>1,116</u> | <u>12,107</u> |
| 114 | 250 | 5,884 | 76 | 6,955 |
| — | — | 107 | 14 | 232 |
| — | — | — | 2 | 2 |
| — | — | 33 | — | 34,543 |
| — | — | 19 | 5 | 90 |
| — | 35 | 59 | 1 | 106 |
| — | — | 26,993 | 143 | 41,196 |
| — | — | — | — | 20 |
| — | — | 922 | — | 922 |
| <u>102</u> | <u>21</u> | <u>842</u> | <u>36</u> | <u>1,175</u> |
| <u>216</u> | <u>306</u> | <u>34,859</u> | <u>277</u> | <u>85,241</u> |
| — | — | 5,332 | — | 5,332 |
| — | — | 13,101 | — | 13,101 |
| 1,169 | 263 | 1,319 | 453 | 5,262 |
| <u>4,450</u> | <u>1,396</u> | <u>540</u> | <u>1,410</u> | <u>16,846</u> |
| <u>5,619</u> | <u>1,659</u> | <u>20,292</u> | <u>1,863</u> | <u>40,541</u> |
| <u>5,835</u> | <u>1,965</u> | <u>55,151</u> | <u>2,140</u> | <u>125,782</u> |
| <u>302</u> | <u>76</u> | <u>38</u> | <u>201</u> | <u>1,334</u> |
| 56 | 2,367 | 28,803 | 10,018 | 69,556 |
| — | — | — | — | 1,995 |
| — | — | 7,568 | — | 7,568 |
| <u>2,237</u> | <u>10,671</u> | <u>37,229</u> | <u>4,947</u> | <u>178,272</u> |
| <u>\$ 2,293</u> | <u>\$ 13,038</u> | <u>\$ 73,600</u> | <u>\$ 14,965</u> | <u>\$ 257,391</u> |

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS**

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Public School Insurance | North Carolina State Fair | USS North Carolina Battleship Commission | Agricultural Farmers Market | Workers' Compensation | Utilities Commission |
|--|-------------------------------|------------------------------------|---|-----------------------------------|--------------------------|-------------------------|
| Operating Revenues | | | | | | |
| Sales and services..... | \$ — | \$ 495 | \$ 841 | \$ 34 | \$ — | \$ 11 |
| Student tuition and fees, net..... | — | — | — | — | — | — |
| Rental and lease earnings..... | — | 5,370 | 74 | 1,044 | — | — |
| Fees, licenses, and fines..... | — | 10,234 | 2,355 | 2,213 | — | 15,487 |
| Insurance premiums..... | 12,317 | — | — | — | 6,108 | — |
| Miscellaneous..... | — | 3 | 165 | — | — | 115 |
| Total operating revenues..... | <u>12,317</u> | <u>16,102</u> | <u>3,435</u> | <u>3,291</u> | <u>6,108</u> | <u>15,613</u> |
| Operating Expenses | | | | | | |
| Personal services..... | 598 | 6,924 | 1,827 | 1,543 | — | 12,884 |
| Supplies and materials..... | 1 | 1,437 | 82 | 158 | — | 178 |
| Services..... | 58 | 6,389 | 1,126 | 838 | 842 | 800 |
| Cost of goods sold..... | — | 50 | 295 | — | — | — |
| Depreciation..... | — | 1,117 | 121 | 490 | — | 10 |
| Claims..... | 13,795 | 94 | — | — | 5,142 | — |
| Insurance and bonding..... | 3,386 | 182 | 25 | 82 | — | 1 |
| Other..... | 1 | 1,225 | 204 | 15 | — | 768 |
| Total operating expenses..... | <u>17,839</u> | <u>17,418</u> | <u>3,680</u> | <u>3,126</u> | <u>5,984</u> | <u>14,641</u> |
| Operating income (loss)..... | <u>(5,522)</u> | <u>(1,316)</u> | <u>(245)</u> | <u>165</u> | <u>124</u> | <u>972</u> |
| Nonoperating Revenues (Expenses) | | | | | | |
| Noncapital grants..... | — | — | — | — | — | 551 |
| Noncapital gifts, net..... | — | 724 | 354 | — | — | — |
| Investment earnings..... | 204 | — | 97 | — | 162 | 72 |
| Interest and fees..... | — | — | — | — | — | — |
| Gain (loss) on sale of equipment..... | — | 305 | — | (7) | — | — |
| Miscellaneous..... | (3) | 41 | (1) | 3 | (2) | 1 |
| Total nonoperating revenues (expenses)..... | <u>201</u> | <u>1,070</u> | <u>450</u> | <u>(4)</u> | <u>160</u> | <u>624</u> |
| Income (loss) before contributions and transfers..... | (5,321) | (246) | 205 | 161 | 284 | 1,596 |
| Capital contributions..... | — | 30 | 1,549 | 17 | — | — |
| Transfers in..... | — | — | — | — | 8,308 | — |
| Transfers out..... | — | (1,353) | — | (3) | — | (259) |
| Change in net position..... | <u>(5,321)</u> | <u>(1,569)</u> | <u>1,754</u> | <u>175</u> | <u>8,592</u> | <u>1,337</u> |
| Net position — July 1, as restated..... | 101,554 | 18,393 | 9,934 | 13,877 | 629 | 4,140 |
| Net position — June 30..... | <u>\$ 96,233</u> | <u>\$ 16,824</u> | <u>\$ 11,688</u> | <u>\$ 14,052</u> | <u>\$ 9,221</u> | <u>\$ 5,477</u> |

| State Banking Commission | ABC Commission | Occupational Licensing Boards | Departmental Funds | Total Nonmajor Enterprise Funds |
|---|---------------------------|--|-------------------------------|--|
| \$ — | \$ 1 | \$ 340 | \$ 209 | \$ 1,931 |
| — | — | 21 | — | 21 |
| — | — | — | 1,863 | 8,351 |
| 14,963 | 18,433 | 76,821 | 3,840 | 144,346 |
| — | — | — | — | 18,425 |
| 361 | — | 801 | 20 | 1,465 |
| <u>15,324</u> | <u>18,434</u> | <u>77,983</u> | <u>5,932</u> | <u>174,539</u> |
| 10,548 | 3,051 | 41,109 | 4,300 | 82,784 |
| 47 | 56 | 1,132 | 459 | 3,550 |
| 1,606 | 12,057 | 20,743 | 1,614 | 46,073 |
| — | — | — | 82 | 427 |
| 6 | 116 | 2,248 | 376 | 4,484 |
| — | — | 1,633 | — | 20,664 |
| 1 | — | 310 | 141 | 4,128 |
| 769 | 357 | 2,785 | 375 | 6,499 |
| <u>12,977</u> | <u>15,637</u> | <u>69,960</u> | <u>7,347</u> | <u>168,609</u> |
| <u>2,347</u> | <u>2,797</u> | <u>8,023</u> | <u>(1,415)</u> | <u>5,930</u> |
| — | 90 | — | — | 641 |
| — | — | — | 855 | 1,933 |
| — | — | 919 | 41 | 1,495 |
| — | — | (500) | — | (500) |
| — | — | (53) | — | 245 |
| — | — | (10) | 17 | 46 |
| <u>—</u> | <u>90</u> | <u>356</u> | <u>913</u> | <u>3,860</u> |
| 2,347 | 2,887 | 8,379 | (502) | 9,790 |
| — | — | — | 3,613 | 5,209 |
| — | — | — | 575 | 8,883 |
| (154) | — | — | (48) | (1,817) |
| <u>2,193</u> | <u>2,887</u> | <u>8,379</u> | <u>3,638</u> | <u>22,065</u> |
| <u>100</u> | <u>10,151</u> | <u>65,221</u> | <u>11,327</u> | <u>235,326</u> |
| <u>\$ 2,293</u> | <u>\$ 13,038</u> | <u>\$ 73,600</u> | <u>\$ 14,965</u> | <u>\$ 257,391</u> |

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

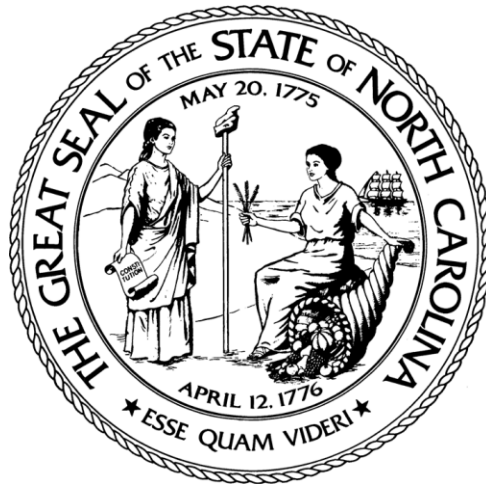
For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Public School Insurance | North Carolina State Fair | USS North Carolina Battleship Commission | Agricultural Farmers Market | Workers' Compensation |
|---|-------------------------------|------------------------------------|---|-----------------------------------|--------------------------|
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers..... | \$ 12,405 | \$ 16,900 | \$ 3,432 | \$ 3,310 | \$ 7,720 |
| Payments to suppliers..... | (3,223) | (8,642) | (1,759) | (1,103) | (846) |
| Payments to employees..... | (578) | (6,888) | (1,715) | (1,511) | — |
| Payments for prizes, benefits, and claims..... | (7,628) | (634) | — | — | (7,845) |
| Other receipts..... | — | 41 | — | 2 | — |
| Other payments..... | — | — | — | — | — |
| Net cash provided by (used for) operating activities..... | 976 | 777 | (42) | 698 | (971) |
| Cash Flows From Noncapital Financing Activities | | | | | |
| Grant receipts..... | — | — | — | — | — |
| Transfers from other funds..... | — | — | — | — | 8,308 |
| Transfers to other funds..... | — | (1,353) | — | (3) | — |
| Gifts..... | — | 724 | 359 | — | — |
| Net cash provided by (used for) noncapital financing activities..... | — | (629) | 359 | (3) | 8,308 |
| Cash Flows From Capital and Related Financing Activities | | | | | |
| Acquisition and construction of capital assets..... | — | (370) | (73) | (21) | — |
| Proceeds from the sale of capital assets..... | — | 380 | — | — | — |
| Capital contributions..... | — | — | 4,137 | — | — |
| Principal paid on capital debt..... | — | — | — | — | — |
| Interest paid on capital debt..... | — | — | — | — | — |
| Net cash provided by (used for) capital and related financing activities..... | — | 10 | 4,064 | (21) | — |
| Cash Flows From Investing Activities | | | | | |
| Proceeds from the sale/maturities of non-State Treasurer investments..... | — | — | 1,614 | — | — |
| Purchase of non-State Treasurer investments..... | — | — | (91) | — | — |
| Investment earnings..... | 209 | — | 62 | — | 154 |
| Net cash provided by (used for) investment activities..... | 209 | — | 1,585 | — | 154 |
| Net increase (decrease) in cash and cash equivalents..... | 1,185 | 158 | 5,966 | 674 | 7,491 |
| Cash and cash equivalents at July 1, as restated..... | 18,879 | 4,478 | 5,876 | 3,224 | 15,642 |
| Cash and cash equivalents at June 30..... | \$ 20,064 | \$ 4,636 | \$ 11,842 | \$ 3,898 | \$ 23,133 |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | | | | | |
| Operating income (loss)..... | \$ (5,522) | \$ (1,316) | \$ (245) | \$ 165 | \$ 124 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation..... | — | 1,117 | 121 | 490 | — |
| Nonoperating miscellaneous income (expense)..... | — | 41 | (3) | 2 | — |
| Change in assets and deferred outflows: | | | | | |
| Receivables..... | 2,070 | 148 | (11) | 19 | 568 |
| Due from other funds..... | — | — | — | — | — |
| Inventories..... | — | (56) | (3) | 3 | — |
| Prepaid items..... | 170 | — | (22) | — | (2) |
| Deferred outflows for pensions..... | (116) | (1,083) | (445) | (303) | — |
| Change in liabilities and deferred inflows: | | | | | |
| Accounts payable and accrued liabilities..... | 6,220 | 62 | 30 | (13) | (2,705) |
| Due to other funds..... | — | 1 | — | — | — |
| Compensated absences..... | 10 | 39 | 1 | 16 | — |
| Unearned revenue..... | (1,984) | 650 | 7 | — | 1,044 |
| Net pension liability..... | 138 | 1,240 | 377 | 344 | — |
| Deferred inflows for pensions..... | (10) | (66) | 151 | (25) | — |
| Net cash provided by (used for) operations..... | \$ 976 | \$ 777 | \$ (42) | \$ 698 | \$ (971) |
| Noncash Investing, Capital, and Financing Activities | | | | | |
| Noncash distributions from the State Treasurer | | | | | |
| Long-Term Investment Portfolio and/or other agents..... | \$ — | \$ — | \$ — | \$ — | \$ 374 |
| Donated or transferred assets..... | — | 30 | — | 17 | — |
| Assets acquired through the assumption of a liability..... | — | — | — | — | — |
| Change in fair value of investments..... | — | — | 61 | — | 376 |
| Change in securities lending collateral..... | (7,870) | — | (295) | — | (1,850) |

| Utilities Commission | State Banking Commission | ABC Commission | Occupational Licensing Boards | Departmental Funds | Total Nonmajor Enterprise Funds |
|-------------------------|--------------------------------|-------------------|-------------------------------------|-----------------------|--|
| \$ 15,542 | \$ 15,051 | \$ 18,498 | \$ 65,285 | \$ 5,952 | \$ 164,095 |
| (1,159) | (1,771) | (11,954) | (10,814) | (2,463) | (43,734) |
| (12,856) | (10,531) | (3,023) | (36,877) | (4,254) | (78,233) |
| — | — | — | — | (105) | (16,212) |
| — | 331 | — | 13,369 | 34 | 13,777 |
| (612) | (592) | (317) | (15,194) | (92) | (16,807) |
| <u>915</u> | <u>2,488</u> | <u>3,204</u> | <u>15,769</u> | <u>(928)</u> | <u>22,886</u> |
| 553 | — | 90 | — | — | 643 |
| — | — | — | — | 575 | 8,883 |
| (259) | (154) | — | — | (48) | (1,817) |
| — | — | — | — | 856 | 1,939 |
| <u>294</u> | <u>(154)</u> | <u>90</u> | <u>—</u> | <u>1,383</u> | <u>9,648</u> |
| — | — | — | (977) | — | (1,441) |
| — | — | — | 10 | — | 390 |
| — | — | — | — | — | 4,137 |
| — | — | — | (1,926) | — | (1,926) |
| — | — | — | (500) | — | (500) |
| — | — | — | (3,393) | — | 660 |
| — | — | — | 18,709 | — | 20,323 |
| — | — | — | (21,433) | — | (21,524) |
| <u>71</u> | <u>—</u> | <u>—</u> | <u>475</u> | <u>40</u> | <u>1,011</u> |
| <u>71</u> | <u>—</u> | <u>—</u> | <u>(2,249)</u> | <u>40</u> | <u>(190)</u> |
| 1,280 | 2,334 | 3,294 | 10,127 | 495 | 33,004 |
| <u>7,343</u> | <u>2,863</u> | <u>6,412</u> | <u>39,960</u> | <u>5,487</u> | <u>110,164</u> |
| <u>\$ 8,623</u> | <u>\$ 5,197</u> | <u>\$ 9,706</u> | <u>\$ 50,087</u> | <u>\$ 5,982</u> | <u>\$ 143,168</u> |
| \$ 972 | \$ 2,347 | \$ 2,797 | \$ 8,023 | \$ (1,415) | \$ 5,930 |
| 10 | 6 | 116 | 2,248 | 376 | 4,484 |
| — | — | — | 61 | 18 | 119 |
| (32) | 87 | 63 | (64) | 27 | 2,875 |
| — | — | — | (1) | — | (1) |
| — | — | 14 | 108 | 21 | 87 |
| — | — | — | 43 | — | 189 |
| (3,116) | (2,443) | (712) | (251) | (877) | (9,346) |
| (13) | 61 | 186 | 4,900 | (22) | 8,706 |
| (10) | — | (9) | (11) | (1) | (30) |
| (102) | (44) | (18) | 105 | 43 | 50 |
| — | — | — | 352 | 12 | 81 |
| 3,449 | 2,684 | 827 | 319 | 831 | 10,209 |
| (243) | (210) | (60) | (63) | 59 | (467) |
| <u>\$ 915</u> | <u>\$ 2,488</u> | <u>\$ 3,204</u> | <u>\$ 15,769</u> | <u>\$ (928)</u> | <u>\$ 22,886</u> |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ 374 |
| — | — | — | — | 9 | 56 |
| — | — | — | 1 | — | 1 |
| — | — | — | 202 | — | 639 |
| (396) | — | — | (936) | (220) | (11,567) |

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INTERNAL SERVICE FUNDS

The internal service funds are used to account for and report the operations of state agencies that provide services to other state agencies, component units, or other governments on a cost reimbursement basis.

The following activities are included in the internal service funds:

Department of Administration:

Motor Fleet Management
Mail Service Center
Temporary Solutions
Surplus Property

Department of Information Technology:

Computing Services
State Telecommunications Services

Department of Insurance:

State Property Fire Insurance

COMBINING STATEMENT OF NET POSITION INTERNAL SERVICE FUNDS

June 30, 2017

(Dollars in Thousands)

| | State Property Fire Insurance | Motor Fleet Management | Mail Service Center | Temporary Solutions | Computing Services |
|---|--|------------------------------|---------------------------|------------------------|-----------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents..... | \$ 34,723 | \$ 28,642 | \$ 30 | \$ 8,483 | \$ 37,966 |
| Investments..... | 33,447 | — | — | — | — |
| Securities lending collateral..... | 42 | — | — | — | — |
| Receivables: | | | | | |
| Accounts receivable, net..... | — | 1,756 | 526 | 5,521 | 2,498 |
| Interest receivable..... | 32 | — | — | — | — |
| Premiums receivable..... | 468 | — | — | — | — |
| Due from other funds..... | — | 2,408 | — | 2,586 | 8,440 |
| Due from component units..... | — | 266 | — | — | 7 |
| Inventories..... | — | 95 | 9 | — | 10 |
| Prepaid items..... | — | — | — | — | 5,119 |
| Total current assets..... | <u>68,712</u> | <u>33,167</u> | <u>565</u> | <u>16,590</u> | <u>54,040</u> |
| Noncurrent Assets | | | | | |
| Capital assets-nondepreciable..... | — | 288 | — | — | 3,089 |
| Capital assets-depreciable, net..... | — | 82,388 | 108 | — | 38,062 |
| Total noncurrent assets..... | <u>—</u> | <u>82,676</u> | <u>108</u> | <u>—</u> | <u>41,151</u> |
| Total Assets..... | <u>68,712</u> | <u>115,843</u> | <u>673</u> | <u>16,590</u> | <u>95,191</u> |
| Deferred Outflows of Resources: | | | | | |
| Deferred outflows for pensions..... | 493 | 664 | 695 | 378 | 11,171 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued liabilities: | | | | | |
| Accounts payable..... | 5,011 | 610 | 664 | 4 | 1,293 |
| Accrued payroll..... | — | — | — | 3,131 | — |
| Claims payable..... | 1,857 | — | — | — | — |
| Obligations under securities lending..... | 42 | — | — | — | — |
| Due to other funds..... | — | 8 | 109 | — | 3 |
| Unearned revenue..... | 9,100 | — | — | — | — |
| Capital leases payable..... | — | — | — | — | — |
| Compensated absences..... | 16 | 9 | 17 | 10 | 361 |
| Total current liabilities..... | <u>16,026</u> | <u>627</u> | <u>790</u> | <u>3,145</u> | <u>1,657</u> |
| Noncurrent Liabilities | | | | | |
| Capital leases payable..... | — | — | — | — | — |
| Compensated absences..... | 217 | 98 | 192 | 150 | 4,337 |
| Net pension liability..... | 689 | 903 | 916 | 424 | 14,897 |
| Total noncurrent liabilities..... | <u>906</u> | <u>1,001</u> | <u>1,108</u> | <u>574</u> | <u>19,234</u> |
| Total Liabilities..... | <u>16,932</u> | <u>1,628</u> | <u>1,898</u> | <u>3,719</u> | <u>20,891</u> |
| Deferred Inflows of Resources: | | | | | |
| Deferred inflows for pensions..... | 49 | 43 | 43 | 20 | 1,041 |
| Net Position | | | | | |
| Net investment in capital assets..... | — | 82,676 | 108 | — | 41,151 |
| Unrestricted..... | 52,224 | 32,160 | (681) | 13,229 | 43,279 |
| Total Net Position..... | <u>\$ 52,224</u> | <u>\$ 114,836</u> | <u>\$ (573)</u> | <u>\$ 13,229</u> | <u>\$ 84,430</u> |

| State Telecommu- nications Services | Surplus Property | Totals |
|--|---------------------|-------------------|
| \$ 17,241 | \$ 2,599 | \$ 129,684 |
| — | — | 33,447 |
| — | — | 42 |
| 7,405 | 59 | 17,765 |
| — | — | 32 |
| — | — | 468 |
| 2,610 | 9 | 16,053 |
| 124 | — | 397 |
| — | — | 114 |
| 185 | — | 5,304 |
| <u>27,565</u> | <u>2,667</u> | <u>203,306</u> |
| — | 19 | 3,396 |
| 7,944 | 49 | 128,551 |
| <u>7,944</u> | <u>68</u> | <u>131,947</u> |
| <u>35,509</u> | <u>2,735</u> | <u>335,253</u> |
| | | |
| <u>2,653</u> | <u>454</u> | <u>16,508</u> |
| | | |
| 258 | 885 | 8,725 |
| — | — | 3,131 |
| — | — | 1,857 |
| — | — | 42 |
| 3 | 138 | 261 |
| — | — | 9,100 |
| 46 | — | 46 |
| 81 | 7 | 501 |
| <u>388</u> | <u>1,030</u> | <u>23,663</u> |
| | | |
| 92 | — | 92 |
| 971 | 76 | 6,041 |
| <u>3,700</u> | <u>573</u> | <u>22,102</u> |
| <u>4,763</u> | <u>649</u> | <u>28,235</u> |
| <u>5,151</u> | <u>1,679</u> | <u>51,898</u> |
| | | |
| <u>235</u> | <u>27</u> | <u>1,458</u> |
| | | |
| 7,806 | 68 | 131,809 |
| 24,970 | 1,415 | 166,596 |
| <u>\$ 32,776</u> | <u>\$ 1,483</u> | <u>\$ 298,405</u> |

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS**

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | State Property Fire Insurance | Motor Fleet Management | Mail Service Center | Temporary Solutions | Computing Services |
|--|--|------------------------------|---------------------------|------------------------|-----------------------|
| Operating Revenues | | | | | |
| Sales and services..... | \$ — | \$ 31,322 | \$ 2,562 | \$ 88,841 | \$ 97,568 |
| Rental and lease earnings..... | — | — | — | — | — |
| Fees, licenses, and fines..... | — | — | — | — | 2,547 |
| Insurance premiums..... | 22,681 | — | — | — | — |
| Miscellaneous..... | — | 63 | 322 | 7 | 2 |
| Total operating revenues..... | <u>22,681</u> | <u>31,385</u> | <u>2,884</u> | <u>88,848</u> | <u>100,117</u> |
| Operating Expenses | | | | | |
| Personal services..... | 1,921 | 2,029 | 2,535 | 91,614 | 40,238 |
| Supplies and materials..... | 15 | 6,731 | 65 | 42 | 4,959 |
| Services..... | 141 | 5,113 | 1,155 | 254 | 7,359 |
| Cost of goods sold..... | — | 422 | — | — | — |
| Depreciation..... | — | 14,100 | 5 | — | 5,435 |
| Claims..... | 4,482 | — | — | — | — |
| Insurance and bonding..... | 17,928 | 1,219 | 1 | — | 139 |
| Other..... | 46 | 121 | 50 | 75 | 33,935 |
| Total operating expenses..... | <u>24,533</u> | <u>29,735</u> | <u>3,811</u> | <u>91,985</u> | <u>92,065</u> |
| Operating income (loss)..... | <u>(1,852)</u> | <u>1,650</u> | <u>(927)</u> | <u>(3,137)</u> | <u>8,052</u> |
| Nonoperating Revenues (Expenses) | | | | | |
| Investment earnings..... | 371 | — | — | — | — |
| Insurance recoveries..... | — | 15 | — | — | — |
| Gain on sale of equipment..... | — | 2,370 | — | — | — |
| Miscellaneous..... | (5) | 1,320 | — | — | 1 |
| Total nonoperating revenues (expenses)..... | <u>366</u> | <u>3,705</u> | <u>—</u> | <u>—</u> | <u>1</u> |
| Income (loss) before contributions and transfers..... | (1,486) | 5,355 | (927) | (3,137) | 8,053 |
| Capital contributions..... | — | 88 | — | — | — |
| Transfers in..... | — | — | — | — | 10,469 |
| Transfers out..... | — | — | — | — | (383) |
| Change in net position..... | <u>(1,486)</u> | <u>5,443</u> | <u>(927)</u> | <u>(3,137)</u> | <u>18,139</u> |
| Net position — July 1, as restated..... | 53,710 | 109,393 | 354 | 16,366 | 66,291 |
| Net position — June 30..... | <u>\$ 52,224</u> | <u>\$ 114,836</u> | <u>\$ (573)</u> | <u>\$ 13,229</u> | <u>\$ 84,430</u> |

| State Telecommu- nications Services | Surplus Property | Totals |
|--|---------------------|-------------------|
| \$ 86,967 | \$ 2,221 | \$ 309,481 |
| — | 5 | 5 |
| — | 3 | 2,550 |
| — | — | 22,681 |
| 4 | 103 | 501 |
| <u>86,971</u> | <u>2,332</u> | <u>335,218</u> |
| 8,301 | 1,621 | 148,259 |
| 2,373 | 58 | 14,243 |
| 64,968 | 400 | 79,390 |
| — | — | 422 |
| 2,059 | — | 21,599 |
| — | — | 4,482 |
| 41 | 20 | 19,348 |
| 5,628 | 42 | 39,897 |
| <u>83,370</u> | <u>2,141</u> | <u>327,640</u> |
| <u>3,601</u> | <u>191</u> | <u>7,578</u> |
| — | — | 371 |
| — | — | 15 |
| — | — | 2,370 |
| — | — | 1,316 |
| <u>—</u> | <u>—</u> | <u>4,072</u> |
| 3,601 | 191 | 11,650 |
| — | — | 88 |
| — | 9 | 10,478 |
| <u>(3,122)</u> | <u>—</u> | <u>(3,505)</u> |
| 479 | 200 | 18,711 |
| 32,297 | 1,283 | 279,694 |
| <u>\$ 32,776</u> | <u>\$ 1,483</u> | <u>\$ 298,405</u> |

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | State Property Fire Insurance | Motor Fleet Management | Mail Service Center | Temporary Solutions | Computing Services |
|---|--|------------------------------|---------------------------|------------------------|-----------------------|
| Cash Flows From Operating Activities | | | | | |
| Receipts from customers..... | \$ 13,902 | \$ 3,376 | \$ 460 | \$ — | \$ 1,004 |
| Receipts from other funds..... | 10,487 | 30,577 | 2,248 | 95,355 | 98,044 |
| Payments to suppliers..... | (17,152) | (17,330) | (168) | (376) | (38,728) |
| Payments to employees..... | (1,924) | (1,947) | (2,511) | (90,585) | (39,491) |
| Payments for benefits and claims..... | (2,837) | — | — | — | — |
| Payments to other funds..... | (581) | (175) | (361) | — | (9,088) |
| Other receipts..... | — | 1,368 | 306 | — | 3 |
| Net cash provided by (used for) operating activities..... | <u>1,895</u> | <u>15,869</u> | <u>(26)</u> | <u>4,394</u> | <u>11,744</u> |
| Cash Flows From Noncapital Financing Activities | | | | | |
| Transfers from other funds..... | — | — | — | — | 10,469 |
| Transfers to other funds..... | — | — | — | — | (383) |
| Net cash provided by (used for) noncapital financing activities..... | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>10,086</u> |
| Cash Flows From Capital and Related Financing Activities | | | | | |
| Acquisition and construction of capital assets..... | — | (30,051) | — | — | (4,433) |
| Proceeds from the sale of capital assets..... | — | 2,933 | — | — | — |
| Principal paid on capital debt..... | — | — | — | — | — |
| Insurance recoveries..... | — | 15 | — | — | — |
| Net cash provided by (used for) capital and related financing activities..... | <u>—</u> | <u>(27,103)</u> | <u>—</u> | <u>—</u> | <u>(4,433)</u> |
| Cash Flows From Investing Activities | | | | | |
| Investment earnings..... | 360 | — | — | — | — |
| Net increase (decrease) in cash and cash equivalents..... | 2,255 | (11,234) | (26) | 4,394 | 17,397 |
| Cash and cash equivalents at July 1..... | 32,468 | 39,876 | 56 | 4,089 | 20,569 |
| Cash and cash equivalents at June 30..... | <u>\$ 34,723</u> | <u>\$ 28,642</u> | <u>\$ 30</u> | <u>\$ 8,483</u> | <u>\$ 37,966</u> |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | | | | | |
| Operating income (loss)..... | \$ (1,852) | \$ 1,650 | \$ (927) | \$ (3,137) | \$ 8,052 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation..... | — | 14,100 | 5 | — | 5,435 |
| Nonoperating miscellaneous income..... | — | 1,320 | — | — | 1 |
| Change in assets and deferred outflows: | | | | | |
| Receivables..... | 197 | 2,504 | 146 | 7,929 | 240 |
| Due from other funds..... | — | 194 | — | (1,415) | (1,306) |
| Due from component units..... | — | (67) | — | — | (2) |
| Inventories..... | — | 52 | 34 | — | (3) |
| Prepaid items..... | — | — | — | — | (1,247) |
| Deferred outflows for pensions..... | (369) | (459) | (483) | (290) | (7,891) |
| Change in liabilities and deferred inflows: | | | | | |
| Accounts payable and accrued liabilities..... | 2,033 | (3,951) | 656 | 962 | (172) |
| Due to other funds..... | — | — | 52 | — | (3) |
| Compensated absences..... | 4 | (19) | (35) | 40 | 728 |
| Unearned revenue..... | 1,512 | — | — | — | — |
| Net pension liability..... | 390 | 575 | 562 | 310 | 8,448 |
| Deferred inflows for pensions..... | (20) | (30) | (36) | (5) | (536) |
| Net cash provided by (used for) operations..... | <u>\$ 1,895</u> | <u>\$ 15,869</u> | <u>\$ (26)</u> | <u>\$ 4,394</u> | <u>\$ 11,744</u> |
| Noncash Investing, Capital, and Financing Activities | | | | | |
| Noncash distributions from the State Treasurer | | | | | |
| Long-Term Investment Portfolio and/or other agents..... | \$ 952 | \$ — | \$ — | \$ — | \$ — |
| Donated or transferred assets..... | — | 88 | — | — | — |
| Change in fair value of investments..... | (957) | — | — | — | — |
| Change in securities lending collateral..... | (4,332) | — | — | — | — |

| State Telecommu- nications Services | Surplus Property | Totals |
|--|---------------------|-------------------|
| \$ 18,034 | \$ 759 | \$ 37,535 |
| 69,126 | 1,509 | 307,346 |
| (70,493) | (312) | (144,559) |
| (8,171) | (1,567) | (146,196) |
| — | — | (2,837) |
| (2,177) | (331) | (12,713) |
| 4 | 93 | 1,774 |
| <u>6,323</u> | <u>151</u> | <u>40,350</u> |
| — | 9 | 10,478 |
| <u>(3,122)</u> | <u>—</u> | <u>(3,505)</u> |
| <u>(3,122)</u> | <u>9</u> | <u>6,973</u> |
| (4,828) | — | (39,312) |
| — | — | 2,933 |
| (46) | — | (46) |
| — | — | 15 |
| <u>(4,874)</u> | <u>—</u> | <u>(36,410)</u> |
| — | — | 360 |
| (1,673) | 160 | 11,273 |
| 18,914 | 2,439 | 118,411 |
| <u>\$ 17,241</u> | <u>\$ 2,599</u> | <u>\$ 129,684</u> |

| | | |
|-----------------|---------------|------------------|
| \$ 3,601 | \$ 191 | \$ 7,578 |
| 2,059 | — | 21,599 |
| — | — | 1,321 |
| (1,135) | 49 | 9,930 |
| 1,282 | (8) | (1,253) |
| 47 | — | (22) |
| — | — | 83 |
| 347 | — | (900) |
| (1,842) | (328) | (11,662) |
| (11) | (113) | (596) |
| 3 | (9) | 43 |
| (3) | 2 | 717 |
| — | — | 1,512 |
| 2,125 | 382 | 12,792 |
| <u>(150)</u> | <u>(15)</u> | <u>(792)</u> |
| <u>\$ 6,323</u> | <u>\$ 151</u> | <u>\$ 40,350</u> |

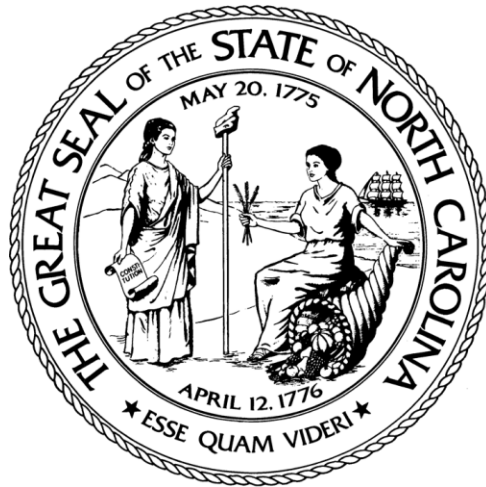
| | | |
|------|------|---------|
| \$ — | \$ — | \$ 952 |
| — | — | 88 |
| — | — | (957) |
| — | — | (4,332) |

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FIDUCIARY FUNDS

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INVESTMENT TRUST FUNDS

Investment trust funds account for and report the external portion of the Investment Pool and individual investment accounts provided to other, legally separate entities that are not part of the State financial reporting entity.

The following activities are included in the investment trust funds:

State Treasurer Investment Pool
Equity Index Investment Account
Bond Index Investment Pool

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS**

June 30, 2017

Exhibit F-1

(Dollars in Thousands)

| | State Treasurer Investment Pool | Equity Index Investment Account | Bond Index Investment Pool | Totals |
|--|--|--|-------------------------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents..... | \$ 7,922 | \$ — | \$ — | \$ 7,922 |
| Investments: | | | | |
| State Treasurer investment pool..... | 741,940 | 408,790 | 47,510 | 1,198,240 |
| Securities lending collateral..... | 861 | 5 | — | 866 |
| Receivables: | | | | |
| Interest receivable..... | 2,005 | — | — | 2,005 |
| Total Assets..... | <u>752,728</u> | <u>408,795</u> | <u>47,510</u> | <u>1,209,033</u> |
| Liabilities | | | | |
| Obligations under securities lending..... | <u>861</u> | <u>5</u> | <u>—</u> | <u>866</u> |
| Net Position | | | | |
| Restricted for: | | | | |
| Pool participants..... | 751,867 | — | 47,510 | 799,377 |
| Individuals, organizations, and other governments..... | — | 408,790 | — | 408,790 |
| Total Net Position..... | <u>\$ 751,867</u> | <u>\$ 408,790</u> | <u>\$ 47,510</u> | <u>\$ 1,208,167</u> |

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION INVESTMENT TRUST FUNDS

For the Fiscal Year Ended June 30, 2017

Exhibit F-2

(Dollars in Thousands)

| | State Treasurer Investment Pool | Equity Index Investment Account | Bond Index Investment Pool | Totals |
|--|--|--|-------------------------------------|---------------------|
| Additions | | | | |
| Investment Income: | | | | |
| Investment earnings (loss)..... | \$ 7,720 | \$ 66,020 | \$ (117) | \$ 73,623 |
| Less investment expenses..... | (104) | (719) | (10) | (833) |
| Net investment income (loss)..... | <u>7,616</u> | <u>65,301</u> | <u>(127)</u> | <u>72,790</u> |
| Pool share transactions: | | | | |
| Reinvestment of dividends..... | 8,182 | 65,301 | (126) | 73,357 |
| Net share purchases/(redemptions)..... | (168,986) | 114,701 | 47,637 | (6,648) |
| Net pool share transactions..... | <u>(160,804)</u> | <u>180,002</u> | <u>47,511</u> | <u>66,709</u> |
| Total Additions..... | <u>(153,188)</u> | <u>245,303</u> | <u>47,384</u> | <u>139,499</u> |
| Deductions | | | | |
| Distributions paid and payable..... | 8,182 | 65,301 | (126) | 73,357 |
| Change in net position..... | (161,370) | 180,002 | 47,510 | 66,142 |
| Net position — July 1..... | 913,237 | 228,788 | — | 1,142,025 |
| Net position — June 30..... | <u>\$ 751,867</u> | <u>\$ 408,790</u> | <u>\$ 47,510</u> | <u>\$ 1,208,167</u> |

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PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for and report resources held in trust in which the principal and income benefit individuals, private organizations, or other governments.

The following activities are included in the private purpose trust funds:

Deposits of Insurance Carriers Fund
Administrative Office of the Courts Trust Fund
Departmental Funds

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS**

June 30, 2017

Exhibit F-3

(Dollars in Thousands)

| | <u>Deposits of Insurance Carriers Fund</u> | <u>Administrative Office of the Courts Trust Fund</u> | <u>Departmental Funds</u> | <u>Totals</u> |
|--|--|---|-------------------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents..... | \$ 115 | \$ 115,782 | \$ 7,478 | \$ 123,375 |
| Investments: | | | | |
| U.S. government securities..... | — | 103 | — | 103 |
| Certificates of deposit..... | — | 36,885 | — | 36,885 |
| State Treasurer investment pool..... | — | — | 6,733 | 6,733 |
| Securities lending collateral..... | — | — | 9 | 9 |
| Receivables: | | | | |
| Interest receivable..... | — | — | 7 | 7 |
| Sureties..... | 865,929 | — | — | 865,929 |
| Total Assets..... | <u>866,044</u> | <u>152,770</u> | <u>14,227</u> | <u>1,033,041</u> |
| Liabilities | | | | |
| Obligations under securities lending..... | — | — | 9 | 9 |
| Net Position | | | | |
| Restricted for: | | | | |
| Individuals, organizations, and other governments..... | 866,044 | 152,770 | 14,218 | 1,033,032 |
| Total Net Position..... | <u>\$ 866,044</u> | <u>\$ 152,770</u> | <u>\$ 14,218</u> | <u>\$ 1,033,032</u> |

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS**

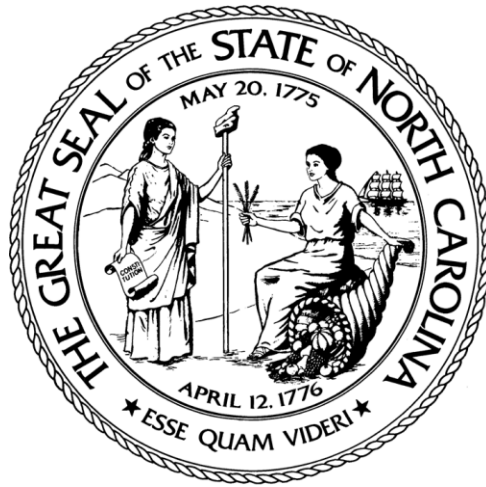
For the Fiscal Year Ended June 30, 2017

Exhibit F-4

(Dollars in Thousands)

| | Deposits of Insurance Carriers Fund | Administrative Office of the Courts Trust Fund | Departmental Funds | Totals |
|---|--|---|-----------------------|--------------|
| Additions | | | | |
| Contributions: | | | | |
| Trustee deposits..... | \$ 18,105 | \$ 125,673 | \$ — | \$ 143,778 |
| Investment Income: | | | | |
| Investment earnings..... | 3 | 1,914 | 80 | 1,997 |
| Less investment expenses..... | — | — | (2) | (2) |
| Net investment income..... | 3 | 1,914 | 78 | 1,995 |
| Total Additions..... | 18,108 | 127,587 | 78 | 145,773 |
| Deductions | | | | |
| Payments in accordance with trust arrangements..... | 11,495 | 128,370 | 301 | 140,166 |
| Change in net position..... | 6,613 | (783) | (223) | 5,607 |
| Net position — July 1..... | 859,431 | 153,553 | 14,441 | 1,027,425 |
| Net position — June 30..... | \$ 866,044 | \$ 152,770 | \$ 14,218 | \$ 1,033,032 |

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AGENCY FUNDS

Agency funds account for and report resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

The following activities are included in the agency funds:

- Local Sales Tax Collections
- Clerks of Court
- Intra-Entity Investment Fund Deposits
- Insurers in Receivership
- Vehicle Property Tax Collections
- Departmental Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | Balance, July 1, 2016 | Additions | Deductions | Balance, June 30, 2017 |
|--|--------------------------|---------------------|-----------------------|---------------------------|
| Local Sales Tax Collections | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 509,425 | \$ 3,389,070 | \$ (3,366,193) | \$ 532,302 |
| Receivables: | | | | |
| Taxes receivable..... | 173,475 | 176,458 | (173,475) | 176,458 |
| Due from other funds..... | 26,613 | 28,924 | (26,613) | 28,924 |
| Total Assets..... | <u>\$ 709,513</u> | <u>\$ 3,594,452</u> | <u>\$ (3,566,281)</u> | <u>\$ 737,684</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Intergovernmental payable..... | \$ 709,513 | \$ 3,594,452 | \$ (3,566,281) | \$ 737,684 |
| Total Liabilities..... | <u>\$ 709,513</u> | <u>\$ 3,594,452</u> | <u>\$ (3,566,281)</u> | <u>\$ 737,684</u> |
| Clerks of Court | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 92,906 | \$ 1,700,891 | \$ (1,690,400) | \$ 103,397 |
| Receivables: | | | | |
| Accounts receivable..... | 406 | 4,386 | (4,463) | 329 |
| Sureties..... | 91,325 | 40,132 | (49,672) | 81,785 |
| Total Assets..... | <u>\$ 184,637</u> | <u>\$ 1,745,409</u> | <u>\$ (1,744,535)</u> | <u>\$ 185,511</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Intergovernmental payable..... | \$ 4,497 | \$ 103,645 | \$ (103,542) | \$ 4,600 |
| Funds held for others..... | 180,140 | 540,001 | (539,230) | 180,911 |
| Total Liabilities..... | <u>\$ 184,637</u> | <u>\$ 643,646</u> | <u>\$ (642,772)</u> | <u>\$ 185,511</u> |
| Intra-Entity Investment Fund Deposits | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 4,243,272 | \$ 259,271 | \$ — | \$ 4,502,543 |
| Investments: | | | | |
| State Treasurer investment pool..... | 47,685 | — | (47,685) | — |
| Securities lending collateral..... | 238,413 | — | (233,025) | 5,388 |
| Total Assets..... | <u>\$ 4,529,370</u> | <u>\$ 259,271</u> | <u>\$ (280,710)</u> | <u>\$ 4,507,931</u> |
| Liabilities | | | | |
| Obligations under securities lending..... | \$ 238,413 | \$ — | \$ (233,025) | \$ 5,388 |
| Funds held for others..... | 4,290,957 | 211,586 | — | 4,502,543 |
| Total Liabilities..... | <u>\$ 4,529,370</u> | <u>\$ 211,586</u> | <u>\$ (233,025)</u> | <u>\$ 4,507,931</u> |
| Insurers in Receivership | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 2,401 | \$ 777 | \$ — | \$ 3,178 |
| Investments: | | | | |
| Corporate bonds..... | 1,386 | — | (211) | 1,175 |
| Receivables: | | | | |
| Accounts receivable..... | 1,517 | 873 | — | 2,390 |
| Total Assets..... | <u>\$ 5,304</u> | <u>\$ 1,650</u> | <u>\$ (211)</u> | <u>\$ 6,743</u> |
| Liabilities | | | | |
| Funds held for others..... | \$ 5,304 | \$ 1,650 | \$ (211) | \$ 6,743 |
| Total Liabilities..... | <u>\$ 5,304</u> | <u>\$ 1,650</u> | <u>\$ (211)</u> | <u>\$ 6,743</u> |

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2017

Exhibit F-5

(Dollars in Thousands)

| | Balance, July 1, 2016 | Additions | Deductions | Balance, June 30, 2017 |
|---|--------------------------|--------------|----------------|---------------------------|
| Vehicle Property Tax Collections | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 80,247 | \$ 918,070 | \$ (912,804) | \$ 85,513 |
| Securities lending collateral..... | 4,133 | — | (4,040) | 93 |
| Receivables: | | | | |
| Interest receivable..... | 47 | 52 | (47) | 52 |
| Total Assets..... | \$ 84,427 | \$ 918,122 | \$ (916,891) | \$ 85,658 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Intergovernmental payable..... | \$ 80,294 | \$ 1,046,982 | \$ (1,041,711) | \$ 85,565 |
| Obligations under securities lending..... | 4,133 | — | (4,040) | 93 |
| Total Liabilities..... | \$ 84,427 | \$ 1,046,982 | \$ (1,045,751) | \$ 85,658 |
| Departmental Funds | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 57,531 | \$ 1,465,406 | \$ (1,438,288) | \$ 84,649 |
| Investments: | | | | |
| Certificates of deposit..... | 525 | — | — | 525 |
| Securities lending collateral..... | 1,173 | — | (1,147) | 26 |
| Receivables: | | | | |
| Accounts receivable..... | 4,167 | 6,962 | (4,167) | 6,962 |
| Due from other funds..... | 11,958 | 3,452 | (3) | 15,407 |
| Total Assets..... | \$ 75,354 | \$ 1,475,820 | \$ (1,443,605) | \$ 107,569 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | \$ 5 | \$ 412 | \$ (414) | \$ 3 |
| Intergovernmental payable..... | 45,081 | 387,491 | (358,934) | 73,638 |
| Obligations under securities lending..... | 1,173 | — | (1,147) | 26 |
| Deposits payable..... | 1,783 | 4,626 | (4,502) | 1,907 |
| Funds held for others..... | 27,312 | 71,191 | (66,508) | 31,995 |
| Total Liabilities..... | \$ 75,354 | \$ 463,720 | \$ (431,505) | \$ 107,569 |
| Total Agency Funds | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 4,985,782 | \$ 7,733,485 | \$ (7,407,685) | \$ 5,311,582 |
| Investments: | | | | |
| Corporate bonds..... | 1,386 | — | (211) | 1,175 |
| Certificates of deposit..... | 525 | — | — | 525 |
| State Treasurer investment pool..... | 47,685 | — | (47,685) | — |
| Securities lending collateral..... | 243,719 | — | (238,212) | 5,507 |
| Receivables: | | | | |
| Taxes receivable..... | 173,475 | 176,458 | (173,475) | 176,458 |
| Accounts receivable..... | 6,090 | 12,221 | (8,630) | 9,681 |
| Interest receivable..... | 47 | 52 | (47) | 52 |
| Due from other funds..... | 38,571 | 32,376 | (26,616) | 44,331 |
| Sureties..... | 91,325 | 40,132 | (49,672) | 81,785 |
| Total Assets..... | \$ 5,588,605 | \$ 7,994,724 | \$ (7,952,233) | \$ 5,631,096 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Accounts payable..... | \$ 5 | \$ 412 | \$ (414) | \$ 3 |
| Intergovernmental payable..... | 839,385 | 5,132,570 | (5,070,468) | 901,487 |
| Obligations under securities lending..... | 243,719 | — | (238,212) | 5,507 |
| Deposits payable..... | 1,783 | 4,626 | (4,502) | 1,907 |
| Funds held for others..... | 4,503,713 | 824,428 | (605,949) | 4,722,192 |
| Total Liabilities..... | \$ 5,588,605 | \$ 5,962,036 | \$ (5,919,545) | \$ 5,631,096 |

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COMPONENT UNITS

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COMPONENT UNITS – DISCRETELY PRESENTED

The component units listed below are legally separate entities for which the State is financially accountable.

Nonmajor component units are comprised of the following entities:

- State Education Assistance Authority
- N.C. Housing Finance Agency
- The Golden LEAF, Inc.
- N.C. State Ports Authority
- N.C. Global TransPark Authority
- North Carolina Railroad Company
- North Carolina Biotechnology Center
- N.C. Partnership for Children, Inc.
- Centennial Authority
- Economic Development Partnership of N.C.

This section also includes a statement of cash flows for the State Health Plan, a major component unit, which does not issue separate financial statements.

COMBINING STATEMENT OF NET POSITION NONMAJOR COMPONENT UNITS

June 30, 2017

(Dollars in Thousands)

| | State Education Assistance Authority | N.C. Housing Finance Agency | The Golden LEAF, Inc. | N.C. State Ports Authority | N.C. Global TransPark Authority |
|---|---|--------------------------------------|-----------------------------|-------------------------------------|--|
| Assets | | | | | |
| Cash and cash equivalents..... | \$ 46,077 | \$ 12,755 | \$ 1,287 | \$ 8,854 | \$ 7,682 |
| Investments..... | — | 3,046 | 1,037,281 | 16,114 | — |
| Receivables, net..... | 35,983 | 14,172 | 94 | 6,094 | 363 |
| Due from component units..... | 2,472 | — | — | — | — |
| Inventories..... | — | — | — | 739 | — |
| Prepaid items..... | 21 | — | 108 | 2,387 | — |
| Notes receivable, net..... | 1,633,766 | 732,832 | 229 | — | — |
| Restricted/designated cash and cash equivalents..... | 474,600 | 641,344 | — | 3,226 | — |
| Restricted investments..... | 2,038,191 | 295,826 | — | 24,414 | — |
| Capital assets-nondepreciable..... | 5,000 | 769 | 904 | 84,371 | 23,980 |
| Capital assets-depreciable, net..... | 116 | 2,405 | 2,544 | 232,047 | 128,772 |
| Total Assets..... | <u>4,236,226</u> | <u>1,703,149</u> | <u>1,042,447</u> | <u>378,246</u> | <u>160,797</u> |
| Deferred Outflows of Resources | | | | | |
| Accumulated decrease in fair value of hedging derivatives.. | — | 2,673 | — | — | — |
| Deferred outflows for pensions..... | 769 | 3,240 | — | 4,941 | 157 |
| Total Deferred Outflows of Resources..... | <u>769</u> | <u>5,913</u> | <u>—</u> | <u>4,941</u> | <u>157</u> |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities..... | 12,635 | 4,866 | 165,084 | 7,482 | 543 |
| Interest payable..... | 3,227 | 11,183 | — | 1,220 | 9 |
| Due to component units..... | — | — | 6,513 | — | — |
| Due to primary government..... | 3 | — | — | 19 | 1 |
| Unearned revenue..... | — | 72,252 | — | 372 | 83 |
| Advance from primary government..... | — | — | — | 778 | 2,690 |
| Deposits payable..... | — | 6,342 | — | — | — |
| Funds held for others..... | 2,072,660 | — | — | — | 3 |
| Hedging derivatives liability..... | — | 2,673 | — | — | — |
| Long-term liabilities: | | | | | |
| Due within one year..... | 191,703 | 25,891 | 37 | 2,772 | 281 |
| Due in more than one year..... | 1,258,947 | 860,256 | 17 | 90,381 | 2,962 |
| Total Liabilities..... | <u>3,539,175</u> | <u>983,463</u> | <u>171,651</u> | <u>103,024</u> | <u>6,572</u> |
| Deferred Inflows of Resources | | | | | |
| Deferred state aid..... | 125,675 | 4,221 | — | — | — |
| Deferred inflows for pensions..... | 77 | 218 | — | 370 | 59 |
| Total Deferred Inflows of Resources..... | <u>125,752</u> | <u>4,439</u> | <u>—</u> | <u>370</u> | <u>59</u> |
| Net Position | | | | | |
| Net investment in capital assets..... | 5,115 | 3,174 | 3,448 | 225,568 | 145,670 |
| Restricted for: | | | | | |
| Expendable: | | | | | |
| Higher education..... | 496,045 | — | — | — | — |
| Health and human services..... | — | — | — | — | — |
| Economic development..... | — | 701,860 | 1,285 | 27,641 | — |
| Unrestricted..... | 70,908 | 16,126 | 866,063 | 26,584 | 8,653 |
| Total Net Position..... | <u>\$ 572,068</u> | <u>\$ 721,160</u> | <u>\$ 870,796</u> | <u>\$ 279,793</u> | <u>\$ 154,323</u> |

| North Carolina Railroad Company | North Carolina Biotechnology Center | N.C. Partnership for Children, Inc. | Centennial Authority | Economic Development Partnership of N.C. | Total |
|--|--|--|-------------------------|---|---------------------|
| \$ 6,645 | \$ 16,122 | \$ 2,772 | \$ 3,755 | \$ 1,420 | \$ 107,369 |
| — | 9,010 | — | — | — | 1,065,451 |
| 5,482 | 1,281 | 508 | 3,302 | 6,063 | 73,342 |
| — | — | — | — | — | 2,472 |
| — | — | — | — | — | 739 |
| 26 | 134 | 126 | — | 782 | 3,584 |
| — | 6,252 | — | — | — | 2,373,079 |
| 29 | — | 24 | 16,801 | — | 1,136,024 |
| 88,960 | — | — | 4,723 | — | 2,452,114 |
| 30,412 | — | — | 275 | — | 145,711 |
| 73,350 | 9,352 | 84 | 108,092 | 168 | 556,930 |
| <u>204,904</u> | <u>42,151</u> | <u>3,514</u> | <u>136,948</u> | <u>8,433</u> | <u>7,916,815</u> |
| — | — | — | — | — | 2,673 |
| — | — | — | 73 | — | 9,180 |
| — | — | — | 73 | — | 11,853 |
| 6,025 | 6,312 | 867 | 387 | 250 | 204,451 |
| — | — | — | — | — | 15,639 |
| — | — | — | — | — | 6,513 |
| — | — | — | — | — | 23 |
| 10,980 | — | 774 | 461 | 5,623 | 90,545 |
| — | — | — | — | — | 3,468 |
| 48 | — | — | — | — | 6,390 |
| — | — | — | — | — | 2,072,663 |
| — | — | — | — | — | 2,673 |
| — | 13 | 52 | 4,896 | 258 | 225,903 |
| — | — | 73 | 10,128 | 96 | 2,222,860 |
| <u>17,053</u> | <u>6,325</u> | <u>1,766</u> | <u>15,872</u> | <u>6,227</u> | <u>4,851,128</u> |
| — | — | — | — | — | 129,896 |
| — | — | — | 4 | — | 728 |
| — | — | — | 4 | — | 130,624 |
| 103,762 | 9,339 | 84 | 93,429 | — | 589,589 |
| — | — | — | — | — | 496,045 |
| — | — | 38 | — | — | 38 |
| 88,960 | 6,076 | — | 21,587 | — | 847,409 |
| (4,871) | 20,411 | 1,626 | 6,129 | 2,206 | 1,013,835 |
| <u>\$ 187,851</u> | <u>\$ 35,826</u> | <u>\$ 1,748</u> | <u>\$ 121,145</u> | <u>\$ 2,206</u> | <u>\$ 2,946,916</u> |

COMBINING STATEMENT OF ACTIVITIES NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2017

(Dollars in Thousands)

| | State Education Assistance Authority | N.C. Housing Finance Agency | The Golden LEAF, Inc. | N.C. State Ports Authority | N.C. Global TransPark Authority |
|---|---|--------------------------------------|-----------------------------|-------------------------------------|--|
| Total expenses..... | \$ 250,130 | \$ 406,062 | \$ 133,220 | \$ 43,915 | \$ 8,380 |
| Program revenues: | | | | | |
| Charges for services..... | 61,295 | 381,281 | 4 | 43,066 | 1,991 |
| Operating grants and contributions: | | | | | |
| State aid - program..... | 78,482 | 13,195 | — | — | — |
| Other operating grants and contributions... | 101,707 | — | 390 | 191 | 206 |
| Capital grants and contributions: | | | | | |
| State capital aid..... | — | — | — | — | — |
| Other capital grants and contributions..... | — | — | — | 1,444 | 1,603 |
| Net program (expense) revenue..... | (8,646) | (11,586) | (132,826) | 786 | (4,580) |
| Non-tax general revenues: | | | | | |
| Unrestricted investment earnings..... | 3,105 | — | 116,680 | — | — |
| State aid - general..... | — | 50,660 | 35,000 | 35,000 | 750 |
| Miscellaneous..... | — | — | — | — | — |
| Total non-tax general revenues..... | 3,105 | 50,660 | 151,680 | 35,000 | 750 |
| Change in net position..... | (5,541) | 39,074 | 18,854 | 35,786 | (3,830) |
| Net position — July 1, as restated..... | 577,609 | 682,086 | 851,942 | 244,007 | 158,153 |
| Net position — June 30..... | <u>\$ 572,068</u> | <u>\$ 721,160</u> | <u>\$ 870,796</u> | <u>\$ 279,793</u> | <u>\$ 154,323</u> |

| <u>North Carolina Railroad Company</u> | <u>North Carolina Biotechnology Center</u> | <u>N.C. Partnership for Children, Inc.</u> | <u>Centennial Authority</u> | <u>Economic Development Partnership of N.C.</u> | <u>Total</u> |
|--|--|--|---------------------------------|---|---------------------|
| \$ 21,713 | \$ 16,375 | \$ 101,785 | \$ 13,547 | \$ 23,950 | \$ 1,019,077 |
| 17,921 | 449 | 9 | 5,346 | 276 | 511,638 |
| — | — | 94,200 | — | — | 185,877 |
| — | 6,126 | 2,690 | 8,245 | 2,191 | 121,746 |
| 25,523 | — | — | — | — | 25,523 |
| — | — | — | 2,272 | — | 5,319 |
| <u>21,731</u> | <u>(9,800)</u> | <u>(4,886)</u> | <u>2,316</u> | <u>(21,483)</u> | <u>(168,974)</u> |
| 2,726 | 882 | 1 | — | — | 123,394 |
| — | 13,600 | 4,893 | — | 21,413 | 161,316 |
| <u>14,643</u> | <u>396</u> | <u>174</u> | <u>208</u> | <u>—</u> | <u>15,421</u> |
| <u>17,369</u> | <u>14,878</u> | <u>5,068</u> | <u>208</u> | <u>21,413</u> | <u>300,131</u> |
| 39,100 | 5,078 | 182 | 2,524 | (70) | 131,157 |
| 148,751 | 30,748 | 1,566 | 118,621 | 2,276 | 2,815,759 |
| <u>\$ 187,851</u> | <u>\$ 35,826</u> | <u>\$ 1,748</u> | <u>\$ 121,145</u> | <u>\$ 2,206</u> | <u>\$ 2,946,916</u> |

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2017

Exhibit G-3

(Dollars in Thousands)

| | State Health Plan |
|---|----------------------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers..... | \$ 3,249,357 |
| Payments to suppliers..... | (366,840) |
| Payments to employees..... | (4,290) |
| Payments for claims..... | (2,950,373) |
| Other payments..... | <u>(177)</u> |
| Net cash used for operating activities..... | <u>(72,323)</u> |
| Cash Flows From Noncapital Financing Activities | |
| Grant receipts | <u>21,271</u> |
| Cash Flows From Investing Activities | |
| Investment earnings..... | <u>9,549</u> |
| Net decrease in cash and cash equivalents..... | (41,503) |
| Cash and cash equivalents at July 1..... | 953,478 |
| Cash and cash equivalents at June 30..... | <u>\$ 911,975</u> |
| Reconciliation of Operating Loss to Net Cash Used For Operating Activities | |
| Operating loss..... | \$ (46,513) |
| Change in assets and deferred outflows: | |
| Receivables..... | (45,671) |
| Deferred outflows for pensions..... | (857) |
| Change in liabilities and deferred inflows: | |
| Accounts payable and accrued liabilities..... | (1,980) |
| Due to primary government..... | 23 |
| Compensated absences..... | (136) |
| Unearned revenue..... | (1,076) |
| Medical claims payable..... | 23,067 |
| Net pension liability..... | 870 |
| Deferred inflows for pensions..... | <u>(50)</u> |
| Net cash used for operating activities..... | <u>\$ (72,323)</u> |



STATISTICAL SECTION

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Index to Statistical Section

This part of the State of North Carolina's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

NET POSITION BY COMPONENT

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental Activities: | | | | | |
| Net investment in capital assets..... | \$ 47,264,866 | \$ 45,313,618 | \$ 43,589,998 | \$ 42,139,297 | \$ 40,394,260 |
| Restricted..... | 1,089,962 | 1,039,216 | 1,061,817 | 861,988 | 852,901 |
| Unrestricted..... | 1,822,821 | 376,874 | (1,829,718) | (3,398,663) | (3,042,454) |
| Total Governmental Activities Net Position | <u>\$ 50,177,649</u> | <u>\$ 46,729,708</u> | <u>\$ 42,822,097</u> | <u>\$ 39,602,622</u> | <u>\$ 38,204,707</u> |
| Business-type Activities: | | | | | |
| Net investment in capital assets..... | \$ 531,573 | \$ 653,235 | \$ 535,344 | \$ 442,100 | \$ 410,031 |
| Restricted..... | 15,040 | 7,043 | 1,256 | 1,940 | 995 |
| Unrestricted..... | 4,692,748 | 3,831,415 | 2,638,877 | 1,032,581 | (250,294) |
| Total Business-type Activities Net Position..... | <u>\$ 5,239,361</u> | <u>\$ 4,491,693</u> | <u>\$ 3,175,477</u> | <u>\$ 1,476,621</u> | <u>\$ 160,732</u> |
| Primary Government: | | | | | |
| Net investment in capital assets..... | \$ 47,796,439 | \$ 45,966,853 | \$ 44,125,342 | \$ 42,581,397 | \$ 40,804,291 |
| Restricted..... | 1,105,002 | 1,046,259 | 1,063,073 | 863,928 | 853,896 |
| Unrestricted..... | 6,515,569 | 4,208,289 | 809,159 | (2,366,082) | (3,292,748) |
| Total Primary Government Net Position..... | <u>\$ 55,417,010</u> | <u>\$ 51,221,401</u> | <u>\$ 45,997,574</u> | <u>\$ 41,079,243</u> | <u>\$ 38,365,439</u> |

Table 1

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 38,705,712 | \$ 37,338,472 | \$ 35,658,528 | \$ 34,101,091 | \$ 30,984,578 |
| 703,781 | 730,021 | 704,715 | 714,014 | 877,915 |
| (3,594,082) | (3,792,148) | (4,160,273) | (4,427,748) | (1,856,140) |
| <u>\$ 35,815,411</u> | <u>\$ 34,276,345</u> | <u>\$ 32,202,970</u> | <u>\$ 30,387,357</u> | <u>\$ 30,006,353</u> |
| | | | | |
| \$ 391,831 | \$ 294,172 | \$ 173,375 | \$ 73,924 | \$ 32,063 |
| 1,468 | 3,131 | 1,081,220 | 1,003,613 | 1,773,018 |
| (661,669) | (766,888) | (1,626,663) | (201,590) | 91,219 |
| <u>\$ (268,370)</u> | <u>\$ (469,585)</u> | <u>\$ (372,068)</u> | <u>\$ 875,947</u> | <u>\$ 1,896,300</u> |
| | | | | |
| \$ 39,097,543 | \$ 37,632,644 | \$ 35,831,903 | \$ 34,175,015 | \$ 31,016,641 |
| 705,249 | 733,152 | 1,785,935 | 1,717,627 | 2,650,933 |
| (4,255,751) | (4,559,036) | (5,786,936) | (4,629,338) | (1,764,921) |
| <u>\$ 35,547,041</u> | <u>\$ 33,806,760</u> | <u>\$ 31,830,902</u> | <u>\$ 31,263,304</u> | <u>\$ 31,902,653</u> |

CHANGES IN NET POSITION

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Expenses | | | | | |
| Governmental Activities: | | | | | |
| General government..... | \$ 1,220,572 | \$ 1,064,299 | \$ 1,158,892 | \$ 1,080,982 | \$ 1,034,277 |
| Primary and secondary education..... | 10,721,373 | 10,372,787 | 10,224,967 | 9,772,994 | 9,830,464 |
| Higher education..... | 4,137,922 | 4,003,154 | 3,859,549 | 3,901,543 | 3,986,465 |
| Health and human services..... | 18,871,497 | 18,422,804 | 18,705,192 | 17,812,888 | 18,313,335 |
| Economic development..... | 475,172 | 402,773 | 408,289 | 420,464 | 595,248 |
| Environment and natural resources..... | 549,838 | 547,540 | 490,185 | 484,718 | 515,496 |
| Public safety, corrections, and regulation..... | 3,355,982 | 2,960,451 | 2,896,088 | 2,911,146 | 2,907,980 |
| Transportation..... | 2,953,576 | 2,767,006 | 2,673,649 | 2,607,663 | 2,490,991 |
| Agriculture..... | 196,538 | 179,152 | 165,735 | 191,242 | 187,608 |
| Interest on long-term debt..... | 194,559 | 199,516 | 216,519 | 216,521 | 233,606 |
| Total Governmental Activities Expenses..... | <u>42,677,029</u> | <u>40,919,482</u> | <u>40,799,065</u> | <u>39,400,161</u> | <u>40,095,470</u> |
| Business-type Activities: | | | | | |
| Unemployment Compensation..... | 238,193 | 255,851 | 349,069 | 700,190 | 2,496,445 |
| N.C. State Lottery..... | 1,808,537 | 1,752,837 | 1,450,494 | 1,341,219 | 1,215,944 |
| EPA Revolving Loan..... | 14,648 | 19,047 | 22,965 | 27,789 | 23,711 |
| N.C. Turnpike Authority..... [1] | 108,845 | 87,467 | 89,004 | 88,278 | 95,897 |
| Regulatory programs..... | 113,780 | 94,857 | 90,397 | 86,253 | 76,447 |
| Insurance programs..... | 23,828 | 12,502 | 21,632 | 18,427 | 17,591 |
| North Carolina State Fair..... | 17,459 | 16,183 | 14,975 | 13,957 | 13,441 |
| Other business-type activities..... | 14,162 | 20,903 | 16,269 | 12,917 | 13,400 |
| Total Business-type Activities Expenses..... | <u>2,339,452</u> | <u>2,259,647</u> | <u>2,054,805</u> | <u>2,289,030</u> | <u>3,952,876</u> |
| Total Primary Government Expenses..... | <u>\$ 45,016,481</u> | <u>\$ 43,179,129</u> | <u>\$ 42,853,870</u> | <u>\$ 41,689,191</u> | <u>\$ 44,048,346</u> |
| Program Revenues | | | | | |
| Governmental Activities: | | | | | |
| Charges for Services: | | | | | |
| Transportation..... | \$ 973,237 | \$ 875,603 | \$ 742,586 | \$ 730,048 | \$ 706,231 |
| Public safety, corrections, and regulation..... | 614,165 | 622,044 | 601,407 | 580,817 | 604,447 |
| General government..... | 278,021 | 264,708 | 253,506 | 242,809 | 228,054 |
| Other activities..... | 708,061 | 656,866 | 705,181 | 648,411 | 662,172 |
| Operating grants and contributions..... | 16,197,465 | 15,924,934 | 16,152,680 | 15,261,306 | 15,767,596 |
| Capital grants and contributions..... | 1,064,722 | 940,448 | 942,238 | 1,260,306 | 1,010,889 |
| Total Governmental Activities Program Revenues..... | <u>19,835,671</u> | <u>19,284,603</u> | <u>19,397,598</u> | <u>18,723,697</u> | <u>18,979,389</u> |
| Business-type Activities: | | | | | |
| Charges for services: | | | | | |
| Unemployment Compensation..... | 933,147 | 1,309,907 | 1,552,934 | 1,651,108 | 1,535,068 |
| N.C. State Lottery..... | 2,433,036 | 2,388,977 | 1,977,486 | 1,844,636 | 1,695,009 |
| EPA Revolving Loan..... | 19,217 | 21,908 | 23,955 | 22,603 | 19,490 |
| N.C. Turnpike Authority..... [1] | 45,520 | 39,147 | 30,710 | 24,725 | 13,499 |
| Regulatory programs..... | 127,354 | 112,525 | 96,155 | 90,938 | 78,557 |
| Insurance programs..... | 18,425 | 18,628 | 18,641 | 10,780 | 19,275 |
| North Carolina State Fair..... | 16,102 | 15,539 | 14,985 | 14,828 | 14,506 |
| Other business-type activities..... | 12,658 | 12,042 | 11,239 | 10,781 | 10,681 |
| Operating grants and contributions..... | 136,197 | 156,515 | 409,351 | 347,108 | 1,423,525 |
| Capital grants and contributions..... | 10,317 | 14,932 | 21,251 | 11,942 | 21,109 |
| Total Business-type Activities Program Revenues..... | <u>3,751,973</u> | <u>4,090,120</u> | <u>4,156,707</u> | <u>4,029,449</u> | <u>4,830,719</u> |
| Total Primary Government Program Revenues..... | <u>\$ 23,587,644</u> | <u>\$ 23,374,723</u> | <u>\$ 23,554,305</u> | <u>\$ 22,753,146</u> | <u>\$ 23,810,108</u> |
| Net (Expense) Revenue | | | | | |
| Governmental Activities..... | \$ (22,841,358) | \$ (21,634,879) | \$ (21,401,467) | \$ (20,676,464) | \$ (21,116,081) |
| Business-type Activities..... | 1,412,521 | 1,830,473 | 2,101,902 | 1,740,419 | 877,843 |
| Total Primary Government Net Expense..... | <u>\$ (21,428,837)</u> | <u>\$ (19,804,406)</u> | <u>\$ (19,299,565)</u> | <u>\$ (18,936,045)</u> | <u>\$ (20,238,238)</u> |

Table 2

| 2012 | 2011 | 2010 | 2009 | 2008 |
|------------------------|------------------------|------------------------|------------------------|------------------------|
| \$ 937,353 | \$ 1,209,923 | \$ 1,065,584 | \$ 1,429,407 | \$ 1,232,088 |
| 9,760,909 | 10,024,775 | 9,830,183 | 10,079,691 | 10,631,920 |
| 4,238,695 | 4,350,475 | 4,232,266 | 3,951,862 | 4,207,410 |
| 17,752,493 | 16,859,438 | 16,762,910 | 16,172,213 | 14,951,585 |
| 667,106 | 744,703 | 916,224 | 636,431 | 746,471 |
| 470,965 | 596,227 | 526,178 | 717,666 | 753,909 |
| 2,976,448 | 2,729,418 | 2,616,888 | 2,741,308 | 2,627,007 |
| 2,400,599 | 2,177,062 | 1,998,234 | 138,007 | 1,941,207 |
| 188,985 | 114,275 | 118,847 | 110,268 | 119,297 |
| 282,542 | 306,696 | 281,058 | 289,211 | 304,020 |
| <u>39,676,095</u> | <u>39,112,992</u> | <u>38,348,372</u> | <u>36,266,064</u> | <u>37,514,914</u> |
| 3,283,900 | 4,420,762 | 5,568,561 | 3,255,448 | 1,002,866 |
| 1,141,941 | 1,028,536 | 994,168 | 877,403 | 712,718 |
| 14,026 | 42,897 | 30,940 | 7,868 | 12,454 |
| 17,565 | 4,940 | 4,990 | 3,847 | — |
| 69,980 | 80,454 | 67,330 | 37,644 | 34,791 |
| 38,701 | 36,885 | 13,118 | 14,986 | 17,556 |
| 13,030 | 13,595 | 12,794 | 13,803 | 12,828 |
| 12,084 | 9,148 | 9,563 | 7,324 | 6,364 |
| <u>4,591,227</u> | <u>5,637,217</u> | <u>6,701,464</u> | <u>4,218,323</u> | <u>1,799,577</u> |
| <u>\$ 44,267,322</u> | <u>\$ 44,750,209</u> | <u>\$ 45,049,836</u> | <u>\$ 40,484,387</u> | <u>\$ 39,314,491</u> |
| \$ 685,596 | \$ 709,064 | \$ 705,025 | \$ 740,353 | \$ 777,059 |
| 594,377 | 540,280 | 511,912 | 510,159 | 501,837 |
| 218,011 | 195,286 | 356,602 | 329,507 | 365,920 |
| 598,279 | 631,464 | 502,204 | 535,100 | 536,419 |
| 15,605,227 | 15,632,256 | 15,837,802 | 14,005,529 | 12,301,356 |
| 977,961 | 1,198,549 | 711,433 | 1,035,742 | 826,646 |
| <u>18,679,451</u> | <u>18,906,899</u> | <u>18,624,978</u> | <u>17,156,390</u> | <u>15,309,237</u> |
| 1,473,576 | 1,294,104 | 1,045,288 | 1,076,294 | 1,091,856 |
| 1,601,837 | 1,464,639 | 1,424,458 | 1,288,102 | 1,053,131 |
| 23,366 | 20,388 | 19,874 | 17,370 | 17,297 |
| 664 | — | — | — | — |
| 70,732 | 80,008 | 71,355 | 33,982 | 37,163 |
| 17,547 | 16,046 | 16,320 | 17,208 | 16,991 |
| 14,470 | 14,915 | 12,639 | 12,520 | 15,029 |
| 10,578 | 10,771 | 8,678 | 8,365 | 6,498 |
| 1,966,023 | 2,998,116 | 3,251,109 | 1,110,849 | 83,695 |
| 15,436 | 11,687 | 7,771 | 41,398 | 6,589 |
| <u>5,194,229</u> | <u>5,910,674</u> | <u>5,857,492</u> | <u>3,606,088</u> | <u>2,328,249</u> |
| <u>\$ 23,873,680</u> | <u>\$ 24,817,573</u> | <u>\$ 24,482,470</u> | <u>\$ 20,762,478</u> | <u>\$ 17,637,486</u> |
| \$ (20,996,644) | \$ (20,206,093) | \$ (19,723,394) | \$ (19,109,674) | \$ (22,205,677) |
| 603,002 | 273,457 | (843,972) | (612,235) | 528,672 |
| <u>\$ (20,393,642)</u> | <u>\$ (19,932,636)</u> | <u>\$ (20,567,366)</u> | <u>\$ (19,721,909)</u> | <u>\$ (21,677,005)</u> |

[1] For fiscal year 2010, N.C. Turnpike Authority is a major enterprise fund. Prior to 2010, it was included with other component units.

Continued

CHANGES IN NET POSITION (Continued)

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| General Revenues and Other Changes in Net Position | | | | | |
| Governmental Activities: | | | | | |
| Taxes: | | | | | |
| Individual income tax..... | \$ 11,950,085 | \$ 11,980,791 | \$ 11,288,542 | \$ 10,576,575 | \$ 11,113,597 |
| Corporate income tax..... | 805,062 | 1,120,553 | 1,272,879 | 1,318,091 | 1,194,850 |
| Sales and use tax..... | 7,646,658 | 7,184,788 | 6,869,090 | 5,839,362 | 5,556,484 |
| Gasoline tax..... | 1,945,769 | 1,938,849 | 1,945,462 | 1,907,803 | 1,889,439 |
| Franchise tax..... | 749,408 | 521,628 | 556,786 | 888,815 | 845,130 |
| Highway use tax..... | 784,549 | 728,580 | 653,931 | 596,801 | 555,581 |
| Insurance tax..... | 517,781 | 503,621 | 529,927 | 476,402 | 540,844 |
| Beverage tax..... | 394,883 | 380,065 | 360,280 | 342,784 | 330,918 |
| Inheritance tax..... | — | — | — | — | 113,721 |
| Tobacco products tax..... | 284,531 | 291,841 | 279,795 | 273,426 | 287,340 |
| Other taxes..... | 298,367 | 296,595 | 292,535 | 348,938 | 305,726 |
| Tobacco settlement..... | 140,569 | 136,561 | 137,910 | 139,169 | 213,078 |
| Unrestricted investment earnings (loss)..... | 62,683 | 43,551 | 20,139 | 19,452 | 13,621 |
| Miscellaneous..... | 39,194 | 35,246 | 42,167 | 192,002 | 44,837 |
| Contributions to permanent funds..... | 4,561 | 4,718 | 4,382 | 3,861 | 2,834 |
| Transfers..... | 665,199 | 518,461 | 416,483 | 429,810 | 448,733 |
| Total Governmental Activities..... | <u>26,289,299</u> | <u>25,685,848</u> | <u>24,670,308</u> | <u>23,353,291</u> | <u>23,456,733</u> |
| Business-type Activities: | | | | | |
| Miscellaneous..... | 346 | 42 | 4 | 3 | 7 |
| Transfers..... | (665,199) | (518,461) | (416,483) | (429,810) | (448,733) |
| Total Business-type Activities..... | <u>(664,853)</u> | <u>(518,419)</u> | <u>(416,479)</u> | <u>(429,807)</u> | <u>(448,726)</u> |
| Total Primary Government..... | <u>\$ 25,624,446</u> | <u>\$ 25,167,429</u> | <u>\$ 24,253,829</u> | <u>\$ 22,923,484</u> | <u>\$ 23,008,007</u> |
| Change in Net Position | | | | | |
| Governmental Activities..... | \$ 3,447,941 | \$ 4,050,969 | \$ 3,268,841 | \$ 2,676,827 | \$ 2,340,652 |
| Business-type Activities..... | 747,668 | 1,312,054 | 1,685,423 | 1,310,612 | 429,117 |
| Total Primary Government..... | <u>\$ 4,195,609</u> | <u>\$ 5,363,023</u> | <u>\$ 4,954,264</u> | <u>\$ 3,987,439</u> | <u>\$ 2,769,769</u> |

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 10,459,307 | \$ 10,020,535 | \$ 9,345,441 | \$ 8,661,565 | \$ 10,676,156 |
| 1,233,989 | 1,132,931 | 1,252,800 | 997,206 | 1,357,670 |
| 5,530,046 | 6,172,377 | 5,916,119 | 4,911,656 | 5,159,453 |
| 1,892,163 | 1,675,476 | 1,557,430 | 1,523,496 | 1,579,847 |
| 804,973 | 794,091 | 904,651 | 799,113 | 738,741 |
| 506,211 | 469,811 | 439,506 | 440,749 | 566,132 |
| 479,755 | 501,032 | 506,990 | 500,438 | 505,936 |
| 322,190 | 311,809 | 295,383 | 263,553 | 258,193 |
| 57,839 | 24,184 | 71,731 | 103,811 | 158,178 |
| 293,597 | 291,699 | 278,406 | 242,071 | 249,664 |
| 294,516 | 301,217 | 321,945 | 316,819 | 339,109 |
| 146,135 | 131,318 | 145,539 | 175,838 | 168,583 |
| (56,055) | 32,980 | 28,645 | 66,863 | 238,239 |
| 41,960 | 45,014 | 37,253 | 62,799 | 49,345 |
| 3,297 | 3,188 | — | 3,248 | 3,894 |
| 401,740 | 371,424 | 434,067 | 422,399 | 346,848 |
| <u>22,411,663</u> | <u>22,279,086</u> | <u>21,535,906</u> | <u>19,491,624</u> | <u>22,395,988</u> |
| — | 3 | — | — | — |
| (401,740) | (371,424) | (434,067) | (422,399) | (346,848) |
| <u>(401,740)</u> | <u>(371,421)</u> | <u>(434,067)</u> | <u>(422,399)</u> | <u>(346,848)</u> |
| <u>\$ 22,009,923</u> | <u>\$ 21,907,665</u> | <u>\$ 21,101,839</u> | <u>\$ 19,069,225</u> | <u>\$ 22,049,140</u> |
| \$ 1,415,019 | \$ 2,072,993 | \$ 1,812,512 | \$ 381,950 | \$ 190,311 |
| 201,262 | (97,964) | (1,278,039) | (1,034,634) | 181,824 |
| <u>\$ 1,616,281</u> | <u>\$ 1,975,029</u> | <u>\$ 534,473</u> | <u>\$ (652,684)</u> | <u>\$ 372,135</u> |

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| General Fund | | | | | | |
| Reserved..... | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Unreserved..... | — | — | — | — | — | — |
| Nonspendable..... | 72,345 | 84,122 | 83,079 | 81,458 | 75,153 | 81,395 |
| Restricted..... | 104,133 | 162,568 | 173,575 | 83,885 | 130,411 | 140,032 |
| Committed..... | 2,021,250 | 1,518,439 | 1,447,011 | 911,720 | 910,629 | 889,584 |
| Assigned..... | 217,747 | 376,677 | 116,705 | 283,280 | 30,957 | — |
| Unassigned..... | 1,966,379 | 1,619,055 | 686,453 | 193,482 | 150,713 | (62,042) |
| Total General Fund..... | <u>\$ 4,381,854</u> | <u>\$ 3,760,861</u> | <u>\$ 2,506,823</u> | <u>\$ 1,553,825</u> | <u>\$ 1,297,863</u> | <u>\$ 1,048,969</u> |
| All Other Governmental Funds | | | | | | |
| Reserved..... | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Unreserved, reported in: | | | | | | |
| Special revenue funds..... | — | — | — | — | — | — |
| Capital projects funds..... | — | — | — | — | — | — |
| Permanent funds..... | — | — | — | — | — | — |
| Nonspendable..... | 215,690 | 218,575 | 211,883 | 216,528 | 210,307 | 218,674 |
| Restricted..... | 1,176,441 | 1,067,534 | 1,252,733 | 768,448 | 923,253 | 807,205 |
| Committed..... | 2,753,557 | 2,308,077 | 1,870,499 | 1,713,790 | 1,409,097 | 1,402,286 |
| Assigned..... | 929 | 1,166 | 1,011 | — | 778 | 496 |
| Unassigned..... | — | — | — | — | — | (1,311) |
| Total all other governmental funds.... | <u>\$ 4,146,617</u> | <u>\$ 3,595,352</u> | <u>\$ 3,336,126</u> | <u>\$ 2,698,766</u> | <u>\$ 2,543,435</u> | <u>\$ 2,427,350</u> |

Table 3

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------|---------------------|---------------------|---------------------|
| [1] | | | |
| \$ — | \$ 224,358 | \$ 189,288 | \$ 172,909 |
| — | (338,738) | (966,861) | 1,505,230 |
| 93,482 | — | — | — |
| 81,815 | — | — | — |
| 1,115,156 | — | — | — |
| — | — | — | — |
| (107,348) | — | — | — |
| <u>\$ 1,183,105</u> | <u>\$ (114,380)</u> | <u>\$ (777,573)</u> | <u>\$ 1,678,139</u> |
| | | | |
| \$ — | \$ 994,418 | \$ 1,209,650 | \$ 1,182,723 |
| — | 2,321,665 | 2,337,370 | 2,517,529 |
| — | 10,311 | (2,738) | 280,939 |
| — | 7,141 | 1,907 | 2,312 |
| 198,830 | — | — | — |
| 896,515 | — | — | — |
| 1,343,103 | — | — | — |
| — | — | — | — |
| (1,627) | — | — | — |
| <u>\$ 2,436,821</u> | <u>\$ 3,333,535</u> | <u>\$ 3,546,189</u> | <u>\$ 3,983,503</u> |

[1] For fiscal year ended June 30, 2011, GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented. Fiscal years prior to 2011 have not been restated.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|---------------------|-------------------|--------------------|
| <u>Revenues</u> | | | | | |
| Taxes..... | \$ 25,376,794 | \$ 24,942,287 | \$ 24,032,552 | \$ 22,605,977 | \$ 22,769,317 |
| Federal funds..... | 16,896,580 | 16,325,844 | 16,509,242 | 15,967,504 | 16,161,532 |
| Local funds..... | 180,725 | 189,786 | 195,962 | 173,727 | 186,327 |
| Investment earnings..... | 116,006 | 88,114 | 43,574 | 76,144 | 41,259 |
| Interest earnings on loans..... | 900 | 1,094 | 2,864 | 1,797 | 3,684 |
| Sales and services..... | 323,677 | 325,883 | 318,411 | 312,872 | 304,179 |
| Rental and lease of property..... | 25,682 | 20,906 | 22,400 | 23,791 | 27,559 |
| Fees, licenses and fines..... | 1,894,212 | 1,813,402 | 1,644,450 | 1,597,517 | 1,574,727 |
| Tobacco settlement..... | 141,054 | 137,230 | 138,622 | 139,937 | 211,162 |
| Contributions, gifts, and grants..... | 104,856 | 102,217 | 121,750 | 99,672 | 74,857 |
| Funds escheated..... | 126,701 | 75,105 | 165,062 | 106,760 | 112,671 |
| Federal recovery funds..... | — | 196,752 | 209,492 | 236,869 | 273,192 |
| Miscellaneous..... | 183,932 | 176,847 | 182,507 | 328,781 | 184,763 |
| Total revenues..... | <u>45,371,119</u> | <u>44,395,467</u> | <u>43,586,888</u> | <u>41,671,348</u> | <u>41,925,229</u> |
| <u>Expenditures</u> | | | | | |
| Current: | | | | | |
| General government..... | 1,169,676 | 1,136,781 | 1,142,043 | 1,036,518 | 986,897 |
| Primary and secondary education..... | 10,699,781 | 10,381,474 | 10,213,160 | 9,749,844 | 9,818,572 |
| Higher education..... | 4,136,832 | 4,002,167 | 3,850,111 | 3,900,386 | 3,986,575 |
| Health and human services..... | 18,930,282 | 18,501,376 | 18,781,793 | 17,901,879 | 18,416,229 |
| Economic development..... | 472,037 | 407,575 | 412,783 | 442,364 | 571,037 |
| Environment and natural resources..... | 518,631 | 527,448 | 454,602 | 456,099 | 455,894 |
| Public safety, corrections, and regulation..... | 3,289,159 | 3,029,405 | 2,932,540 | 2,896,879 | 2,899,287 |
| Transportation..... | 4,839,716 | 4,313,225 | 4,044,532 | 4,152,663 | 3,992,200 |
| Agriculture..... | 195,562 | 183,389 | 178,282 | 179,848 | 171,196 |
| Capital outlay..... | 158,793 | 144,674 | 113,689 | 127,634 | 182,107 |
| Debt service: | | | | | |
| Principal retirement..... | [1] 595,300 | 587,628 | 562,820 | 553,016 | 1,261,685 |
| Interest and fees..... | [1] 279,631 | 293,503 | 303,433 | 331,451 | 461,739 |
| Debt issuance costs..... | 1,009 | 1,398 | 3,048 | 1,193 | 6,605 |
| Total expenditures..... | <u>45,286,409</u> | <u>43,510,043</u> | <u>42,992,836</u> | <u>41,729,774</u> | <u>43,210,023</u> |
| Excess revenues over (under) expenditures..... | <u>84,710</u> | <u>885,424</u> | <u>594,052</u> | <u>(58,426)</u> | <u>(1,284,794)</u> |
| <u>Other Financing Sources (Uses)</u> | | | | | |
| Bonds issued..... | 200,000 | — | 231,360 | — | — |
| Special Indebtedness issued..... | — | — | — | — | 250,000 |
| GARVEE bonds issued..... | — | — | 264,930 | — | — |
| Refunding bonds issued..... | — | 329,360 | 299,020 | 506,255 | 1,320,970 |
| Other debt issued..... | 630 | 1,875 | 1,622 | 6,733 | 9,380 |
| Premium on debt issued..... | 30,018 | 88,066 | 117,506 | 98,789 | 284,428 |
| Payments to refunded bond escrow agent..... | — | (416,509) | (349,828) | (603,550) | (748,022) |
| Sale of capital assets..... | 33,289 | 70,263 | 13,432 | 14,939 | 12,939 |
| Insurance recoveries..... | 12,125 | 8,881 | 9,039 | 15,975 | 9,925 |
| Transfers in..... | 1,253,047 | 1,036,161 | 1,044,348 | 1,233,471 | 1,112,704 |
| Transfers out..... | (441,561) | (515,965) | (632,660) | (805,682) | (651,195) |
| Total other financing sources (uses)..... | <u>1,087,548</u> | <u>602,132</u> | <u>998,769</u> | <u>466,930</u> | <u>1,601,129</u> |
| Net change in fund balances..... | <u>\$ 1,172,258</u> | <u>\$ 1,487,556</u> | <u>\$ 1,592,821</u> | <u>\$ 408,504</u> | <u>\$ 316,335</u> |
| Debt service as a percentage of noncapital expenditures.. | 2.06% | 2.15% | 2.13% | 2.25% | 4.24% |

All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds.

Table 4

| 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------|--------------------|--------------------|-----------------------|---------------------|
| \$ 21,816,945 | \$ 21,689,379 | \$ 20,866,244 | \$ 18,752,674 | \$ 21,583,521 |
| 15,626,696 | 14,215,501 | 13,688,504 | 13,387,611 | 12,096,354 |
| 188,405 | 186,944 | 218,162 | 349,303 | 527,325 |
| 50,612 | 100,104 | 198,633 | 95,288 | 620,829 |
| 3,347 | 4,104 | 4,543 | 4,989 | 5,156 |
| 292,705 | 276,663 | 263,010 | 279,025 | 285,848 |
| 26,574 | 25,165 | 22,122 | 25,398 | 27,737 |
| 1,547,973 | 1,496,606 | 1,553,923 | 1,602,471 | 1,593,893 |
| 140,979 | 138,256 | 146,358 | 175,187 | 159,954 |
| 65,954 | 109,170 | 85,868 | 137,537 | 140,575 |
| 68,207 | 111,481 | 70,381 | 27,399 | 74,743 |
| 658,570 | 2,265,393 | 2,391,851 | 1,164,674 | N/A |
| 146,204 | 158,945 | 164,685 | 184,839 | 167,449 |
| <u>40,633,171</u> | <u>40,777,711</u> | <u>39,674,284</u> | <u>36,186,395</u> | <u>37,283,384</u> |
| 901,654 | 1,000,101 | 962,187 | 1,299,637 | 1,167,090 |
| 9,738,102 | 10,000,438 | 9,850,462 | 10,111,797 | 9,879,602 |
| 4,237,649 | 4,350,683 | 4,225,806 | 3,951,689 | 4,207,164 |
| 17,854,993 | 16,914,978 | 16,816,099 | 16,222,160 | 14,918,068 |
| 667,057 | 741,447 | 915,038 | 634,369 | 747,728 |
| 429,882 | 603,112 | 554,628 | 699,273 | 689,119 |
| 2,937,742 | 2,751,665 | 2,659,683 | 2,681,833 | 2,629,567 |
| 3,801,196 | 3,660,069 | 3,253,258 | 3,266,494 | 3,473,718 |
| 181,387 | 113,153 | 112,902 | 111,506 | 117,380 |
| 231,688 | 364,121 | 341,058 | 369,326 | 346,764 |
| 514,195 | 1,026,602 | 498,563 | 474,323 | 427,550 |
| 346,540 | 393,432 | 322,287 | 326,287 | 329,813 |
| 7,074 | 4,178 | 1,310 | 3,031 | 2,141 |
| <u>41,849,159</u> | <u>41,923,979</u> | <u>40,513,281</u> | <u>40,151,725</u> | <u>38,935,704</u> |
| <u>(1,215,988)</u> | <u>(1,146,268)</u> | <u>(838,997)</u> | <u>(3,965,330)</u> | <u>(1,652,320)</u> |
| — | — | 487,700 | — | — |
| 400,000 | 500,000 | — | 600,000 | 275,000 |
| 179,540 | — | 242,250 | — | 287,565 |
| 367,350 | 774,745 | 371,920 | — | — |
| 15,825 | — | 9,098 | 1,533 | 7,425 |
| 131,892 | 191,035 | 140,876 | 31,371 | 21,843 |
| (428,830) | (370,982) | (435,870) | — | — |
| 12,889 | 12,118 | 11,994 | 13,079 | 29,570 |
| 16,444 | 7,319 | 7,414 | 8,568 | 7,317 |
| 1,115,417 | 1,131,568 | 2,330,816 | 2,727,741 | 2,567,141 |
| <u>(715,002)</u> | <u>(698,321)</u> | <u>(1,876,502)</u> | <u>(2,309,101)</u> | <u>(2,223,438)</u> |
| <u>1,095,525</u> | <u>1,547,482</u> | <u>1,289,696</u> | <u>1,073,191</u> | <u>972,423</u> |
| <u>\$ (120,463)</u> | <u>\$ 401,214</u> | <u>\$ 450,699</u> | <u>\$ (2,892,139)</u> | <u>\$ (679,897)</u> |
| 2.18% | 3.61% | 2.14% | 2.12% | 2.07% |

[1] For the fiscal year ended June 30, 2011, principal retirement expenditures include payments for a current refunding of \$499.87 million and interest and fees expenditures include payments of \$49.9 million to terminate interest rate swaps. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.24%. For the fiscal year ended June 30, 2013, principal retirement expenditures include payments for a current refunding of \$695.96 million and interest and fees expenditures include net payments of \$124.91 million to terminate basis swaps and swaptions. If these amounts were excluded, debt service as a percentage of noncapital expenditures would be 2.26%.

NA = Data not available

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------------------|----------------------|----------------------|----------------------|----------------------|
| TAX REVENUES | | | | | |
| Individual income tax..... | \$ 11,950,085 | \$ 11,980,791 | \$ 11,288,542 | \$ 10,576,575 | \$ 11,111,462 |
| Corporate income tax..... | 807,208 | 1,117,999 | 1,270,985 | 1,331,934 | 1,224,702 |
| Sales and use tax..... | 7,634,608 | 7,177,819 | 6,858,523 | 5,838,079 | 5,554,065 |
| Franchise tax..... | 748,018 | 524,967 | 552,221 | 890,692 | 857,867 |
| Beverage tax..... | 394,995 | 379,986 | 360,138 | 342,955 | 330,711 |
| Insurance tax..... | 516,970 | 503,413 | 529,927 | 476,402 | 521,510 |
| Tobacco products tax..... | 291,671 | 286,968 | 277,830 | 277,736 | 283,629 |
| License tax..... | 30,470 | 30,785 | 46,265 | 47,612 | 44,378 |
| Real estate conveyance tax..... | 68,793 | 62,250 | 56,028 | 50,424 | — |
| Gift tax..... | 3 | 27 | 212 | 526 | 829 |
| Manufacturing tax..... | 46,922 | 47,435 | 40,611 | 36,743 | 36,447 |
| Other taxes..... | [3] 39,185 | 41,496 | 37,707 | 111,347 | 186,653 |
| Total tax revenues..... | <u>22,528,928</u> | <u>22,153,936</u> | <u>21,318,989</u> | <u>19,981,025</u> | <u>20,152,253</u> |
| NON-TAX REVENUES | | | | | |
| Federal Funds: | | | | | |
| Departmental revenues..... | 15,497,006 | 15,138,975 | 15,293,459 | 14,526,468 | 14,878,307 |
| Federal recovery funds..... | [4] — | 45,220 | 84,429 | 151,757 | 182,756 |
| | <u>15,497,006</u> | <u>15,184,195</u> | <u>15,377,888</u> | <u>14,678,225</u> | <u>15,061,063</u> |
| Local Funds: | | | | | |
| Departmental revenues..... | 143,580 | 155,486 | 161,514 | 144,826 | 158,413 |
| Investment Earnings: | | | | | |
| Income from General Fund investments..... | 62,315 | 40,795 | 19,282 | 17,458 | 12,991 |
| Income from securities lending..... | [1] 925 | 1,354 | 554 | 6,853 | 9,125 |
| Departmental revenues..... | 6,010 | 3,684 | 2,045 | 2,481 | 2,597 |
| Other investment earnings..... | — | — | — | — | — |
| | <u>69,250</u> | <u>45,833</u> | <u>21,881</u> | <u>26,792</u> | <u>24,713</u> |
| Interest Earnings on Loans: | | | | | |
| Departmental revenues..... | 259 | 442 | 2,192 | 1,098 | 2,883 |
| Sales and Services: | | | | | |
| Departmental revenues..... | 171,534 | 171,318 | 164,521 | 158,684 | 140,603 |
| Other non-tax revenues..... | 105 | 109 | 75 | 87 | 80 |
| | <u>171,639</u> | <u>171,427</u> | <u>164,596</u> | <u>158,771</u> | <u>140,683</u> |
| Rental and Lease of Property: | | | | | |
| Proceeds from rental and lease of property..... | 5,718 | 51 | 103 | 117 | 94 |
| Departmental revenues..... | 10,711 | 11,161 | 10,383 | 9,966 | 10,210 |
| | <u>16,429</u> | <u>11,212</u> | <u>10,486</u> | <u>10,083</u> | <u>10,304</u> |
| Fees, Licenses and Fines: | | | | | |
| Court fines and fees..... | 242,013 | 244,724 | 234,510 | 236,790 | 250,789 |
| Secretary of State service fees..... | 112,479 | 108,208 | 101,792 | 94,923 | 89,994 |
| Banking and investment fees..... | 4,101 | 4,595 | 7,684 | 7,568 | 6,107 |
| Permits (ABC Commission)..... | 24,682 | 24,025 | 24,065 | 15,151 | 15,138 |
| Probation supervision fees..... | 12,669 | 13,626 | 14,231 | 14,579 | 15,566 |
| Department of Insurance fees..... | 45,897 | 44,461 | 43,392 | 40,603 | 39,224 |
| DWI service and restoration fees..... | 5,672 | 6,490 | 7,594 | 8,033 | 8,590 |
| Departmental revenues..... | 302,396 | 307,282 | 304,463 | 287,233 | 288,922 |
| Fines from tax collection activity..... | — | — | — | — | — |
| Other non-tax revenues..... | 9,417 | 8,667 | 7,940 | 8,895 | 9,696 |
| | <u>759,326</u> | <u>762,078</u> | <u>745,671</u> | <u>713,775</u> | <u>724,026</u> |
| Tobacco Settlement: | | | | | |
| Tobacco settlement..... | 141,054 | 137,230 | 138,622 | 139,937 | 211,162 |
| Contributions, Gifts and Grants: | | | | | |
| Departmental revenues..... | 43,996 | 39,755 | 39,088 | 26,441 | 21,487 |
| Miscellaneous: | | | | | |
| Local sales and use tax administration..... | 13,038 | 11,374 | 10,519 | 9,388 | 8,942 |
| Sales tax refunds..... | 1,876 | 2,189 | 2,452 | 3,716 | 2,826 |
| Departmental revenues..... | 154,189 | 143,840 | 112,647 | 214,371 | 104,432 |
| Other non-tax revenue..... | 237 | 236 | 3,072 | 66,643 | 9,865 |
| | <u>169,340</u> | <u>157,639</u> | <u>128,690</u> | <u>294,118</u> | <u>126,065</u> |
| Total non-tax revenues..... | <u>17,011,879</u> | <u>16,665,297</u> | <u>16,790,628</u> | <u>16,194,066</u> | <u>16,480,799</u> |
| Total Revenues..... | <u>[1] \$ 39,540,807</u> | <u>\$ 38,819,233</u> | <u>\$ 38,109,617</u> | <u>\$ 36,175,091</u> | <u>\$ 36,633,052</u> |

Table 5

| 2012 | 2011 | 2010 | 2009 | 2008 |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 10,457,217 | \$ 10,018,039 | \$ 9,343,303 | \$ 8,658,635 | \$ 10,672,362 |
| 1,194,865 | 1,139,584 | 1,245,515 | 941,509 | 1,265,654 |
| 5,516,304 | 6,133,915 | 5,871,166 | 4,872,318 | 5,125,674 |
| 797,596 | 793,094 | 904,959 | 797,079 | 739,947 |
| 322,194 | 311,814 | 295,349 | 263,553 | 257,393 |
| 463,574 | 485,989 | 495,059 | 483,756 | 492,699 |
| 293,286 | 290,743 | 278,296 | 242,071 | 249,664 |
| 45,577 | 48,924 | 41,338 | 37,716 | 55,293 |
| — | — | — | — | — |
| 181 | 2,973 | 12,036 | 12,294 | 17,361 |
| 36,321 | 33,013 | 32,125 | 32,044 | 37,661 |
| 128,684 | 105,570 | 155,537 | 185,381 | 233,825 |
| <u>19,255,799</u> | <u>19,363,658</u> | <u>18,674,683</u> | <u>16,526,356</u> | <u>19,147,533</u> |
| 14,433,383 | 12,828,192 | 12,825,403 | 11,970,322 | 10,843,765 |
| 421,815 | 1,791,264 | 1,961,425 | 1,155,174 | — |
| <u>14,855,198</u> | <u>14,619,456</u> | <u>14,786,828</u> | <u>13,125,496</u> | <u>10,843,765</u> |
| 164,679 | 149,545 | 153,234 | 304,270 | 486,536 |
| 13,533 | 30,925 | 36,877 | 103,703 | 234,478 |
| (1,590) | 9,527 | 49,733 | (46,275) | 143,487 |
| 4,014 | 7,295 | 3,264 | 4,788 | 7,829 |
| — | — | — | 3 | 39 |
| <u>15,957</u> | <u>47,747</u> | <u>89,874</u> | <u>62,219</u> | <u>385,833</u> |
| 2,445 | 3,133 | 202 | 261 | 113 |
| 137,527 | 130,166 | 97,323 | 104,925 | 102,307 |
| 92 | 112 | 116 | 143 | 138 |
| <u>137,619</u> | <u>130,278</u> | <u>97,439</u> | <u>105,068</u> | <u>102,445</u> |
| 85 | 88 | 67 | 83 | 98 |
| 10,348 | 11,523 | 8,810 | 8,773 | 7,908 |
| <u>10,433</u> | <u>11,611</u> | <u>8,877</u> | <u>8,856</u> | <u>8,006</u> |
| 258,968 | 225,710 | 216,772 | 190,995 | 198,520 |
| 85,062 | 76,451 | 81,221 | 64,202 | 62,035 |
| 6,690 | 6,092 | 5,955 | 5,709 | 5,862 |
| 15,169 | 15,176 | 15,497 | 15,230 | 14,791 |
| 16,134 | 15,000 | 11,892 | 16,758 | 16,892 |
| 39,100 | 38,174 | 38,271 | 43,965 | 42,872 |
| 8,946 | 8,928 | 7,638 | 9,310 | 9,441 |
| 252,398 | 217,191 | 212,260 | 184,952 | 164,813 |
| — | — | 78,090 | 85,135 | 93,181 |
| 8,086 | 4,750 | 6,912 | 5,340 | 6,583 |
| <u>690,553</u> | <u>607,472</u> | <u>674,508</u> | <u>621,596</u> | <u>614,990</u> |
| 140,979 | 138,256 | 146,358 | 175,187 | 159,954 |
| 20,452 | 22,591 | 20,391 | 16,179 | 16,054 |
| 12,177 | 13,692 | 14,603 | 15,613 | 16,982 |
| 3,555 | 2,432 | 2,134 | 1,906 | 3,303 |
| 103,317 | 101,336 | 117,511 | 119,107 | 106,517 |
| 306 | 4,871 | 6,517 | 22,220 | 1,566 |
| <u>119,355</u> | <u>122,331</u> | <u>140,765</u> | <u>158,846</u> | <u>128,368</u> |
| <u>16,157,670</u> | <u>15,852,420</u> | <u>16,118,476</u> | <u>14,577,978</u> | <u>12,746,064</u> |
| <u>\$ 35,413,469</u> | <u>\$ 35,216,078</u> | <u>\$ 34,793,159</u> | <u>\$ 31,104,334</u> | <u>\$ 31,893,597</u> |

[1] For fiscal year ended June 30, 2009, with the investment markets downturn, situations occurred related to securities lending activity that resulted in the State experiencing unrealized losses on the investment of cash collateral received for securities lent. The State had unrecorded unrealized losses and undistributed income that resulted in a restatement.

[2] For fiscal year ended June 30, 2011, GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented. Fiscal years prior to 2011 have not been restated.

[3] SL2013-316 repealed piped natural gas and estate (reported as inheritance) taxes. The collections for these tax types will continue to decline until zero. All years have been adjusted to include piped natural gas tax and inheritance tax balances with other taxes.

[4] Beginning fiscal year ending June 30, 2017, Federal recovery funds were combined with Federal Funds: Departmental revenues, due to continued decline in revenue stream.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2006-2015

(Dollars in thousands)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Manufacturing..... | \$ 33,983,040 | \$ 32,628,063 | \$ 31,234,909 | \$ 30,589,186 | \$ 29,808,883 |
| Retail trade..... | 18,188,783 | 17,397,321 | 16,477,114 | 15,833,197 | 15,129,028 |
| Services..... | 106,132,115 | 100,208,947 | 93,338,231 | 91,290,925 | 85,301,356 |
| Agricultural, forestry, fishing, etc..... | 863,879 | 860,197 | 817,706 | 796,216 | 677,056 |
| Government..... | 55,875,994 | 54,200,895 | 54,151,306 | 54,184,250 | 53,716,407 |
| Construction..... | 16,994,484 | 15,359,051 | 14,226,748 | 13,575,698 | 12,223,086 |
| Wholesale trade..... | 15,813,780 | 15,227,525 | 14,147,694 | 13,654,182 | 12,812,398 |
| Transportation and warehousing..... | 8,297,782 | 7,726,693 | 7,187,053 | 6,954,304 | 6,673,266 |
| Finance and insurance..... | 18,533,627 | 17,828,125 | 18,148,291 | 25,565,897 | 18,661,220 |
| Mining..... | 181,208 | 170,332 | 194,576 | 211,473 | 227,363 |
| Utilities..... | 1,936,430 | 1,788,244 | 1,574,744 | 1,873,200 | 2,203,682 |
| Information..... | 7,564,730 | 7,079,940 | 6,221,431 | 5,981,946 | 5,677,247 |
| Real estate and rental and leasing..... | 5,380,732 | 4,915,998 | 4,118,146 | 3,209,888 | 1,988,530 |
| Other..... | 119,591,754 | 115,909,044 | 110,302,787 | 112,480,187 | 106,909,997 |
| Total..... | \$ 409,338,338 | \$ 391,300,375 | \$ 372,140,736 | \$ 376,200,549 | \$ 352,009,519 |
| Average effective rate [1]: | | | | | |
| Individual income tax..... | 2.8% | 2.7% | 3% | 2.8% | 2.8% |

[1] Average effective rate equals individual income tax revenues divided by personal income.

Source: Bureau of Economic Analysis (Data for 2016 & 2017 is not available)

Table 6

| 2010 | 2009 | 2008 | 2007 | 2006 |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 29,276,737 | \$ 28,956,434 | \$ 32,455,030 | \$ 33,395,049 | \$ 32,544,309 |
| 15,068,675 | 14,980,527 | 15,983,055 | 15,768,599 | 15,019,015 |
| 80,984,303 | 78,201,779 | 79,351,892 | 75,616,426 | 70,780,443 |
| 700,840 | 569,088 | 501,052 | 507,673 | 520,261 |
| 53,501,987 | 51,845,777 | 49,804,142 | 46,508,345 | 43,134,827 |
| 11,849,937 | 13,092,207 | 15,782,547 | 16,874,015 | 16,363,598 |
| 12,090,949 | 11,725,351 | 12,645,516 | 12,741,639 | 11,924,222 |
| 6,237,733 | 6,205,382 | 6,586,929 | 6,733,954 | 6,578,142 |
| 20,702,124 | 27,011,810 | 31,170,019 | 23,661,599 | 18,548,000 |
| 241,201 | 178,122 | 127,173 | (125,819) | (112,179) |
| 2,314,562 | 2,139,219 | 2,669,326 | 1,764,366 | 1,740,151 |
| 5,531,156 | 5,937,302 | 6,521,452 | 6,413,987 | 6,119,521 |
| 1,896,208 | 2,466,637 | 4,684,304 | 3,569,441 | 4,162,019 |
| 97,333,583 | 95,359,802 | 93,705,371 | 84,939,760 | 76,862,675 |
| \$ 337,729,995 | \$ 338,669,437 | \$ 351,987,808 | \$ 328,369,034 | \$ 304,185,004 |
| 2.8% | 2.6% | 3% | 3.3% | 3.1% |

**INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2006 AND 2015
INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2007-2016**

| North Carolina Taxable Income | Calendar Year 2015 | | | | Calendar Year 2006 | | | |
|----------------------------------|----------------------|---------------|--------------------------|---------------|----------------------|---------------|-------------------------|---------------|
| | Number of Returns | % of Total | Tax Liability | % of Total | Number of Returns | % of Total | Tax Liability | % of Total |
| 0 to \$15,000..... | 2,118,789 | 46.4% | \$ 420,678,438 | 3.9% | 1,982,461 | 50.1% | \$ 447,671,215 | 4.8% |
| \$15,001 to \$25,000..... | 556,245 | 12.2% | 593,165,442 | 5.4% | 537,076 | 13.6% | 609,210,957 | 6.5% |
| \$25,001 to \$50,000..... | 816,068 | 17.9% | 1,620,758,158 | 14.9% | 724,405 | 18.3% | 1,610,541,801 | 17.2% |
| \$50,001 to \$75,000..... | 409,413 | 9.0% | 1,395,151,001 | 12.8% | 329,959 | 8.3% | 1,295,682,705 | 13.8% |
| \$75,001 to \$100,000..... | 236,872 | 5.2% | 1,143,807,478 | 10.5% | 151,647 | 3.8% | 865,826,688 | 9.2% |
| \$100,001 to \$200,000..... | 302,500 | 6.6% | 2,290,757,819 | 21.0% | 159,707 | 4.1% | 1,475,544,276 | 15.8% |
| \$200,001 and up..... | 126,211 | 2.7% | 3,423,773,029 | 31.5% | 71,765 | 1.8% | 3,061,247,949 | 32.7% |
| | <u>4,566,098</u> | <u>100.0%</u> | <u>\$ 10,888,091,365</u> | <u>100.0%</u> | <u>3,957,020</u> | <u>100.0%</u> | <u>\$ 9,365,725,591</u> | <u>100.0%</u> |

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calendar year 2015 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

| Calendar Year 2007 | | | | |
|---------------------|--------------|--------------------|---------------------|-------------|
| Tax Year | Bracket 1 | Bracket 2 | Bracket 3 | Bracket 4 |
| Married - Joint: | | | | |
| Taxable income | \$1-\$21,250 | \$21,251-\$100,000 | \$100,001-\$200,000 | > \$200,000 |
| Tax rate | 6% | 7% | 7.75% | 8% |
| Married - Separate: | | | | |
| Taxable income | \$1-\$10,625 | \$10,626-\$50,000 | \$50,001-\$100,000 | > \$100,000 |
| Tax rate | 6% | 7% | 7.75% | 8% |
| Head of Household: | | | | |
| Taxable income | \$1-\$17,000 | \$17,001-\$80,000 | \$80,001-\$160,000 | > \$160,000 |
| Tax rate | 6% | 7% | 7.75% | 8% |
| Single: | | | | |
| Taxable income | \$1-\$12,750 | \$12,751-\$60,000 | \$60,001-\$120,000 | > \$120,000 |
| Tax rate | 6% | 7% | 7.75% | 8% |
| Calendar Year 2008 | | | | |
| Tax Year | Bracket 1 | Bracket 2 | Bracket 3 | |
| Married - Joint: | | | | |
| Taxable income | \$1-\$21,250 | \$21,251-\$100,000 | > \$100,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Married - Separate: | | | | |
| Taxable income | \$1-\$10,625 | \$10,626-\$50,000 | > \$50,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Head of Household: | | | | |
| Taxable income | \$1-\$17,000 | \$17,001-\$80,000 | > \$80,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Single: | | | | |
| Taxable income | \$1-\$12,750 | \$12,751-\$60,000 | > \$60,000 | |
| Tax rate | 6% | 7% | 7.75% | |

Temporary Rate Increase - Effective for the tax years January 1, 2001 through December 31, 2003, the General Assembly temporarily raised the highest individual income tax rate from 7.75% to 8.25%. This temporary increase was extended in subsequent budgets. In 2006-07, the General Assembly reduced the top rate from 8.25% to 8%, effective January 1, 2007.

Income tax rate restrictions - The State Constitution (Article V, section 2(6)) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed ten percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed."

Source: North Carolina Department of Revenue

Individual Income Tax Rates - Last 10 Years

| Calendar Years 2009-2010 | | | | |
|--|--------------|--------------------|-------------|-------------------|
| Tax Year | Bracket 1 | Bracket 2 | Bracket 3 | Bracket 3 Sur tax |
| Married - Joint: | | | | |
| Taxable income | \$1-\$21,250 | \$21,251-\$100,000 | > \$100,000 | |
| Tax rate | 6% | 7% | 7.75% | 2% |
| Married - Separate: | | | | |
| Taxable income | \$1-\$10,625 | \$10,626-\$50,000 | > \$50,000 | |
| Tax rate | 6% | 7% | 7.75% | 2% |
| Head of Household: | | | | |
| Taxable income | \$1-\$17,000 | \$17,001-\$80,000 | > \$80,000 | |
| Tax rate | 6% | 7% | 7.75% | 2% |
| Single: | | | | |
| Taxable income | \$1-\$12,750 | \$12,751-\$60,000 | > \$60,000 | |
| Tax rate | 6% | 7% | 7.75% | 2% |
| | | | | 3% |
| Calendar Years 2011-2013 | | | | |
| Tax Year | Bracket 1 | Bracket 2 | Bracket 3 | |
| Married - Joint: | | | | |
| Taxable income | \$1-\$21,250 | \$21,251-\$100,000 | > \$100,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Married - Separate: | | | | |
| Taxable income | \$1-\$10,625 | \$10,626-\$50,000 | > \$50,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Head of Household: | | | | |
| Taxable income | \$1-\$17,000 | \$17,001-\$80,000 | > \$80,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Single: | | | | |
| Taxable income | \$1-\$12,750 | \$12,751-\$60,000 | > \$60,000 | |
| Tax rate | 6% | 7% | 7.75% | |
| Calendar Year 2014 | | | | |
| Married - Joint, Married - Separate, Head of Household, and Single: | | | | |
| Taxable income | \$0 | | | |
| Tax rate | 5.8% | | | |
| Calendar Year 2015-2016 | | | | |
| Married - Joint, Married - Separate, Head of Household, and Single: | | | | |
| Taxable income | \$0 | | | |
| Tax rate | 5.75% | | | |

Income Tax Surtax Expired - Effective from the tax year beginning on or after January 1, 2011 North Carolina no longer has an income tax surtax.

Income Tax Rate and Base Structure Changes - Effective for tax years beginning on or after January 1, 2014, SL 2013-316 (HB998), *An Act to Simplify the NC Tax Structure and to Reduce Individual and Business Tax Rates* (enacted July 23, 2013) replaces the multi-tiered bracket system with a flat rate structure.

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| General merchandise..... | \$ 38,193,321 | \$ 35,258,344 | \$ 33,018,301 | \$ 30,122,560 | \$ 29,092,064 |
| Food..... | 27,164,722 | 26,204,343 | 24,663,183 | 22,892,242 | 21,961,810 |
| Lumber & building material..... | 15,426,794 | 13,635,227 | 12,711,938 | 11,754,511 | 11,034,483 |
| Automotive..... | 9,058,317 | 7,667,914 | 6,920,644 | 6,272,460 | 5,855,515 |
| 3% and 4.75% tax group..... | 541,143 | 479,938 | 448,267 | 456,127 | 460,461 |
| Furniture..... | 4,778,592 | 4,372,666 | 4,160,558 | 3,887,077 | 3,739,815 |
| Apparel..... | 5,648,766 | 5,414,102 | 5,140,968 | 4,707,181 | 4,554,679 |
| Unclassified..... | 38,358,149 | 35,124,312 | 33,241,081 | 30,258,424 | 28,668,485 |
| Total..... | <u>\$ 139,169,804</u> | <u>\$ 128,156,846</u> | <u>\$ 120,304,940</u> | <u>\$ 110,350,582</u> | <u>\$ 105,367,312</u> |
| General state sales tax rate | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% |

3% and 4.75% tax group includes manufactured homes, airplanes, boats, and modular homes. In fiscal year 2016, aircraft sold or purchased at retail for use was subject to a 3% tax rate from July 1, 2015 to September 30, 2015 and a 4.75% tax rate beginning October 1, 2015. In the fiscal years prior to 2015, some manufactured homes were included in the 2% tax group and some modular homes were included in the 2.5% tax group. In the fiscal years prior to 2014, there was also a 1% tax group that included farm, mill, laundry machinery, fuel to farmers, manufacturers, and laundries.

Source: North Carolina Department of Revenue

Table 8

| 2012 | 2011 | 2010 | 2009 | 2008 |
|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| \$ 28,488,712 | \$ 26,997,731 | \$ 26,700,373 | \$ 27,281,044 | \$ 27,545,474 |
| 21,188,038 | 20,063,710 | 19,986,254 | 19,982,767 | 20,427,943 |
| 10,936,526 | 9,980,618 | 9,896,788 | 11,728,029 | 15,125,717 |
| 5,798,630 | 5,592,481 | 5,371,476 | 5,365,726 | 5,782,027 |
| 447,963 | 429,092 | 411,092 | 653,686 | 878,522 |
| 3,599,804 | 3,416,656 | 3,442,183 | 3,854,662 | 4,746,011 |
| 4,343,728 | 3,962,251 | 3,756,305 | 3,628,009 | 3,901,540 |
| 28,026,651 | 26,316,563 | 25,056,266 | 27,197,294 | 29,529,959 |
| \$ 102,830,052 | \$ 96,759,102 | \$ 94,620,737 | \$ 99,691,217 | \$ 107,937,193 |
| 4.75% | 5.75% | 5.75% | 4.50% | 4.25% |

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2008 & 2017

| | 2017 | | 2008 | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Tax Liability | Percentage of Total | Tax Liability | Percentage of Total |
| General merchandise..... | \$ 1,818,441 | 22.75% | \$ 1,175,497 | 21.30% |
| Food..... | 1,298,519 | 16.24% | 876,098 | 15.87% |
| Utilities..... | 1,364,922 | 17.07% | 916,294 | 16.60% |
| Lumber & building material..... | 734,157 | 9.18% | 644,617 | 11.68% |
| Automotive..... | 452,876 | 5.67% | 268,654 | 4.87% |
| Furniture..... | 228,040 | 2.85% | 203,241 | 3.68% |
| Apparel..... | 269,350 | 3.37% | 166,504 | 3.02% |
| Farming..... | — | 0.00% | 756 | 0.01% |
| Unclassified..... | 1,828,704 | 22.87% | 1,267,588 | 22.97% |
| Total..... | <u>\$ 7,995,009</u> | <u>100.00%</u> | <u>\$ 5,519,249</u> | <u>100.00%</u> |
| General state sales tax rate..... | 4.75% | | 4.25% | |

Recent Significant Sales Tax Rate and Base Changes

| | |
|---------|--|
| 2007-08 | <p>Effective <u>July 1, 2007</u>, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective <u>July 1, 2007</u>, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective <u>July 31, 2007</u>, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75%. Effective <u>October 1, 2007</u>, tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective <u>October 1, 2007</u>, tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Privilege tax sold to manufacturing industry decreased from 1% to 0.7%. Bundled transaction defined to remain compliant with SSTA. Baler twine sold to farmers and bread sold at a bakery thrift store was exempted. State began three year phase-in assumption of the financial nonfederal, nonadministrative Medicaid responsibility for counties that include a 1/2% sales tax rate exchange between local and state governments as well as various measures to ensure the local governments are held harmless (protected from revenue loss) as a result of the Medicaid swap legislation. Effective <u>April 1, 2008</u>, combined general rate raised from 6.75% to 7%.</p> |
| 2008-09 | <p>Retroactive for purchases made on or after <u>January 1, 2004</u>. Refund provision extended to University Affiliated Nonprofit Organizations that procure, design, construct, or provide facilities to or for use by, a constituent institution of the University of North Carolina. Effective <u>July 1, 2008</u>, tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%. Refund provision expanded to include certain industrial facilities-solar electricity generating materials manufacturing industry. Refund provision expanded to include volunteer fire department or volunteer emergency medical services squad. Privilege tax on fuel sold to a manufacturing industry decreased from 0.7% to 0.5%. Effective <u>July 16, 2008</u>, new sales and use tax holiday for Energy Star qualified products (1st Friday in November through following Sunday). Refund provision to interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2011 (previously January 1, 2009). Effective <u>August 1, 2008</u>, exemption for tangible personal property (tpp) purchased with a client assistance debit card issued for disaster assistance relief by qualified entities. Exemption for interior design services provided in conjunction with the sale of tpp. Effective <u>October 1, 2008</u>, State general tax raised from 4.25% to 4.5%. Local sales tax rate under Article 44 lowered from 0.5% to 0.25%. Effective <u>January 1, 2009</u>, exemption for bakery items sold without eating utensils by an artisan bakery.</p> |
| 2009-10 | <p>Effective <u>July 1, 2009</u>, tax on electricity sold to farmers/manufacturers decreased from 1.4% to 0.8%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.5% to 0.3%. Effective <u>August 7, 2009</u>, online sales-remote sales: certain click-through transactions subject to tax. Effective <u>August 27, 2009</u>, authorizing legislation for regional transportation authorities and counties to impose a local government sales and use tax of 0.25% or 0.5% for public transportation.</p> |

Source: North Carolina Department of Revenue

Recent Significant Sales Tax Rate and Base Changes

| | |
|------------------------------|---|
| <p>2009-10 continued</p> | <p>Effective <u>September 1, 2009</u>, State general tax rate raised from 4.5% to 5.5%. Combined general rate raised from 7% to 8%. (Temporary additional 1% State general sales and use tax rate, scheduled to be repealed for sales made on or after July 1, 2011). Effective <u>October 1, 2009</u>, State general tax raised from 5.5% to 5.75%. Local sales tax rate under Article 44 (0.25%) repealed. Exemption for aircraft simulators purchased by interstate passenger air carriers expanded to include all purchasers of such equipment. Effective <u>January 1, 2010</u>, sales tax on online purchases - certain digital property, magazine subscriptions, computer software subject to tax. Exemption for computer software or digital property that becomes a component part.</p> |
| <p>2010-11</p> | <p>Effective <u>July 1, 2010</u>, tax on electricity sold to farmers/manufacturers decreased from 0.8% to 0%. Privilege tax on fuel sold to a manufacturing industry decreased from 0.3% to 0%. Refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2013 (previously January 1, 2011). Effective <u>July 10, 2010</u>, refund provision to joint governmental agency created to operate a cable television system for purchases made on/after July 1, 2007 and before June 30, 2010. Effective <u>January 1, 2011</u>, sales tax law on accommodations was modernized to classify facilitators who assist accommodation owners with rentals as retailers subject to sales and use and room occupancy taxes. Facilitation or similar fees are includable in the sales price. Effective <u>June 18, 2011</u>, refund provision to joint governmental agency created to operate a cable television system extended to purchases made on/after July 1, 2007 and before June 30, 2011 (previously before June 30, 2010).</p> |
| <p>2011-12</p> | <p>Effective <u>July 1, 2011</u>, additional 1% State General sales and use tax rate expired. This also has the effect of reducing the State combined general rate from 8% to 7%. Effective <u>June 20, 2012</u>, refund provision to Interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision for aviation fuel for motorsports events to professional motorsports racing teams was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to taxpayers engaged in analytical services (the greater of 50% of eligible amount of tax paid on tangible personal property consumed or transformed in analytical services or 50% of the amount of tax paid on medical reagents) was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013). Refund provision to certain industrial facilities for tax paid on building materials, building supplies, fixtures, and equipment installed in the construction of the facility was extended to repeal for purchases made on or after January 1, 2014 (previously January 1, 2013).</p> |
| <p>2013-14</p> | <p>Effective <u>January 1, 2014</u>, the sale of a modular home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2.5% preferential rate with 20% of the proceeds shared with local governments). The sale of a manufactured home is subject to the State general rate of 4.75% (no local rates apply) (transaction previously subject to the State 2% preferential rate (maximum tax \$300 per article)). Service contracts (warranty agreements, maintenance agreements, repair contracts, or similar agreements or contracts by which the seller agrees to maintain or repair tangible personal property) are subject to the State general rate of 4.75% (applicable local rates apply). Previously, combined State/local use tax rates assessed on parts applied for certain transactions. Admission charges to the following entertainment activities are subject to the State general rate of 4.75% plus applicable local rates: a live performance or live event, a motion picture or film, a museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions. The following events are exempted from this tax: school sponsored events held at an elementary or secondary school, certain commercial agricultural fairs, certain nonprofit-sponsored festivals or other recreational/entertainment activity, certain youth athletic contests, and certain State attractions. Previously, motion picture show admission charges were subject to a 1% gross receipts privilege tax and certain other amusements were subject to a 3% gross receipts privilege tax. Newspaper street vendors and sales by newspaper vending machines, nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment, and food and prepared meals sold by institutions of higher education (private and public) are subject to the State general rate of 4.75% plus applicable local rates (previously exempt). Effective <u>June 1, 2014</u>, gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent where a person occupies or has the right to occupy such on or after June 1, 2014, are subject to the 4.75% general State and applicable local and transit rates of sales and use tax and any local occupancy tax imposed by a city or county. Previously, the taxation of gross receipts derived from the rental of a private residence, cottage, or similar accommodation listed with a real estate broker or agent for fewer than 15 days was deemed exempt under provisions of the Important Notice: Tax on Accommodations (Revised June 14, 2002).</p> |

Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Recent Significant Sales Tax Rate and Base Changes

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|----------------|---|
| <p>2014-15</p> | <p>Effective <u>July 1, 2014</u>, gross receipts derived from sales of electricity billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, electricity sold for residential purposes was subject to the State 3% preferential rate and electricity sold to laundry and dry cleaning establishments for business use was subject to the State 2.83% preferential rate. The legislation concurrently repeals the utility franchise tax rate of 3.22% applicable to gross receipts from sales of electricity, electric lights, current, or power (local governments shared proceeds). [Gross receipts derived from sales of electricity to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption.] Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014, are subject to the combined general rate of 7% (local governments to share proceeds). Previously, the piped natural gas excise tax was based on monthly therm volumes of gas received by the end-user (local governments shared proceeds). Special phase-in provision for gas cities: Gross receipts derived from sales of piped natural gas billed on or after July 1, 2014 and before July 1, 2015, received by gas cities and delivered by a gas city to a sales customer or transportation customer of the gas city are subject to a 3.5% rate. [Gross receipts derived from sales of piped natural gas to a farmer for qualifying farm purposes and to manufacturers for manufacturing facility operation may qualify for exemption; additionally, sales of piped natural gas to commercial laundry and pressing or dry cleaning establishments and sales to and purchases by State agencies may qualify for exemption.] Bakery thrift store sales are subject to the State general rate of 4.75% plus applicable local rates (previously exempt.) Annual sales tax holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates. Annual energy star holiday transactions previously exempted from taxation are subject to the State general rate of 4.75% plus applicable local rates.</p> <p><i>Nonprofit refund limit provision:</i> The aggregate annual refund amount allowed a nonprofit entity for a fiscal year may not exceed \$45 million (\$31.7 million State tax and \$13.3 million local tax).</p> <p>Effective <u>September 1, 2014</u>, effective for transactions on or after September 1, 2014, fifty percent (50%) of the sales of a modular home or a manufactured home, including all accessories attached when delivered by the purchaser is exempt from taxation.</p> <p>Effective <u>October 1, 2014</u>, effective for transactions on or after October 1, 2014, the exemption is repealed for sales from vending machines where price is 1¢ per sale. Effective for transactions on or after October 1, 2014, newspapers sold through a coin-operated vending machine no longer qualify for an exemption of 50% of the sales price (taxed on 100% gross receipts).</p> <p>Effective <u>January 1, 2015</u>, gross receipts derived from admission charges to certain commercial agricultural fairs and to State attractions supported by State funds that offer cultural, educational, historical, or recreational opportunities are subject to the 4.75% general State and applicable local and transit rates of sales and use tax.</p> <p><i>New application for real property contracts (designates the real property contractor as the consumer):</i> Effective for sales made (and contracts entered into) on or after January 1, 2015, the sales price of tangible personal property sold to a real property contractor for use by the real property contractor in erecting structures, building on, or otherwise improving, altering, or repairing real property is subject to the general 4.75% State and applicable local and transit rates of sales and use tax.</p> |
| <p>2015-16</p> | <p>Effective <u>July 1, 2015</u>, gross receipts derived from sales of piped natural gas by gas cities (Bessemer City, Greenville, Kings Mountain, Lexington, Monroe, Rocky Mount, Shelby and Wilson) and gross receipts derived from sales of electricity by Cape Hatteras Electric Membership Corporation (CHEMC) billed on or after July 1, 2015, are subject to the 7% combined general rate of sales and use tax (local governments to share proceeds). The 7% combined general rate of sales and use tax generally applied to gross receipts of piped natural gas and electricity sold at retail in the State and billed on or after July 1, 2014 except that gross receipts of gas cities and CHEMC were subject to a reduced 3.5% rate applicable for the July 1, 2014 through June 30, 2015 billing period prior to being subject to the 7% rate effective for billing periods on or after July 1, 2015.</p> <p><i>Refunds authorized for certain governmental entities:</i> A joint agency created by interlocal agreement pursuant to General Statute 160A-462 to provide fire protection, emergency services, or police protection is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015. A soil and water conservation district organized under Chapter 139 of the General Statutes is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015. A district confinement facility created pursuant to General Statute 153A-219 is allowed an annual refund of certain sales and use taxes paid on purchases of tangible personal property or certain services made on or after July 1, 2015.</p> |

Recent Significant Sales Tax Rate and Base Changes

| | |
|------------------------------|--|
| <p>2015-16 continued</p> | <p>Purchases or sales of datacenter machinery and equipment by or to an owner of a datacenter, or a contractor or subcontractor of an owner of a datacenter, are subject to the general 4.75% State and applicable local and transit rates of sales and use tax (the privilege tax imposed on machinery and equipment transactions purchased by a qualifying datacenter pursuant to General Statute 105 Article 5F expires for sales made on or after July 1, 2015).</p> <p>Effective <u>September 24, 2015</u>, the sales price of spirituous liquor sold at retail by a distillery permit holder and sales of antique spirituous liquor are subject to the 7% combined general rate of sales and use tax. A distillery, as authorized by legislation enacted during the 2015 General Assembly session is permitted to sell spirituous liquor distilled on the premises to visitors of the distillery with certain restrictions for consumption off the premises.</p> <p>Effective <u>September 30, 2015</u>, the sale, lease, or rental of an engine to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series is exempt from sales and use tax; an engine or a part to rebuild an engine for the purpose of providing an engine under an agreement to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series is exempt from sales and use tax (exemptions expire for transactions made on or after January 1, 2020).</p> <p><i>Refund provisions for economic incentive funds:</i> The refund provision for interstate passenger air carriers was modified to allow a refund of the sales and use taxes paid on fuel in excess of \$1.25 million for the six-month period July 1, 2015 through December 31, 2015. The sunset for repeal of the refund provision for aviation fuel for a professional motorsports racing team, sanctioning body, or a related member of such a team or body is extended for purchases made on or after January 1, 2020 (previously scheduled to sunset for purchases made on or after January 1, 2016). The sunset for repeal of the refund provision for professional motorsports racing teams or related member of a team of 50% of tax on property that comprises any part of a professional motor racing vehicle is extended for purchases made on or after January 1, 2020 (previously scheduled to sunset for purchases made on or after January 1, 2016).</p> <p>Effective <u>October 1, 2015</u>, the sales price of an aircraft sold at retail is subject to the 4.75% general State rate of tax (previously 3% State rate) with a maximum tax per article of \$2,500 (previously \$1,500); the sales price of an aircraft includes all accessories attached to the aircraft when it is delivered to the purchaser. The sale of an aircraft is not subject to the local and transit rates of sales and use tax. Each qualified jet engine sold at retail or purchased for storage, use, or consumption in this State is subject to the 4.75% general State rate of sales or use tax. The maximum use tax on a qualified jet engine purchased under a direct pay permit is \$2,500; otherwise, no maximum tax applies. The sale of a qualified jet engine is not subject to the local and transit rates of sales and use tax. Parts and accessories for use in the repair or maintenance of a qualified aircraft (or a qualified jet engine) are specifically exempt from the tax imposed on the sale at retail and the use, storage, or consumption in this State. A qualified aircraft is aircraft with a maximum take-off weight of more than 9,000 pounds but not in excess of 15,000 pounds. The sales price of (or the gross receipts) derived from a service contract applicable to a qualified aircraft (or a qualified jet engine) is exempt from taxation.</p> <p>Effective <u>January 1, 2016</u>, the gross receipts derived from the retail sale of aviation gasoline and jet fuel are subject to the 7% combined general rate of sales and use tax (previously 4.75% general State and local and transit rates applied) except that sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft to include aviation gasoline and jet fuel purchased for use in a commercial aircraft in foreign commerce by a person whose primary business is scheduled passenger air transportation are exempt (exemption expires January 1, 2020). [The net proceeds of the tax collected on aviation gasoline and jet fuel are transferred within 75 days after the end of each fiscal year to the Highway Fund; this amount is annually appropriated from the Highway Fund to the Division of Aviation of the Department of Transportation for prioritized capital improvements to public airports and time-sensitive aviation capital improvement projects for economic development purposes (initial transfer in September 2016 for sales and use taxes collected during FY15-16).]</p> <p>The sale at retail or the storage, use, or consumption in this State of electricity for use at a qualifying datacenter and datacenter support equipment to be located and used at the qualifying datacenter are exempt from sales and use tax. In this application, datacenter support equipment is property that is capitalized for tax purposes under the Code and is used within the provision of a service or function included in the business of an owner, user, or tenant of the datacenter.</p> <p>Effective <u>March 1, 2016</u>, the 4.75% general State and applicable local and transit rates of sales and use tax apply to the sales price of (or the gross receipts derived from) certain repair, maintenance, and installation services transacted by a retailer and sourced to the State effective for sales occurring on or after March 1, 2016.</p> |
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Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Recent Significant Sales Tax Rate and Base Changes

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|------------------------------|---|
| <p>2015-16 continued</p> | <p>Effective for transactions on or after <u>March 1, 2016</u>, the sales and use tax base is extended to include installation charges, repair, maintenance, and installation services for taxable tangible property; the 4.75% general State and local and transit rates of sales and use tax are imposed provided the transaction is made by a person engaged in retail trade.</p> <p>Motor vehicle repair, maintenance, and installation services transacted by a retailer are subject to the 4.75% general State and applicable local and transit rates of sales and use tax except for services (includes replacement items and repair parts) covered under a manufacturer's warranty or dealer's warranty; the sales price of (or the gross receipts derived from) a service contract sold at retail that covers the entire motor vehicle is exempt from tax. Shoe repair services, watch, clock, and jewelry repair services, and tire recapping or retreading sales and services transacted by a retailer are subject to the 4.75% general State and applicable local and transit rates of sales and use tax (sales or receipts prior to March 1, 2016 by administrative rule were permitted to be taxed at certain percentages where charges for labor and materials were not separately stated). The definition of service contract is amended to include a contract to maintain or repair tangible personal property regardless of whether the property becomes a part of or is applied to real property; additionally, a renewal of a service contract for tangible personal property where the tangible personal property becomes a part of or applied to real property to the effective date of the renewal is subject to sales and use tax. Installation charges made by a retailer as part of the retail sale of tangible personal property, certain digital property, and taxable services, sold at retail, are subject to the applicable rate of tax for the product, irrespective that installation charges may be separately stated by the retailer. Installation charges that are part of the gross receipts from the lease or rental of tangible personal property are subject to the applicable rate of sales and use tax, and maximum tax if applicable.</p> |
| <p>2016-17</p> | <p>Effective <u>July 1, 2016</u>, a use tax exemption is granted to a direct pay permit holder for certain boat, aircraft, and qualified jet engine charges and services: the allowable amount of the use tax exemption is the amount of the separately stated installation charges that are part of the sales price of tangible personal property or digital property that exceed \$25,000 and the sales price of or gross receipts derived from the repair, maintenance, and installation services that exceed \$25,000.</p> <p>Fuel, piped natural gas, and electricity sold to a secondary metals recycler for use in recycling at its facility at which the primary activity is recycling are exempt from sales and use tax.</p> <p>A park model RV is classified as a motor vehicle, the sale of which is exempt from sales and use tax: the retail sale of a park model RV is subject to the highway use tax at the rate of 3% with a maximum tax of \$2,000.</p> <p>Effective <u>July 11, 2016</u>, prepaid meal plan packaging items (wrapping paper, plastic bags, cartons, paper cups, napkins, drinking straws) used for packaging, shipment, or delivery that are part of the sale and delivered with the food or prepared food provided to a person under a prepaid meal plan are exempt from sales and use tax.</p> <p>Effective <u>October 1, 2016</u>, sales of certain recycled products that are made of more than 75% by weight of recycled materials sold for use in an accepted wastewater dispersal system are exempt from sales and use tax.</p> <p>Effective <u>January 1, 2017</u> (for transactions occurring on or after such date), an exemption from sales and use tax is allowed for the sales price of or the gross receipts derived from storage of a motor vehicle, provided the charge is separately stated on the invoice or other documentation provided to the purchaser at the time of the sale.</p> <p>An exemption from sales and use tax is allowed for the sales price of or the gross receipts derived from towing service, provided the charge is separately stated on the invoice or other documentation provided to the purchaser at the time of the sale.</p> <p>Certain retail sales by certain nonprofit organizations are subject to sales and use tax: sales of items by a nonprofit civic, charitable, educational, scientific, or literary organization when the net proceeds of the sales will be given or contributed to the State of North Carolina or to one or more of its agencies or instrumentalities, or to one or more nonprofit charitable organizations, one of whose purposes is to serve as a conduit through which such net proceeds will flow to the State or to one or more of its agencies or instrumentalities are taxable.</p> <p>Certain sales at school sponsored events are exempt from sales and use tax: sales of food, prepared food, soft drinks, candy, and other items of tangible personal property sold not for profit for or at an event that is sponsored by an elementary or secondary school when the net proceeds of the sales will be given or contributed to the school or to a nonprofit charitable organization, one of whose purposes is to serve as a conduit through which the net proceeds will flow to the school are exempt.</p> <p>The definition of storage is amended to remove the statutory exclusions such that an item received by the purchaser or on behalf of the purchaser in the State is subject to sales and use tax even though the item is designated for ultimate use outside the State; additionally, an item purchased from outside the State that is initially stored in the State for a period of time and subsequently taken, shipped, or distributed outside the State for use is subject to sales or use tax.</p> |

Recent Significant Sales Tax Rate and Base Changes

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|------------------------------|---|
| <p>2016-17 continued</p> | <p>The 2016 General Assembly enacted various provisions affecting the sales and use tax base expansion items related to repair, maintenance, and installation (RMI) services, and service contracts: the newly enacted provisions repeal provisions for retail trade; expand the application of sales and use tax to RMI services of certain transactions for real property and certain digital property; identify specific RMI-related exemptions; clarify the application of sales and use tax to real property contracts with respect to capital improvements; grant an exemption for installation labor related to real property contracts; and expand the exemption applicable to motor vehicle service contracts.</p> <p>The definition of retail trade is repealed; the definition of retailer is amended to provide that the term does not include real property contractor, but does include a person whose only business activity is providing RMI services (the 2015 legislated provisions applied sales and use tax to RMI services for transactions made by a person engaged in retail trade as statutorily defined).</p> <p>The definition of RMI services is expanded to include such services rendered with respect to digital property and real property, except for tangible personal property or digital property installed or applied by a real property contractor pursuant to a real property contract. RMI-related services transactions performed pursuant to a real property contract that constitute construction, reconstruction, or remodeling with respect to a capital improvement to real property are not subject to the sales and use tax. RMI-related services transactions performed on real property that do not meet the statutory definition of capital improvement such as the replacement or repair of a fixture in or on a building or structure, or a single repair, maintenance, or installation service may be subject to the sales and use tax.</p> <p>The definition of RMI services, as amended, clarifies that such services include cleaning, refinishing, inspection, and monitoring services for property or a motor vehicle (excludes security or similar monitoring services for real property).</p> <p>Separately stated installation charges (including labor costs, wages, etc.) provided by a real property contractor to fulfill a real property contract are exempt from taxation.</p> <p>Specific exemptions from application of sales and use tax to RMI-related services are enacted (list not all-inclusive):</p> <ul style="list-style-type: none"> *a fee or charge for an inspection required by law, provided the charge is separately stated on the invoice or other documentation provided to the purchaser at the time of the sale. *services performed for a person by a related member as defined by statute. *services performed to resolve an issue that was part of a real property contract if the services are performed within six months of completion of the real property contract or, for new construction, within 12 months of the new structure being occupied for the first time. *cleaning of real property, except where the service constitutes a part of the gross receipts derived from the rental of an accommodation subject to tax, or for a pool, fish tank, or other similar aquatic feature. *services on roads, driveways, parking lots, and sidewalks. *removal of waste, trash, debris, grease, snow, and other similar items from tangible personal property, including a motor vehicle, and real property, but excludes removal of waste from portable toilets. *home inspections related to the preparation for or the sale of real property. *landscaping services to maintain or improve lawns, yards, or ornamental plants and trees. *alteration and repair of clothing, except where the service constitutes a part of the gross receipts derived from the rental of clothing subject to tax, or for alteration and repair of belts and shoes. *pest control service. *moving services. *self-service car washes. *services used to maintain, monitor, inspect, or repair tangible personal property or digital property pursuant to a taxable service if the purchaser of the contract is not charged for services. *services used to maintain or repair tangible personal property or a motor vehicle pursuant to a manufacturer's warranty or a dealer's warranty. *repair, maintenance, and installation services purchased by a qualifying farmer or conditional farmer. <p>The definition of service contract is expanded in accordance with the RMI services definition with regard to services rendered with respect to digital property and certain monitoring and inspection services. Service contracts for a pool, fish tank, or similar aquatic feature, and a home warranty are taxable; the term does not include a single repair, maintenance, or installation service.</p> <p>The exemption from sales and use tax applicable to the sales price of or the gross receipts derived from motor vehicle service contracts is expanded to include contracts for one or more components, systems, or accessories of a motor vehicle sold by a motor vehicle dealer or by or on behalf of a motor vehicle service agreement company.</p> |
|------------------------------|---|

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental activities: | | | | | |
| General obligation bonds..... | \$ 2,851,695 | \$ 3,038,665 | \$ 3,469,220 | \$ 3,607,100 | \$ 3,999,580 |
| Lease-purchase revenue bonds..... | — | — | 2,000 | 4,125 | 20,915 |
| Certificates of participation..... | 102,405 | 124,820 | 151,745 | 247,615 | 508,500 |
| Limited obligation bonds..... | 1,888,370 | 1,997,070 | 2,095,550 | 2,132,085 | 1,993,740 |
| GARVEE bonds..... | 607,685 | 529,755 | 598,165 | 395,275 | 454,820 |
| Issuance premium..... | 434,721 | 505,737 | 550,393 | 558,928 | 623,105 |
| Issuance discount..... | — | — | — | — | — |
| Notes payable..... | 22,089 | 27,196 | 34,095 | 39,738 | 39,312 |
| Capital leases payable..... | 20,118 | 24,037 | 20,712 | 17,869 | 19,375 |
| Total Governmental Activities..... | <u>5,927,083</u> | <u>6,247,280</u> | <u>6,921,880</u> | <u>7,002,735</u> | <u>7,659,347</u> |
| Business-type activities: | | | | | |
| Revenue bonds..... (1) | 1,096,395 | 1,011,388 | 1,019,588 | 1,039,308 | 1,058,458 |
| GARVEE bonds..... (1) | — | 145,535 | 145,535 | 145,535 | 145,535 |
| Issuance discount..... | (498) | (1,548) | (1,664) | (1,780) | (1,896) |
| Issuance premium..... | 45,254 | 20,753 | 23,326 | 25,932 | 28,661 |
| Notes payable..... (1) | 386,900 | 388,827 | 390,818 | 376,869 | 377,466 |
| Total Business-type Activities..... | <u>1,528,051</u> | <u>1,564,955</u> | <u>1,577,603</u> | <u>1,585,864</u> | <u>1,608,224</u> |
| Total Primary Government..... | <u>\$ 7,455,134</u> | <u>\$ 7,812,235</u> | <u>\$ 8,499,483</u> | <u>\$ 8,588,599</u> | <u>\$ 9,267,571</u> |
| Debt as a Percentage of Personal Income.... | 1.69% | 1.82% | 2.08% | 2.19% | 2.49% |
| Amount of Debt per Capita..... (2) | \$ 727 | \$ 770 | \$ 846 | \$ 864 | \$ 941 |

Notes:

(1) North Carolina Turnpike Authority is a major enterprise fund. Prior to 2010, it was a component unit.

(2) Figures for amount of debt per capita are presented in whole dollars.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 4,470,500 | \$ 4,846,205 | \$ 5,270,660 | \$ 5,169,265 | \$ 5,533,760 |
| 30,915 | 205,045 | 215,045 | 225,045 | 235,045 |
| 557,895 | 824,860 | 872,600 | 919,585 | 965,880 |
| 1,795,090 | 1,060,745 | 580,705 | 600,000 | — |
| 512,085 | 373,080 | 434,825 | 241,820 | 287,565 |
| 485,615 | 441,218 | 353,147 | 275,131 | 287,272 |
| — | — | — | — | (126) |
| 35,691 | 25,038 | 30,642 | 27,663 | 33,187 |
| 21,282 | 22,669 | 22,815 | 23,833 | 24,659 |
| <u>7,909,073</u> | <u>7,798,860</u> | <u>7,780,439</u> | <u>7,482,342</u> | <u>7,367,242</u> |
| 1,081,183 | 856,678 | 622,758 | — | — |
| 145,535 | — | — | — | — |
| (2,012) | (2,128) | (2,244) | — | — |
| 31,507 | — | — | — | — |
| <u>286,818</u> | <u>269,030</u> | <u>68,800</u> | <u>—</u> | <u>—</u> |
| <u>1,543,031</u> | <u>1,123,580</u> | <u>689,314</u> | <u>—</u> | <u>—</u> |
| <u>\$ 9,452,104</u> | <u>\$ 8,922,440</u> | <u>\$ 8,469,753</u> | <u>\$ 7,482,342</u> | <u>\$ 7,367,242</u> |
| 2.51% | 2.53% | 2.51% | 2.23% | 2.11% |
| \$ 970 | \$ 925 | \$ 888 | \$ 798 | \$ 797 |

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2008-2017

(Dollars in Thousands except Per Capita)

| Fiscal Year Ended June 30 | General Obligation Bonds | Lease-Purchase Revenue Bonds | Certificates of Participation | Limited Obligation Bonds | GARVEE Bonds | Issuance Premium | Issuance Discount |
|----------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|---------------------|-------------------------|--------------------------|
| 2017 | \$2,851,695 | \$ — | \$ 102,405 | \$1,888,370 | \$ 607,685 | \$ 434,721 | \$ — |
| 2016 | 3,038,665 | — | 124,820 | 1,997,070 | 529,755 | 505,737 | — |
| 2015 | 3,469,220 | 2,000 | 151,745 | 2,095,550 | 598,165 | 550,393 | — |
| 2014 | 3,607,100 | 4,125 | 247,615 | 2,132,085 | 395,275 | 558,928 | — |
| 2013 | 3,999,580 | 20,915 | 508,500 | 1,993,740 | 454,820 | 623,105 | — |
| 2012 | 4,470,500 | 30,915 | 557,895 | 1,795,090 | 512,085 | 485,615 | — |
| 2011 | 4,846,205 | 205,045 | 824,860 | 1,060,745 | 373,080 | 441,218 | — |
| 2010 | 5,270,660 | 215,045 | 872,600 | 580,705 | 434,825 | 353,147 | — |
| 2009 | 5,169,265 | 225,045 | 919,585 | 600,000 | 241,820 | 275,131 | — |
| 2008 | 5,533,760 | 235,045 | 965,880 | — | 287,565 | 287,272 | (126) |

Note: Population data can be found in table 15.

| <u>Total</u> | <u>Per Capita</u> |
|--------------|-----------------------|
| \$ 5,884,876 | \$ 574 |
| 6,196,047 | 611 |
| 6,867,073 | 684 |
| 6,945,128 | 699 |
| 7,600,660 | 772 |
| 7,852,100 | 806 |
| 7,751,153 | 803 |
| 7,726,982 | 810 |
| 7,430,846 | 786 |
| 7,309,396 | 785 |

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2017

(Dollars in Thousands)

Payable from General Fund Revenues

| | Total General Obligation Bonds | Total General Fund | Clean Water Series 2002A 12-1-02 4% - 5% | Refunding Series 2005B 6-29-05 5% | Refunding Series 2007B 5-9-07 4%-4.5% | Refunding Series 2009A 10-20-09 5% | Public Improvement Series 2010A 4-14-10 5% |
|--|---|-----------------------------------|---|--|--|---|--|
| Bonds Authorized and Issued: | | | | | | | |
| Ch. 132, 1998 session law..... | \$ 18,800 | \$ 18,800 | \$ 18,800 | \$ — | \$ — | \$ — | \$ — |
| 2004 session law..... | 4,558,044 | 4,241,480 | — | 470,510 | 84,385 | 169,297 | 487,700 |
| Total bonds authorized and issued..... | 4,576,844 | 4,260,280 | 18,800 | 470,510 | 84,385 | 169,297 | 487,700 |
| Bonds retired..... | 1,511,619 | 1,341,651 | 10,705 | 463,895 | 2,715 | 117,518 | 170,695 |
| Partial defeasances..... | 213,530 | 213,530 | — | — | — | — | 213,530 |
| Bonds outstanding— June 30, 2017..... | <u>\$ 2,851,695</u> | <u>\$ 2,705,099</u> | <u>\$ 8,095</u> | <u>\$ 6,615</u> | <u>\$ 81,670</u> | <u>\$ 51,779</u> | <u>\$ 103,475</u> |
| Bond Maturity As Follows: | | | | | | | |
| 2017-18..... | 397,904 | 352,573 | 4,915 | 6,615 | 250 | 22,448 | 24,385 |
| 2018-19..... | 400,351 | 354,963 | 3,180 | — | 260 | 22,503 | 24,385 |
| 2019-20..... | 368,970 | 313,093 | — | — | 275 | 6,828 | 24,385 |
| 2020-21..... | 289,880 | 289,880 | — | — | 285 | — | 24,385 |
| 2021-22..... | 271,625 | 271,625 | — | — | 295 | — | 5,935 |
| 2022-23..... | 267,025 | 267,025 | — | — | 80,305 | — | — |
| 2023-24..... | 240,880 | 240,880 | — | — | — | — | — |
| 2024-25..... | 162,420 | 162,420 | — | — | — | — | — |
| 2025-26..... | 103,320 | 103,320 | — | — | — | — | — |
| 2026-27..... | 86,620 | 86,620 | — | — | — | — | — |
| 2027-28..... | 59,230 | 59,230 | — | — | — | — | — |
| 2028-29..... | 42,900 | 42,900 | — | — | — | — | — |
| 2029-30..... | 42,745 | 42,745 | — | — | — | — | — |
| 2030-31..... | 21,565 | 21,565 | — | — | — | — | — |
| 2031-32..... | 21,565 | 21,565 | — | — | — | — | — |
| 2032-33..... | 21,565 | 21,565 | — | — | — | — | — |
| 2033-34..... | 21,565 | 21,565 | — | — | — | — | — |
| 2034-35..... | 21,565 | 21,565 | — | — | — | — | — |
| 2035-36..... | 10,000 | 10,000 | — | — | — | — | — |
| Total Bonds Outstanding..... | <u>\$ 2,851,695</u> | <u>\$ 2,705,099</u> | <u>\$ 8,095</u> | <u>\$ 6,615</u> | <u>\$ 81,670</u> | <u>\$ 51,779</u> | <u>\$ 103,475</u> |

Source: Compiled by the Department of State Treasurer

Payable from General Fund Revenues

| Refunding Series 2010B 8-31-10 5% | Refunding Series 2010C 10-12-10 5% | Refunding Series 2013B 2-20-13 5% | Refunding Series 2013C 2-28-13 3.5%-5% | Refunding Series 2013D 2-28-13 3%-4% | Refunding Series 2013E 3-21-13 5% | Refunding Series 2014A 4-30-14 5% |
|--|---|--|---|---|--|--|
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| <u>472,595</u> | <u>236,095</u> | <u>271,373</u> | <u>351,970</u> | <u>349,955</u> | <u>299,785</u> | <u>287,095</u> |
| 472,595 | 236,095 | 271,373 | 351,970 | 349,955 | 299,785 | 287,095 |
| 245,550 | — | 58,468 | 58,325 | 32,965 | 89,720 | 57,690 |
| — | — | — | — | — | — | — |
| <u>\$ 227,045</u> | <u>\$ 236,095</u> | <u>\$ 212,905</u> | <u>\$ 293,645</u> | <u>\$ 316,990</u> | <u>\$ 210,065</u> | <u>\$ 229,405</u> |
| 137,430 | 21,735 | 455 | 27,720 | 27,315 | 35,280 | 22,345 |
| 89,615 | 21,725 | 390 | 35,960 | 26,885 | 86,255 | 22,225 |
| — | 48,745 | — | 47,585 | 66,445 | 71,065 | 25,535 |
| — | 72,030 | 450 | 47,160 | 65,850 | 17,465 | 40,165 |
| — | 71,860 | 400 | 46,870 | 65,560 | — | 40,310 |
| — | — | 13,595 | 39,470 | 64,935 | — | 22,540 |
| — | — | 143,180 | 16,225 | — | — | 35,450 |
| — | — | 54,435 | 16,290 | — | — | 20,835 |
| — | — | — | 16,365 | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| <u>\$ 227,045</u> | <u>\$ 236,095</u> | <u>\$ 212,905</u> | <u>\$ 293,645</u> | <u>\$ 316,990</u> | <u>\$ 210,065</u> | <u>\$ 229,405</u> |

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (Continued)

June 30, 2017

(Dollars in Thousands)

Payable from General Fund Revenues

| | General Obligation Series 2015A 4-22-15 <u>3%-5%</u> | Refunding Series 2016A 3-9-16 <u>3%-5%</u> | General Obligation Series 2016B 8-10-16 <u>2%-5%</u> |
|--|--|---|--|
| Bonds Authorized and Issued: | | | |
| Ch. 132, 1998 session law..... | \$ — | \$ — | \$ — |
| 2004 session law..... | <u>231,360</u> | <u>329,360</u> | <u>200,000</u> |
| Total bonds authorized and issued..... | 231,360 | 329,360 | 200,000 |
| Bonds retired..... | 23,140 | 265 | 10,000 |
| Partial defeasances..... | <u>—</u> | <u>—</u> | <u>—</u> |
| Bonds outstanding— June 30, 2017..... | <u>\$ 208,220</u> | <u>\$ 329,095</u> | <u>\$ 190,000</u> |
| Bond Maturity As Follows: | | | |
| 2017-18..... | 11,570 | 110 | 10,000 |
| 2018-19..... | 11,570 | 10 | 10,000 |
| 2019-20..... | 11,570 | 660 | 10,000 |
| 2020-21..... | 11,570 | 520 | 10,000 |
| 2021-22..... | 11,570 | 18,825 | 10,000 |
| 2022-23..... | 11,570 | 24,610 | 10,000 |
| 2023-24..... | 11,570 | 24,455 | 10,000 |
| 2024-25..... | 11,570 | 49,290 | 10,000 |
| 2025-26..... | 11,570 | 65,385 | 10,000 |
| 2026-27..... | 11,570 | 65,050 | 10,000 |
| 2027-28..... | 11,565 | 37,665 | 10,000 |
| 2028-29..... | 11,565 | 21,335 | 10,000 |
| 2029-30..... | 11,565 | 21,180 | 10,000 |
| 2030-31..... | 11,565 | — | 10,000 |
| 2031-32..... | 11,565 | — | 10,000 |
| 2032-33..... | 11,565 | — | 10,000 |
| 2033-34..... | 11,565 | — | 10,000 |
| 2034-35..... | 11,565 | — | 10,000 |
| 2035-36..... | — | — | 10,000 |
| Total Bonds Outstanding..... | <u>\$ 208,220</u> | <u>\$ 329,095</u> | <u>\$ 190,000</u> |

Payable from Highway Trust Fund

| | <i>Total Highway Trust</i> | Highway Refunding Series 2009A 10-20-09 5% | Highway Refunding Series 2010C 10-12-10 5% | Highway Refunding Series 2013B 2-20-13 3%-5% |
|--|------------------------------------|--|--|--|
| Bonds Authorized and Issued: | | | | |
| Ch. 132, 1998 session law..... | \$ — | \$ — | \$ — | \$ — |
| 2004 session law..... | 316,564 | 202,622 | 66,055 | 47,887 |
| Total bonds authorized and issued..... | 316,564 | 202,622 | 66,055 | 47,887 |
| Bonds retired..... | 169,968 | 140,651 | — | 29,317 |
| Partial defeasances..... | — | — | — | — |
| Bonds outstanding— June 30, 2017..... | <u>\$ 146,596</u> | <u>\$ 61,971</u> | <u>\$ 66,055</u> | <u>\$ 18,570</u> |
| Bond Maturity As Follows: | | | | |
| 2017-18..... | 45,331 | 26,866 | 18,465 | — |
| 2018-19..... | 45,388 | 26,933 | 18,455 | — |
| 2019-20..... | 55,877 | 8,172 | 29,135 | 18,570 |
| 2020-21..... | — | — | — | — |
| 2021-22..... | — | — | — | — |
| 2022-23..... | — | — | — | — |
| 2023-24..... | — | — | — | — |
| 2024-25..... | — | — | — | — |
| 2025-26..... | — | — | — | — |
| 2026-27..... | — | — | — | — |
| 2027-28..... | — | — | — | — |
| 2028-29..... | — | — | — | — |
| 2029-30..... | — | — | — | — |
| 2030-31..... | — | — | — | — |
| 2031-32..... | — | — | — | — |
| 2032-33..... | — | — | — | — |
| 2033-34..... | — | — | — | — |
| 2034-35..... | — | — | — | — |
| 2035-36..... | — | — | — | — |
| Total Bonds Outstanding..... | <u>\$ 146,596</u> | <u>\$ 61,971</u> | <u>\$ 66,055</u> | <u>\$ 18,570</u> |

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2017

(Dollars in Thousands)

| | Total Special Indebtedness Debt | <i>Certificates of Participation</i> | | | |
|---|--|--|---|---|---|
| | | <i>Total Certificates of Participation</i> | Capital Improvements Series 2006A 10-18-06 5% | Capital Improvements Series 2007A 10-3-07 4% - 5% | Repair and Renovation Projects Series 2007B 10-24-07 4% - 5% |
| Bonds Authorized and Issued: | | | | | |
| Ch. 284, 2003 session law..... | \$ 3,090,940 | \$ 475,000 | \$ 200,000 | \$ 200,000 | \$ 75,000 |
| Total bonds authorized and issued..... | 3,090,940 | 475,000 | 200,000 | 200,000 | 75,000 |
| Bonds retired..... | 668,085 | 196,230 | 100,000 | 62,480 | 33,750 |
| Partial defeasances..... | 432,080 | 176,365 | 80,000 | 96,365 | — |
| Bonds outstanding— June 30, 2017..... | <u>\$ 1,990,775</u> | <u>\$ 102,405</u> | <u>\$ 20,000</u> | <u>\$ 41,155</u> | <u>\$ 41,250</u> |
| Bond Maturity As Follows: | | | | | |
| 2017-18..... | 135,230 | 22,935 | 10,000 | 9,185 | 3,750 |
| 2018-19..... | 138,765 | 3,750 | — | — | 3,750 |
| 2019-20..... | 157,765 | 3,750 | — | — | 3,750 |
| 2020-21..... | 158,990 | 3,750 | — | — | 3,750 |
| 2021-22..... | 163,550 | 3,750 | — | — | 3,750 |
| 2022-23..... | 168,475 | 3,750 | — | — | 3,750 |
| 2023-24..... | 172,000 | 3,750 | — | — | 3,750 |
| 2024-25..... | 141,185 | 3,750 | — | — | 3,750 |
| 2025-26..... | 135,690 | 3,750 | — | — | 3,750 |
| 2026-27..... | 138,485 | 29,270 | 10,000 | 15,520 | 3,750 |
| 2027-28..... | 134,465 | 20,200 | — | 16,450 | 3,750 |
| 2028-29..... | 106,685 | — | — | — | — |
| 2029-30..... | 93,005 | — | — | — | — |
| 2030-31..... | 82,730 | — | — | — | — |
| 2031-32..... | 46,430 | — | — | — | — |
| 2032-33..... | 17,325 | — | — | — | — |
| Total Bonds Outstanding..... | <u>\$ 1,990,775</u> | <u>\$ 102,405</u> | <u>\$ 20,000</u> | <u>\$ 41,155</u> | <u>\$ 41,250</u> |

Source: Compiled by the Department of State Treasurer.

Limited Obligation Bonds

| <i>Total Limited Obligation Bonds</i> | Capital Improvements Series 2008A 8-27-08 4% - 5% | Capital Improvements Series 2009A 4-29-09 3% - 5% | Capital Improvements Series 2011A 2-16-11 4%-5.25% | Capital Improvements Refunding Series 2011B 10-26-11 4%-5% | Capital Improvements Series 2011C 11-29-11 3%-5% | Capital Improvements Series 2013A 1-30-13 2.25%-5% | Capital Improvements Refunding Series 2014B 5-21-14 5% | Limited Obligation Refunding Series 2014C 11-19-14 3% - 5% |
|---|---|---|--|---|--|--|---|---|
| \$ 2,615,940 | \$ 200,000 | \$ 400,000 | \$ 500,000 | \$ 367,350 | \$ 400,000 | \$ 250,000 | \$ 199,570 | \$ 299,020 |
| 2,615,940 | 200,000 | 400,000 | 500,000 | 367,350 | 400,000 | 250,000 | 199,570 | 299,020 |
| 471,855 | 57,755 | 119,640 | 105,395 | 71,375 | 68,260 | 33,895 | 420 | 15,115 |
| 255,715 | 98,785 | 156,930 | — | — | — | — | — | — |
| <u>\$ 1,888,370</u> | <u>\$ 43,460</u> | <u>\$ 123,430</u> | <u>\$ 394,605</u> | <u>\$ 295,975</u> | <u>\$ 331,740</u> | <u>\$ 216,105</u> | <u>\$ 199,150</u> | <u>\$ 283,905</u> |
| 112,295 | 8,935 | 17,835 | 20,800 | 34,450 | 15,765 | 9,560 | 4,950 | — |
| 135,015 | 9,385 | 18,610 | 21,630 | 35,580 | 16,555 | 10,035 | 4,670 | 18,550 |
| 154,015 | 9,855 | 19,455 | 22,495 | 51,240 | 17,385 | 10,540 | 5,965 | 17,080 |
| 155,240 | — | — | 23,395 | 48,480 | 18,250 | 11,065 | 24,245 | 29,805 |
| 159,800 | — | 3,780 | 24,330 | 48,480 | 19,165 | 11,620 | 24,810 | 27,615 |
| 164,725 | — | — | 25,545 | 48,510 | 20,120 | 12,200 | 25,425 | 32,925 |
| 168,250 | — | — | 26,825 | 29,235 | 20,925 | 12,810 | 43,800 | 34,655 |
| 137,435 | — | — | 28,165 | — | 21,555 | 13,450 | 37,785 | 36,480 |
| 131,940 | — | 11,080 | 29,575 | — | 22,635 | 13,920 | 27,500 | 27,230 |
| 109,215 | — | 10,000 | 31,050 | — | 23,765 | 14,235 | — | 30,165 |
| 114,265 | — | 12,720 | 32,605 | — | 24,595 | 14,945 | — | 29,400 |
| 106,685 | 15,285 | 15,945 | 34,235 | — | 25,825 | 15,395 | — | — |
| 93,005 | — | 14,005 | 36,030 | — | 27,115 | 15,855 | — | — |
| 82,730 | — | — | 37,925 | — | 28,475 | 16,330 | — | — |
| 46,430 | — | — | — | — | 29,610 | 16,820 | — | — |
| 17,325 | — | — | — | — | — | 17,325 | — | — |
| <u>\$ 1,888,370</u> | <u>\$ 43,460</u> | <u>\$ 123,430</u> | <u>\$ 394,605</u> | <u>\$ 295,975</u> | <u>\$ 331,740</u> | <u>\$ 216,105</u> | <u>\$ 199,150</u> | <u>\$ 283,905</u> |

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Department of Transportation | | | | | |
| Grant Anticipation Revenue Vehicle Bonds (GARVEE) | | | | | |
| Pledged Revenue- | | | | | |
| Federal transportation revenues..... | \$ 1,142,699 | \$ 1,031,454 | \$ 1,064,575 | \$ 1,311,264 | \$ 1,137,807 |
| Net available revenue..... | <u>\$ 1,142,699</u> | <u>\$ 1,031,454</u> | <u>\$ 1,064,575</u> | <u>\$ 1,311,264</u> | <u>\$ 1,137,807</u> |
| Debt service | | | | | |
| Principal..... | \$ 67,605 | \$ 68,410 | \$ 62,040 | \$ 59,545 | \$ 57,265 |
| Interest..... | 31,783 | 25,816 | 18,574 | 21,006 | 23,288 |
| Coverage ratio..... | 11.50 | 10.95 | 13.21 | 16.28 | 14.12 |
| North Carolina Turnpike Authority | | | | | |
| Revenue Bonds | | | | | |
| Pledged Revenue- | | | | | |
| Toll revenues..... [2] | \$ 39,199 | \$ 33,999 | \$ 26,265 | \$ 18,980 | \$ 10,416 |
| Fees, licenses and fines..... [3] | 5,505 | 4,460 | 3,922 | 5,203 | 2,557 |
| Federal transportation revenues..... | — | 14,807 | 9,733 | 11,677 | 12,365 |
| Federal interest subsidy on debt..... | 11,348 | 11,387 | 11,375 | 11,338 | 11,686 |
| Interest on investments..... | 2,735 | 2,143 | 1,768 | 1,272 | 2,372 |
| Net available revenue..... | <u>\$ 58,787</u> | <u>\$ 66,796</u> | <u>\$ 53,063</u> | <u>\$ 48,470</u> | <u>\$ 39,396</u> |
| Debt service | | | | | |
| Principal..... | \$ 11,960 | \$ 8,200 | \$ 19,720 | \$ 19,150 | \$ 22,725 |
| Interest..... | 55,178 | 61,328 | 61,912 | 62,585 | 63,076 |
| Coverage ratio..... [1] | 0.88 | 0.96 | 0.65 | 0.59 | 0.46 |

[1] For fiscal years 2010 through 2013, the Turnpike Authority reported state appropriations as a pledged revenue.

Starting with 2014, the state appropriations are no longer included as a pledged revenue and the coverage ratios are recalculated.

[2] In fiscal year 2012, the Turnpike Authority began collecting tolls; 2012 and 2013 are restated to include the tolls.

[3] In fiscal year 2012, the Turnpike Authority began charging fees in connection with the tolls; 2012 and 2013 are restated to include the fees.

| 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------|---------------------|-------------------|---------------------|-------------------|
| \$ 1,139,303 | \$ 1,296,856 | \$ 763,579 | \$ 1,119,259 | \$ 904,400 |
| <u>\$ 1,139,303</u> | <u>\$ 1,296,856</u> | <u>\$ 763,579</u> | <u>\$ 1,119,259</u> | <u>\$ 904,400</u> |
| \$ 40,535 | \$ 61,745 | \$ 49,515 | \$ 45,745 | \$ — |
| 18,298 | 20,082 | 17,652 | 13,585 | 5,056 |
| 19.37 | 15.85 | 11.37 | 18.87 | 178.87 |
| | | | | |
| \$ 398 | \$ — | \$ — | \$ — | \$ — |
| 97 | — | — | — | — |
| 12,400 | — | — | — | — |
| 12,218 | 10,843 | 7,298 | — | — |
| 2,911 | 5,235 | 4,121 | — | — |
| <u>\$ 28,024</u> | <u>\$ 16,078</u> | <u>\$ 11,419</u> | <u>\$ —</u> | <u>\$ —</u> |
| | | | | |
| \$ — | \$ — | \$ — | \$ — | \$ — |
| 49,753 | 37,869 | 15,052 | — | — |
| 0.56 | 0.42 | 0.76 | — | — |

Continued

PLEDGED REVENUE COVERAGE (Continued)

For the Fiscal Years 2008-2017

(Dollars in Thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|------------------|------------------|-------------------|
| University of North Carolina System | | | | | |
| Revenue Bonds | | | | | |
| Pledged Revenue- | | | | | |
| Sales and services..... | \$ 193,570 | \$ 199,685 | \$ 231,306 | \$ 239,267 | \$ 237,607 |
| Student tuition and fees..... | 4,344 | 4,552 | 5,214 | 6,673 | 6,624 |
| Patient Services..... | 1,017,713 | 934,687 | 842,845 | 737,984 | 666,238 |
| Contracts and grants..... | — | — | — | — | — |
| State appropriations..... | — | — | — | — | — |
| Fees, licenses and fines..... | — | — | — | — | — |
| Rental lease earnings..... | 1,815 | 3,098 | 3,998 | 3,866 | 73 |
| Investment income..... | 1,018 | 326 | 820 | 522 | 533 |
| Federal interest subsidy on debt..... | — | 371 | 362 | 368 | 400 |
| Other operating revenues..... | 2,548 | 32,859 | — | 3 | — |
| Net incr (decr) in fair value of investments..... | — | — | — | 571 | 362 |
| Non-operating revenues..... | 1 | — | 18 | 9,619 | 92 |
| Less: Operating expenses..... | (1,110,601) | (1,038,199) | (1,035,252) | (915,827) | (797,205) |
| Net available revenue..... | <u>\$ 110,408</u> | <u>\$ 137,379</u> | <u>\$ 49,311</u> | <u>\$ 83,046</u> | <u>\$ 114,724</u> |
| Debt service | | | | | |
| Principal..... | \$ 16,915 | \$ 17,025 | \$ 16,720 | \$ 16,645 | \$ 17,110 |
| Interest..... | 10,700 | 12,084 | 8,298 | 8,668 | 9,137 |
| Coverage ratio..... | 4.00 | 4.72 | 1.97 | 3.28 | 4.37 |
| Special Indebtedness | | | | | |
| Pledged Revenue- | | | | | |
| Sales and services..... | \$ 8,914 | \$ 8,144 | \$ 1,007 | \$ 3,695 | \$ 6,283 |
| Student tuition and fees..... | — | — | — | — | 1,350 |
| Rental lease earnings..... | 2,206 | 849 | 3,129 | 3,035 | — |
| Investment income..... | 23 | 16 | (1) | 9 | — |
| Other operating revenues..... | 53 | 240 | — | — | — |
| Less: Operating expenses..... | (2,410) | (2,375) | (2,021) | (2,560) | (2,127) |
| Net available revenue..... | <u>\$ 8,786</u> | <u>\$ 6,874</u> | <u>\$ 2,114</u> | <u>\$ 4,179</u> | <u>\$ 5,506</u> |
| Debt service | | | | | |
| Principal..... | \$ 3,099 | \$ 2,535 | \$ 730 | \$ 1,110 | \$ 1,788 |
| Interest..... | 4,304 | 3,591 | 1,107 | 1,824 | 1,923 |
| Coverage ratio..... | 1.19 | 1.12 | 1.15 | 1.42 | 1.48 |

| 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 279,287 | \$ 321,229 | \$ 319,513 | \$ 412,186 | \$ 658,628 |
| 6,903 | 13,859 | 13,503 | 15,405 | 29,221 |
| 635,434 | 592,061 | 561,392 | 502,062 | 1,447,635 |
| — | — | — | — | 123,469 |
| — | 3 | — | — | 53,010 |
| 270 | 565 | 89 | 1,643 | 10,506 |
| 258 | 6,787 | 5,809 | 5,989 | 7,690 |
| 612 | 944 | 1,405 | 5,190 | (31,687) |
| 436 | 1,559 | — | — | — |
| 1,072 | 563 | 538 | 708 | 13,407 |
| 74 | — | — | — | — |
| 66 | — | — | — | 53,231 |
| (744,162) | (773,796) | (749,788) | (805,531) | (2,047,904) |
| <u>\$ 180,250</u> | <u>\$ 163,774</u> | <u>\$ 152,461</u> | <u>\$ 137,652</u> | <u>\$ 317,206</u> |
| \$ 21,035 | \$ 10,305 | \$ 20,754 | \$ 19,375 | \$ 51,272 |
| 13,226 | 12,245 | 9,472 | 15,793 | 69,315 |
| 5.26 | 7.26 | 5.04 | 3.91 | 2.63 |
| \$ 5,998 | \$ 5,896 | \$ 5,688 | \$ 5,969 | \$ 2,446 |
| 1,307 | 1,294 | 1,286 | 1,329 | 1,147 |
| 62 | 31 | 26 | 77 | 118 |
| 4 | 2 | 3 | 8 | 45 |
| 17 | 33 | 32 | 96 | — |
| (2,144) | (2,026) | (2,244) | (2,076) | (895) |
| <u>\$ 5,244</u> | <u>\$ 5,230</u> | <u>\$ 4,791</u> | <u>\$ 5,403</u> | <u>\$ 2,861</u> |
| \$ 1,728 | \$ 1,630 | \$ 1,555 | \$ 1,485 | \$ 1,075 |
| 1,997 | 2,052 | 2,142 | 1,947 | 1,209 |
| 1.41 | 1.42 | 1.30 | 1.57 | 1.25 |

SCHEDULE OF DEMOGRAPHIC DATA

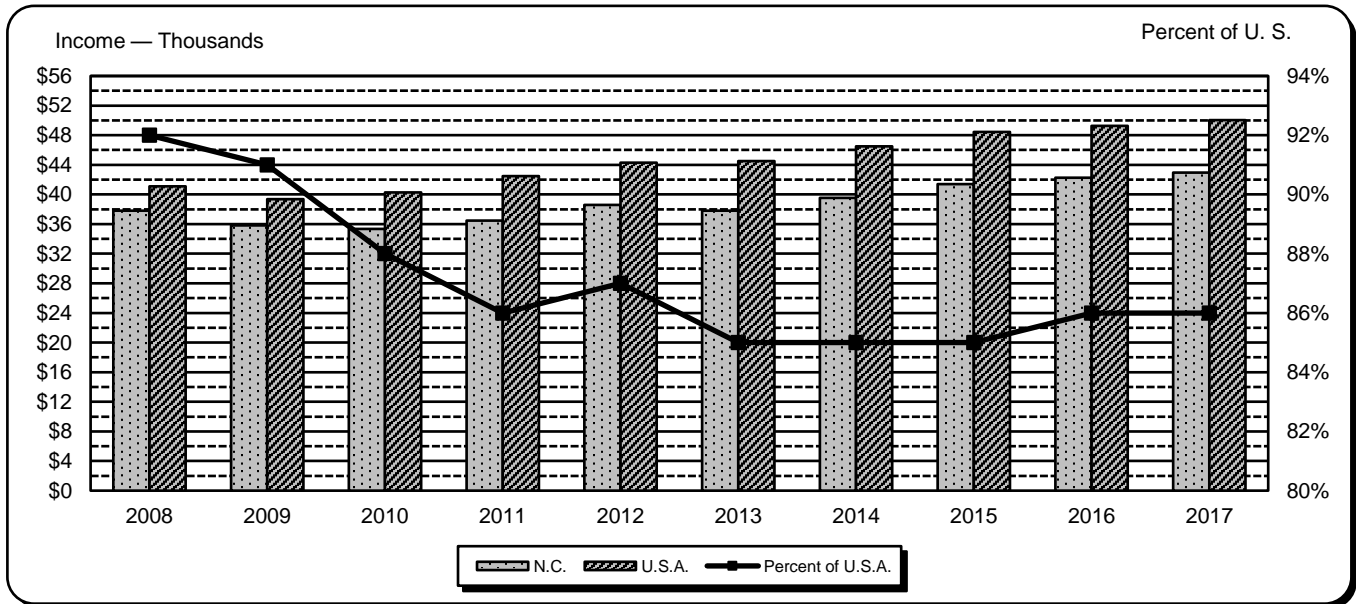
For the Years 2008-2017

| Year | Population [3] | | | | Per Capita Income [4] | | | Personal Income (millions) [5] | |
|------|------------------------------|---------------------------------|-------------------------------|---------------------------------|-----------------------|--------------------|------------------------------|--------------------------------|----------------|
| | [1] United States Population | U.S. Increase from Prior Period | [1] North Carolina Population | N.C. Increase from Prior Period | [2] United States | [2] North Carolina | N.C. as a Percentage of U.S. | United States | North Carolina |
| 2017 | 325,389,406 | 0.70% | 10,259,417 | 1.11% | \$50,054 | \$ 42,937 | 85.78% | \$16,287,041 | \$440,509 |
| 2016 | 323,127,513 | 0.70% | 10,146,788 | 1.11% | 49,246 | 42,244 | 85.78% | 15,912,738 | 428,641 |
| 2015 | 320,896,618 | 0.73% | 10,035,186 | 1.01% | 48,451 | 41,378 | 85.40% | 15,547,762 | 415,236 |
| 2014 | 318,563,456 | 0.75% | 9,934,399 | 0.94% | 46,494 | 39,558 | 85.08% | 14,811,289 | 392,985 |
| 2013 | 316,204,908 | 0.70% | 9,841,590 | 0.98% | 44,493 | 37,813 | 84.99% | 14,068,905 | 372,140 |
| 2012 | 313,998,379 | 0.75% | 9,746,175 | 0.99% | 44,282 | 38,600 | 87.17% | 13,904,476 | 376,202 |
| 2011 | 311,663,358 | 0.95% | 9,650,963 | 1.21% | 42,461 | 36,474 | 85.90% | 13,233,538 | 352,009 |
| 2010 | 308,745,538 | 0.64% | 9,535,483 | 0.91% | 40,277 | 35,331 | 87.72% | 12,435,344 | 336,898 |
| 2009 | 306,771,529 | 0.88% | 9,449,566 | 1.51% | 39,376 | 35,840 | 91.02% | 12,079,436 | 338,672 |
| 2008 | 304,093,966 | 0.95% | 9,309,449 | 2.10% | 41,082 | 37,810 | 92.04% | 12,492,788 | 351,990 |

[1] - U.S. Census estimates based on 2000 census (July 1) for years 2006 - 2009; Year 2010 is April 1 U.S. Census count; U.S. Census estimates based on 2010 census (July 1) for years 2011 - 2016; and year 2017 is an Office of the State Controller estimate.

[2] - Bureau of Economic Analysis estimate for years 2007 - 2016. Since the 2017 per capita income estimates are not available, the Office of State Controller used the U.S. Per Capita Income growth rate of the previous year to project the 2017 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2017 Per Capita Income for North Carolina".

**Per Capita Income
North Carolina Compared to United States
2008 to 2017**



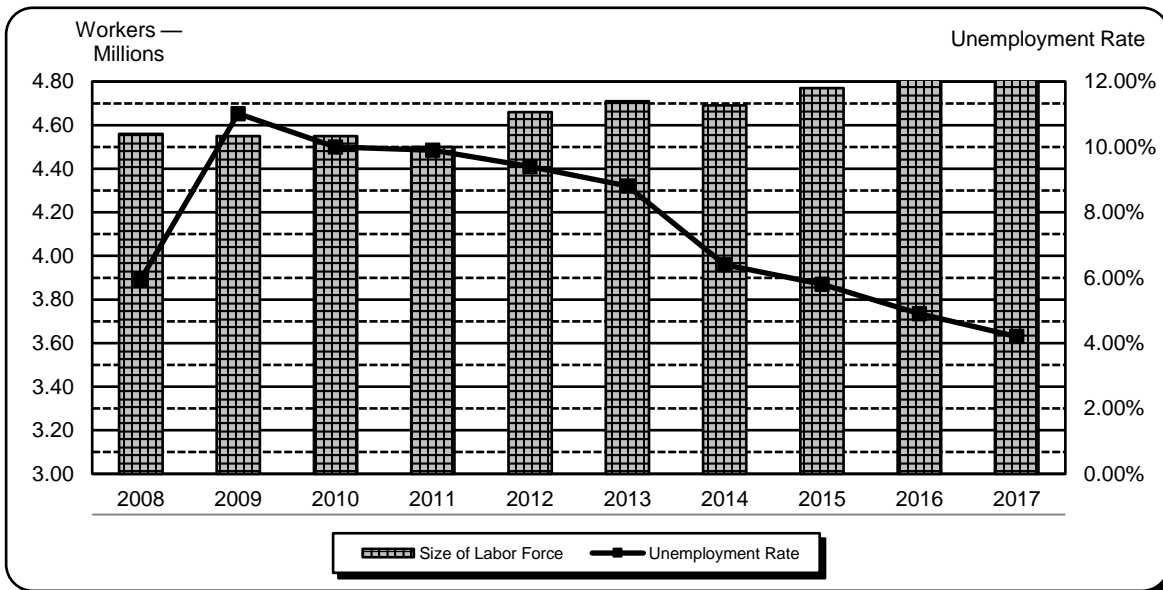
Sources: [3] Population
[4] Per Capita Income
[5] Personal Income

U.S. Department of Commerce, Bureau of the Census
U.S. Department of Commerce, Bureau of Economic Analysis
Calculated from sources 3 and 4

Table 15

| Year | North Carolina Civilian Labor Force Data [6] | | | | North Carolina - Other Data [7] | |
|------|--|-----------|------------|----------------------------|---------------------------------|---|
| | Total | Employed | Unemployed | Unemployed Percentage Rate | Motor Vehicles Registered | Residential Construction Authorized [8] |
| 2017 | 4,908,517 | 4,700,760 | 207,757 | 4.20% | 9,513,210 | 30,055 |
| 2016 | 4,853,581 | 4,614,694 | 238,887 | 4.90% | 9,328,899 | 27,230 |
| 2015 | 4,770,538 | 4,493,898 | 276,640 | 5.80% | 9,076,874 | 26,293 |
| 2014 | 4,688,666 | 4,389,480 | 299,186 | 6.40% | 8,843,938 | 23,528 |
| 2013 | 4,708,565 | 4,292,251 | 416,314 | 8.80% | 8,811,236 | 25,065 |
| 2012 | 4,655,387 | 4,216,014 | 439,373 | 9.40% | 8,740,382 | 23,894 |
| 2011 | 4,503,162 | 4,055,793 | 447,369 | 9.90% | 8,342,983 | 16,536 |
| 2010 | 4,545,756 | 4,089,199 | 456,557 | 10.00% | 8,207,805 | 18,525 |
| 2009 | 4,554,663 | 4,052,943 | 501,720 | 11.02% | 8,451,048 | 17,006 |
| 2008 | 4,559,713 | 4,288,621 | 271,092 | 5.95% | 8,570,893 | 31,316 |

**Civilian Labor Force Trends
With Unemployment Percentages
2008 to 2017**



Sources: [6] Seasonally Adjusted Labor Force Data - As of June 30 N.C. Division of Employment Security
 [7] Motor Vehicle Registrations - For the Fiscal Year Ended June 30 N.C. Division of Motor Vehicles
 [8] Residential Housing Permits U.S. Department of Commerce, Bureau of the Census

PRINCIPAL EMPLOYERS

For the Fiscal Years 2008 & 2017

Table 16

| Employer | 2017 | | | 2008 | | |
|--|------------------------|-------------|---|------------------------|-------------|---|
| | Employees | Rank | Percentage of Total State Employment | Employees | Rank | Percentage of Total State Employment |
| State of North Carolina..... | 175,000-179,999 | 1 | 3.78% | 180,000-184,999 | 1 | 4.26% |
| Federal Government..... | 70,000-74,999 | 2 | 1.54% | 60,000-64,999 | 2 | 1.46% |
| Wal-Mart Associates, Inc..... | 45,000-59,999 | 3 | 1.12% | 50,000-54,999 | 3 | 1.22% |
| Charlotte Mecklenberg Hospital Auth... | 35,000-39,999 | 4 | 0.80% | 15,000-19,999 | 9 | 0.41% |
| Duke University..... | 30,000-34,999 | 5 | 0.69% | 25,000-29,999 | 4 | 0.64% |
| Food Lion LLC..... | 30,000-34,999 | 6 | 0.69% | 25,000-29,999 | 5 | 0.64% |
| Wells Fargo Bank NA..... | 25,000-29,999 | 7 | 0.59% | — | — | — |
| Wake County Public School System.... | 20,000-24,999 | 8 | 0.48% | 15,000-19,999 | 8 | 0.41% |
| Charlotte-Mecklenburg Board of Ed..... | 20,000-24,999 | 9 | 0.48% | 20,000-24,999 | 6 | 0.52% |
| Lowes Home Centers, Inc..... | 15,000-19,999 | 10 | 0.37% | 15,000-19,999 | 10 | 0.41% |
| Wachovia Bank NA..... | — | — | — | 20,000-24,999 | 7 | 0.52% |
| Total..... | 465,000-524,990 | | 10.54% | 425,000-474,990 | | 10.49% |

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: North Carolina Department of Commerce – Division of Employment Security

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2008-2017

| Functions | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|----------------|----------------|----------------|----------------|----------------|
| General government (3)..... | 5,160 | 4,857 | 5,270 | 5,357 | 5,450 |
| Primary and secondary education..... | 153,236 | 154,079 | 153,165 | 157,205 | 165,167 |
| Higher education: | | | | | |
| Universities..... | 63,345 | 62,194 | 62,152 | 61,720 | 60,665 |
| Community colleges..... | 18,021 | 18,129 | 18,471 | 18,588 | 19,518 |
| Health and human services (1)..... | 17,970 | 17,552 | 17,620 | 17,801 | 17,786 |
| Economic development..... | 2,340 | 3,365 | 2,893 | 3,003 | 2,722 |
| Environment and natural resources (2) (3)..... | 4,112 | 4,148 | 3,471 | 3,566 | 3,549 |
| Public safety, corrections and regulation (1)..... | 34,009 | 33,966 | 33,558 | 33,635 | 34,668 |
| Transportation..... | 12,578 | 12,591 | 12,758 | 13,309 | 13,170 |
| Agriculture (2)..... | 2,077 | 2,066 | 2,080 | 2,081 | 2,110 |
| Totals..... | 312,848 | 312,947 | 311,438 | 316,265 | 324,805 |

- (1) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.
- (2) Starting in fiscal year 2012, the Division of North Carolina Forest Service and Division of Soil and Water Conservation are included in the agriculture function; whereas in prior years the divisions were included with the environment and natural resources function.
- (3) Starting in fiscal year 2016, the Department of Natural and Cultural Resources is included in the environment and natural resources function; whereas in prior years it was included with the general government function.

Source: North Carolina Office of State Budget and Management
 Counts for fiscal year end 2017 are projected from prior year data.

Table 17

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|----------------|----------------|----------------|----------------|----------------|
| 5,425 | 5,835 | 5,941 | 5,898 | 5,774 |
| 162,124 | 157,380 | 154,107 | 163,322 | 163,113 |
| 61,317 | 62,716 | 61,505 | 61,063 | 58,856 |
| 19,702 | 19,958 | 18,948 | 17,263 | 16,708 |
| 17,958 | 20,382 | 20,919 | 22,094 | 21,276 |
| 2,415 | 2,767 | 2,524 | 2,474 | 2,558 |
| 3,561 | 4,582 | 4,607 | 4,740 | 4,709 |
| 34,650 | 34,045 | 33,140 | 33,895 | 33,014 |
| 13,175 | 13,550 | 13,902 | 14,767 | 14,752 |
| 2,064 | 1,349 | 1,366 | 1,393 | 1,385 |
| <u>322,391</u> | <u>322,564</u> | <u>316,959</u> | <u>326,909</u> | <u>322,145</u> |

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2008-2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| General Government | | | | | |
| Department of Revenue | | | | | |
| Number of tax returns filed electronically..... | 6,175,758 | 5,936,872 | 5,678,572 | 5,427,355 | 5,139,849 |
| Number of tax returns processed..... | 12,009,812 | 11,823,470 | 11,154,706 | 10,994,901 | 10,772,255 |
| Number of individual refunds direct deposited..... | 1,825,815 | 1,453,984 | 1,412,624 | 1,934,344 | 1,821,767 |
| Number of individual refunds processed..... | 2,753,655 | 2,308,133 | 2,311,764 | 3,127,317 | 3,123,326 |
| Number of pieces of incoming mail..... | 4,580,005 | 5,219,418 | 5,090,535 | 5,129,271 | 5,514,005 |
| Number of pieces of outgoing mail..... | 9,050,706 | 9,083,964 | 9,219,001 | 8,417,904 | 8,172,888 |
| Department of Administration | | | | | |
| Construction projects administered..... | 2 | 8 | 8 | 7 | 7 |
| Construction value excluding design fee (thousands)..... | \$ 33,309 | \$ 72,824 | \$ 63,552 | \$ 63,460 | \$ 62,729 |
| USS North Carolina Battleship Commission | | | | | |
| Visitation to USS North Carolina Battleship..... | 218,479 | 212,369 | 202,447 | 210,969 | 216,438 |
| Primary and Secondary Education | | | | | |
| Public School(K-12) | | | | | |
| Public school enrollment..... | 1,545,614 | 1,538,310 | 1,520,985 | 1,510,664 | 1,493,474 |
| Total high school graduates..... | 101,991 | 99,183 | 96,477 | 95,580 | 94,869 |
| Graduate intention to pursue further education..... | 85.9% | 83.8% | 83.8% | 84.5% | 85% |
| Higher Education | | | | | |
| Community Colleges | | | | | |
| Number of students (annualized FTE)..... | 222,461 | 220,312 | 225,135 | 229,924 | 238,092 |
| Number of certificates and degrees awarded..... | 48,163 | 48,591 | 49,592 | 45,392 | 40,224 |
| Universities | | | | | |
| Number of regular term students (FTE)..... | 209,401 | 205,119 | 202,447 | 200,716 | 201,251 |
| Number of certificates and degrees awarded..... | 53,236 | 51,799 | 51,850 | 51,086 | 49,791 |
| Health and Human Services | | | | | |
| Department of Health and Human Services | | | | | |
| Medicaid recipients..... | 2,200,011 | 2,198,496 | 2,054,975 | 2,073,166 | 1,781,096 |
| Food stamp recipients..... | 1,436,586 | 1,609,669 | 1,649,754 | 1,620,115 | 1,670,428 |
| Clients served by mental health facilities..... | 3,110 | 3,146 | 3,301 | 3,593 | 3,463 |
| Clients served by developmental disabilities facilities..... | 1,156 | 1,161 | 1,199 | 1,212 | 1,289 |
| Clients served by substance abuse facilities..... | 3,496 | 3,512 | 3,698 | 4,047 | 4,181 |
| Clients served by neuro-meds facilities..... | 644 | 683 | 721 | 744 | 567 |
| Children served through subsidized child care..... | 105,755 | 112,545 | 120,471 | 121,112 | 121,303 |
| Participation in Special Supplemental Nutrition Program..... | 240,691 | 244,652 | 248,575 | 257,582 | 265,616 |
| Clients served through Work First..... | 26,415 | 31,015 | 33,598 | 37,256 | 45,201 |
| NC Health Choice annual enrollment..... | 90,589 | 81,897 | 78,407 | 98,537 | 192,044 |

Table 18

| 2012 | 2011 | 2010 | 2009 | 2008 |
|------------|------------|------------|------------|------------|
| 4,801,446 | 4,078,310 | 4,089,267 | 3,502,141 | 3,246,333 |
| 10,888,330 | 10,596,928 | 10,898,544 | 11,336,722 | 11,258,489 |
| 1,702,620 | 1,556,340 | 1,376,997 | 1,294,894 | 1,119,403 |
| 3,083,401 | 3,026,035 | 3,021,379 | 3,081,986 | 3,005,539 |
| 5,827,530 | 6,012,977 | 7,219,907 | 6,897,757 | 8,636,219 |
| 8,525,983 | 8,972,129 | 8,201,770 | 8,443,945 | 9,194,775 |
| 6 | 6 | 16 | 135 | 117 |
| \$ 54,378 | \$ 35,403 | \$ 79,906 | \$ 110,674 | \$ 52,660 |
| 193,150 | 208,994 | 206,965 | 191,206 | 198,378 |
| 1,481,671 | 1,476,348 | 1,465,562 | 1,466,803 | 1,462,374 |
| 92,031 | 89,027 | 89,968 | 83,618 | 80,606 |
| 100% | 86.12% | 85.19% | 85.09% | 84.86% |
| 240,338 | 249,934 | 246,656 | 215,915 | 200,000 |
| 56,140 | 39,255 | 33,922 | 31,203 | 28,173 |
| 200,386 | 201,147 | 199,717 | 193,219 | 187,791 |
| 48,045 | 45,821 | 43,459 | 41,924 | 39,592 |
| 1,872,279 | 1,670,912 | 1,721,439 | 1,686,515 | 1,721,488 |
| 2,113,648 | 1,567,572 | 1,294,732 | 1,077,914 | 924,265 |
| 4,102 | 4,423 | 6,199 | 8,465 | 11,729 |
| 1,283 | 1,334 | 1,323 | 1,351 | 1,376 |
| 3,901 | 4,200 | 4,103 | 3,922 | 4,052 |
| 830 | 827 | 829 | 858 | 854 |
| 129,752 | 136,564 | 151,363 | 150,813 | 159,457 |
| 268,872 | 272,806 | 271,980 | 273,845 | 254,120 |
| 102,367 | 47,166 | 56,186 | 54,911 | 53,082 |
| 154,927 | 208,563 | 198,613 | 194,611 | 181,685 |

Continued

OPERATING INDICATORS BY FUNCTION (Continued)

For the Fiscal Years 2008-2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| <u>Economic Development</u> | | | | | |
| Economic Development Partnership of North Carolina | | | | | |
| Jobs generated company recruitment/expansion..... | 15,748 | 14,806 | 14,812 | 14,094 | 16,939 |
| Capital investment (thousands)..... | \$ 3,831,981 | \$ 4,245,981 | \$ 2,388,677 | \$ 2,787,447 | \$ 2,139,346 |
| Department of Commerce | | | | | |
| Total employed..... | 4,700,760 | 4,614,694 | 4,493,898 | 4,389,480 | 4,292,251 |
| Percentage of unemployment..... | 4.2% | 4.9% | 5.8% | 6.4% | 8.8% |
| <u>Environment and Natural Resources</u> | | | | | |
| Department of Environmental Quality | | | | | |
| Public drinking water systems in compliance..... | 99% | 97% | 96% | 96% | 96% |
| Department of Natural and Cultural Resources | | | | | |
| Visitation to state parks..... | 19,038,513 | 18,053,654 | 16,293,380 | 14,751,051 | 13,918,725 |
| Visitation to historical sites and museums..... | 5,488,204 | 5,480,871 | 4,627,997 | 4,161,452 | 4,243,249 |
| Visitation to state aquariums (4)..... | 1,347,641 | 1,233,070 | 1,268,467 | 1,123,756 | 1,193,252 |
| Visitation to N.C. Zoo..... | 870,882 | 755,567 | 721,432 | 728,531 | 732,310 |
| Wildlife Resources Commission | | | | | |
| Hunting licenses sold..... | 141,448 | 145,029 | 145,729 | 126,524 | 117,473 |
| Fishing licenses sold (inland and coastal)..... | 779,184 | 789,049 | 795,878 | 823,712 | 772,197 |
| Combination hunting/fishing licenses sold..... | 152,801 | 161,847 | 191,244 | 204,179 | 199,280 |
| Vessels registered..... | 176,585 | 179,485 | 146,305 | 144,316 | 149,311 |
| <u>Public Safety, Corrections and Regulation (3)</u> | | | | | |
| Department of Public Safety | | | | | |
| Incarcerated adult offenders..... | 37,487 | 37,440 | 37,793 | 37,529 | 37,619 |
| Supervised adult offenders..... | 99,313 | 100,881 | 102,790 | 103,399 | 105,763 |
| Juvenile offenders..... | 6,613 | 7,170 | 8,037 | 8,141 | 8,625 |
| Administrative Office of the Courts | | | | | |
| Cases disposed as a % of cases filed-Superior Court..... | 100% | 100% | 100% | 100% | 100% |
| Cases disposed as a % of cases filed-District Court..... | 100% | 100% | 100% | 100% | 100% |
| <u>Agriculture</u> | | | | | |
| Department of Agriculture and Consumer Services | | | | | |
| Motor fuel dispensers tested (1)..... | 106,614 | 91,525 | 95,811 | 96,880 | 110,730 |
| Rejection rate..... | 11.49% | 12.5% | 16% | 16.36% | 12.84% |
| Retail scales tested (2)..... | 31,994 | 33,270 | 26,091 | 30,220 | 27,995 |
| Rejection rate..... | 8.7% | 9.4% | 8.8% | 8.96% | 9.65% |

Notes:

- (1) Governed by Gasoline and Oil Inspection Law (G.S. 119)
- (2) Governed by North Carolina Weights and Measures Act (G.S. 81A)
- (3) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.
- (4) Data not available for years prior to 2009

Table 18

| 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------|--------------|--------------|--------------|--------------|
| 15,634 | 22,409 | 18,326 | 15,077 | 11,636 |
| \$ 3,600,000 | \$ 4,151,293 | \$ 2,653,795 | \$ 3,433,657 | \$ 3,600,000 |
| 4,216,014 | 4,055,793 | 4,089,199 | 4,052,943 | 4,288,621 |
| 9.4% | 9.9% | 10% | 11.02% | 5.95% |
| 95% | 96% | 96% | 95% | 95% |
| 14,247,295 | 14,660,154 | 14,023,959 | 13,378,421 | 12,871,661 |
| 3,880,172 | 3,641,960 | 2,981,952 | 2,843,103 | 3,354,987 |
| 1,104,200 | 1,083,967 | 1,125,096 | 991,430 | — |
| 738,072 | 741,119 | 749,627 | 729,615 | 729,500 |
| 115,420 | 119,347 | 114,677 | 110,198 | 106,337 |
| 791,044 | 797,897 | 787,113 | 794,132 | 778,014 |
| 198,689 | 198,102 | 198,045 | 204,327 | 210,887 |
| 143,535 | 147,964 | 151,348 | 143,071 | 140,573 |
| 38,385 | 41,030 | 40,102 | 40,824 | 39,112 |
| 103,163 | 109,326 | 111,743 | 114,367 | 116,927 |
| 9,090 | 9,332 | 9,867 | 10,701 | 10,592 |
| 100% | 100% | 100% | 97.4% | 98.5% |
| 100% | 100% | 100% | 100.0% | 98.28% |
| 104,666 | 99,273 | 121,897 | 99,461 | 98,736 |
| 9.2% | 9.93% | 10.77% | 10.29% | 12.73% |
| 28,074 | 28,925 | 33,331 | 33,329 | 24,640 |
| 8.14% | 7.63% | 11.1% | 11.11% | 10.51% |

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2008-2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Primary Government | | | | | |
| General Government | | | | | |
| Department of Administration | | | | | |
| Buildings..... | 82 | 87 | 107 | 105 | 127 |
| Parking lots..... | 24 | 25 | 25 | 25 | 25 |
| Parking spaces..... | 8,434 | 8,423 | 8,526 | 8,528 | 8,597 |
| Motor Fleet vehicles | 7,591 | 7,465 | 7,602 | 8,136 | 7,620 |
| Health and Human Services | | | | | |
| Mental Health Institutions..... | 12 | 13 | 13 | 13 | 12 |
| Number of certified beds..... | 4,041 | 4,087 | 4,111 | 4,245 | 4,402 |
| Environment and Natural Resources | | | | | |
| Department of Natural and Cultural Resources | | | | | |
| Number of state park lands..... | 35 | 35 | 35 | 35 | 35 |
| Acres of state park lands..... | 162,294 | 160,891 | 157,856 | 155,556 | 153,959 |
| Number of state recreation areas..... | 4 | 4 | 4 | 4 | 4 |
| Acres of state recreation areas..... | 13,256 | 13,256 | 13,256 | 13,256 | 12,240 |
| Number of state natural areas..... | 24 | 24 | 20 | 20 | 20 |
| Acres of state natural areas..... | 26,114 | 26,000 | 24,662 | 23,896 | 22,519 |
| Number of state lakes..... | 7 | 7 | 7 | 7 | 7 |
| Acres of state lakes..... | 29,135 | 29,135 | 29,135 | 29,135 | 29,135 |
| Zoo animals..... | 1,533 | 1,341 | 1,767 | 1,816 | 1,622 |
| Vehicles (6)..... | 850 | 863 | — | — | — |
| Boats/trailers (6)..... | 341 | 316 | — | — | — |
| Scientific equipment (6)..... | 53 | 49 | — | — | — |
| Department of Environmental Quality | | | | | |
| Vehicles (5),(7)..... | 181 | 178 | 889 | 883 | 896 |
| Boats/trailers (5),(7)..... | 430 | 443 | 519 | 508 | 489 |
| Aircraft (5)..... | 2 | 3 | 3 | 3 | 3 |
| Scientific equipment (7)..... | 716 | 743 | 749 | 774 | 689 |
| Wildlife Resources Commission | | | | | |
| Number of game lands..... | 69 | 66 | 64 | 64 | 57 |
| Acres of game lands..... | 492,950 | 488,589 | 481,665 | 496,134 | 492,440 |
| Vehicles | 570 | 563 | 463 | 463 | 458 |
| Boats/trailers | 906 | 870 | 796 | 779 | 793 |
| Aircraft | 3 | 3 | 3 | 3 | 4 |
| Public Safety, Corrections and Regulation (4) | | | | | |
| Department of Public Safety | | | | | |
| Close security prisons..... | 14 | 15 | 14 | 13 | 13 |
| Medium security prisons..... | 18 | 17 | 18 | 22 | 23 |
| Minimum security prisons..... | 23 | 26 | 26 | 24 | 29 |
| Youth facilities..... | 10 | 10 | 10 | 10 | 13 |
| Adult Correction Vehicles: | | | | | |
| Passenger/cargo vans..... | 183 | 129 | 127 | 122 | 120 |
| Inmate transfer vans/buses..... | 536 | 497 | 490 | 486 | 492 |
| Inmate work crew vans/buses..... | 191 | 208 | 218 | 223 | 222 |
| Pickup trucks..... | 450 | 361 | 376 | 348 | 338 |
| Roving patrol pickups..... | 123 | 100 | 95 | 97 | 98 |
| One ton maintenance trucks..... | 190 | 104 | 106 | 106 | 107 |
| Specialty/other trucks (1)..... | 160 | 114 | 108 | 108 | 113 |

Table 19

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------|-------------|-------------|-------------|-------------|
| 120 | 117 | 129 | 129 | 129 |
| 25 | 25 | 76 | 23 | 49 |
| 7,877 | 8,314 | 8,813 | 7,408 | 8,477 |
| 7,538 | 8,145 | 8,341 | 8,784 | 9,090 |
| 11 | 11 | 12 | 13 | 12 |
| 4,314 | 4,331 | 4,688 | 4,346 | 4,932 |
| 35 | 35 | 35 | 35 | 34 |
| 152,578 | 150,807 | 148,897 | 144,806 | 140,254 |
| 4 | 4 | 4 | 4 | 4 |
| 12,240 | 12,240 | 12,240 | 12,240 | 12,240 |
| 20 | 20 | 19 | 19 | 17 |
| 22,254 | 22,145 | 20,833 | 20,910 | 20,281 |
| 7 | 7 | 7 | 7 | 7 |
| 29,135 | 29,135 | 29,135 | 29,135 | 29,135 |
| 1,593 | 1,355 | 1,569 | 1,565 | 1,723 |
| — | — | — | — | — |
| — | — | — | — | — |
| — | — | — | — | — |
| 856 | 1,889 | 1,764 | 1,745 | 1,744 |
| 468 | 633 | 606 | 585 | 597 |
| 3 | 26 | 32 | 32 | 31 |
| 663 | 789 | 762 | 737 | 780 |
| 62 | 62 | 61 | 59 | 58 |
| 480,257 | 480,257 | 475,212 | 468,570 | 471,248 |
| 422 | 370 | 307 | 291 | 302 |
| 825 | 814 | 749 | 753 | 710 |
| 4 | 4 | 4 | 4 | 4 |
| 14 | 14 | 14 | 14 | 13 |
| 23 | 23 | 23 | 26 | 26 |
| 29 | 33 | 33 | 39 | 39 |
| 15 | 16 | 17 | 17 | 14 |
| 152 | 106 | 108 | 118 | 131 |
| 506 | 493 | 608 | 511 | 541 |
| 239 | 243 | 276 | 291 | 306 |
| 381 | 349 | 353 | 351 | 361 |
| 91 | 92 | 103 | 89 | 100 |
| 123 | 95 | 115 | 108 | 104 |
| 105 | 129 | 119 | 114 | 129 |

Continued

CAPITAL ASSET STATISTICS BY FUNCTION (Continued)

For the Fiscal Years 2008-2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Department of Public Safety | | | | | |
| Enterprise Vehicles: | | | | | |
| Passenger/cargo vans..... | 17 | 16 | 16 | 16 | 14 |
| Inmate workcrew buses..... | 18 | 19 | 18 | 19 | 15 |
| Pickup trucks..... | 52 | 53 | 52 | 52 | 44 |
| One ton maintenance trucks..... | 20 | 19 | 21 | 21 | 24 |
| Specialty/other trucks..... | 113 | 114 | 117 | 106 | 126 |
| Alcohol Law Enforcement Vehicles | | | | | |
| Cars/SUV's..... | 175 | 178 | 225 | 162 | 172 |
| State Highway Patrol Vehicles | | | | | |
| Cars..... | 1,672 | 1,738 | 1,805 | 1,925 | 1,766 |
| Trucks/vans..... | 407 | 418 | 525 | 506 | 486 |
| Motorcycles..... | 38 | 41 | 46 | 40 | 28 |
| State Bureau of Investigation Vehicles | | | | | |
| Cars/SUV's..... | 284 | 257 | 308 | 349 | 333 |
| Trucks/vans..... | 93 | 74 | 78 | 74 | 78 |
| State Highway Patrol Aircraft | | | | | |
| Helicopters..... | 6 | 6 | 6 | 6 | 9 |
| Transportation | | | | | |
| Department of Transportation | | | | | |
| Pavement in lane-miles: | | | | | |
| Primary subsystem (2)..... | — | 15,125 | 15,062 | 15,062 | 15,064 |
| Secondary subsystem (2)..... | — | 64,544 | 64,522 | 64,522 | 64,514 |
| Bridges: | | | | | |
| Number of bridges (2)..... | — | 13,494 | 13,519 | 13,552 | 13,557 |
| Number of culverts (2)..... | — | 4,592 | 4,520 | 4,496 | 4,547 |
| Vehicles..... | 8,276 | 8,720 | 9,191 | 9,463 | 9,484 |
| Heavy equipment..... | 14,840 | 14,799 | 15,237 | 14,808 | 14,221 |
| Component Units | | | | | |
| Higher Education | | | | | |
| Community Colleges | | | | | |
| Buildings..... | 1,238 | 1,234 | 1,199 | 1,182 | 1,178 |
| Universities | | | | | |
| Academic/administrative buildings..... | 1,052 | 1,044 | 1,070 | 1,010 | 1,003 |
| Dormitories/auxiliary buildings..... | 786 | 744 | 721 | 684 | 692 |
| Medical (3)..... | 35 | 36 | 49 | 39 | 36 |
| University System Hospitals | | | | | |
| Administration..... | 16 | 16 | 18 | 18 | 18 |
| Clinical..... | 61 | 52 | 51 | 52 | 52 |
| Facility services..... | 10 | 10 | 10 | 10 | 9 |
| Hospital..... | 9 | 9 | 8 | 7 | 8 |

Notes:

- (1) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.
- (2) Recent data from the source was not available, as of the date of publication.
- (3) East Carolina Teaching Hospital
- (4) Starting in fiscal year 2012, Juvenile Justice and Delinquency Prevention is included in the public safety, corrections and regulation function; whereas in prior years it was included with the health and human services function.
- (5) Starting in fiscal year 2012, vehicles, boats/trailers, and aircraft have decreased because the Division of North Carolina Forest Service and Division of Soil and Water Conservation are now included in Department of Agriculture; whereas in prior years the divisions were included with Department of Environmental Quality formerly Department of Environment and Natural Resources.
- (6) Data reported with Department of Environmental Quality for years prior to 2016.
- (7) Starting in fiscal year 2016, vehicles, boats/trailers, and scientific equipment decreased because five divisions are now included in the Department of Natural and Cultural Resources; whereas in prior years the divisions were included with the Department of Environmental Quality formerly Department of Environment and Natural Resources.

Table 19

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------|-------------|-------------|-------------|-------------|
| 14 | 17 | 18 | 22 | 23 |
| 20 | 23 | 25 | 26 | 28 |
| 49 | 49 | 54 | 59 | 52 |
| 24 | 21 | 22 | 22 | 20 |
| 110 | 103 | 101 | 103 | 104 |
| 202 | 174 | 156 | 156 | 150 |
| 2,214 | 2,422 | 2,692 | 2,692 | 2,722 |
| 124 | 126 | 128 | 128 | 111 |
| 26 | 25 | 19 | 19 | 16 |
| 356 | 344 | 339 | 279 | 247 |
| 75 | 75 | 72 | 64 | 57 |
| 9 | 7 | 8 | 8 | 8 |
| 15,052 | 15,002 | 14,952 | 14,919 | 14,885 |
| 64,440 | 64,413 | 64,378 | 64,267 | 64,553 |
| 13,583 | 13,531 | 13,251 | 13,222 | 13,152 |
| 4,710 | 4,730 | 5,056 | 5,007 | 5,004 |
| 8,997 | 8,337 | 8,422 | 9,349 | 8,850 |
| 13,827 | 12,703 | 12,647 | 13,216 | 12,116 |
| 1,174 | 1,161 | 1,134 | 1,097 | 1,046 |
| 1,011 | 993 | 962 | 933 | 911 |
| 680 | 654 | 640 | 560 | 523 |
| 34 | 31 | 37 | 39 | 58 |
| 11 | 4 | 4 | 4 | 4 |
| 14 | 12 | 11 | 12 | 11 |
| 6 | 6 | 6 | 6 | 6 |
| 6 | 6 | 6 | 5 | 4 |

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years Ended June 30, 2008-2017

The following table illustrates how earned revenues (net of reinsurance) and investment income of the Public School Insurance Fund (the Fund) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund for the last ten fiscal years ended June 30. The rows of the table are defined as follows:

- (1) Total of each fiscal year's earned contribution revenues, investment revenues, contribution revenues ceded to excess insurers or reinsurers, and amount of reported revenues net of excess insurance or reinsurance.
- (2) Each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.
- (3) The Fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (before the effect of loss assumed by excess insurers or reinsurers), the loss assumed by excess insurers or reinsurers, and total net amount of incurred claims and allocated claim adjustment expenses.
- (4) Cumulative amounts paid as of the end of successive years for each policy year.
- (5) The most current reestimated amount of losses assumed by reinsurers for each accident year. The amount can and will be changed as claims and expenses are reevaluated.
- (6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) Comparison of the latest reestimated net incurred claims amount to the amount originally established (line 3) and indication of whether this latest estimate of claims cost is greater or less than originally thought.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years Ended June 30, 2008-2017

Table 20

As data for individual policy years mature, the correlation between original estimated and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns in the table present data for successive policy years. Amounts are expressed in thousands.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1) Required contribution and investment revenue: | | | | | | | | | | |
| Earned..... | \$ 18,430 | \$ 18,054 | \$ 20,337 | \$ 16,257 | \$ 20,699 | \$ 16,380 | \$ 17,583 | \$ 14,563 | \$ 19,099 | \$ 12,518 |
| Ceded..... | 2,371 | 3,642 | 3,852 | 3,576 | 3,717 | 4,502 | 4,313 | 3,545 | 3,665 | 3,386 |
| Net earned..... | 16,059 | 14,412 | 16,485 | 12,681 | 16,982 | 11,878 | 13,270 | 11,018 | 15,434 | 9,132 |
| 2) Unallocated expenses | 664 | 680 | 659 | 666 | 701 | 714 | 695 | 635 | 600 | 659 |
| 3) Estimated claims and expenses, end of policy year: | | | | | | | | | | |
| Incurred..... | 1,718 | 2,253 | 1,783 | 20,340 | 19,304 | 4,366 | 6,492 | 10,524 | 943 | 16,149 |
| Ceded..... | — | — | — | (6,761) | — | — | — | — | — | — |
| Net incurred..... | 1,718 | 2,253 | 1,783 | 13,579 | 19,304 | 4,366 | 6,492 | 10,524 | 943 | 16,149 |
| 4) Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year..... | 1,426 | 1,746 | 1,502 | 5,505 | 6,992 | 1,975 | 1,845 | 1,448 | 872 | 4,188 |
| One year later..... | 2,016 | 2,149 | 2,082 | 13,090 | 9,389 | 3,465 | 4,053 | 5,389 | 1,078 | |
| Two years later..... | 2,016 | 2,149 | 2,082 | 13,090 | 9,389 | 3,465 | 4,053 | 5,389 | | |
| Three years later..... | 2,016 | 2,149 | 2,082 | 13,090 | 9,389 | 3,465 | 4,053 | | | |
| Four years later..... | 2,016 | 2,149 | 2,082 | 13,090 | 9,389 | 3,465 | | | | |
| Five years later..... | 2,016 | 2,149 | 2,082 | 13,090 | 9,389 | | | | | |
| Six years later..... | 2,016 | 2,149 | 2,082 | 13,090 | | | | | | |
| Seven years later..... | 2,016 | 2,149 | 2,082 | | | | | | | |
| Eight years later..... | 2,016 | 2,149 | | | | | | | | |
| Nine years later..... | 2,016 | | | | | | | | | |
| 5) Reestimated ceded claims and expenses..... | — | — | — | — | — | — | — | — | — | — |
| 6) Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year..... | 1,718 | 2,253 | 1,783 | 13,579 | 19,304 | 4,366 | 6,492 | 10,524 | 943 | 16,149 |
| One year later..... | 1,653 | 2,276 | 1,846 | 20,481 | 13,159 | 2,965 | 5,189 | 10,669 | 917 | |
| Two years later..... | 1,979 | 2,269 | 1,846 | 20,481 | 13,159 | 2,965 | 5,189 | 10,669 | | |
| Three years later..... | 1,979 | 2,269 | 1,846 | 20,481 | 13,159 | 2,965 | 5,189 | | | |
| Four years later..... | 1,979 | 2,269 | 1,846 | 20,481 | 13,159 | 2,965 | | | | |
| Five years later..... | 1,979 | 2,269 | 1,846 | 20,481 | 13,159 | | | | | |
| Six years later..... | 1,979 | 2,269 | 1,846 | 20,481 | | | | | | |
| Seven years later..... | 1,979 | 2,269 | 1,846 | | | | | | | |
| Eight years later..... | 1,979 | 2,269 | | | | | | | | |
| Nine years later..... | 1,979 | | | | | | | | | |
| 7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year..... | 261 | 16 | 63 | 6,902 | (6,145) | (1,401) | (1,303) | 145 | 26 | — |

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