



State of North Carolina
Office of the State Controller

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING JUNE 30, 2016

Cover Photo: Old Salem, North Carolina

Salem, North Carolina is an integral part of our state's history. Salem was settled by members of the Moravian Church. The Moravians are a Protestant denomination founded in 1457 by the followers of John Huss (Jan Hus, 1369–1415) in the Kingdoms of Bohemia and Moravia, now part of the Czech Republic. In 1722, exiled from their homelands, the Moravians found protection on the estate of Count Zinzendorf, a Saxon nobleman, where he helped create the village of Herrnhut as their home. First settling in North America in Savannah, Georgia in 1735, they moved to Pennsylvania in 1740, where they founded several communities (Bethlehem, Nazareth, and Lititz). Because of development pressures, they looked for more space to create their church communities. Purchasing just over 98,985 acres from John Carteret, 2nd Earl of Granville, one of the eight English Lords Proprietors, in the piedmont of North Carolina in 1753, they sent groups from Bethlehem, Pennsylvania to begin construction.

Salem was to be the central town of a tract called **Wachovia**. Construction began in 1766 to build the economic, religious, and administrative center. The outlying communities of Bethabara, Bethania, Friedberg, Friedland, and Hope, were more rural and agriculture focused.

In 1849, Forsyth County, NC was created, but Salem was unwilling to be the county seat. The town sold property directly to the north as a site for the new courthouse town. This town became Winston, which quickly grew into a thriving industrial center.

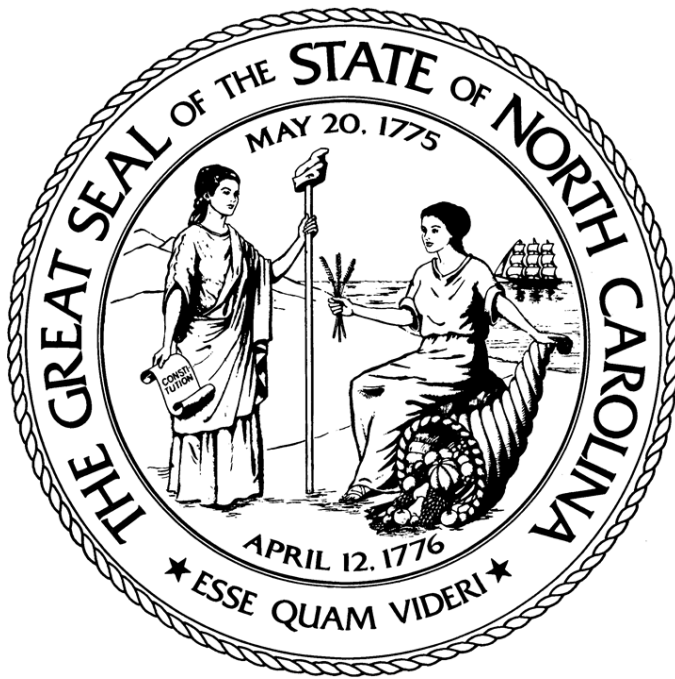
Salem merged with adjacent Winston in 1913, becoming known as Winston-Salem. This was the only community ever to be officially designated using a hyphenated name for a Post Office by the US Postal Service. In 1783, Salem held the first recorded celebration of Independence Day.

The cover photo titled *Dogwoods at Old Salem* is courtesy of Dave Combs who resides in Winston-Salem, NC.

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2016



PAT MCCRORY
GOVERNOR

LINDA COMBS
STATE CONTROLLER

Prepared by Statewide Accounting staff
Office of the State Controller

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

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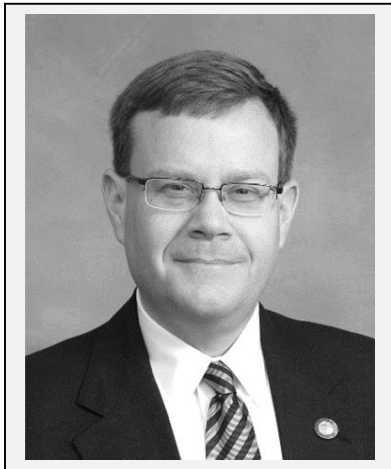
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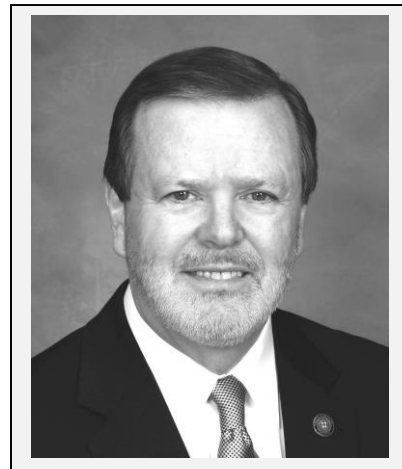
Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.



PAT MCCRORY
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, 2016*

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INTRODUCTORY SECTION



State of North Carolina

Office of the State Controller

LINDA COMBS
STATE CONTROLLER

December 2, 2016

The Honorable Pat McCrory, 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 2016 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.

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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 10.15 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 79,584 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 2015-16, the US economy continued to grow at a steady, moderate pace, and North Carolina's economic conditions reflected the same steady improvements. A few key State industries experienced strong growth, especially the Professional and Business Services sector (4.5% growth), followed by Trade, Transportation & Utilities (3.0%), and Leisure & Hospitality (2.7%). Labor market improvements lowered the unemployment rate and increased wage growth: The State's unemployment rate fell from 5.8 to 4.9 percent, and the State added 93,200 payroll jobs, only slightly less than the 99,700 added the previous fiscal year. Encouragingly, wage and salary income grew by 5.3 percent compared to last year's 4.2 percent growth. For the second half of 2016, economic conditions should continue to support steady employment growth. In 2017, wages are forecast to grow at, or slightly below, five percent.

The first five years after the Great Recession (i.e., 2010-2014) were characterized by a very slow economic recovery. This sluggish economic period has given way to more modest, steady growth, yet strong, expansionary growth struggles to gain traction. The national Gross Domestic Product (GDP, a broad measure of economic activity) finished the fiscal year with an annualized growth rate of only 1.4 percent. Global economic instability continues to be a drag on the nation's ability to boost economic activity above a three percent annual growth rate.

National Economic Outlook

United States Economic Indicators

	FY2014-15 Actual	FY2015-16 Projected	FY2016-17 Projected	FY2017-18 Projected
GDP Growth*	3.1%	1.4%	2.8%	2.9%
Personal Income Growth	4.7%	4.9%	4.8%	5.5%
Corporate Pre-Tax Profits Growth	-1.4%	-3.4%	3.6%	4.2%
Retails Sales Growth	2.5%	2.7%	5.0%	5.4%
Unemployment Rate	5.7%	5.0%	4.8%	4.7%
Consumer Price Index	0.0%	1.1%	2.1%	2.7%
30-yr Fixed Mortgage Interest Rate	3.9%	3.8%	3.7%	4.9%

*Adjusted for inflation

The national economy has been hampered by an unequal recovery and an unstable global economy. The aftermath of the global financial crisis continues to affect economies worldwide. This was especially true in the Eurozone where economic growth and financial stability proved difficult for some of its members. One result has been Britain's vote to exit the European Union (Brexit). Uprisings in the Middle East beginning in 2010 (the Arab Spring) added to this instability.

In the US, capital markets continued to perform well, but those improvements have not translated into widespread economic recovery. Over the past two years, business investments, hiring, and industrial production have periodically established momentum, but the economy has yet to enter a true expansionary phase and remains far weaker than one might expect seven years after the recession's end. Through the end of 2017, the national economy is not expected to either significantly accelerate or decelerate, but instead should remain steady growing at a modest pace.

Economic indicators conveyed the subpar pace of growth during the fiscal year. The national economy grew at a pace of 1.4 percent, slower than the growth pace of the previous fiscal year. The economy appeared poised to move into a stronger expansionary phase with 2.9 percent annualized growth in the third quarter of 2015, but by the next quarter growth had slowed to 0.2 percent. The next two fiscal years' economic activity is expected to maintain the current pace, growing by 2.8 and 2.9 percent, respectively.

Uneven economic growth did not slow employment growth. The nation's average unemployment rate dropped from 5.7 percent to 5.0 percent. Unlike previous unemployment rate drops – which were primarily attributed to a shrinking labor force – this reduction in the unemployment rate was driven by stronger employment growth. In turn, this stronger labor market produced steady income growth. During the fiscal year, the nation's total personal income rose by 4.9 percent. A projection for a stable economy suggests that personal income will continue to grow at a similar pace in fiscal year 2016-17.

Business profitability saw a major rebound after the recession, but profits have plateaued in the last three years. 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 has weakened considerably as global economic weakness intensified. National demand has not picked up the slack, thus profit growth expectations were downgraded. Corporate profits nationally fell by 3.4 percent during the fiscal year. Growth in the following years reflects better export opportunities and improving consumer demand with the uptick in domestic wages. For the upcoming fiscal years, profits are forecast to grow 3.6 percent and 4.2 percent, respectively.

Retail sales are a good indicator of an economy's health. This key measure remained weak during fiscal year 2015-16, and the pace of growth did not meet most forecasters' expectations. As the employment picture continues to improve, 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 a stronger wage growth will help boost retail sales over the next several years.

To summarize, the national economy has settled into a steady growth pattern in the 2.5 percent range. Gains, while modest, have slightly increased consumer spending. As the labor market tightens, wages are expected to improve, which should further encourage consumer spending increases. Global weakness, including the decline in China's economy, will keep the national economy from accelerating into a full expansionary mode.

*North Carolina
Economic
Outlook*

North Carolina Economic Indicators

	FY2014-15 Actual	FY2015-16 Projected	FY2016-17 Projected	FY2017-18 Projected
State Gross Product Growth*	2.6%	2.4%	3.1%	3.2%
Personal Income Growth	4.7%	5.2%	4.9%	5.3%
Wages & Salaries Growth	4.4%	4.8%	5.0%	5.3%
Retail Sales Growth	2.5%	3.4%	5.1%	6.5%
Unemployment Rate	5.9%	5.5%	4.8%	4.4%
Nonagricultural Employment Growth	2.5%	2.2%	1.8%	1.7%
Population	1.0%	1.0%	1.1%	1.1%
Housing Starts	10.8%	6.8%	12.3%	17.4%

*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 solid growth pace established in the previous fiscal year. The State added 93,200 payroll jobs, only slightly less than the 99,700 added the previous fiscal year. Most industries experienced solid growth, but employment in Manufacturing and Financial Activities grew by less than one percent. The solid employment gains translated into stronger gains in total wage and salary income, which increased by 4.8 percent.

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 5.3 percent growth by fiscal year 2017-18. For the fiscal year, total personal income rose by 5.2 percent, still trailing the strong growth of six to seven percent experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.8 percent for the fiscal year. That was an improvement over the sluggish 4.4 percent growth the previous year.

The recovery in North Carolina gained traction, moving into a post-recession expansionary phase during fiscal year 2015-16. The increase in economic activity was enough that the State saw solid progress in employment. The unemployment rate fell from 5.8 percent at the start of the fiscal year to 4.9 percent at the end. With a brighter economic outlook and a stronger labor market, retail sales advanced at a rate of 3.4 percent. Going forward, retail sales are expected to recover from years of slow growth by growing closer to the long-term average of 5.0 percent and are forecast to grow by 6.5 percent in fiscal year 2017-18. Increasing 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 over the next two fiscal years. Total payroll employment is projected to grow by 1.8 and 1.7 percent, respectively. That would be below this year's growth, but would continue to add 85,000 to 95,000 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 (4.5% growth), followed by Trade, Transportation & Utilities (3.0%), and Leisure & Hospitality (2.7%). The Construction industry had struggled to regain some of the jobs lost during and after the recession. During fiscal year 2014-15, employment grew in this industry by 6.8 percent (12,100 jobs). This past year, Construction added 7,300 jobs (3.9%). Despite the gains the past two years, there are still 54,000 fewer construction jobs than when the recession began in December 2007.

The housing recession and the subsequent adjustments in the real estate market have taken a long time to unwind. A strong rebound in housing starts (new construction) was underway in 2012, mostly from pent-up demand from the long housing downturn. In fiscal year 2013-14, housing starts stalled and then declined by 2.3 percent. They took off again in 2014 with yearly growth of 12.4 percent. Housing starts can provide valuable insight into construction jobs and ripple effects in other industries such as household furnishing and appliance manufacturing. Additionally, in a healthy economy, contractors will be more likely to take risks starting new housing developments. Housing starts are expected to average just below

60,000 per year during the next biennium with growth of 12.3 and 17.4 percent, respectively. This would represent nearly double the number of housing starts during the recession, but still would be 30,000 less annually when compared to the peak year of 2006.

To summarize, the State's economic conditions experienced steady improvement during most of the fiscal year. During most of 2015 and into 2016, the State's economy tracked closely, and at times outpaced, the national economy's expansion. By 2017, the State's economy is projected to maintain growth at a pace faster than the national average. The anticipated economic strengthening should increase consumer demand, which will help maintain solid employment growth. Rising employment and wage gains continue to improve the health of the State's overall economy.

— *Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist
Fiscal Research Division, North Carolina General Assembly
September 15, 2016*

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, 2016, the State established an employer contribution rate of 9.98% of compensation for TSERS of which 0.48% was to pay for a one-time pension supplement provided by the General Assembly. This contribution rate exceeds the calculated Actuarially Required Contribution (ARC) rate of 9.48%. Setting the contribution rate at or above the ARC is a significant action taken by the General Assembly to ensure long-term fiscal health of the pension plan.

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.

Connect NC Bond Act of 2015

The 2015 General Assembly passed the Connect NC Bond Act which authorized the issuance of two billion dollars 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 proceeds will be used to fund infrastructure investments which includes \$980 million towards renovation and rehabilitation of existing structures at the University of North Carolina System, \$350 million within the North Carolina Community College System, \$312.5 million for water and sewer and local parks, \$179 million for agriculture, \$100 million for State parks and the North Carolina Zoo, and \$78.5 million on the North Carolina National Guard and public safety.

The Act was ratified September 30, 2015 and signed into law October 21, 2015. The Connect NC Bonds were approved by a Statewide voter referendum on March 15, 2016. The last general obligation bond approval by the voters was approved fifteen years prior to this latest referendum. Since that time, North Carolina has added 2 million people in population. The new bonds will be issued over a seven-year period with the vast majority being distributed in the first four years. The first series of Connect NC Bonds were issued August 10, 2016 in the par amount of \$200 million with a 20-year maturity and an all-in true interest cost of approximately 2.1%. As stated by the Governor, the Connect NC bonds will allow the State to pay for fifty-year assets with twenty-year financing.

Legislatively Mandated Agency Consolidations

Effective July 1, 2015 the Department of Natural and Cultural Resources was created by the consolidation of all state attractions to the agency formerly named the Department of Cultural Resources. The Department of Environment and Natural Resources was renamed to the Department of Environmental Quality. The following divisions within the Department of Environmental Quality were transferred to form the Department of Natural and Cultural Resources:

- Division of Parks and Recreation
- State Parks System, including Mount Mitchell State Park
- North Carolina Aquariums Division
- North Carolina Zoological Park

- Museum of Natural Sciences
- Clean Water Management Trust Fund
- Natural Heritage Program

The following commissions, boards, councils, and committees within the Department of Environmental Quality were also transferred to the new Department of Natural and Cultural Resources:

- North Carolina Parks and Recreation Authority
- North Carolina Trails Committee
- North Carolina Zoological Park Council
- Advisory Commission for the North Carolina State Museum of Natural Sciences
- Clean Water Management Trust Fund Board of Trustees

This consolidation was recommended by the North Carolina Government Efficiency and Reform (NC GEAR) initiative within the Office of State Budget and Management. The consolidation eliminated 24.94 administrative positions from the Department of Environment and Natural Resources. The funding for the 24.94 positions was appropriated to the new Department of Natural and Cultural Resources. An additional 15.45 filled administrative positions were transferred from the Department of Environment and Natural Resources to the new Department of Natural and Cultural Resources.

The 2015 General Assembly created the Department of Military and Veterans Affairs as a new executive department. The new agency was created through the consolidation of the Veterans' Affairs Commission, the Governor's Jobs for Veterans Committee, and the Division of Veterans Affairs from the Department of Administration along with the North Carolina Military Affairs Commission in the Office of the Governor. The creation of this new agency reflects the importance of military in North Carolina.

The 2015 General Assembly established the Department of Information Technology as a single, unified cabinet-level department. The new department consolidated information technology functions, powers, duties, obligations, and services existing within the principle departments. The following departments' information technology resources will be transferred to the Department of Information Technology through a phased approach:

- Department of Natural and Cultural Resources
- Department of Health and Human Services
- Department of Revenue
- Department of Environmental Quality
- Department of Transportation
- Department of Administration
- Department of Commerce
- Governor's Office
- Office of State Budget and Management
- Office of State Human Resources.

These agency conversions were accomplished by the collaboration of staff at the affected agencies with assistance from central management agencies including the Office of State Budget and Management, the Department of State Treasurer, and the Office of State Controller.

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 2015-16, the balance of the Savings Reserve Account was \$851.6 million. Session Law 2015-241 authorized the State Controller to transfer \$250 million from the Repairs and Renovations Reserve to the Savings Reserve during the 2015-2016 fiscal year. Session Law 2016-94 authorized the State Controller to transfer \$473.6 million from unreserved fund balance in the General Fund at June 30, 2016 to the Savings Reserve. The balance at the end of the 2016 fiscal year was \$1.575 billion. This represents 7.47% of the prior year’s General Fund appropriation budget.

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 2015-16, the balance of the R&R Account was \$411.6 million. Session Law 2015-241 authorized the State Controller to make a transfer of \$250 million from the R&R Account to the Savings Reserve Account. Session Law 2016-94 authorized the State Controller to transfer \$81.4 million from unreserved fund balance to the R&R Account. This created a fiscal year-end balance of \$92.99 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 2016 study indicated over the ten-year planning horizon and after adjusting revenue for the tax rate changes passed during the last legislative session, 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 \$210 million in each of the next 10 years. The ratio of debt service to revenues will peak at 3.76% in fiscal year 2019 as the debt service arising from the Connect NC Bonds is incorporated into the model. This rate will still be below the below the 4% target.

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 as a percentage of general tax revenues should be targeted at no more than 4% 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 3.0%; 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 Committee continues to strongly recommend continuing the State's historically conservative centralized debt management practices. These practices include centralized debt authorization, centralized debt management and issuance, and third, classification of debt and debt-like obligations when determining the debt burden. Centralized debt authorization, issuance and management is considered a credit strength by the bond rating agencies.

Lastly, the Committee continues to caution that care should be taken as the State enacts laws that allow the procurement and financing of assets through the use of public private partnerships (P3s). P3s do not create additional debt capacity for the State as they may appear to do so. Some are not viewed as debt-like obligations, but in many cases there is often a commitment of funds in order to acquire an asset. That commitment of funds must be treated like debt when determining debt capacity. Rating agencies have made it clear that when a state's payments are used to support or secure debt issued by a private party, other public entity, conduit issuer, or through a lease arrangement, such debt will be counted towards the state's debt burden. The Committee's view is that the prioritization of capital projects and the issuance of obligations that increase the State's debt burden should remain the prerogative of the General Assembly.

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, 2015. This was the 22nd consecutive year (1994 to 2015) 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

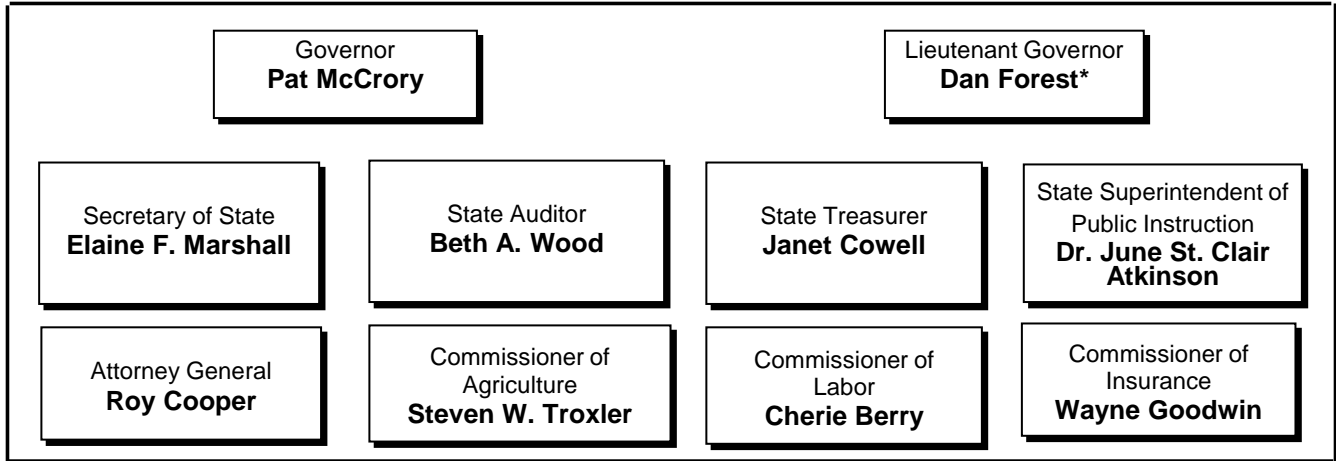
June 30, 2015

Executive Director/CEO

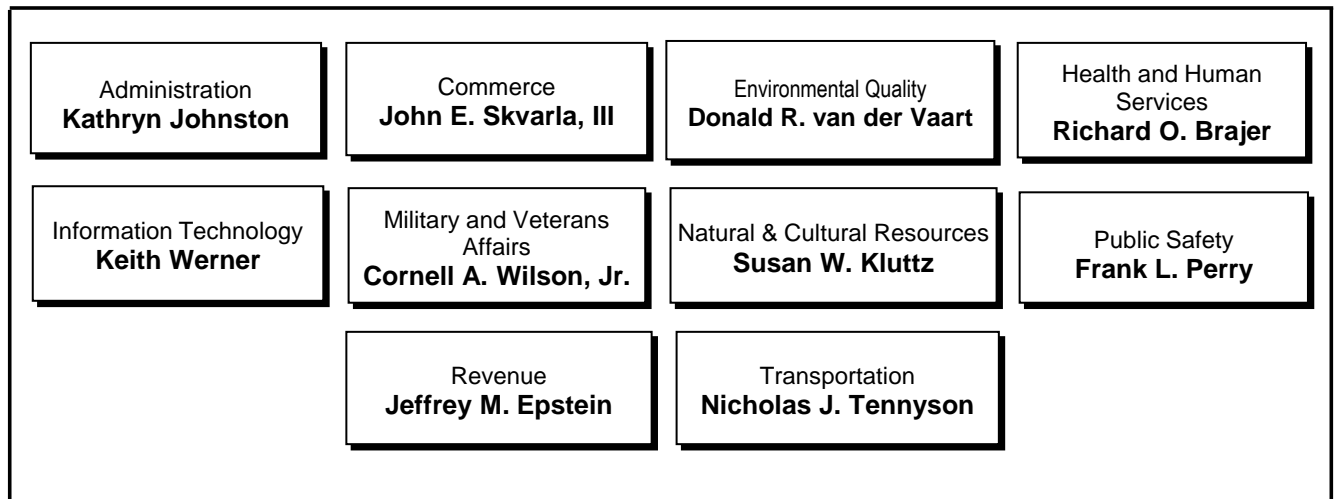
**ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT
INCLUDING PRINCIPAL STATE OFFICIALS**

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 Paul Stam
Majority Leader Harry Brown	Majority Leader Mike Hager
Minority Leader Dan Blue	Minority Leader Larry D. Hall

*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
Robert H. Edmunds, Jr.
Paul M. Newby
Robin E. Hudson
Barbara Jackson
Cheri Beasley
Sam Ervin, IV

Administrative
Office of the Courts
Judge Marion Warren
Director

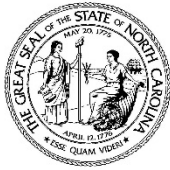
Component Units

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 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

The Honorable Pat McCrory, 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, 2016, 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 3 percent and 59 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 33 percent, 9 percent, and 2 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 6 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 7 percent, 8 percent, and 7 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information.
- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- The financial statements of the North Carolina Department of State Treasurer External Investment Pool, which represent 83 percent, 88 percent, and 68 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, 2016, 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, 2016, the State implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

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 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 2, 2016, 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 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 2, 2016



*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, 2016. 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 \$51.374 billion, an increase of \$5.38 billion or 11.69% from the previous year. Net position of governmental activities was \$46.888 billion, an increase of \$4.07 billion or 9.5%. Net position of business-type activities was \$4.486 billion, an increase of \$1.31 billion or 41.29%.
- Component units reported net position of \$23.33 billion, an increase of \$553.18 million or 2.43% 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 General Fund reported fund balance of \$3.76 billion, an increase of 50.06% from the previous year. The increase is due, in part, to greater than anticipated growth in individual income taxes. Individual income tax collections exceeded the final budget amount by 5.33%. Significant increases in withholding and estimated tax payments account for the majority of this increase.
- The Highway Fund reported fund balance of \$287.65 million, a decrease of 23.04% 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 \$1.46 billion, an increase of 29.8% from the previous year. The increase is due primarily to the growth in highway use tax and gasoline tax revenues. The rise in vehicle sales and gasoline consumption explains this growth.
- The Unemployment Compensation Fund (Trust Fund) reported net position of \$2.24 billion at June 30, 2016 compared to \$1.14 billion at June 30, 2015. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 5.8% in June 2015 to 4.9% in June 2016, 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 \$2.38 billion, an increase of 20.86% from the previous year. As required by law, the Lottery transferred \$634.27 million to the General Fund to support educational programs.
- The N.C. Turnpike Authority (NCTA) reported net position of \$417.74 million, an increase of 24.34% from the previous year. The NCTA moved from an operating loss in the prior year of \$3.1 million to operating income of \$4.16 million for the current year. The most significant contributing factor to this turnaround was an increase in toll revenues of 29.45% over the prior year. 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 \$1.6 billion, an increase of 6.82% from the previous year. Operating income was \$14.05 million. Net nonoperating revenues of \$75.87 million consisted primarily of federal capitalization grants.

Capital Assets

- The State's investment in capital assets (net of accumulated depreciation) was \$48.89 billion, an increase of 3.87% from the previous fiscal year-end.
- Significant year-end construction in progress amounts were for State highway projects (\$1.64 billion), a toll road project (\$332 million), new psychiatric hospitals (\$243 million), and a new system for managing and administering social service benefits (\$356 million).

Long-term Debt

- The State had total long-term debt outstanding (bonds, special indebtedness, and notes payable) of \$7.26 billion, a decrease of 8.14% from the previous fiscal year-end. The State issued \$329.36 million in refunding bonds to refinance previously outstanding general obligation bonds reported in governmental activities. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$55 million in debt service costs.
- In connection with the general obligation refunding 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 48 and 49) 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 50 and 51) 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 72. 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 160 and 161).

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 202 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 72 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) other postemployment benefits trend information related to funding progress and employer contributions, and 3) 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 \$51.37 billion at the close of the most recent fiscal year (see total primary government column). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The following table was derived from the government-wide Statement of Net Position:

Net Position as of June 30, 2016 and 2015 (dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2015-16
	2016	2015 (as restated)	2016	2015 (as restated)	2016	2015 (as restated)	
Current and other non-							
current assets.....	\$ 12,356,642	\$ 10,883,154	\$ 5,042,313	\$ 3,967,962	\$ 17,398,955	\$ 14,851,116	17.16%
Capital assets, net.....	47,393,247	45,784,657	1,500,478	1,288,405	48,893,725	47,073,062	3.87%
Total assets.....	<u>59,749,889</u>	<u>56,667,811</u>	<u>6,542,791</u>	<u>5,256,367</u>	<u>66,292,680</u>	<u>61,924,178</u>	<u>7.05%</u>
Total deferred outflows							
of resources.....	594,766	593,636	4,597	4,666	599,363	598,302	0.18%
Long-term liabilities.....	8,568,369	8,672,045	1,649,968	1,652,052	10,218,337	10,324,097	(1.02%)
Other liabilities.....	4,664,109	4,728,030	407,841	419,895	5,071,950	5,147,925	(1.48%)
Total liabilities.....	<u>13,232,478</u>	<u>13,400,075</u>	<u>2,057,809</u>	<u>2,071,947</u>	<u>15,290,287</u>	<u>15,472,022</u>	<u>(1.17%)</u>
Total deferred inflows							
of resources.....	<u>223,791</u>	<u>1,039,275</u>	<u>3,103</u>	<u>13,609</u>	<u>226,894</u>	<u>1,052,884</u>	<u>(78.45%)</u>
Net position:							
Net investment in							
capital assets.....	45,300,168	43,589,998	652,725	535,344	45,952,893	44,125,342	4.14%
Restricted.....	1,039,066	1,061,817	7,043	1,256	1,046,109	1,063,073	(1.60%)
Unrestricted.....	549,152	(1,829,718)	3,826,708	2,638,877	4,375,860	809,159	440.79%
Total net position.....	<u>\$ 46,888,386</u>	<u>\$ 42,822,097</u>	<u>\$ 4,486,476</u>	<u>\$ 3,175,477</u>	<u>\$ 51,374,862</u>	<u>\$ 45,997,574</u>	<u>11.69%</u>

The largest component of the State's net position (89.4%) 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 \$4.38 billion is unrestricted net position.

The government-wide statement of net position for governmental activities reflects unrestricted net position of \$549.15 million at June 30, 2016 and negative \$1.83 billion at June 30, 2015. The State of North Carolina issues general obligation debt and special indebtedness and distributes the proceeds to local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings on 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 \$6.2 billion of bonds and special indebtedness outstanding for governmental activities at June 30, 2016, \$3.94 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, 2016, the State's governmental activities have significant unfunded liabilities for compensated absences of \$445.31 million, net pension liabilities of \$937.29 million, workers' compensation of \$201.91 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 2016 (i.e., the excess of revenues over expenses of \$3.54 billion) contributed to the increase in unrestricted net position. Also, pension plan investments earnings were much lower than projected this year and were much higher than projected last year. As a result, deferred inflows of resources for pensions decreased significantly this year, which also contributed to the increase in unrestricted net position for governmental activities.

The State's overall net position increased \$5.38 billion or 11.69% (total primary government) from the prior fiscal year. The net position of the governmental activities increased \$4.07 billion or 9.5% and business-type activities increased \$1.31 billion or 41.29%. The following financial information was derived from the government-wide Statement of Activities:

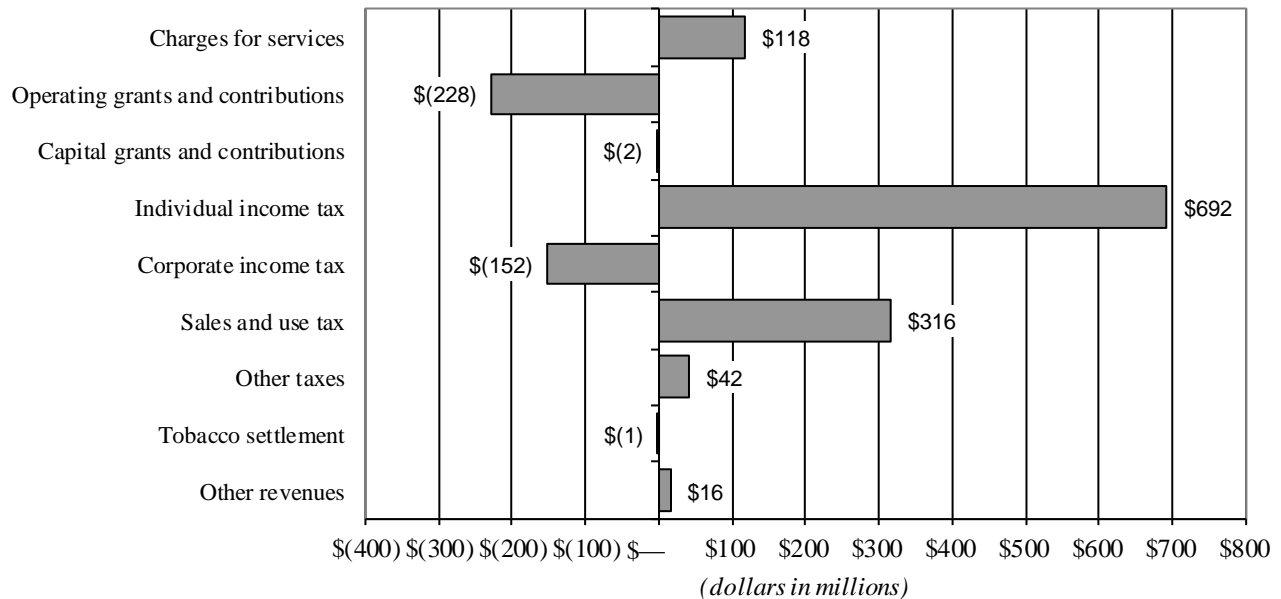
Changes in Net Position for the Fiscal Years Ended June 30, 2016 and 2015
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2015-16
	2016	2015 (as restated)	2016	2015 (as restated)	2016	2015 (as restated)	
Revenues							
Program revenues							
Charges for services.....	\$ 2,420,446	\$ 2,302,680	\$3,909,585	\$ 3,726,105	\$ 6,330,031	\$ 6,028,785	5.00%
Operating grants and contributions.....	15,924,934	16,152,680	156,515	409,351	16,081,449	16,562,031	(2.90%)
Capital grants and contributions.....	940,448	942,238	14,932	21,251	955,380	963,489	(0.84%)
General revenues							
Taxes:							
Individual income tax.....	11,980,791	11,288,542	—	—	11,980,791	11,288,542	6.13%
Corporate income tax.....	1,120,553	1,272,879	—	—	1,120,553	1,272,879	(11.97%)
Sales and use tax.....	7,184,788	6,869,090	—	—	7,184,788	6,869,090	4.60%
Gasoline tax.....	1,938,849	1,945,462	—	—	1,938,849	1,945,462	(0.34%)
Franchise tax.....	521,628	556,786	—	—	521,628	556,786	(6.31%)
Highway use tax.....	728,580	653,931	—	—	728,580	653,931	11.42%
Insurance tax.....	503,621	529,927	—	—	503,621	529,927	(4.96%)
Beverage tax.....	380,065	360,280	—	—	380,065	360,280	5.49%
Tobacco products tax.....	291,841	279,795	—	—	291,841	279,795	4.31%
Other taxes.....	296,595	292,535	—	—	296,595	292,535	1.39%
Tobacco settlement.....	136,561	137,910	—	—	136,561	137,910	(0.98%)
Unrestricted investment earnings.....	43,551	20,139	—	—	43,551	20,139	116.25%
Miscellaneous.....	35,096	42,167	—	4	35,096	42,171	(16.78%)
Total revenues.....	44,448,347	43,647,041	4,081,032	4,156,711	48,529,379	47,803,752	1.52%
Expenses							
General government.....	1,064,299	1,158,892	—	—	1,064,299	1,158,892	(8.16%)
Primary and secondary education.....	10,372,787	10,224,967	—	—	10,372,787	10,224,967	1.45%
Higher education.....	4,003,154	3,859,549	—	—	4,003,154	3,859,549	3.72%
Health and human services.....	18,422,804	18,705,192	—	—	18,422,804	18,705,192	(1.51%)
Economic development.....	402,773	408,289	—	—	402,773	408,289	(1.35%)
Environment and natural resources.....	547,540	490,185	—	—	547,540	490,185	11.70%
Public safety, corrections and regulation.....	2,946,206	2,896,088	—	—	2,946,206	2,896,088	1.73%
Transportation.....	2,767,006	2,673,649	—	—	2,767,006	2,673,649	3.49%
Agriculture.....	179,152	165,735	—	—	179,152	165,735	8.10%
Interest on long-term debt.....	199,516	216,519	—	—	199,516	216,519	(7.85%)
Unemployment compensation.....	—	—	255,851	349,069	255,851	349,069	(26.70%)
N.C. State Lottery.....	—	—	1,752,837	1,450,494	1,752,837	1,450,494	20.84%
EPA Revolving Loan.....	—	—	19,047	22,965	19,047	22,965	(17.06%)
N.C. Turnpike Authority.....	—	—	87,467	89,004	87,467	89,004	(1.73%)
Regulatory programs.....	—	—	94,857	90,397	94,857	90,397	4.93%
Insurance programs.....	—	—	12,502	21,632	12,502	21,632	(42.21%)
North Carolina State Fair.....	—	—	16,183	14,975	16,183	14,975	8.07%
Other business-type activities.....	—	—	12,828	16,269	12,828	16,269	(21.15%)
Total expenses.....	40,905,237	40,799,065	2,251,572	2,054,805	43,156,809	42,853,870	0.71%
Increase in net position							
before contributions and transfers.....	3,543,110	2,847,976	1,829,460	2,101,906	5,372,570	4,949,882	8.54%
Contributions to permanent funds.....	4,718	4,382	—	—	4,718	4,382	7.67%
Transfers.....	518,461	416,483	(518,461)	(416,483)	—	—	0.00%
Increase in net position.....	4,066,289	3,268,841	1,310,999	1,685,423	5,377,288	4,954,264	8.54%
Net position - beginning - restated.....	42,822,097	39,553,256	3,175,477	1,490,054	45,997,574	41,043,310	12.07%
Net position - ending.....	\$46,888,386	\$ 42,822,097	\$4,486,476	\$ 3,175,477	\$51,374,862	\$ 45,997,574	11.69%

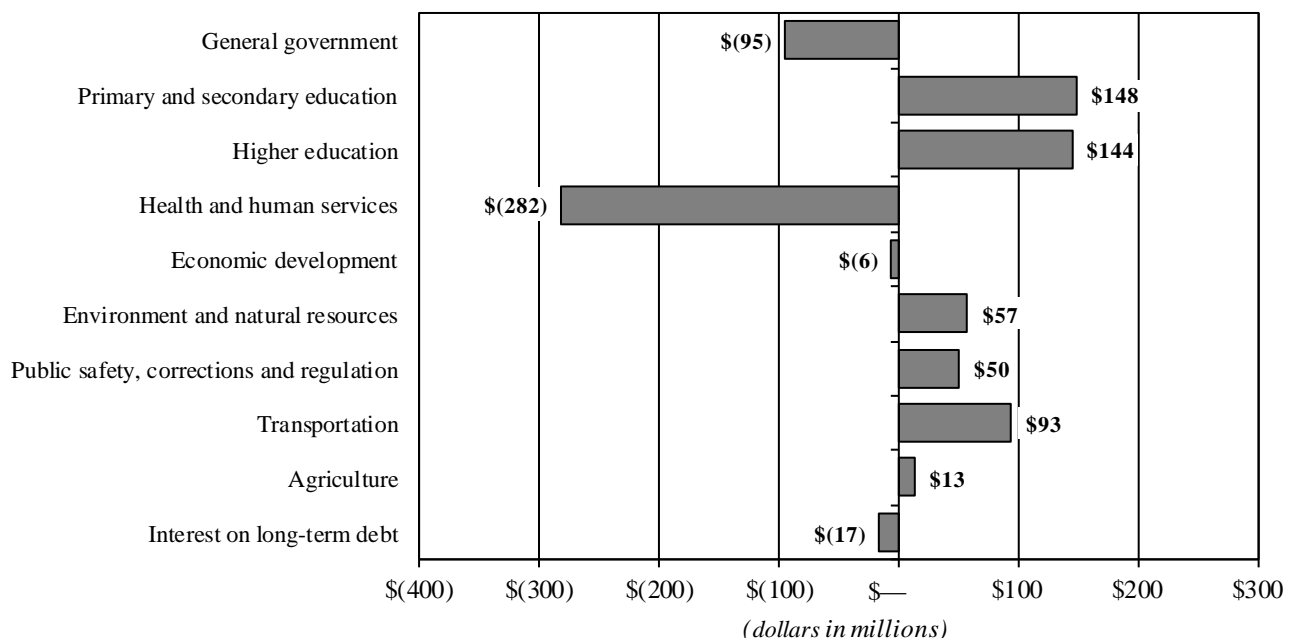
Governmental Activities. For fiscal year 2016, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State’s business-type activities, an increase in net position of \$4.07 billion (or 9.5%) resulted for governmental activities. Total revenues increased by 1.84% (\$801 million) while total expenses were virtually unchanged (increasing by \$106 million, or less than 1%). The increase in total revenues is attributable to stronger than expected growth in individual income taxes, the improved economy, and tax changes enacted by the General Assembly to broaden the sales and use tax base. Operating grants and contributions decreased because of less spending in federally supported programs.

The following charts reflect the dollar change in governmental activities revenues by source and functional expenses between fiscal years 2015 and 2016:

**Dollar Change in Governmental Activities Revenues by Source
Between Fiscal Years 2015 and 2016**



**Dollar Change in Governmental Activities Functional Expenses
Between Fiscal Years 2015 and 2016**

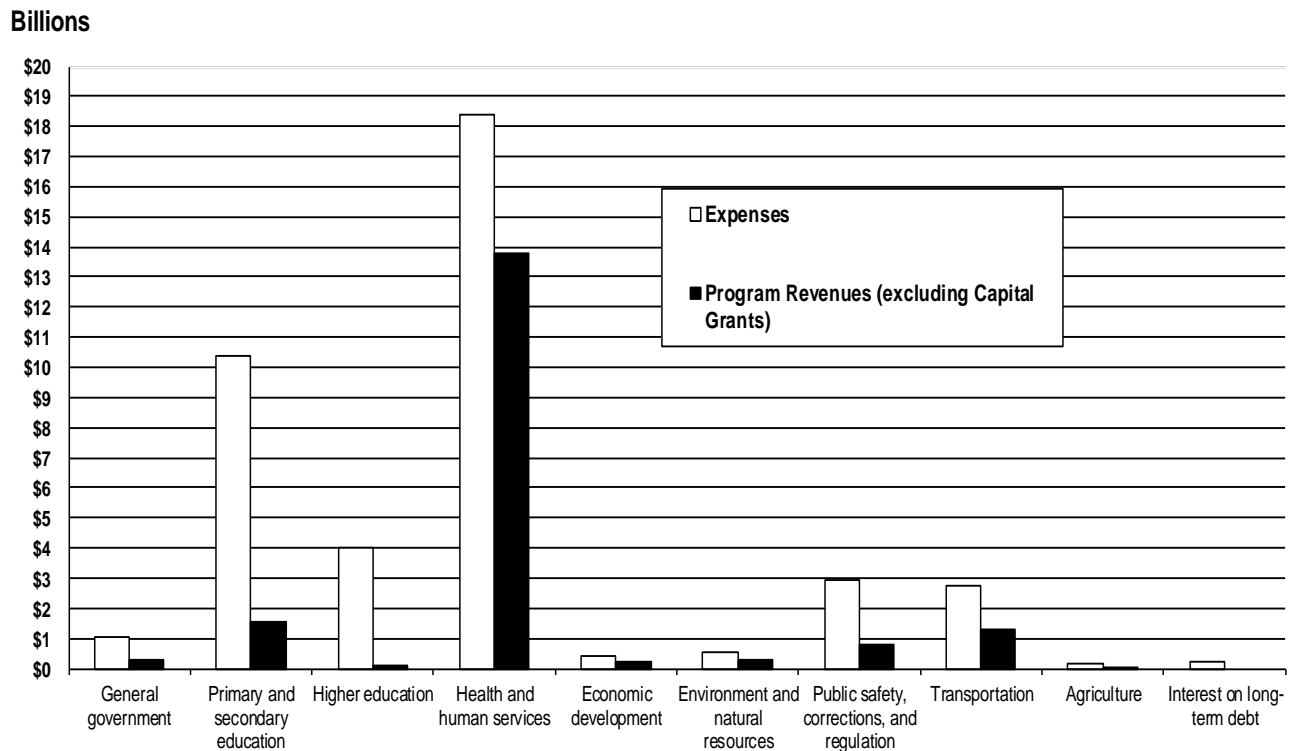


While total expenses were virtually unchanged from last year, health and human services decreased by 1.51% (\$282 million) primarily due to lower expenses for Medicaid (the State’s largest public assistance program). The reduction in Medicaid is due to higher drug rebates from manufacturers. The drug rebate rate climbed from 50% to 59% this year. Since pharmacy cost increased this year, the related drug rebates also increased. The drug rebates are reported as a reduction of Medicaid expenses. The decrease in health and human services were more than offset by spending increases in other functional areas.

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.

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, 2016**



Business-type Activities. Business-type activities reflect an overall increase in net position of \$1.31 billion or 41.29%, primarily because of the financial results of the Unemployment Compensation Fund. The net position increase of \$1.1 billion in the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the continuing decline in the State’s unemployment rate from 5.8% in June 2015 to 4.9% in June 2016. The net position increase of \$81.78 million for the N.C. Turnpike Authority is due primarily to transfers in from the Highway and Highway Trust Funds and the improvement in results of operations. The net position increase of \$102.38 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, 2016, the State's governmental funds reported combined fund balances of \$7.34 billion, an increase of 25.7% from the prior fiscal year-end (as restated). Of this amount, \$1.62 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 \$1.25 billion (or 50.06%) to \$3.76 billion at June 30, 2016. The fund balance increase is due, in part, to greater than anticipated growth in individual income taxes. Individual income tax revenues on the modified accrual basis increased 6.13% to \$11.98 billion. Individual income tax collections exceeded the final budget amount by 5.33%. Significant increases in withholding and estimated tax payments account for the majority of this increase. The growth in withholding and estimated tax payments can be attributed to an improved economy, as evidenced by the growing number of jobs in North Carolina. According to data compiled by the Bureau of Labor Statistics, the number of jobs in the State has increased steadily. In June 2016, there were 88,500 more jobs than in June 2015 and 192,400 more than in June 2014. The unemployment rate in North Carolina has continued to fall throughout most of fiscal year 2016, dropping from 5.8% in June 2015 to 4.9% in June 2016.

Sales and use tax revenues on the modified accrual basis increased 4.66% to \$7.18 billion. This increase can be attributed to an improved economy and provisions passed by the 2013 Session of the North Carolina General Assembly that broadened the sales and use tax base. The improvement 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 sale of certain service contracts were not subject to tax. This tax law change positively impacted sales and use tax revenues during the fiscal year 2016.

Corporate income tax revenues on the modified accrual basis decreased 12.04% to \$1.12 billion. This decrease is attributable to changes in the 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 and from 6% to 5% for tax year 2015. The corporate income tax rate is further reduced to 4% effective for tax years beginning in 2016.

One of the major budget drivers for the General Fund, historically, has been the Medicaid program. Medicaid enrollment increased 3.7% to 1.9 million individuals (or 18.8% of North Carolina's population). For comparison, Medicaid enrollment increased 6% and 8.5%, respectively, in fiscal years 2015 and 2014. State appropriation expenditures for Medicaid decreased 1.82% to \$3.49 billion. Medicaid ended the fiscal year with unspent State appropriations of \$241.6 million, which were reverted to the General Fund. Prior to the fiscal year 2014-15, Medicaid experienced shortfalls of nearly \$1 billion over a three-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; however, in recent 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 2015-16 was prepared approximately 18 months prior to the final budget existing on June 30, 2016. 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 2015 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 2015-16 include the following:

- 1) Awarding of new unanticipated federal grants and/or the awarding of unanticipated increased or decreased amounts in long-standing federally supported programs.
- 2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2014-15 totaled \$369.99 million.
- 3) Allocation of statewide reserves to agencies and universities for the purposes of retirement and hospitalization formula adjustments, severance, salary adjustments, contingency and emergency, information technology related programs, and various other budgeted statewide reserves.
- 4) 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 3.45% above budgeted revenue amounts in fiscal year 2016. This result occurred due to greater than anticipated individual income tax collections, which more than offset lower than expected sales and use and corporate income tax collections. For individual income taxes, which account for more than half of total General Fund tax revenue collections, robust wage growth boosted withholding payments above expectations throughout the fiscal year. Final payments also came in higher than expected, while refunds were lower than expected. Sales and use tax collections, which comprise 31% of total General Fund tax revenue collections, fell below the budgeted amount due to lower than expected growth in retail sales and higher than expected refunds and transfers. Gross corporate income tax collections exceeded expectations, but a very large one-time refund pushed net corporate income tax collections slightly below the budgeted amount.

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, transit, rail, and ferry system. The primary revenue sources of the Highway Fund are federal funds, 71% of gasoline taxes, vehicle registration fees, and driver's license fees.

The fund balance of the Highway Fund decreased 23.04% to \$287.65 million at June 30, 2016. The fund balance decrease is attributable to an increase in construction expenditures that were financed by bonds issued in May 2015. Total revenues decreased less than one percent to \$3.39 billion, while total expenditures increased 4.76% to \$3.45 billion. Increased capital outlays for land acquisition, including rail and interstate projects, and increased expenditures in small construction projects contributed to the increase in expenditures.

Session Law 2015-241, which became effective in fiscal year 2016, revised the motor fuels tax distribution formula, decreasing the distribution to the Highway Fund from 75% to 71% and increasing the distribution to the Highway Trust Fund from 25% to 29%. However, the law also increased license, registration and other fees attributable to the Highway Fund, and eliminated a transfer to the General Fund.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.53 million in 2004 to 9.94 million in 2014, an increase of 16.56%. 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 capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today. Other highways such as the interstate highway system, which is celebrating its 60th anniversary, and many bridges are nearing the end of their functional life. Session Law 2016-94 combined the primary and secondary maintenance systems and gave the 14 highway divisions greater discretion to allocate funds to address these needs.

Transportation is fundamental to North Carolina's continued prosperity and its quality of life as the state's population continues to grow. To address the growing demand on the transportation system, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system. Session Law 2015-2 revised the motor fuel tax formula. It sets the tax rate at 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.

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 provides supplemental allocations for secondary road construction and pays the debt service on general obligation bonds issued for highway purposes. The principal revenue sources of the Highway Trust Fund are highway use taxes, 29% of gasoline taxes, and various title and registration fees. The enabling legislation was amended in 2008 to require annual transfers to the N.C. Turnpike Authority to pay debt service or financing expenses for specified toll road construction projects (see Note 10(B) to the financial statements).

The fund balance of the Highway Trust Fund increased 29.8% to \$1.46 billion at June 30, 2016. The fund balance increase was due primarily to the growth in highway use tax and gasoline tax revenues. Total revenues increased 15.21% to \$1.44 billion, primarily due to the growth in gasoline consumption; vehicle sales; and higher title fees. Sales of cars decreased slightly during fiscal year 2016, however, sales of light trucks continued to rise resulting in an overall increase in the highway use tax. Gasoline consumption rose again from the previous year. The growth in consumption, along with the increased distribution to the Highway Trust Fund, resulted in an 18.17% increase in gasoline tax revenues. Title fees were increased by Session Law 2015-241 resulting in a 22.08% increase in title fee revenue. Total transportation expenditures were \$962.2 million, an increase of 15.16%. Increased property acquisitions and construction contracts for major Strategic Prioritization projects contributed to the increase.

Since passage of the Highway Trust Fund in 1989, the NCDOT has paved over 14,000 miles of unpaved secondary roads, leaving only 3,400 miles of secondary roads to be paved. The paved secondary road system has not kept up with the demands of increased urbanization and traffic. The 2006 Session of the General Assembly approved changes in the General Statutes that govern the use of secondary road construction funds. Secondary road allocations to the counties are based on the total number of secondary road miles in that county in proportion to the total state maintained secondary road mileage. Projects programmed after July 1, 2015 are prioritized on a statewide basis instead of a county-wide basis.

Session Law 2013-183 amended the Highway Trust Fund allocation of resources and created the Strategic Prioritization Funding Plan. This plan eliminated individually legislated projects and implemented a new way for NCDOT to fund and prioritize necessary infrastructure improvements while utilizing existing revenue sources more efficiently. 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. The law also increased the minimum highway use tax and certain motor vehicle fees in order to increase funding to the Strategic Prioritization Program.

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 \$2.24 billion at June 30, 2016 compared to \$1.14 billion at June 30, 2015. The improvement in net position is explained by the improving economy, as evidenced by the continuing decline in the State's unemployment rate from 5.8% in June 2015 to 4.9% in June 2016, and an increase in the amount of quarterly interest earned on the balance in the Trust Fund.

While the Trust Fund's net position essentially doubled from the prior year, the operating margin (operating revenues less operating expenses) decreased by 13.16% or \$159.68 million to \$1.05 billion this year. Employer unemployment contributions decreased

15.47% or \$238.65 million to \$1.3 billion in 2016 due to a general decrease in the tax rates for employers including the end of the 20% surcharge on State unemployment contributions. The main contributing factors to the decrease in employer contribution rates were an increase in the Trust Fund's balance and a decrease in unemployment benefits charged to employer accounts. Unemployment benefit expenses, both State and Federal, decreased 24.58% from \$339.14 million in 2015 to \$255.79 million in fiscal year 2016, due to less people filing for unemployment insurance benefits.

In fiscal year 2015-16, nonoperating revenues decreased 85.85% to \$43.27 million, due to the suspension of the Federal Unemployment Tax Act (FUTA) tax credit penalty on employers (which totaled \$253.45 million in 2014-2015). The penalty amounts were used to liquidate the repayable advances from the State's Federal Unemployment Account. Since the borrowing was paid off by November, 2015, North Carolina employers were not subject to the FUTA tax credit penalty for the tax year 2015 which would have been payable January 31, 2016. In combination with the reduction in the operating margin, discussed above, the result was a decrease in the change in net position for the fiscal year of 27.13% or \$409.17 million. While the total change in net position was a decrease from the prior year, it remained a significant positive amount of \$1.1 billion for fiscal year 2015-16.

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 four times a year to the State's General Fund. The NCEL transferred \$634.27 million to the General Fund in 2016 to support educational programs for the State. The amount transferred in 2015 was \$526.43 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 2015-16, net ticket sales increased 20.86% from the previous fiscal year to \$2.38 billion. Significant financial highlights include the following: awarded \$1 million or more to an NCEL player for the 282nd time and released 51 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.6 billion.

The NCEL's 2016-17 budget provides for a projected \$551.6 million transfer to the General Fund, representing a 4.29% increase from the previous year's budget. As established in legislation, lottery funds are to be distributed for educational purposes as follows:

- 1) 62.91% for noninstructional support personnel.
- 2) 13.23% 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) 16.9% for public school construction.
- 4) 6.96% to the State Education Assistance Authority to fund college and university scholarships.

N.C. Turnpike Authority

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

- The NCTA is working to add two additional interchanges to the existing Triangle Expressway, North Carolina's first modern toll road: The Old Holly Springs-Apex Road interchange (projected to be open to traffic in December 2016) and the Morrisville Parkway interchange. 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. Construction was able to resume in fiscal year 2015 despite the litigation. 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. There is currently no other pending or threatened litigation.
- In support of its mission to facilitate the development, delivery, and operation of an integrated, creative system of toll roads, the NCTA executed agreements with E-ZPass®, Florida's SunPass®, and Georgia's Peach Pass® to ensure compatibility with their electronic toll collection systems. These agreements allow for seamless toll interoperability between North Carolina and most states along the east coast.

The results of operations improved significantly with this year's operating income increasing by 234.31% from the prior year. This improvement was enough to move from an operating loss (before capital contributions and transfers) in the prior year of \$3.1 million to operating income (before capital contributions and transfers) of \$4.16 million for the current year. The most significant contributing factor to this turnaround was an increase in toll revenues of 29.45% or \$7.73 million over the prior year.

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 N.C. Department of Transportation (NCDOT) for the Federal Highway Administration (FHWA) required State match. This amount of State match received from NCDOT increased due to the use of GARVEE funds on the Monroe Expressway and the increased activity on this project for fiscal year 2016. The result was an increase of \$7.38 million in transfers in compared to the prior year.

NCTA also receives capital grants from the FHWA for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. In 2016, the amount of federal capital grants increased by \$5.07 million, which was a 52.13% increase from the prior year. This change was a result of the increased activity on the Monroe Expressway project during the current fiscal year.

The increases in transfers in and capital grants, along with the improvement in results of operations described earlier, were the main factors that led to the overall change in net position for the year increasing to \$81.78 million, which was a 37.51% increase over the prior year.

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 6.82% to \$1.6 billion in 2016. 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) 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 \$14.05 million (operating revenues less operating expenses), and net nonoperating revenues were \$75.87 million. Net nonoperating revenues consisted primarily of noncapital grants (federal capitalization grants). Noncapital grants decreased 11.82% to \$75.38 million. Noncapital grants decreased primarily because the U.S. EPA requested that states focus on the first-in first-out methodology of loaning and drawing down federal funds for new infrastructure projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2016, the State's investment in capital assets was \$48.89 billion, an increase of 3.87% 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	
	2015		2015		2015	
	2016	(as restated)	2016	(as restated)	2016	(as restated)
Land and permanent easements.....	\$ 17,186,610	\$ 16,644,701	\$ 236,488	\$ 185,894	\$ 17,423,098	\$ 16,830,595
Buildings.....	2,647,740	2,729,185	61,219	63,665	2,708,959	2,792,850
Machinery and equipment.....	684,576	655,151	6,656	7,420	691,232	662,571
Infrastructure:						
State highway system.....	23,748,156	22,850,000	—	—	23,748,156	22,850,000
NC toll road system.....	—	—	746,316	762,446	746,316	762,446
Other infrastructure.....	153,873	160,503	4,000	4,322	157,873	164,825
Computer software.....	306,404	252,917	894	987	307,298	253,904
Art, literature, and other artifacts.....	135,669	116,319	393	390	136,062	116,709
Construction in progress.....	2,152,875	2,051,490	444,512	263,281	2,597,387	2,314,771
Computer software in development.....	377,344	324,391	—	—	377,344	324,391
Total.....	<u>\$ 47,393,247</u>	<u>\$ 45,784,657</u>	<u>\$ 1,500,478</u>	<u>\$ 1,288,405</u>	<u>\$ 48,893,725</u>	<u>\$ 47,073,062</u>
Total percent change between fiscal years 2015 and 2016	3.51 %		16.46 %		3.87 %	

The largest component of capital assets is the state highway system. North Carolina has a 79,584 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 \$1.64 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) reported year-end construction in progress of \$332 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) is constructing new psychiatric hospitals to replace its aging state-operated psychiatric hospitals. It began construction of a new Cherry Hospital in 2010 and a new Broughton Hospital in 2012. The new hospitals are being financed by special indebtedness bonds approved by the N.C. General Assembly. At year-end, construction in progress for Cherry Hospital and Broughton Hospital totaled \$243 million. Cherry Hospital was expected to open in 2013, but construction delays pushed back completion to this year. The state-operated Cherry Hospital began accepting patients in September 2016.
- 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 \$356 million. NC Tracks, the new multi-payer Medicaid Management Information System, became operational on July 1, 2013.

As further detailed in Note 21(E) to the financial statements, the State has commitments of \$4.083 billion for the construction of highway infrastructure (\$3.878 billion for governmental activities and \$205 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 \$46 million for the construction of new mental health facilities 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 \$7.26 billion, a decrease of 8.14% 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	
	2015		2015		2015	
	2016	(as restated)	2016	(as restated)	2016	(as restated)
General obligation bonds.....	\$ 3,038,665	\$ 3,469,220	\$ —	\$ —	\$ 3,038,665	\$ 3,469,220
Special Indebtedness:						
Lease-purchase revenue bonds.....	—	2,000	—	—	—	2,000
Certificates of participation.....	124,820	151,745	—	—	124,820	151,745
Limited obligation bonds.....	1,997,070	2,095,550	—	—	1,997,070	2,095,550
GARVEE bonds.....	529,755	598,165	145,535	145,535	675,290	743,700
Revenue bonds.....	—	—	1,011,388	1,019,588	1,011,388	1,019,588
Notes payable.....	27,198	34,095	388,827	390,818	416,025	424,913
Total	<u>\$ 5,717,508</u>	<u>\$ 6,350,775</u>	<u>\$ 1,545,750</u>	<u>\$ 1,555,941</u>	<u>\$ 7,263,258</u>	<u>\$ 7,906,716</u>
Total percent change between fiscal years 2015 and 2016	(9.97)%		(0.65)%		(8.14)%	

During the 2015-16 fiscal year, the State issued \$329.36 million in refunding bonds to refinance previously outstanding general obligation bonds reported in governmental activities. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$55 million in debt service costs.

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 lease-purchase revenue bonds and 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 \$5.72 billion in 2016, 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 N.C. Turnpike Authority (Authority), a business-type activity, had its first debt issuance in 2010. The Authority’s long-term debt has increased from \$691.56 million in 2010 to \$1.53 billion in 2016.

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 dollars 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). On August 10, 2016, the State issued the first series of these bonds in the par amount of \$200 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 2015-16 fiscal year, the State issued general obligation refunding 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 2016 session, the General Assembly enacted a fiscal year 2016-17 General Fund budget that provides \$22.3 billion in net appropriations, a 2.8% increase over the enacted budget for fiscal year 2015-16. The budget provides salary increases for educators and State employees, a one-time cost-of-living supplement for retirees, additional funds for the Savings Reserve and Repairs and Renovations Reserve, and a reduction to the Medicaid base budget as a result of lower enrollment and lower projections for utilization and costs. The budget also included two increases in the individual income tax standard deduction: an increase of 6.5% for tax year 2016 and an additional 6% increase in tax year 2017.

The State individual income tax rate of 5.75% will decrease to 5.499% on January 1, 2017. Also, a trigger is in place to reduce the corporate income tax rate to 3% when the amount of net General Fund tax collected in a fiscal year exceeds the legislated targeted amount of \$20.975 billion effective for the taxable year that begins on the following January 1. The net General Fund tax collections for fiscal year 2015-16 exceeded the targeted amount of \$20.975 billion; therefore, the corporate income tax rate will decrease from 4% to 3% for tax years beginning on or after January 1, 2017.

State Health Plan

The Board of Trustees of the State Health Plan adopted 2017 benefit changes that continue the Board's commitment to value-based benefit design and approved new contractual agreements that will reduce costs for pharmacy benefits and retiree coverage under the fully-insured Group Medicare Advantage plans. The changes will also help the State Health Plan meet the requirements set by the N.C. General Assembly to reduce future growth in the State's employer contributions as well as retain a strong set of benefits for employees and retirees with affordable individual premiums. The new benefits will be effective January 1, 2017.

The Appropriations Act of 2016 (Session Law 2016-94) modifies the "Reserve for Future Benefits Needs" that was established by the General Assembly in 2015. The Reserve holds \$71 million, representing the additional amount State agencies would need to cover the cost of a 3.43% increase to the State's employer contribution for 2017. Session Law 2016-94 authorizes the Director of the Budget to release the reserve funds if the State Health Plan adopts measures sufficient to reduce projected employer premium increases to 4% in calendar years 2018 and 2019. The State Health Plan provided a forecast that met this requirement to the Office of State Budget and Management (OSBM) in late July, and OSBM has confirmed that the reserve funds will be released.

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 <http://www.osc.nc.gov/financial/index.html>.

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*BASIC
FINANCIAL
STATEMENTS*

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*GOVERNMENT-WIDE
FINANCIAL
STATEMENTS*

STATEMENT OF NET POSITION

June 30, 2016

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3).....	\$ 6,692,840	\$ 2,245,312	\$ 8,938,152	\$ 3,218,771
Investments (Note 3).....	286,735	399,296	686,031	3,386,750
Securities lending collateral (Note 3).....	497,473	67,517	564,990	—
Receivables, net (Note 4).....	3,348,106	524,234	3,872,340	1,498,306
Due from component units (Note 18).....	383	—	383	8,773
Due from primary government (Note 18).....	—	—	—	38,812
Internal balances.....	86,841	(86,841)	—	—
Inventories.....	187,456	1,402	188,858	149,454
Prepaid items.....	4,404	13,078	17,482	65,995
Advances to component units.....	3,645	—	3,645	—
Notes receivable, net (Note 4).....	69,728	1,154,964	1,224,692	2,882,872
Investment in joint venture.....	—	—	—	134,499
Equity interest in component unit.....	148,751	—	148,751	—
Securities held in trust.....	44,449	—	44,449	—
Net pension asset (Note 12).....	4,504	—	4,504	—
Restricted/designated cash and cash equivalents (Note 3)....	460,084	6,155	466,239	2,525,801
Restricted investments (Note 3).....	521,243	717,196	1,238,439	6,474,175
Restricted due from primary government (Note 18).....	—	—	—	14,430
Capital assets-nondepreciable (Note 5).....	19,852,498	681,393	20,533,891	1,652,653
Capital assets-depreciable, net (Note 5).....	27,540,749	819,085	28,359,834	14,903,397
Total Assets	59,749,889	6,542,791	66,292,680	36,954,688
Deferred Outflows of Resources				
Accumulated decrease in fair value of hedging derivatives.....	—	—	—	189,056
Deferred loss on refunding.....	112,080	—	112,080	59,084
Forward funded state aid.....	120,448	—	120,448	—
Deferred outflows for pensions (Note 12).....	362,238	4,597	366,835	333,479
Other deferred outflows.....	—	—	—	7,200
Total Deferred Outflows of Resources	594,766	4,597	599,363	588,819
Liabilities				
Accounts payable and accrued liabilities.....	1,604,513	177,012	1,781,525	1,112,652
Medical claims payable.....	949,075	—	949,075	264,636
Unemployment benefits payable.....	—	5,787	5,787	—
Tax refunds payable.....	995,363	—	995,363	—
Obligations under securities lending.....	497,473	67,517	564,990	—
Interest payable.....	44,661	117,815	162,476	60,958
Short-term debt (Note 6).....	—	—	—	73,100
Due to component units (Note 18).....	53,242	—	53,242	8,773
Due to primary government (Note 18).....	—	—	—	383
Unearned revenue.....	434,143	36,917	471,060	356,808
Advance from primary government.....	—	—	—	3,645
Obligations under reverse repurchase agreements.....	—	—	—	15,255
Deposits payable.....	2,723	2,793	5,516	16,910
Funds held for others.....	82,916	—	82,916	2,721,845
Hedging derivatives liability (Note 7).....	—	—	—	189,056
Long-term liabilities (Note 8):				
Due within one year.....	676,335	19,549	695,884	619,265
Due in more than one year.....	7,892,034	1,630,419	9,522,453	8,447,561
Total Liabilities	13,232,478	2,057,809	15,290,287	13,890,847
Deferred Inflows of Resources				
Deferred state aid.....	—	—	—	125,968
Deferred inflows for pensions (Note 12).....	223,791	3,103	226,894	194,669
Other deferred inflows.....	—	—	—	1,146
Total Deferred Inflows of Resources	223,791	3,103	226,894	321,783

STATEMENT OF NET POSITION

June 30, 2016

Exhibit A-1

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Net Position				
Net investment in capital assets.....	45,300,168	652,725	45,952,893	11,539,511
Restricted for:				
Nonexpendable:				
Environment and natural resources.....	109,495	—	109,495	—
Higher education.....	507	—	507	2,488,611
Health and human services.....	—	—	—	404
Expendable:				
Primary and secondary education.....	1,842	—	1,842	—
Higher education.....	4,774	—	4,774	3,547,920
Higher education student aid.....	587,578	—	587,578	—
Health and human services.....	100,612	—	100,612	283,230
Economic development.....	25,298	—	25,298	793,604
Environment and natural resources.....	51,195	—	51,195	—
Public safety, corrections, and regulation.....	54,633	—	54,633	—
Transportation.....	3,477	—	3,477	—
Debt service.....	82,428	4,267	86,695	—
Capital projects/repairs and renovations.....	7,996	—	7,996	—
Other purposes.....	9,231	2,776	12,007	—
Unrestricted.....	549,152	3,826,708	4,375,860	4,677,597
Total Net Position.....	\$ 46,888,386	\$ 4,486,476	\$ 51,374,862	\$ 23,330,877

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2016

(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.....	\$ 1,064,299	\$ 264,708	\$ 17,662	\$ 3,432	\$ (778,497)
Primary and secondary education.....	10,372,787	7,277	1,545,859	—	(8,819,651)
Higher education.....	4,003,154	75,483	32,066	—	(3,895,605)
Health and human services.....	18,422,804	357,597	13,430,477	—	(4,634,730)
Economic development.....	402,773	12,304	223,901	—	(166,568)
Environment and natural resources.....	547,540	173,885	106,741	23,713	(243,201)
Public safety, corrections, and regulation.....	2,946,206	623,269	142,524	136	(2,180,277)
Transportation.....	2,767,006	875,603	392,645	906,151	(592,607)
Agriculture.....	179,152	30,320	33,059	7,016	(108,757)
Interest on long-term debt.....	199,516	—	—	—	(199,516)
Total Governmental Activities.....	<u>40,905,237</u>	<u>2,420,446</u>	<u>15,924,934</u>	<u>940,448</u>	<u>(21,619,409)</u>
Business-type Activities					
Unemployment Compensation.....	255,851	1,309,907	43,327	—	1,097,383
N.C. State Lottery.....	1,752,837	2,388,977	1,228	—	637,368
EPA Revolving Loan.....	19,047	21,908	87,049	—	89,910
N.C. Turnpike Authority.....	87,467	39,147	14,234	14,807	(19,279)
Regulatory programs.....	94,857	103,437	1,227	—	9,807
Insurance programs.....	12,502	18,628	7,555	—	13,681
North Carolina State Fair.....	16,183	15,539	768	—	124
Other business-type activities.....	12,828	12,042	1,127	125	466
Total Business-type Activities.....	<u>2,251,572</u>	<u>3,909,585</u>	<u>156,515</u>	<u>14,932</u>	<u>1,829,460</u>
Total Primary Government.....	<u>\$ 43,156,809</u>	<u>\$ 6,330,031</u>	<u>\$ 16,081,449</u>	<u>\$ 955,380</u>	<u>\$ (19,789,949)</u>
Component Units					
University of North Carolina System.....	\$ 11,370,842	\$ 7,895,034	\$ 869,864	\$ 117,639	\$ (2,488,305)
Community Colleges.....	2,148,114	332,843	801,954	214,701	(798,616)
State Health Plan.....	3,149,410	3,075,791	29,318	—	(44,301)
Other component units.....	907,907	496,533	317,033	8,859	(85,482)
Total Component Units.....	<u>\$ 17,576,273</u>	<u>\$ 11,800,201</u>	<u>\$ 2,018,169</u>	<u>\$ 341,199</u>	<u>\$ (3,416,704)</u>

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

STATEMENT OF ACTIVITIESFor the Fiscal Year Ended June 30, 2016
(Dollars in Thousands)

Exhibit A-2

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in Net Position				
Net (expense) revenue.....	\$ (21,619,409)	\$ 1,829,460	\$ (19,789,949)	\$ (3,416,704)
General Revenues:				
Taxes:				
Individual income tax.....	11,980,791	—	11,980,791	—
Corporate income tax.....	1,120,553	—	1,120,553	—
Sales and use tax.....	7,184,788	—	7,184,788	—
Gasoline tax.....	1,938,849	—	1,938,849	—
Franchise tax.....	521,628	—	521,628	—
Highway use tax.....	728,580	—	728,580	—
Insurance tax.....	503,621	—	503,621	—
Beverage tax.....	380,065	—	380,065	—
Tobacco products tax.....	291,841	—	291,841	—
Other taxes.....	296,595	—	296,595	—
Tobacco settlement.....	136,561	—	136,561	—
Unrestricted investment earnings (loss).....	43,551	—	43,551	(1,893)
State aid.....	—	—	—	3,807,266
Miscellaneous.....	35,096	—	35,096	7,230
Contributions to permanent funds.....	4,718	—	4,718	—
Contributions to endowments.....	—	—	—	81,537
Special Item: Gain on change in pension plan.....	—	—	—	75,741
Transfers.....	518,461	(518,461)	—	—
Total general revenues, contributions, and transfers.....	25,685,698	(518,461)	25,167,237	3,969,881
Change in net position.....	4,066,289	1,310,999	5,377,288	553,177
Net position — July 1, as restated (Note 22).....	42,822,097	3,175,477	45,997,574	22,777,700
Net position — June 30.....	\$ 46,888,386	\$ 4,486,476	\$ 51,374,862	\$ 23,330,877

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*FUND FINANCIAL
STATEMENTS*

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2016

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).....	\$ 3,897,238	\$ 388,307	\$ 1,432,521	\$ 856,363	\$ 6,574,429
Investments (Note 3).....	5,820	—	—	247,462	253,282
Securities lending collateral (Note 3).....	334,923	23,305	80,094	54,777	493,099
Receivables, net: (Note 4)					
Taxes receivable.....	1,987,485	125,935	53,284	7,181	2,173,885
Accounts receivable.....	193,249	15,800	224	24,269	233,542
Intergovernmental receivable.....	839,791	59,474	159	1,385	900,809
Interest receivable.....	6,424	325	926	1,107	8,782
Contributions receivable.....	76	—	—	—	76
Other receivables.....	—	2,831	—	—	2,831
Due from other funds (Note 10).....	69,529	11,450	12,964	12,127	106,070
Due from component units (Note 18).....	8	—	—	—	8
Inventories.....	78,886	86,654	—	21,719	187,259
Advances to other funds (Note 10).....	—	—	26,118	—	26,118
Advances to component units.....	—	3,645	—	—	3,645
Notes receivable, net : (Note 4).....	25,504	801	42	43,381	69,728
Securities held in trust.....	389	491	—	43,569	44,449
Restricted/designated cash and cash equivalents (Note 3)..	153,120	—	—	306,964	460,084
Restricted investments (Note 3).....	2,009	110,107	—	409,127	521,243
Total Assets.....	<u>7,594,451</u>	<u>829,125</u>	<u>1,606,332</u>	<u>2,029,431</u>	<u>12,059,339</u>
Deferred Outflows of Resources					
Forward funded state aid.....	83,161	—	—	37,287	120,448
Total Assets and Deferred Outflows.....	<u>\$ 7,677,612</u>	<u>\$ 829,125</u>	<u>\$ 1,606,332</u>	<u>\$ 2,066,718</u>	<u>\$ 12,179,787</u>
Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 182,933	\$ 279,589	\$ 53,276	\$ 33,982	\$ 549,780
Accrued payroll.....	1,706	14,749	—	46	16,501
Intergovernmental payable.....	692,087	160,612	4,549	7,338	864,586
Claims payable.....	—	—	—	62,795	62,795
Medical claims payable.....	948,950	—	—	125	949,075
Tax refunds payable.....	989,470	4,184	1,709	—	995,363
Obligations under securities lending.....	334,923	23,305	80,094	54,777	493,099
Due to fiduciary funds (Note 10).....	89,776	6,766	—	—	96,542
Due to other funds (Note 10).....	42,952	5,342	11,233	402	59,929
Due to component units (Note 18).....	38,812	—	—	14,430	53,242
Unearned revenue.....	408,704	16,799	—	1,052	426,555
Deposits payable.....	2,719	—	—	4	2,723
Funds held for others.....	11,454	27,802	—	43,660	82,916
Total Liabilities.....	<u>3,744,486</u>	<u>539,148</u>	<u>150,861</u>	<u>218,611</u>	<u>4,653,106</u>
Deferred Inflows of Resources					
Unavailable revenue.....	171,363	2,323	—	8,395	182,081
Fund Balances (Note 11)					
Nonspendable.....	84,122	86,654	—	131,921	302,697
Restricted.....	162,418	113,331	—	954,203	1,229,952
Committed.....	1,518,439	87,669	1,455,471	752,422	3,814,001
Assigned.....	376,677	—	—	1,166	377,843
Unassigned.....	1,620,107	—	—	—	1,620,107
Total Fund Balances.....	<u>3,761,763</u>	<u>287,654</u>	<u>1,455,471</u>	<u>1,839,712</u>	<u>7,344,600</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 7,677,612</u>	<u>\$ 829,125</u>	<u>\$ 1,606,332</u>	<u>\$ 2,066,718</u>	<u>\$ 12,179,787</u>

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, 2016

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1) \$ 7,344,600

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).....	\$ 47,975,709	
Less: Accumulated depreciation (excluding internal service funds).....	<u>(695,384)</u>	
Net capital assets.....		47,280,325
– 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.		182,081
– Equity interest in component unit is not a financial resource and, therefore, is not reported in the funds.		148,751
– Net pension asset , resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 12).		4,504
– 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.		112,080
– 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).		357,392
– 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.....	(3,038,665)	
Certificates of participation payable.....	(124,820)	
Limited obligation bonds payable.....	(1,997,070)	
GARVEE bonds payable.....	(529,755)	
Unamortized debt premiums (to be amortized as interest expense).....	(505,737)	
Notes payable.....	(27,198)	
Capital leases payable (excluding internal service funds).....	<u>(19,646)</u>	
Net long-term debt.....		(6,242,891)
– 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.....	(44,661)	
Compensated absences (excluding internal service funds).....	(439,484)	
Obligations for workers' compensation.....	(201,906)	
Death benefit payable.....	(40)	
Pollution remediation payable.....	(6,748)	
Claims and judgments payable.....	(734,003)	
Net pension liability (excluding internal service funds).....	<u>(927,978)</u>	
Total other liabilities.....		(2,354,820)
– 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).		(221,541)
– 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).		<u>277,905</u>

Total net position - governmental activities (see Exhibit A-1) \$ 46,888,386

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, 2016

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Individual income tax.....	\$ 11,980,791	\$ —	\$ —	\$ —	\$ 11,980,791
Corporate income tax.....	1,117,999	—	—	—	1,117,999
Sales and use tax.....	7,177,819	—	—	7,929	7,185,748
Gasoline tax.....	—	1,345,677	565,864	27,098	1,938,639
Franchise tax.....	524,967	—	—	—	524,967
Highway use tax.....	—	—	728,580	—	728,580
Insurance tax.....	503,413	—	—	—	503,413
Beverage tax.....	379,986	—	—	—	379,986
Tobacco products tax.....	286,968	—	—	—	286,968
Other taxes.....	181,993	—	—	113,203	295,196
Federal funds.....	15,138,975	1,094,379	—	92,490	16,325,844
Local funds.....	155,486	25,763	606	7,931	189,786
Investment earnings.....	45,833	6,267	9,298	26,716	88,114
Interest earnings on loans.....	442	—	153	499	1,094
Sales and services.....	171,427	3,835	9	150,612	325,883
Rental and lease of property.....	11,212	5,105	1,713	2,876	20,906
Fees, licenses, and fines.....	762,078	734,275	124,668	192,381	1,813,402
Tobacco settlement.....	137,230	—	—	—	137,230
Contributions, gifts, and grants.....	39,755	16,284	874	45,304	102,217
Funds escheated.....	—	—	—	75,105	75,105
Federal recovery funds.....	45,220	151,532	—	—	196,752
Miscellaneous.....	157,489	6,853	3,894	8,461	176,697
Total revenues.....	<u>38,819,083</u>	<u>3,389,970</u>	<u>1,435,659</u>	<u>750,605</u>	<u>44,395,317</u>
Expenditures					
Current:					
General government.....	1,096,432	—	—	40,349	1,136,781
Primary and secondary education.....	10,381,474	—	—	—	10,381,474
Higher education.....	3,896,229	—	—	105,938	4,002,167
Health and human services.....	18,421,703	—	—	79,673	18,501,376
Economic development.....	394,053	—	—	13,522	407,575
Environment and natural resources.....	379,539	—	—	147,909	527,448
Public safety, corrections, and regulation.....	2,760,015	—	—	255,145	3,015,160
Transportation.....	—	3,351,026	962,199	—	4,313,225
Agriculture.....	166,187	—	—	17,202	183,389
Capital outlay.....	—	—	—	144,674	144,674
Debt service:					
Principal retirement.....	478,045	69,544	37,583	2,456	587,628
Interest and fees.....	255,909	26,203	11,340	51	293,503
Debt issuance costs.....	833	466	96	3	1,398
Total expenditures.....	<u>38,230,419</u>	<u>3,447,239</u>	<u>1,011,218</u>	<u>806,922</u>	<u>43,495,798</u>
Excess revenues over (under) expenditures.....	<u>588,664</u>	<u>(57,269)</u>	<u>424,441</u>	<u>(56,317)</u>	<u>899,519</u>
Other Financing Sources (Uses)					
Refunding bonds issued.....	329,360	—	—	—	329,360
Other debt issued.....	1,875	—	—	—	1,875
Premium on debt issued.....	88,066	—	—	—	88,066
Payment to refunded bond escrow agent.....	(416,509)	—	—	—	(416,509)
Sale of capital assets.....	55,738	11,577	597	2,351	70,263
Insurance recoveries.....	1,062	7,602	—	217	8,881
Transfers in (Note 10).....	804,754	31,044	—	200,363	1,036,161
Transfers out (Note 10).....	(198,070)	(79,076)	(90,915)	(147,904)	(515,965)
Total other financing sources (uses).....	<u>666,276</u>	<u>(28,853)</u>	<u>(90,318)</u>	<u>55,027</u>	<u>602,132</u>
Net change in fund balances.....	1,254,940	(86,122)	334,123	(1,290)	1,501,651
Fund balances — July 1, as restated (Note 22).....	2,506,823	373,776	1,121,348	1,841,002	5,842,949
Fund balances — June 30.....	<u>\$ 3,761,763</u>	<u>\$ 287,654</u>	<u>\$ 1,455,471</u>	<u>\$ 1,839,712</u>	<u>\$ 7,344,600</u>

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, 2016

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ 1,501,651

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)	\$ 2,580,825	
Less: Depreciation expense (excluding internal service funds)	(880,212)	
Net capital outlay adjustment		1,700,613
- **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. (104,133)
- **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. 9,878
- **Retirement Contributions** (excluding internal service funds) to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities. 329,474
- **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:		
Capital leases issued	(1,875)	
Refunding bonds issued	(329,360)	
Premiums on debt issued	(88,066)	
Principal repayments:		
Bonds, notes, and similar debt	584,852	
Capital leases (excluding internal service funds)	2,776	
Payments to escrow agent for refundings	416,509	
Net debt adjustments		584,836
- **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. (2,107)
- **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. (344)
- **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	6,920	
Compensated absences (excluding internal service funds)	10,893	
Workers' compensation	257	
Death benefit	380	
Pension expense (excluding internal service funds)	(102,804)	
Pollution remediation	(327)	
Claims and judgments	3,300	
Amortization of deferred amounts	87,069	
Net expense accruals		5,688
- **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). 40,733

Change in net position - governmental activities (see Exhibit A-2) \$ 4,066,289

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

STATEMENT OF NET POSITION PROPRIETARY FUNDS

June 30, 2016

(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).....	\$ 1,804,453	\$ 240,457	\$ 96,860	\$ —
Investments (Note 3).....	—	205,892	5,316	—
Securities lending collateral (Note 3).....	2,833	29,464	5,363	18,201
Receivables: (Note 4)				
Accounts receivable, net.....	112,139	—	20,261	16,104
Intergovernmental receivable.....	487	171	—	547
Interest receivable.....	10,106	2,893	87	—
Premiums receivable.....	—	—	—	—
Contributions receivable, net.....	344,439	—	—	—
Notes receivable.....	—	86,892	—	—
Due from other funds (Note 10).....	19,162	—	—	36
Due from component units (Note 18).....	—	—	—	—
Inventories.....	—	—	—	834
Prepaid items.....	—	—	513	299
Restricted cash and cash equivalents (Note 3).....	—	—	—	—
Total current assets.....	<u>2,293,619</u>	<u>565,769</u>	<u>128,400</u>	<u>36,021</u>
Noncurrent Assets				
Investments (Note 3).....	—	—	58,536	—
Receivables: (Note 4)				
Contributions receivable, net.....	8,322	—	—	—
Notes receivable.....	—	1,067,887	—	—
Prepaid items.....	—	—	142	8,882
Restricted/designated cash and cash equivalents (Note 3).....	—	—	—	4,267
Restricted investments (Note 3).....	—	—	—	717,196
Capital assets-nondepreciable (Note 5).....	—	—	—	669,851
Capital assets-depreciable, net (Note 5)	—	88	1,546	746,316
Total noncurrent assets.....	<u>8,322</u>	<u>1,067,975</u>	<u>60,224</u>	<u>2,146,512</u>
Total Assets.....	<u>2,301,941</u>	<u>1,633,744</u>	<u>188,624</u>	<u>2,182,533</u>
Deferred Outflows of Resources				
Deferred outflows for pensions.....	—	429	1,327	81
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	24,171	16	45,350	32,936
Accrued payroll.....	—	—	358	—
Intergovernmental payable.....	31,437	126	—	431
Claims payable.....	—	—	—	—
Unemployment benefits payable.....	5,787	—	—	—
Obligations under securities lending.....	2,833	29,464	5,363	18,201
Interest payable.....	—	—	—	38,700
Due to fiduciary funds (Note 10).....	—	—	—	5,192
Due to other funds (Note 10).....	—	32	67,738	12,015
Unearned revenue.....	1,585	—	—	33
Deposits payable.....	—	—	—	2,773
Annuity and life income payable (Note 8).....	—	—	5,316	—
Notes payable (Note 8).....	—	—	—	—
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable (Note 8).....	—	—	—	11,960
Compensated absences (Note 8).....	—	57	147	6
Total current liabilities.....	<u>65,813</u>	<u>29,695</u>	<u>124,272</u>	<u>122,247</u>

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities — Internal Service Funds
\$ 103,542	\$ 2,245,312	\$ 118,411
117,299	328,507	33,453
11,656	67,517	4,374
2,567	151,071	27,496
1,900	3,105	—
317	13,403	20
3,894	3,894	665
—	344,439	—
1	86,893	—
—	19,198	14,800
—	—	375
568	1,402	197
3,203	4,015	4,404
1,888	1,888	—
<u>246,835</u>	<u>3,270,644</u>	<u>204,195</u>
12,253	70,789	—
—	8,322	—
184	1,068,071	—
39	9,063	—
—	4,267	—
—	717,196	—
11,542	681,393	3,396
71,135	819,085	109,526
<u>95,153</u>	<u>3,378,186</u>	<u>112,922</u>
<u>341,988</u>	<u>6,648,830</u>	<u>317,117</u>
2,760	4,597	4,846
5,482	107,955	11,351
168	526	2,165
3	31,997	—
31,095	31,095	793
—	5,787	—
11,656	67,517	4,374
—	38,700	—
—	5,192	—
136	79,921	218
35,299	36,917	7,588
20	2,793	—
—	5,316	—
1,048	1,048	—
—	—	46
—	11,960	—
1,015	1,225	478
<u>85,922</u>	<u>427,949</u>	<u>27,013</u>

Continued

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

June 30, 2016

(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.....	—	—	—	79,115
Advances from other funds (Note 10).....	—	—	—	26,118
Annuity and life income payable (Note 8).....	—	—	58,536	—
Notes payable (Note 8).....	—	—	—	372,877
Capital leases payable (Note 8).....	—	—	—	—
Bonds payable, net (Note 8).....	—	—	—	1,164,168
Compensated absences (Note 8).....	—	657	2,035	75
Net pension liability (Note 8).....	—	1,045	4,133	225
Total noncurrent liabilities.....	<u>—</u>	<u>1,702</u>	<u>64,704</u>	<u>1,642,578</u>
Total Liabilities.....	<u>65,813</u>	<u>31,397</u>	<u>188,976</u>	<u>1,764,825</u>
Deferred Inflows of Resources				
Deferred inflows for pensions.....	—	274	975	52
Net Position				
Net investment in capital assets.....	—	88	1,546	584,359
Restricted for:				
Debt service.....	—	—	—	4,267
Capital outlay.....	—	—	—	—
Other purposes.....	—	—	—	—
Unrestricted.....	2,236,128	1,602,414	(1,546)	(170,889)
Total Net Position.....	<u>\$ 2,236,128</u>	<u>\$ 1,602,502</u>	<u>\$ —</u>	<u>\$ 417,737</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>
247	247	—
—	79,115	—
—	26,118	—
—	58,536	—
14,902	387,779	—
—	—	138
—	1,164,168	—
5,127	7,894	5,347
6,639	12,042	9,310
<u>26,915</u>	<u>1,735,899</u>	<u>14,795</u>
<u>112,837</u>	<u>2,163,848</u>	<u>41,808</u>
<u>1,802</u>	<u>3,103</u>	<u>2,250</u>
66,732	652,725	112,738
—	4,267	—
309	309	—
2,467	2,467	—
160,601	3,826,708	165,167
<u>\$ 230,109</u>	<u>\$ 4,486,476</u>	<u>\$ 277,905</u>

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

For the Fiscal Year Ended June 30, 2016

(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.....	\$ 1,303,619	\$ —	\$ —	\$ —
Federal funds.....	6,288	—	—	—
Sales and services.....	—	3,944	2,383,616	599
Student tuition and fees, net.....	—	—	—	—
Interest earnings on loans.....	—	17,963	—	—
Rental and lease earnings.....	—	—	—	7
Fees, licenses, and fines.....	—	—	5,257	4,520
Toll revenues.....	—	—	—	33,999
Insurance premiums.....	—	—	—	—
Miscellaneous.....	—	1	104	22
Total operating revenues.....	<u>1,309,907</u>	<u>21,908</u>	<u>2,388,977</u>	<u>39,147</u>
Operating Expenses				
Personal services.....	—	5,946	19,739	1,413
Supplies and materials.....	—	99	1,648	11,950
Services.....	—	1,327	236,201	3,122
Cost of goods sold.....	—	—	—	856
Depreciation.....	—	38	670	16,130
Lottery prizes.....	—	—	1,491,031	—
Claims.....	—	—	—	—
Unemployment benefits.....	255,789	—	—	—
Insurance and bonding.....	—	15	13	386
Other.....	—	438	3,499	1,129
Total operating expenses.....	<u>255,789</u>	<u>7,863</u>	<u>1,752,801</u>	<u>34,986</u>
Operating income (loss).....	<u>1,054,118</u>	<u>14,045</u>	<u>636,176</u>	<u>4,161</u>
Nonoperating Revenues (Expenses)				
Noncapital grants.....	7,660	75,375	—	—
Noncapital gifts, net.....	—	—	—	—
Investment earnings.....	30,728	11,674	1,190	2,836
Interest and fees.....	—	—	—	(52,386)
Insurance recoveries.....	—	—	—	11
Grants, aid and subsidies.....	—	(11,102)	—	—
Gain (loss) on sale of equipment.....	—	—	—	—
Federal interest subsidy on debt.....	—	—	—	11,387
Miscellaneous.....	4,877	(82)	2	(95)
Total nonoperating revenues (expenses).....	<u>43,265</u>	<u>75,865</u>	<u>1,192</u>	<u>(38,247)</u>
Income (loss) before contributions and transfers.....	1,097,383	89,910	637,368	(34,086)
Capital contributions.....	—	—	—	14,807
Transfers in (Note 10).....	1,357	13,326	—	101,056
Transfers out (Note 10).....	—	(855)	(637,368)	—
Change in net position.....	1,098,740	102,381	—	81,777
Net position — July 1, as restated (Note 22).....	1,137,388	1,500,121	—	335,960
Net position — June 30.....	<u>\$ 2,236,128</u>	<u>\$ 1,602,502</u>	<u>\$ —</u>	<u>\$ 417,737</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
\$ —	\$ 1,303,619	\$ —
—	6,288	—
1,536	2,389,695	314,950
17	17	—
—	17,963	—
8,231	8,238	48
120,377	130,154	1,186
—	33,999	—
18,632	18,632	22,786
853	980	647
<u>149,646</u>	<u>3,909,585</u>	<u>339,617</u>
73,783	100,881	127,687
3,308	17,005	16,844
34,590	275,240	74,297
365	1,221	440
4,175	21,013	20,936
—	1,491,031	—
8,480	8,480	264
—	255,789	—
4,172	4,586	18,499
6,469	11,535	46,404
<u>135,342</u>	<u>2,186,781</u>	<u>305,371</u>
<u>14,304</u>	<u>1,722,804</u>	<u>34,246</u>
781	83,816	40
1,769	1,769	—
8,045	54,473	2,769
(562)	(52,948)	(2)
3	14	134
—	(11,102)	—
(93)	(93)	1,857
—	11,387	—
(294)	4,408	3,065
<u>9,649</u>	<u>91,724</u>	<u>7,863</u>
23,953	1,814,528	42,109
125	14,932	359
6,622	122,361	6,568
(2,599)	(640,822)	(8,303)
28,101	1,310,999	40,733
202,008	3,175,477	237,172
<u>\$ 230,109</u>	<u>\$ 4,486,476</u>	<u>\$ 277,905</u>

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Fiscal Year Ended June 30, 2016

(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.....	\$ 1,415,414	\$ 3,945	\$ 2,210,932	\$ 36,333
Receipts from federal agencies.....	10,718	—	—	—
Receipts from other funds.....	—	—	—	—
Payments to suppliers.....	—	(1,346)	(72,879)	(5,703)
Payments to employees.....	—	(6,223)	(20,181)	(1,464)
Payments for prizes, benefits, and claims.....	(265,297)	—	(1,496,020)	—
Payments to other funds.....	—	—	—	—
Other receipts.....	4,939	—	38	—
Other payments.....	(39)	(327)	—	(1,239)
Net cash provided by (used for) operating activities.....	<u>1,165,735</u>	<u>(3,951)</u>	<u>621,890</u>	<u>27,927</u>
Cash Flows From Noncapital Financing Activities				
Grant receipts	7,660	75,232	—	—
Grants, aid, and subsidies.....	—	(11,102)	—	—
Advances from other funds.....	—	—	—	831
Transfers from other funds.....	1,357	13,326	—	—
Transfers to other funds.....	—	(855)	(574,759)	—
Gifts.....	—	—	—	—
Insurance recoveries.....	—	—	—	—
Net cash provided by (used for) noncapital financing activities.....	<u>9,017</u>	<u>76,601</u>	<u>(574,759)</u>	<u>831</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets.....	—	—	(385)	(184,728)
Proceeds from the sale of capital assets.....	—	—	—	—
Transfers from other funds.....	—	—	—	101,056
Capital grants.....	—	—	—	14,631
Capital contributions.....	—	—	—	—
Principal paid on capital debt.....	—	—	—	(8,200)
Interest paid on capital debt.....	—	—	—	(78,417)
Federal subsidy for interest on debt.....	—	—	—	11,387
Insurance recoveries.....	—	—	—	11
Net cash provided by (used for) capital and related financing activities.....	<u>—</u>	<u>—</u>	<u>(385)</u>	<u>(144,260)</u>
Cash Flows From Investing Activities				
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	7,302,367
Purchase of non-State Treasurer investments.....	—	(10,164)	—	(7,194,451)
Purchase into State Treasurer investment pool.....	—	—	—	—
Loan issuances.....	—	(165,070)	—	—
Loan repayments — interest.....	—	18,934	—	—
Loan repayments — principal.....	—	91,200	—	—
Investment earnings.....	20,599	11,538	1,109	3,769
Net cash provided by (used for) investment activities.....	<u>20,599</u>	<u>(53,562)</u>	<u>1,109</u>	<u>111,685</u>
Net increase (decrease) in cash and cash equivalents.....	1,195,351	19,088	47,855	(3,817)
Cash and cash equivalents at July 1, as restated.....	609,102	221,369	49,005	8,084
Cash and cash equivalents at June 30.....	<u>\$ 1,804,453</u>	<u>\$ 240,457</u>	<u>\$ 96,860</u>	<u>\$ 4,267</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
\$ 150,102	\$ 3,816,726	\$ 38,764
—	10,718	—
—	—	290,878
(32,091)	(112,019)	(138,757)
(72,700)	(100,568)	(129,785)
(13,393)	(1,774,710)	(607)
—	—	(14,160)
903	5,880	2,063
<u>(18,658)</u>	<u>(20,263)</u>	<u>(166)</u>
<u>14,163</u>	<u>1,825,764</u>	<u>48,230</u>
665	83,557	40
—	(11,102)	—
—	831	—
6,622	21,305	6,568
(2,598)	(578,212)	(8,303)
1,856	1,856	—
<u>2</u>	<u>2</u>	<u>—</u>
<u>6,547</u>	<u>(481,763)</u>	<u>(1,695)</u>
(1,114)	(186,227)	(23,220)
17	17	2,498
—	101,056	—
—	14,631	—
125	125	—
(1,999)	(10,199)	(212)
(562)	(78,979)	(2)
—	11,387	—
<u>1</u>	<u>12</u>	<u>134</u>
<u>(3,532)</u>	<u>(148,177)</u>	<u>(20,802)</u>
13,082	7,315,449	—
(14,014)	(7,218,629)	—
(6,000)	(6,000)	—
—	(165,070)	—
—	18,934	—
—	91,200	—
<u>705</u>	<u>37,720</u>	<u>252</u>
<u>(6,227)</u>	<u>73,604</u>	<u>252</u>
10,951	1,269,428	25,985
<u>94,479</u>	<u>982,039</u>	<u>92,426</u>
<u>\$ 105,430</u>	<u>\$ 2,251,467</u>	<u>\$ 118,411</u>

Continued

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2016

(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 (loss).....	\$ 1,054,117	\$ 14,045	\$ 636,176	\$ 4,162
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation.....	—	38	671	16,130
Pension expense.....	—	90	436	24
Interest earnings on loans classified as investing activity.....	—	(17,963)	—	—
Nonoperating miscellaneous income (expense).....	4,900	62	44	(132)
Change in assets and deferred outflows:				
Receivables.....	113,241	—	(11,608)	(2,867)
Due from other funds.....	876	—	—	19
Due from component units.....	—	—	—	—
Inventories.....	—	—	—	569
Prepaid items.....	—	—	651	86
Deferred outflows for pensions.....	—	(429)	(1,190)	(74)
Change in liabilities:				
Accounts payable and accrued liabilities.....	(8,142)	136	(3,711)	(2,482)
Due to other funds.....	(256)	9	—	11,239
Due to fiduciary funds.....	—	—	—	465
Compensated absences.....	—	61	421	—
Unearned revenue.....	999	—	—	33
Deposits payable.....	—	—	—	755
Net cash provided by (used for) operations.....	<u>\$ 1,165,735</u>	<u>\$ (3,951)</u>	<u>\$ 621,890</u>	<u>\$ 27,927</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.....	—	—	—	30,010
Capital asset writeoff.....	—	—	—	—
Change in fair value of investments.....	—	—	—	1,298
Increase in receivables related to nonoperating income.....	—	—	—	—
Change in securities lending collateral.....	(6,318)	(4,578)	313	(13,389)

<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities — Internal Service Funds</u>
\$ 14,302	\$ 1,722,802	\$ 34,246
4,176	21,015	20,936
613	1,163	1,197
—	(17,963)	—
892	5,766	1,869
(2,723)	96,043	(8,178)
—	895	(1,328)
—	—	146
2	571	(28)
735	1,472	1,623
(2,602)	(4,295)	(3,589)
(4,695)	(18,894)	2,508
—	10,992	(255)
—	465	—
(87)	395	(501)
3,551	4,583	(416)
(1)	754	—
<u>\$ 14,163</u>	<u>\$ 1,825,764</u>	<u>\$ 48,230</u>
\$ 481	\$ 481	\$ 1,226
—	—	359
—	30,010	—
(318)	(318)	—
525	1,823	1,269
28	28	—
(1,229)	(25,201)	(696)

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2016

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).....	\$ 367,116	\$ 12,334	\$ 121,356	\$ 4,985,782
Investments (Note 3):				—
U.S. government and agency securities.....	—	—	97	—
Corporate bonds.....	—	—	—	1,386
Certificates of deposit.....	—	—	39,602	525
Collective investment funds.....	231,185	—	—	—
State Treasurer investment pool.....	88,464,006	1,128,919	7,339	47,685
Unallocated insurance contracts.....	780,873	—	—	—
Synthetic guaranteed investment contracts.....	1,333,667	—	—	—
Non-State Treasurer pooled investments.....	6,706,432	—	—	—
Securities lending collateral (Note 3).....	2,744,144	42,716	980	243,719
Receivables:				
Taxes receivable.....	—	—	—	173,475
Accounts receivable.....	30,126	—	—	6,090
Interest receivable.....	403	772	5	47
Contributions receivable.....	145,168	—	—	—
Due from other funds (Note 10).....	63,163	—	—	38,571
Due from component units.....	20,394	—	—	—
Notes receivable.....	311,679	—	—	—
Sureties.....	—	—	859,026	91,325
Total Assets.....	<u>101,198,356</u>	<u>1,184,741</u>	<u>1,028,405</u>	<u>5,588,605</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	1,462	—	—	5
Intergovernmental payable.....	—	—	—	839,385
Benefits payable.....	4,252	—	—	—
Obligations under securities lending.....	2,744,144	42,716	980	243,719
Deposits payable.....	—	—	—	1,783
Funds held for others.....	7,303	—	—	4,503,713
Total Liabilities.....	<u>2,757,161</u>	<u>42,716</u>	<u>980</u>	<u>5,588,605</u>
Net Position				
Restricted for:				
Pension benefits.....	95,315,039	—	—	—
Other postemployment benefits.....	1,522,956	—	—	—
Other employee benefits.....	1,603,200	—	—	—
Pool participants.....	—	913,237	—	—
Individuals, organizations, and other governments.....	—	228,788	1,027,425	—
Total Net Position.....	<u>\$ 98,441,195</u>	<u>\$ 1,142,025</u>	<u>\$ 1,027,425</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, 2016

Exhibit B-7

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private- Purpose Trust Funds
Additions			
Contributions:			
Employer.....	\$ 2,864,232	\$ —	\$ —
Members.....	1,634,554	—	—
Trustee deposits.....	—	—	130,709
Other contributions.....	45,593	—	—
Total contributions.....	<u>4,544,379</u>	<u>—</u>	<u>130,709</u>
Investment income:			
Investment earnings (loss).....	1,318,181	(2,631)	2,302
Less investment expenses.....	(582,072)	(1,362)	(4)
Net investment income (loss).....	<u>736,109</u>	<u>(3,993)</u>	<u>2,298</u>
Pool share transactions:			
Reinvestment of dividends.....	—	(3,634)	—
Net share purchases.....	—	27,638	—
Net pool share transactions.....	<u>—</u>	<u>24,004</u>	<u>—</u>
Other additions:			
Fees, licenses, and fines.....	3,150	—	—
Interest earnings on loans.....	12,905	—	—
Miscellaneous.....	2,549	—	—
Total other additions.....	<u>18,604</u>	<u>—</u>	<u>—</u>
Total additions.....	<u>5,299,092</u>	<u>20,011</u>	<u>133,007</u>
Deductions			
Claims and benefits.....	6,135,285	—	—
Medical insurance premiums	855,948	—	—
Refund of contributions.....	175,268	—	—
Distributions paid and payable.....	—	(3,634)	—
Payments in accordance with trust arrangements.....	—	—	151,405
Administrative expenses.....	20,388	—	—
Other deductions.....	8,397	—	—
Total deductions.....	<u>7,195,286</u>	<u>(3,634)</u>	<u>151,405</u>
Change in net position.....	(1,896,194)	23,645	(18,398)
Net position — July 1.....	<u>100,337,389</u>	<u>1,118,380</u>	<u>1,045,823</u>
Net position — June 30.....	<u>\$ 98,441,195</u>	<u>\$ 1,142,025</u>	<u>\$ 1,027,425</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 N.C. 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 N.C. 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 N.C. 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 biotechnology research, commercial development, and education 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 twenty-one 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 N.C. 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. 27699-0601 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

NC 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 N.C. 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, 2016, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2015, 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, 2015. 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 N.C. 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. In addition, now that the fund has a positive net position, the fund is earning interest on a quarterly basis. The unemployment benefits are financed by these employer paid taxes, distributions of federal unemployment insurance taxes for emergency related benefits, and federal funding for the unemployment benefits of civilian and military employees.

North Carolina State Lottery Fund

This fund accounts for the activities of the N.C. Education Lottery Commission. The N.C. 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 N.C. 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 Benefits 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 N.C. Education Lottery Commission's draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, All or Nothing, 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, and Carolina Pick 3, prize expense is recorded at 50% of sales on a daily basis. For All or Nothing, prize expense is recorded at 52% of sales on a daily basis. Lucky for Life prize expense is recorded at 59% of sales on a daily basis and EZ Match is recorded at 68% 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 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 and money market mutual funds, 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 except for those of the North Carolina Turnpike Authority, which are amortized using the straight-line 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) 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) 2) 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), 3) 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 4) 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 N.C. General Assembly, the State's highest level of decision-making authority. The N.C. 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 carry forward 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 this 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 G.S. 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, 2016, the balance of the Savings Reserve Account was \$1.58 billion, which represents 7.47% 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, 2016, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*,
- 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* (paragraph 115 through 122 only),
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*,
- Statement No. 79, *Certain External Investment Pools and Pool Participants* (excluding paragraphs 18, 19, 23–26, and 40), and
- Implementation Guide No. 2015-1.

Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as securities or other assets that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. A government is permitted to establish the fair value of an investment in a nongovernmental entity that does not have a readily determinable fair value (e.g., alternative investments) by using the net asset value per share (or its equivalent). Prior to the issuance of Statement 72, governments were required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. Also, the Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. The use of acquisition value should be applied prospectively.

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 are 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 are also effective for the fiscal year ending June 30, 2016; however, the State currently has no such assets. The remaining requirements of this Statement will be effective for the fiscal year ending June 30, 2017.

Statement No. 76 simplifies the structure of the hierarchy of generally accepted accounting principles (GAAP). This Statement replaces the current four-level GAAP hierarchy with a new two-level hierarchy of authoritative sources and elevates the GASB's Implementation Guides to authoritative status. This Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, which has the same title.

Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement do not apply under current conditions.

Implementation Guide No. 2015-1 supersedes all previously issued Implementation Guides, including the 2013–2014 Comprehensive Implementation Guide. It was the first Guide issued as Category B literature in the GAAP hierarchy.

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 deposit 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 pension trust funds, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, Local Government Other Post-Employment Benefits (OPEB) Trust, 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 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 the Public Hospitals, certain investments of the Escheat Fund, and bond proceeds investment accounts, is maintained in the External Investment Pool. 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, and Highway Trust Fund. Other participants include universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer as well as the remaining portfolios listed below.

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 primary participants of the portfolio are the pension trust funds.

External 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 trust funds are the sole participants in the 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 trust funds are the sole participants in the portfolio.

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

Alternative Investment – This portfolio holds investments in limited partnerships, hedge funds, U.S. Treasuries, and equities received in the form of distributions from its primary investments, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension trust funds are the sole participants in the portfolio.

Credit Investment – This portfolio may hold investments in debt-related strategies as defined by General Statutes 147-69.2(b)(6c). The State's pension trust funds are the sole participants in the portfolio.

Inflation Protection Investment – This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension trust funds are the sole participants in the portfolio.

NOTES TO THE FINANCIAL STATEMENTS

OPEB Equity Investment – This portfolio holds equity-based trusts. Pursuant to General Statute 159-30.1, the State Treasurer manages the 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, 2016, there were seventeen participants. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, most participants have delegated their investment authority to the State Treasurer.

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, External Fixed Income Investment, Credit Investment, Inflation Protection Investment, Alternative Investment, and OPEB Equity 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, 2016, \$9.07 million of investment income associated with other funds was credited to the General Fund.

The External Investment Pool issues a 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/Government-Operations-Reports.aspx> in the Audited Financial Statements section.

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 were valued at \$206.7 million. The funds were substantially invested in repurchase agreements (99.4%) with a weighted average maturity of eight days. Repurchase agreements are reported at cost. See Note 1 for additional information.

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.

Public Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust, New Hanover Regional Medical Center Trust, Columbus Regional Healthcare Trust and Watauga Medical Center Trust. These Trusts are part of commingled equity investment funds. The Trustee manages the assets, 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. One public hospital is a participant in the External Investment Pool's Long-term Investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS

The fair value measurements of the Public Hospitals investment accounts 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 Public Hospitals investment accounts maintained by the State Treasurer had the following investments and recurring fair value measurements (settled transactions) (dollars in thousands):

Investment Type	Fair Value 6/30/2016
External investment pool - long-term	\$ 8,631
Investments measured at net asset value (NAV):	
Commingled equity fund - domestic	170,125
Commingled equity fund - international	50,032
Total investments measured at NAV	220,157
Total investments measured at fair value	<u>\$ 228,788</u>

Investments in the External Investment Pool - Long Term Investment Fund portfolio (LTIF) are classified in Level 2 of the fair value hierarchy. Ownership interests in the LTIF are determined monthly at fair market value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings. At year-end, the LTIF had a weighted average maturity of 17.9 years and did not have a credit rating.

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

Investments Measured at the NAV	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled equity fund - domestic	\$ 170,125	Monthly	5 business days
Commingled equity fund - international	50,032	Monthly	5 business days
Total investments measured at the NAV	<u>\$ 220,157</u>		

The commingled equity funds include one domestic equity fund and one international equity fund that are considered to be commingled in nature. Each 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.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Public Hospitals investment account's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type	
	Equity Based Trust-	International
Euro	\$	11,417
Japanese Yen		7,890
British Pound Sterling		6,143
Hong Kong Dollar		3,733
Australian Dollar		3,112
Canadian Dollar		2,962
Swiss Franc		2,725
Taiwan Dollar		1,734
South Korean Won		1,169
Indian Rupee		1,122
South African Rand		908
Swedish Krona		888
Danish Krone		820
Turkish Lira		592
Brazilian Real		587
Thai Baht		518
Indonesian Rupiah		517
Other Currencies		2,635
Total	\$	<u>49,472</u>

Note: The totals in this table do not agree to the totals disclosed in the previous investment fair value table because the investment fair value table includes American Depositary Receipts and cash collateral held for the daily settlement of derivatives. In addition, the equity market values in the foreign currency risk table are based on trade date while the investment fair value table is reported on settle date.

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):

Investments Measured at the NAV	Fair Value	Unfunded
	6/30/2016	Commitments
Private credit limited partnership	\$ 8,457	\$ 314
Private equity investment partnerships	20,772	3,827
Private natural resources limited partnership	3,198	—
Total investments measured at the NAV	<u>\$ 32,427</u>	

Private Credit Limited Partnership. This type includes three private credit funds. These investments are valued at net asset value using the most recent available financial information. 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 at net asset value using the most recent available financial information. 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. These investments are valued at net asset value using the most recent available financial information. These strategies 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

NOTES TO THE FINANCIAL STATEMENTS

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.....	\$ 4,877
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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.....	\$ 347,398
Uninsured and collateral held by pledging bank's trust department or agent but not in the entity's name...	361
Total.....	<u>\$ 347,759</u>

C. Investments Outside the State Treasurer**Primary Government**

At year-end, 89% 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

North Carolina General Statutes sections 147-86.55 through 147-86.63 place 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" effective October 30, 2015, and 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 investment activities in Iran, and the Department shall divest within 180 days any existing investment in companies on the list. 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, 2015, 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 include managed assets of the Pooled Separate Account SA-NC with Prudential Retirement Insurance and Annuity Company as owner and the Plans as beneficial owners. Investments in this Pooled Separate Account total \$6.71 billion. The remainder of the investments is the Stable Value Fund, which consists of three synthetic guaranteed investment contracts, two separate account guaranteed investment contracts, five wrap contracts, a pooled stable value fund, and a government money market fund.

NOTES TO THE FINANCIAL STATEMENTS

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.....	\$ 98,569	\$ —	\$ 92,986	\$ 4,642	\$ 941
U.S. Treasury STRIPS.....	52,890	2,490	18,870	17,708	13,822
U.S. agencies.....	13,596	—	12,453	—	1,143
Mortgage pass-throughs.....	63,360	3,480	10,869	17,716	31,295
Collateralized mortgage obligations.....	83,437	8,688	3,751	21,716	49,282
State and local government.....	5,390	2,915	1,133	—	1,342
Asset-backed securities.....	66,729	760	49,206	11,459	5,304
Collective investment funds.....	1,612,707	58,294	853,452	700,961	—
Money market mutual funds.....	3,095	3,095	—	—	—
Pooled debt funds.....	293,564	—	—	293,564	—
Domestic corporate bonds.....	148,384	17,108	100,637	20,951	9,688
Foreign corporate bonds.....	60,132	14,224	39,921	4,306	1,681
Foreign government bonds.....	30,088	15,235	13,597	875	381
	<u>2,531,941</u>	<u>\$ 126,289</u>	<u>\$ 1,196,875</u>	<u>\$ 1,093,898</u>	<u>\$ 114,879</u>
Other investments:					
Equity mutual funds.....	1,541,875				
Unallocated insurance contracts.....	780,873				
Domestic stocks.....	3,074,662				
Foreign stocks.....	689,453				
Hedge/debt mutual fund.....	343,948				
Other.....	104,706				
Total investments.....	<u>\$ 9,067,458</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 \$14.4 million. The Plans' investment in the Pooled Separate Account SA-NC is stated at fair value. Units of the Pooled Separate Account SA-NC are reported at fair value, based on the net asset value of the units held by the Plan. Units of common/commingled funds are valued at the net asset value of shares held by the Plan. Investments in fixed income securities (U.S. Treasuries and agency securities, asset-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, domestic corporate bonds, foreign government bonds, foreign corporate bonds, state and local government bonds, and mortgage pass-throughs) are valued on the basis of valuations furnished by independent pricing services. These services determine valuations for normal institutional-size trading units of such securities using models or matrix pricing, which incorporates yield and/or price with respect to bonds that are considered comparable in characteristics such as rating, interest rate, maturity date and quotations from bond dealers to determine current value. If these valuations are deemed to be either not reliable or not readily available, the fair value will be determined in good faith by the custodian. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Contributions to the collective trust and Pooled Separate Account are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings of the Pooled Separate Account, as well as market fluctuations, are reflected in unit values. Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

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 overall duration of the underlying securities in the Stable Value Fund will be between 2 and 3.5 years. The average duration of the Pooled Separate Account's fixed income fund is targeted to be within plus or minus 25% of the Barclay's Capital Aggregate Bond Index. The average duration of the Pooled Separate Account's inflation responsive fund is not limited by the plans' investment policy. 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

NOTES TO THE FINANCIAL STATEMENTS

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 Plan's investment policy for the Stable Value Fund requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's (S&P) or Fitch Ratings (Fitch) rating of BBB- or Moody's Investors Service (Moody's) rating of Baa3. The average credit quality of the underlying fixed income investments in the Stable Value Fund will be S&P AA or Moody's Aa2. The Plans' investment policy for the Pooled Separate Account's fixed income fund requires that debt securities are intended to have an average quality rating of A- or better. The Plans' investment policy for the Pooled Separate Account's fixed income fund permits investments in issues rated below investment grade, but those securities should not exceed 20% of the fixed income assets. At December 31, 2015, 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.....	\$ —	\$ 12,028	\$ —	\$ —	\$ —	\$ —
Mortgage pass-throughs.....	—	61,214	—	—	—	—
Collateralized mortgage obligations.....	6,690	63,326	1,420	3,966	3,546	4,226
State and local government.....	—	2,446	2,778	166	—	—
Asset-backed securities.....	57,471	2,058	4,097	307	84	2,712
Collective investment funds.....	—	—	—	—	—	1,612,707
Money market mutual funds.....	—	—	—	—	—	3,095
Pooled debt funds.....	—	—	—	—	—	293,564
Domestic corporate bonds.....	1,301	8,752	47,061	91,097	173	—
Foreign corporate bonds.....	2,722	11,114	32,879	13,135	282	—
Foreign government bonds.....	26,490	2,342	104	1,152	—	—
	<u>\$ 94,674</u>	<u>\$ 163,280</u>	<u>\$ 88,339</u>	<u>\$ 109,823</u>	<u>\$ 4,085</u>	<u>\$ 1,916,304</u>

Custodial Credit Risk. The 401(k) and 457 Plans do not have formal investment policies that address custodial credit risk. At December 31, 2015, the investments of these Plans maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount
	Held by Counterparty
U.S. Treasuries.....	\$ 98,569
U.S. Treasury STRIPS.....	52,890
U.S. agencies.....	13,596
Mortgage pass-throughs.....	63,360
Collateralized mortgage obligations....	83,437
State and local government.....	5,390
Asset-backed securities.....	66,729
Domestic corporate bonds.....	148,384
Foreign corporate bonds.....	60,132
Foreign government bonds.....	30,088
Domestic stocks.....	3,074,662
Foreign stocks.....	689,453
Total.....	<u>\$ 4,386,690</u>

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, 2015, the Plans' exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Amount
	Foreign stocks
Euro.....	\$ 220,721
Japanese Yen.....	145,503
British Pound Sterling.....	110,394
Swiss Franc.....	55,763
Swedish Krona.....	31,797
Hong Kong Dollar.....	30,839
Danish Krone.....	21,283
Canadian Dollar.....	15,944
Australian Dollar.....	14,265
Singapore Dollar.....	14,119
South African Rand.....	12,076
Mexican Pesos.....	8,593
Other Currencies.....	6,914
Total.....	<u>\$ 688,211</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.

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.....	\$ 52,799	\$ 6,543	\$ 45,894	\$ 362	\$ —
U.S. agencies.....	44,118	27,812	14,771	1,535	—
State and local government.....	526	—	—	526	—
Repurchase agreements.....	325,162	325,162	—	—	—
Annuity contracts.....	63,852	5,316	20,544	25,680	12,312
Debt mutual funds.....	549	141	343	65	—
Money market mutual funds.....	165,390	165,390	—	—	—
Pooled debt funds.....	325,503	—	325,503	—	—
	<u>977,899</u>	<u>\$ 530,364</u>	<u>\$407,055</u>	<u>\$ 28,168</u>	<u>\$ 12,312</u>
Other investments:					
International mutual funds.....	453				
Equity mutual funds.....	461				
Domestic stocks.....	79,461				
Total investment securities.....	<u>\$ 1,058,274</u>				

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

NOTES TO THE FINANCIAL STATEMENTS

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	A	Baa/BBB	Less than Investment Grade	Unrated
U.S. agencies.....	\$ 44,118	\$ —	\$ —	\$ —	\$ —	\$ —
State and local government.....	526	—	—	—	—	—
Annuity contracts.....	—	63,852	—	—	—	—
Debt mutual funds.....	234	30	56	71	70	88
Money market mutual funds.....	165,390	—	—	—	—	—
Pooled debt funds.....	—	—	—	—	—	325,503
Total.....	<u>\$ 210,268</u>	<u>\$ 63,882</u>	<u>\$ 56</u>	<u>\$ 71</u>	<u>\$ 70</u>	<u>\$ 325,591</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):

Investments by fair value level:	Fair Value Measurements Using		
	6/30/2016	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
		(Level 1)	(Level 2)
U.S. Treasuries.....	\$ 52,799	\$ 52,799	\$ —
U.S. agencies.....	44,118	1,606	42,512
State and local government.....	526	526	—
Annuity contracts.....	63,852	63,852	—
Pooled debt funds.....	325,503	—	325,503
Domestic stocks.....	79,461	79,461	—
Total investments by fair value level.....	<u>\$ 566,259</u>	<u>\$ 198,244</u>	<u>\$ 368,015</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 as well as investments of the USS N.C. Battleship Commission. The USS N.C. Battleship Commission has a September 30, 2015 year-end and has not yet implemented GASB Statement 72. See Note 1 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.....	\$ 178,749	\$ 24,914	\$ 126,266	\$ 25,298	\$ 2,271
U.S. agencies.....	141,538	3,081	7,334	7,456	123,667
Mortgage pass-throughs.....	17,290	—	—	—	17,290
Collateralized mortgage obligations.....	84,127	—	796	6,153	77,178
Asset-backed securities.....	69,936	—	2,380	13,122	54,434
Collective investment funds.....	34,818	34,818	—	—	—
Commercial paper.....	480	480	—	—	—
Annuity contracts.....	59	59	—	—	—
Debt mutual funds.....	408,327	35,820	238,455	122,956	11,096
Money market mutual funds.....	368,788	368,788	—	—	—
Domestic corporate bonds.....	33,765	5,667	18,187	4,951	4,960
Foreign corporate bonds.....	22,821	497	11,035	7,078	4,211
Foreign government bonds.....	646	—	405	207	34
	<u>1,361,344</u>	<u>\$ 474,124</u>	<u>\$ 404,858</u>	<u>\$ 187,221</u>	<u>\$ 295,141</u>
Other investments:					
Balanced mutual funds.....	4,282				
International mutual funds.....	15,293				
Equity mutual funds.....	169,746				
Investments in real estate.....	12,519				
Real estate investment trust.....	58,064				
Hedge funds.....	2,332,522				
Private equity limited partnerships.....	1,473,988				
Real assets limited partnerships.....	277,181				
Other limited partnerships.....	267,209				
Pooled investments.....	32				
Domestic stocks.....	288,045				
Foreign stocks.....	31,155				
Other.....	6,207				
Total investments.....	<u>\$ 6,297,587</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.....	\$ 56,852	\$ 8,608	\$ —	\$ —	\$ —	\$ 76,078
Mortgage pass-throughs.....	1,498	934	2,025	3,732	9,101	—
Collateralized mortgage obligations.....	—	753	1,114	217	71,888	10,155
Asset-backed securities.....	13,637	1,408	6,767	10,970	25,973	11,181
Collective investment funds.....	4,341	—	4,564	—	699	—
Commercial paper.....	—	—	36	36	—	408
Annuity contracts.....	—	—	—	—	—	59
Debt mutual funds.....	8,488	70,195	217,660	6,949	61,429	43,606
Money market mutual funds.....	262,636	5,922	—	—	—	100,126
Domestic corporate bonds.....	1,578	10,185	9,448	4,448	7,969	137
Foreign corporate bonds.....	1,173	192	942	11,418	8,702	394
Foreign government bonds.....	—	—	—	405	—	241
Total.....	<u>\$ 350,203</u>	<u>\$ 98,197</u>	<u>\$ 242,556</u>	<u>\$ 38,175</u>	<u>\$ 185,761</u>	<u>\$ 242,385</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.....	\$ —	\$ 1,796
Domestic corporate bonds.....	—	1,776
Domestic stocks.....	20,649	9,004
Foreign stocks.....	—	4,415
Total	<u>\$ 20,649</u>	<u>\$ 16,991</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.....	\$ 68,577	\$ 82,565	\$ 12,277	\$ —
British Pound Sterling....	—	31,780	—	—
Chinese Yuan.....	25,600	—	—	—
Canadian Dollar.....	—	7,114	—	2,994
Australian Dollar.....	—	793	—	—
Total.....	<u>\$ 94,177</u>	<u>\$ 122,252</u>	<u>\$ 12,277</u>	<u>\$ 2,994</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):

	6/30/2016	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.....	\$ 178,749	\$ 177,659	\$ 1,090	\$ —
U.S. agencies.....	141,538	1,796	139,742	—
Mortgage pass-throughs.....	17,290	—	17,290	—
Collateralized mortgage obligations.....	84,127	—	84,127	—
Asset-backed securities.....	69,936	—	69,936	—
Collective investment funds.....	34,818	34,818	—	—
Annuity Contracts.....	59	—	59	—
Debt mutual funds.....	408,327	408,327	—	—
Money market mutual funds.....	353,004	353,004	—	—
Balanced mutual funds.....	4,282	4,282	—	—
International mutual funds.....	15,293	15,293	—	—
Equity mutual funds.....	147,244	147,244	—	—
Pooled investments.....	32	32	—	—
Domestic corporate bonds.....	33,765	2,879	30,886	—
Foreign corporate bonds.....	22,821	—	22,821	—
Foreign government bonds.....	646	—	646	—
Domestic stocks.....	288,045	277,246	—	10,799
Foreign stocks.....	31,155	31,155	—	—
Investments in real estate.....	12,519	189	10,240	2,090
Real estate investment trust.....	43,002	43,002	—	—
Other.....	5,363	2,252	—	3,111
Total investments by fair value level.....	1,892,015	\$ 1,499,178	\$ 376,837	\$ 16,000
Investments measured at the net asset value (NAV)				
Real estate investment trust.....	15,062			
Hedge funds.....	2,332,522			
Private equity limited partnerships.....	1,473,988			
Real assets limited partnerships.....	277,181			
Other limited partnerships.....	267,209			
Equity mutual funds.....	22,502			
Other.....	844			
Total investments measured at the NAV.....	4,389,308			
Total investments measured at fair value.....	\$6,281,323			

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 current option pricing and recent company stock valuations. The majority of investments in real estate classified in Level 2 and Level 3 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. Other investments classified in Level 3 of the fair value hierarchy are valued using a matrix pricing technique.

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 6/30/2016	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
UNC at Chapel Hill:				
Hedge funds.....	\$ 2,273,944	\$ 10,000	From 30 days to 3+ years	1 to 365 days
Private equity limited partnerships.....	1,418,319	702,445	Not currently eligible	10-15 years
Real assets limited partnerships.....	277,181	183,841	Not currently eligible	10-15 years
Total investments measured at the NAV.....	<u>\$ 3,969,444</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, 2016, 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)..	\$ 4,035,550	\$ 266,423	\$ 54,593	\$ 528,474	\$ 28,181	\$ 4,913,221
Allowance for doubtful accounts.....	(1,008,525)	(62,058)	—	(494,532)	—	(1,565,115)
Receivables, net.....	<u>\$ 3,027,025</u>	<u>\$ 204,365</u>	<u>\$ 54,593</u>	<u>\$ 33,942</u>	<u>\$ 28,181</u>	<u>\$ 3,348,106</u>
Notes receivable, gross.....	\$ 25,504	\$ 801	\$ 42	\$ 43,416	\$ —	\$ 69,763
Allowance for doubtful accounts.....	—	—	—	(35)	—	(35)
Notes receivable, net.....	<u>\$ 25,504</u>	<u>\$ 801</u>	<u>\$ 42</u>	<u>\$ 43,381</u>	<u>\$ —</u>	<u>\$ 69,728</u>

Within governmental activities, the significant receivables not expected to be collected within one year in the General Fund are \$17.63 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)..	\$ 568,155	\$ 3,064	\$ 20,348	\$ 16,651	\$ 8,714	\$ 616,932
Allowance for doubtful accounts.....	(92,662)	—	—	—	(36)	(92,698)
Receivables, net.....	<u>\$ 475,493</u>	<u>\$ 3,064</u>	<u>\$ 20,348</u>	<u>\$ 16,651</u>	<u>\$ 8,678</u>	<u>\$ 524,234</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, 2016 is presented below (dollars in thousands).

Governmental Activities	Balance July 1, 2015 (as restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, nondepreciable				
Land and permanent easements	\$ 16,644,701	\$ 546,355	\$ (4,446)	\$ 17,186,610
Art, literature, and other artifacts	116,319	19,485	(135)	135,669
Construction in progress	2,051,490	1,745,981	(1,644,596)	2,152,875
Computer software in development	324,391	60,297	(7,344)	377,344
Total Capital Assets-nondepreciable	<u>19,136,901</u>	<u>2,372,118</u>	<u>(1,656,521)</u>	<u>19,852,498</u>
Capital Assets, depreciable				
Buildings	3,905,043	68,164	(70,751)	3,902,456
Machinery and equipment	1,730,779	145,693	(105,875)	1,770,597
General infrastructure	254,585	5,854	(13,017)	247,422
State highway system	32,720,271	1,584,247	(94,130)	34,210,388
Computer software	277,425	67,155	—	344,580
Total Capital Assets-depreciable	<u>38,888,103</u>	<u>1,871,113</u>	<u>(283,773)</u>	<u>40,475,443</u>
Less accumulated depreciation for				
Buildings	(1,175,858)	(100,976)	22,118	(1,254,716)
Machinery and equipment	(1,075,628)	(96,599)	86,206	(1,086,021)
General infrastructure	(94,082)	(5,697)	6,230	(93,549)
State highway system	(9,870,271)	(684,208)	92,247	(10,462,232)
Computer software	(24,508)	(13,668)	—	(38,176)
Total accumulated depreciation	<u>(12,240,347)</u>	<u>(901,148)</u>	<u>206,801</u>	<u>(12,934,694)</u>
Total Capital Assets-depreciable, net	<u>26,647,756</u>	<u>969,965</u>	<u>(76,972)</u>	<u>27,540,749</u>
Governmental activities				
Capital Assets, net	<u>\$ 45,784,657</u>	<u>\$ 3,342,083</u>	<u>\$ (1,733,493)</u>	<u>\$ 47,393,247</u>

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

	Balance July 1, 2015 (as restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, nondepreciable				
Land and permanent easements	\$ 185,894	\$ 50,609	\$ (15)	\$ 236,488
Art, literature, and other artifacts	390	3	—	393
Construction in progress	263,281	181,549	(318)	444,512
Total Capital Assets-nondepreciable	<u>449,565</u>	<u>232,161</u>	<u>(333)</u>	<u>681,393</u>
Capital Assets, depreciable				
Buildings	92,551	214	—	92,765
Machinery and equipment	22,333	1,152	(794)	22,691
General infrastructure	16,035	—	(14)	16,021
NC toll road system	806,486	—	—	806,486
Computer software	1,164	26	—	1,190
Total Capital Assets-depreciable	<u>938,569</u>	<u>1,392</u>	<u>(808)</u>	<u>939,153</u>
Less accumulated depreciation for				
Buildings	(28,886)	(2,660)	—	(31,546)
Machinery and equipment	(14,913)	(1,782)	660	(16,035)
General infrastructure	(11,713)	(322)	14	(12,021)
NC toll road system	(44,040)	(16,130)	—	(60,170)
Computer software	(177)	(119)	—	(296)
Total accumulated depreciation	<u>(99,729)</u>	<u>(21,013)</u>	<u>674</u>	<u>(120,068)</u>
Total Capital Assets-depreciable, net	<u>838,840</u>	<u>(19,621)</u>	<u>(134)</u>	<u>819,085</u>
Business-type activities				
Capital Assets, net	<u>\$ 1,288,405</u>	<u>\$ 212,540</u>	<u>\$ (467)</u>	<u>\$ 1,500,478</u>

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

General government	\$ 42,308
Primary and secondary education	2,999
Higher education	274
Health and human services	28,060
Economic development	1,332
Environment and natural resources	29,620
Public safety, corrections, and regulation	58,304
Transportation	730,299
Agriculture	7,952
Total depreciation expense	<u>\$ 901,148</u>

Business-type activities

N.C. State Lottery	\$ 670
EPA Revolving Loan	38
N.C. Turnpike Authority	16,130
Regulatory programs	2,258
North Carolina State Fair	1,089
Other business-type activities	828
Total depreciation expense	<u>\$ 21,013</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, 2016, was as follows (dollars in thousands):

University of North Carolina System	Balance			Balance
	July 1, 2015 (as restated)	Increases	Decreases	
Capital Assets, nondepreciable				
Land and permanent easements	\$ 431,646	\$ 16,480	\$ (333)	\$ 447,793
Art, literature, and other artifacts	189,854	5,859	(16)	195,697
Construction in progress	787,397	390,703	(689,505)	488,595
Computer software in development	1,461	2,694	(3,353)	802
Other intangible assets	8,705	—	—	8,705
Total capital assets-nondepreciable	<u>1,419,063</u>	<u>415,736</u>	<u>(693,207)</u>	<u>1,141,592</u>
Capital Assets, depreciable				
Buildings	12,555,227	763,615	(23,686)	13,295,156
Machinery and equipment	2,459,546	214,599	(108,060)	2,566,085
Art, literature, and other artifacts	202	—	—	202
General infrastructure	1,906,329	91,504	(3,020)	1,994,813
Computer software	319,404	55,063	(17,604)	356,863
Other intangible assets	1,200	5,289	—	6,489
Total capital assets-depreciable	<u>17,241,908</u>	<u>1,130,070</u>	<u>(152,370)</u>	<u>18,219,608</u>
Less accumulated depreciation for				
Buildings	(3,676,379)	(320,069)	17,074	(3,979,374)
Machinery and equipment	(1,592,321)	(157,312)	81,067	(1,668,566)
Art, literature, and other artifacts	(170)	(5)	—	(175)
General infrastructure	(663,076)	(56,479)	1,274	(718,281)
Computer software	(83,388)	(42,881)	7,171	(119,098)
Other intangible assets	(1,490)	(120)	—	(1,610)
Total accumulated depreciation	<u>(6,016,824)</u>	<u>(576,866)</u>	<u>106,586</u>	<u>(6,487,104)</u>
Total capital assets-depreciable, net	<u>11,225,084</u>	<u>553,204</u>	<u>(45,784)</u>	<u>11,732,504</u>
University of North Carolina System capital assets, net	<u>\$ 12,644,147</u>	<u>\$ 968,940</u>	<u>\$ (738,991)</u>	<u>\$ 12,874,096</u>

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2016, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of \$48.336 million and net depreciable capital assets of \$90.295 million.

NOTES TO THE FINANCIAL STATEMENTS**Community Colleges**

	Balance July 1, 2015 (as restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, nondepreciable				
Land and permanent easements	\$ 174,409	\$ 7,805	\$ —	\$ 182,214
Art, literature, and other artifacts	544	—	—	544
Construction in progress	201,433	130,122	(183,973)	147,582
Total capital assets-nondepreciable	<u>376,386</u>	<u>137,927</u>	<u>(183,973)</u>	<u>330,340</u>
Capital Assets, depreciable				
Buildings	2,767,941	196,877	(88)	2,964,730
Machinery and equipment	423,848	39,486	(11,917)	451,417
Art, literature, and other artifacts	746	2	—	748
General infrastructure	182,047	5,195	(56)	187,186
Computer software	1,207	—	—	1,207
Total capital assets-depreciable	<u>3,375,789</u>	<u>241,560</u>	<u>(12,061)</u>	<u>3,605,288</u>
Less accumulated depreciation for				
Buildings	(758,207)	(56,028)	1,033	(813,202)
Machinery and equipment	(168,831)	(24,346)	8,427	(184,750)
Art, literature, and other artifacts	(142)	(19)	—	(161)
General infrastructure	(48,658)	(4,445)	39	(53,064)
Computer software	(855)	(121)	—	(976)
Total accumulated depreciation	<u>(976,693)</u>	<u>(84,959)</u>	<u>9,499</u>	<u>(1,052,153)</u>
Total capital assets-depreciable, net	<u>2,399,096</u>	<u>156,601</u>	<u>(2,562)</u>	<u>2,553,135</u>
Community Colleges capital assets, net	<u>\$ 2,775,482</u>	<u>\$ 294,528</u>	<u>\$ (186,535)</u>	<u>\$ 2,883,475</u>

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2016, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of \$8.311 million and net depreciable capital assets of \$5.645 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 \$5 million to bring the total amount of outstanding commercial paper as of June 30, 2016 to \$33 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. The University had net draws during the year totaling \$30 million to bring the total amount of outstanding commercial paper as of June 30, 2016 to \$40 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. As of June 30, 2016, the amount outstanding on the revolving line of credit was \$100 thousand.

On June 17, 2015, North Carolina A&T State University issued bond anticipation notes under the University of North Carolina General Trust Indenture, dated June 1, 2015, for the construction of a new student union. As of June 30, 2016, there was no outstanding balance.

UNC Health Care System has a revolving line of credit used to support short-term operating expenses and to enhance liquidity. As of June 30, 2016, there was no outstanding balance.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2016, is as follows (dollars in thousands):

	<u>Balance</u> <u>July 1, 2015</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>University of North Carolina System</u>				
Commercial paper program.....	\$ 38,000	\$ 345,000	\$ (310,000)	\$ 73,000
Anticipation notes.....	5,000	—	(5,000)	—
Line of credit.....	30,212	117,357	(147,469)	100
Total short-term debt.....	<u>\$ 73,212</u>	<u>\$ 462,357</u>	<u>\$ (462,469)</u>	<u>\$ 73,100</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, 2016, 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, 2016	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	\$ (49,837)	\$ (146,643)	\$ —	\$ (146,643)	\$ —	\$ 250,000
Investment derivatives:						
Pay-fixed interest rate swap	\$ (447)	\$ (4,067)	\$ —	\$ (4,067)	\$ —	\$ 15,980
Foreign currency futures	2,256	18,561	18,561	—	—	\$ (157,032)
Foreign currency forwards	(455)	(455)	—	(455)	—	\$ (22,000)
Total	\$ 1,354	\$ 14,039	\$ 18,561	\$ (4,522)	\$ —	

- (a) For the fiscal year ended June 30, 2016, 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, 2016, 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 interest rate swaps 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, 2016 was negative \$183.88 million.

The fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The foreign currency futures 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. The foreign currency forwards classified in Level 2 of the fair value hierarchy are valued based on underlying foreign exchange rates which are based on active markets for these currencies.

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, 2016 (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, 2016. The fair values are calculated as of June 30, 2016. 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, 2016. 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, 2016. 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, 2016, SIFMA was 0.41%. The interest rate swap has a notional amount of \$15.98 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. More detailed information about the University of North Carolina System's exposure to foreign currency risk is presented in Note 3C.

NOTES TO THE FINANCIAL STATEMENTS**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 2.48%, 1.76%, and 1.21%, respectively. The fair value of the securities covered by the contracts as of December 31, 2015, is \$1.118 billion and the contract value is \$1.106 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 2.58%, 1.74%, 1.16%, and 1.19%, respectively. The fair value of the securities covered by the contracts as of December 31, 2015, is \$230 million and the contract value is \$228 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, 2016, was as follows (dollars in thousands):

	Balance July 1, 2015 (as restated)	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Governmental activities					
Bonds and similar debt payable:					
General obligation bonds	\$ 3,469,220	\$ 329,360	\$ (759,915)	\$ 3,038,665	\$ 376,970
Special indebtedness:					
Lease-purchase revenue bonds	2,000	—	(2,000)	—	—
Certificates of participation	151,745	—	(26,925)	124,820	22,415
Limited obligation bonds	2,095,550	—	(98,480)	1,997,070	108,700
GARVEE bonds	598,165	—	(68,410)	529,755	67,605
Issuance premium	550,393	88,066	(132,722)	505,737	—
Total bonds and similar debt payable	6,867,073	417,426	(1,088,452)	6,196,047	575,690
Notes payable	34,095	—	(6,897)	27,198	4,323
Capital leases payable	20,712	2,106	(2,988)	19,830	2,907
Compensated absences	456,703	266,058	(277,452)	445,309	35,733
Net pension liability	347,155	590,133	—	937,288	—
Workers' compensation	202,163	59,180	(59,437)	201,906	57,642
Death benefit payable	420	—	(380)	40	40
Pollution remediation payable	6,421	525	(198)	6,748	—
Claims and judgments payable	737,303	—	(3,300)	734,003	—
Governmental activity long-term liabilities	<u>\$ 8,672,045</u>	<u>\$ 1,335,428</u>	<u>\$ (1,439,104)</u>	<u>\$ 8,568,369</u>	<u>\$ 676,335</u>
Business-type activities					
Bonds payable:					
Revenue bonds	\$ 1,019,588	\$ —	\$ (8,200)	\$ 1,011,388	\$ 11,960
GARVEE bonds	145,535	—	—	145,535	—
Issuance premium	23,326	—	(2,573)	20,753	—
Issuance discount	(1,664)	—	116	(1,548)	—
Total bonds payable	1,186,785	—	(10,657)	1,176,128	11,960
Notes payable	390,818	4	(1,995)	388,827	1,048
Annuity and life income payable	61,854	7,134	(5,136)	63,852	5,316
Compensated absences	8,768	7,054	(6,703)	9,119	1,225
Net pension liability	3,827	8,268	(53)	12,042	—
Business-type activity long-term liabilities	<u>\$ 1,652,052</u>	<u>\$ 22,460</u>	<u>\$ (24,544)</u>	<u>\$ 1,649,968</u>	<u>\$ 19,549</u>

For governmental activities, the compensated absences, net 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 net 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 \$5.83 million, net pension liability of \$9.31 million and capital leases payable of \$184 thousand. More detailed information about the net pension liability is presented in Note 12 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, 2016, was as follows (dollars in thousands):

	Balance July 1, 2015 (as restated)	Increases	Decreases	Balance June 30, 2016	Due Within One Year
University of North Carolina System					
Bonds payable:					
Revenue bonds	\$ 3,928,565	\$ 1,156,421	\$ (881,000)	\$ 4,203,986	\$ 197,815
Certificates of participation	123,240	—	(42,015)	81,225	2,769
Limited obligation bonds	110,320	38,375	(2,420)	146,275	2,835
Issuance premium	121,265	37,926	(18,732)	140,459	—
Issuance discount	(11,530)	(2,283)	3,008	(10,805)	—
Total bonds payable	4,271,860	1,230,439	(941,159)	4,561,140	203,419
Notes payable	376,017	90,491	(32,803)	433,705	73,700
Capital leases payable	36,865	2,500	(7,610)	31,755	6,469
Arbitrage rebate payable	425	—	(425)	—	—
Annuity and life income payable	20,861	4,328	(1,573)	23,616	2,793
Compensated absences	412,822	338,468	(366,808)	384,482	52,902
Net pension liability	348,421	359,183	(68,668)	638,936	—
Pollution remediation payable	33	—	(23)	10	—
Liability insurance trust fund payable	36,846	9,667	(6,977)	39,536	7,697
Total long-term liabilities	<u>\$ 5,504,150</u>	<u>\$ 2,035,076</u>	<u>\$ (1,426,046)</u>	<u>\$ 6,113,180</u>	<u>\$ 346,980</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 \$147.124 million, of which \$10.744 million was due within one year and \$136.38 million was due in more than one year. More detailed information about the net pension liability is presented in Note 12 to the financial statements.

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

Bonds, special indebtedness, and notes payable at June 30, 2016 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.....	3.00% - 5.00%	2035	\$ 4,986,485	\$ 3,038,665
Special indebtedness:				
Certificates of participation.....	4.00% - 5.00%	2028	475,000	124,820
Limited obligation bonds.....	2.25% - 5.25%	2033	2,615,940	1,997,070
GARVEE bonds.....	2.00% - 5.21%	2030	974,555	529,755
Notes payable.....	2.14% - 3.86%	2030	49,047	27,198
<u>Business-type activities</u>				
Revenue bonds**.....	2.48% - 7.10%	2042	\$ 1,081,183	\$ 1,011,388
GARVEE bonds.....	2.00% - 4.00%	2023	145,535	145,535
Notes payable.....	0.00% - 4.25%	2043	393,708	388,827
Component Units				
<u>University of North Carolina System</u>				
Revenue bonds**.....	0.11% - 8.35%*	2046	\$ 4,930,071	\$ 4,203,986
Certificates of participation.....	2.99% - 5.00%	2038	135,170	81,225
Limited obligation bonds.....	1.37% - 5.00%	2043	149,805	146,275
Notes payable.....	0.00% - 5.10%*	2033	498,514	433,705

* For variable rate debt, interest rates in effect at June 30, 2016 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 \$586.6 million for the primary government and \$415.76 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, 2016, the State had \$2 billion in authorized but unissued general obligation bonds. At June 30, 2016, 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, 2016, a total of \$236.5 million of such contacts 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 2001B and 2001C

In 2001 the University issued two series of variable rate demand bonds in the amount of \$54.97 million (2001B) and \$54.97 million (2001C). Each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; Housing System, Series 2000; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days’ notice and delivery to the University’s Remarketing Agents; J.P. Morgan Securities, Inc. (2001B) and Merrill Lynch, Pierce, Fenner & Smith Inc. (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into line of credit agreements in the amount of \$200 million with Wells Fargo Bank, N.A. (“the Bank”), \$100 million with Royal Bank of Canada (“the Bank”), and \$100 million with U.S. Bank, N.A. (“the Bank”) on September 19, 2014. Under each line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds (or Commercial Paper Bonds) delivered for purchase. Under each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each line of credit in the amount shown below in the table per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor’s (S&P), Fitch Ratings (Fitch) or Moody’s Investors Service (Moody’s) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency’s ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

			Facility Fee		
			Wells Fargo	Royal Bank	U.S.
<u>S&P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Bank, N.A.</u>	<u>of Canada</u>	<u>Bank, N.A.</u>
AA+ or higher	AA+ or higher	Aa1 or higher	0.35%	0.27%	0.25%
AA	AA	Aa2	0.40%	0.32%	0.35%
AA-	AA-	Aa3	0.50%	0.37%	0.45%
A+	A+	A1	0.60%	0.47%	0.55%
A	A	A2	0.70%	0.57%	0.65%
A- or lower	A- or lower	A3 or lower	1.70%	1.57%	1.65%

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each line of credit agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semiannual principal payments on bonds held by the Bank six months after the date of funding. Commercial Paper Bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/6th of the original amount of the Commercial Paper Bonds for a period of up to five rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

NOTES TO THE FINANCIAL STATEMENTS

The line of credit agreement with U.S. Bank, N.A., Wells Fargo Bank, N.A., and Royal Bank of Canada expire on September 19, 2017, September 19, 2018 and September 18, 2019, respectively. These agreements are subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's. At June 30, 2016, no purchase drawings had been made under the line of credit.

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 of 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 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. Effective October 15, 2015, U.S. Bank, N.A. has been appointed as the successor Trustee for all of the outstanding series of General Revenue Bonds issued on behalf of North Carolina State University. 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.

NOTES TO THE FINANCIAL STATEMENTS

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. Effective November 18, 2015, Wells Fargo Bank, N.A. issued a substitute Liquidity Facility and the prior Liquidity Facility issued by Bayerische Landesbank was simultaneously terminated. 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, 2016, 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 \$42.42 million of demand bonds was "put" and not resold, the University would be required to pay \$16.2 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.

Effective September 21, 2015, Wells Fargo Bank, NA replaced Merrill Lynch, Pierce, Fenner & Smith Incorporated and Banc of America Securities, LLC as the Remarketing Agent for the Series 2001A and 2001B bonds. 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-Thuringen 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-Thuringen 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:

<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%

NOTES TO THE FINANCIAL STATEMENTS

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, 2016, 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 \$90.2 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$23.51 million, \$22.62 million, \$21.36 million, \$20.09 million, and \$18.83 million in years one, two, three, four, and five respectively under the installment loan agreement assuming a base rate of 4.5% (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 2016. Payments were made quarterly in arrears, on the first business day of each November, February, May, and August until July 3, 2017. 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%

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2016, 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 \$56.31 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$21.54 million, \$20.74 million, and \$19.61 million in years one, two and three respectively, following the termination date under the installment loan agreement assuming a base rate of 5% (Prime plus 1.5%).

The 2003B Agreement with Wells Fargo Bank, N.A. required a commitment fee of 0.35% for fiscal year 2016. Payments are made quarterly in arrears, on the first business day of each February, May, August, and November thereafter until July 31, 2017. 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, 2016, 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 \$30.27 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$10.15 million, \$12.76 million, and \$11.71 million in years one, two and three respectively following the purchase date of the Bank Bonds assuming a base rate of 7%.

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.

NOTES TO THE FINANCIAL STATEMENTS

Effective September 21, 2015, TD Securities (USA), LLC replaced Banc of America Securities, LLC as the Remarketing Agent for the Series 2009A bonds. 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 \$26.7 million of demand bonds was "put" and not resold, the Hospitals would be required to pay \$7.6 million, \$7.43 million, \$7.14 million, and \$6.84 million in years one, two, three and four, respectively, following the termination date under the installment loan agreement assuming a Base Rate of 3.5%.

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.

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, 2016 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
2017	\$ 376,970	\$ 141,154	\$ 22,415	\$ 5,659	\$ 108,700	\$ 93,197
2018	387,905	124,282	22,935	4,538	112,295	87,803
2019	390,350	105,784	3,750	3,391	135,015	82,252
2020	358,970	87,257	3,750	3,241	154,015	75,196
2021	279,880	70,465	3,750	3,054	155,240	67,678
2022-2026	995,270	175,327	18,750	12,719	762,150	224,192
2027-2031	203,060	27,015	49,470	2,868	505,900	74,274
2032-2036	46,260	4,510	—	—	63,755	2,729
Total	<u>\$ 3,038,665</u>	<u>\$ 735,794</u>	<u>\$ 124,820</u>	<u>\$ 35,470</u>	<u>\$ 1,997,070</u>	<u>\$ 707,321</u>

Fiscal Year Ending June 30	Governmental Activities			
	GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 67,605	\$ 26,009	\$ 4,323	\$ 737
2018	70,805	22,812	4,555	596
2019	70,445	19,371	1,848	446
2020	38,270	16,068	1,609	395
2021	40,240	14,094	1,677	354
2022-2026	106,625	52,813	9,485	1,099
2027-2031	135,765	17,384	3,701	102
Total	<u>\$ 529,755</u>	<u>\$ 168,551</u>	<u>\$ 27,198</u>	<u>\$ 3,729</u>

Fiscal Year Ending June 30	Business-type Activities					
	Revenue Bonds		GARVEE Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 11,960	\$ 55,178	\$ —	\$ 5,773	\$ 1,048	\$ 18,836
2018	16,070	54,621	—	5,773	978	18,779
2019	19,595	53,835	3,755	5,821	1,635	18,734
2020	21,960	52,881	17,990	5,671	1,035	18,663
2021	24,490	51,799	18,715	4,952	837	18,684
2022-2026	182,739	235,686	105,075	6,346	14,216	92,388
2027-2031	261,653	181,171	—	—	34,855	92,834
2032-2036	249,088	214,197	—	—	76,089	86,285
2037-2041	216,458	84,616	—	—	168,208	74,273
2042-2046	7,375	184	—	—	89,926	18,854
Total	<u>\$ 1,011,388</u>	<u>\$ 984,168</u>	<u>\$ 145,535</u>	<u>\$ 34,336</u>	<u>\$ 388,827</u>	<u>\$ 458,330</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
2017	\$ 128,111	\$ 147,561	\$ 16,066	\$ 2,769	\$ 3,681	\$ 2,835	\$ 6,319
2018	148,955	143,919	12,978	3,098	3,573	3,025	6,100
2019	320,222	139,424	14,159	2,552	3,448	4,465	5,999
2020	171,749	134,096	8,630	2,837	3,348	4,780	5,851
2021	159,594	140,141	6,617	2,946	3,233	5,105	5,684
2022-2026	761,717	567,480	18,034	16,444	14,100	30,160	24,927
2027-2031	842,028	427,161	2,986	19,889	10,109	37,630	17,715
2032-2036	947,035	251,433	219	21,660	5,157	40,430	9,296
2037-2041	490,960	93,133	—	9,030	614	15,355	2,175
2042-2046	233,615	16,037	—	—	—	2,490	188
Total	<u>\$ 4,203,986</u>	<u>\$ 2,060,385</u>	<u>\$ 79,689</u>	<u>\$ 81,225</u>	<u>\$ 47,263</u>	<u>\$ 146,275</u>	<u>\$ 84,254</u>

Fiscal Year Ending June 30	Notes Payable	
	Principal	Interest
2017	\$ 73,700	\$ 11,592
2018	44,438	10,791
2019	46,610	9,642
2020	31,277	8,707
2021	32,621	7,738
2022-2026	167,567	16,886
2027-2031	35,535	2,401
2032-2036	1,957	60
Total	<u>\$ 433,705</u>	<u>\$ 67,817</u>

For revenue bonds of the University of North Carolina System, the fiscal year 2017 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

On March 9, 2016, the State of North Carolina sold \$329.36 million of tax-exempt General Obligation Refunding Bonds, Series 2016A. The bonds carry an all-in true interest cost of 1.97% and have an average life of 10.33 years. The bonds are dated March 9, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1 and commenced on June 1, 2016. The bonds will mature from June 1, 2017 through June 1, 2030 and were issued at coupon rates of 3% and 5%. The bonds maturing on or after June 1, 2027 are subject to redemption prior to maturity. The State issued the refunding bonds for the purpose of achieving debt service savings through the refunding of certain maturities of the State's general obligation bonds as follows: Public Improvement Bonds, Series 2003A, Series 2007A and 2010A; Clean Water Bonds, Series 2006A; and Higher Education Bonds, Series 2006A; and to pay certain costs incurred in connection with the execution and delivery of the bonds. The bonds refunded totaled \$377.78 million with an average interest rate of 4.47%. The net proceeds 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. The Series 2016A refunding reduced total debt service payments by approximately \$54.76 million over the next 14 years and resulted in an economic gain of approximately \$48.77 million. At June 30, 2016, the outstanding balance was \$291.28 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 Chapel Hill

On March 1, 2016, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Chapel Hill, sold \$100 million of General Revenue Refunding Bonds, Series 2016A (2016A) and \$50 million of Series 2016B (2016B), both with a variable interest rate of 67% of London Interbank Offered Rate (LIBOR) plus 0.45%. The 2016A bonds will mature on December 1, 2041. The 2016A bonds were issued for a current refunding of \$100 million of outstanding University of North Carolina at Chapel Hill Commercial Paper Bonds, Series 2002A. In the case of 2016A, because the interest rate on both the old and new debt is variable in nature, there is no baseline on which economic savings can be calculated. The 2016B bonds will mature on Dec 1, 2034. The 2016B bonds were issued for a current refunding of \$50 million of outstanding University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A. In the case of 2016B, because old fixed-rate debt was defeased with new variable-rate debt, economic savings can be estimated using the variable-rate on the new debt as of June 30, 2016. Using that assumption, the refunding was undertaken to reduce total debt service payments by \$36.6 million over the next 18 years and resulted in a net present value economic gain of \$34 million. It is important to recognize this rate is for one period in time and, therefore, only an estimate of future debt service requirements.

On March 1, 2016, the Board of Governors of the University of North Carolina, on behalf of the University of North Carolina at Chapel Hill sold \$400.95 million Series 2016C taxable General Revenue Refunding Bonds with an average interest rate of 3.14%. The bonds are dated March 1, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each December 1 and June 1, commencing June 1, 2016. The Series 2016C bonds include both serial and term bonds. The serial bonds will mature from December 1, 2016 to December 1, 2028 and were issued at coupon rates ranging from 0.7% to 2.78%. The term bonds will mature on December 1, 2036 and were issued at a coupon rate of 3.33%. A portion of the 2016C bonds were issued for a current refunding of \$78.58 million of outstanding the University of North Carolina at Chapel Hill General Revenue and Revenue Refunding Bonds, Series 2005A, with an average interest rate of 4.96%. The refunding was undertaken to reduce total debt service payments by \$20.1 million over the next 19 years and resulted in a net present value economic gain of \$15.06 million. The remaining portion of the 2016C bonds were issued to advance refund \$298.48 million of outstanding the University of North Carolina at Chapel Hill General Revenue Bonds, Series 2007, with an average interest rate of 4.92%. The net proceeds of the refunding bonds, along with University equity, 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 \$56.94 million over the next 22 years and resulted in a net present value economic gain of \$41.81 million. At June 30, 2016, the outstanding balance was \$298.48 million for the defeased the University of North Carolina at Chapel Hill General Revenue Bonds, Series 2007.

NOTES TO THE FINANCIAL STATEMENTS**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, 2016, the outstanding balance of prior year defeased bonds was \$607.08 million for the primary government and \$71.27 million for the University of North Carolina System (component unit).

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 28 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 \$6.75 million, of which \$6.5 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*

Fayetteville State University recognized a pollution remediation liability of \$10 thousand for underground storage tank removal at a campus building. 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, 2016, total operating lease expenditures were \$73.95 million for Primary Government, \$89.67 million for the University of North Carolina System, and \$9.01 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, 2016 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 North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges	
2017	\$ 42,171	\$ 2,483	\$ 59,924	\$ 6,702	\$ 3,546	\$ 7,045	\$ 3,465	
2018	28,268	2,500	49,297	5,899	3,502	6,987	3,431	
2019	22,213	2,325	42,995	4,622	3,534	4,756	3,399	
2020	16,096	1,729	37,386	4,180	2,542	6,407	3,305	
2021	8,535	1,719	32,197	2,667	1,981	2,466	3,192	
2022 - 2026	23,141	8,564	115,160	12,114	7,848	1,175	16,539	
2027 - 2031	10,425	—	40,060	5,502	—	236	12,756	
2032 - 2036	8,072	—	14,195	196	—	4,806	4,152	
2037 - 2041	8,071	—	239	38	—	—	7,549	
2042 - 2046	8,071	—	200	—	—	—	—	
2047 - 2051	8,071	—	—	—	—	—	—	
2052 - Beyond	1,614	—	—	—	—	—	—	
Total Future Minimum Lease Payments..	\$ 184,748	\$ 19,320	\$ 391,653	\$ 41,920	22,953	33,878	57,788	
Less: Amounts Representing Interest					(3,123)	(2,123)	(22,339)	
Present Value of Future Minimum Lease Payments					\$ 19,830	\$ 31,755	\$ 35,449	

At June 30, 2016, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community Colleges
	Buildings.....	\$ 25,487	\$ 8,353
Machinery and Equipment.....	7,113	48,469	924
Other.....	278	567	—
Total Capital Assets.....	\$ 32,878	\$ 57,389	\$ 43,281

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 \$89.776 million due to fiduciary funds is composed of \$26.613 million related to local sales taxes collected in the General Fund and due to the agency fund, as well as \$63.163 million related to retirement contributions payable to retirement systems at year end.

The Highway Fund balance of \$6.766 million and the NC Turnpike Authority balance of \$5.192 million due to fiduciary funds is related to fines and penalties collected by the Highway Fund and the NC 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, 2016, 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	NC Turnpike Authority	Internal Service Funds	
Due To Other Funds								
General Fund.....	\$ —	\$ —	\$ —	\$ 12,087	\$ 19,162	\$ —	\$ 11,703	\$ 42,952
Highway Fund.....	1,642	—	1,205	—	—	—	2,495	5,342
Highway Trust Fund.....	—	11,197	—	—	—	36	—	11,233
Other Governmental Funds.....	65	—	—	40	—	—	297	402
EPA Revolving Loan Fund.....	—	—	—	—	—	—	32	32
NC State Lottery Fund.....	67,738	—	—	—	—	—	—	67,738
NC Turnpike Authority.....	—	253	11,759	—	—	—	3	12,015
Other Enterprise Funds.....	82	—	—	—	—	—	54	136
Internal Service Funds.....	2	—	—	—	—	—	216	218
Total.....	\$69,529	\$ 11,450	\$ 12,964	\$ 12,127	\$ 19,162	\$ 36	\$ 14,800	\$ 140,068

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 \$26.118 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, 2016 consisted of the following (dollars in thousands):

	Transfers In								Total
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	EPA Revolving Loan Fund	NC Turnpike Authority Fund	Other Enterprise Funds	Internal Service Funds	
Transfers Out									
General Fund.....	\$ —	\$ —	\$ 179,682	\$ 1,357	\$ 9,600	\$ —	\$ 6,622	\$ 809	\$ 198,070
Highway Fund.....	25,836	—	11,570	—	—	41,670	—	—	79,076
Highway Trust Fund.....	485	31,044	—	—	—	59,386	—	—	90,915
Other Governmental Funds.....	137,992	—	6,186	—	3,726	—	—	—	147,904
EPA Revolving Loan Fund.....	810	—	45	—	—	—	—	—	855
NC State Lottery Fund.....	636,368	—	1,000	—	—	—	—	—	637,368
Other Enterprise Funds.....	719	—	1,880	—	—	—	—	—	2,599
Internal Service Funds.....	2,544	—	—	—	—	—	—	5,759	8,303
Total.....	\$ 804,754	\$ 31,044	\$ 200,363	\$ 1,357	\$ 13,326	\$101,056	\$ 6,622	\$ 6,568	\$ 1,165,090

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.

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 2016.

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 \$634.27 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].

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

Fund Balance. The details of the fund balance classifications for governmental funds at June 30, 2016 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.....	\$ 78,886	\$ 86,654	\$ —	\$ 21,719	\$ 187,259
Permanent corpus.....	—	—	—	110,202	110,202
Long-term portion of notes receivables.....	5,236	—	—	—	5,236
Restricted for:					
General government.....	4,132	—	—	595	4,727
Primary and secondary education.....	1,842	—	—	—	1,842
Higher education.....	4,770	—	—	4	4,774
Higher education student aid.....	—	—	—	587,578	587,578
Health and human services.....	99,515	—	—	897	100,412
Economic development.....	25,298	—	—	—	25,298
Environment and natural resources.....	13,133	—	—	38,062	51,195
Public safety, corrections, and regulation.....	13,728	—	—	41,921	55,649
Transportation.....	—	3,557	—	—	3,557
Highway Construction/ Preservation.....	—	109,774	—	—	109,774
Debt service.....	—	—	—	118,190	118,190
Capital projects/repairs and renovations.....	—	—	—	166,956	166,956
Committed to:					
General government.....	219,903	—	—	38,202	258,105
Primary and secondary education.....	274,148	—	—	—	274,148
Public school capital projects/repairs and renovations.....	110,301	—	—	—	110,301
Higher education.....	141,418	—	—	—	141,418
Health and human services.....	380,525	—	—	21,485	402,010
Economic development.....	133,350	—	—	24,424	157,774
Environment and natural resources.....	85,495	—	—	202,745	288,240
Public safety, corrections, and regulation.....	58,582	—	—	143,811	202,393
Transportation.....	—	29,374	—	178	29,552
Highway construction/preservation.....	—	30,714	1,455,471	—	1,486,185
Highway maintenance.....	—	27,581	—	—	27,581
Agriculture.....	17,795	—	—	20,889	38,684
Disaster relief.....	3,937	—	—	—	3,937
Capital projects/repairs and renovations.....	92,985	—	—	300,688	393,673
Assigned to:					
Subsequent year's budget.....	221,487	—	—	—	221,487
General government.....	48,258	—	—	—	48,258
Primary and secondary education.....	2,741	—	—	—	2,741
Higher education.....	343	—	—	—	343
Health and human services.....	88,849	—	—	—	88,849
Economic development.....	501	—	—	—	501
Environment and natural resources.....	4,454	—	—	—	4,454
Public safety, corrections, and regulation.....	9,453	—	—	—	9,453
Agriculture.....	591	—	—	—	591
Capital projects/repairs and renovations.....	—	—	—	1,166	1,166
Unassigned.....	1,620,107	—	—	—	1,620,107
Total fund balance.....	\$ 3,761,763	\$ 287,654	\$ 1,455,471	\$ 1,839,712	\$ 7,344,600

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 certain 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 pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-term Investment and External Fixed Income Investment portfolios. The Global Equity Asset Class includes the Equity Investment portfolio.

The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the 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, 2016, 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
	260

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2016 was 9.15% of covered payroll. This was greater than the actuarially determined contribution of 8.69%. 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, 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 the employer contributions or any other 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, 2016, the number of participating local governments was as follows:

Cities.....	425
Counties.....	100
Special Districts.....	359
	<u>884</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). 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 members 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, 2016, all employers made contributions of 7.15% of covered payroll for law enforcement officers and 6.67% for general employees and firefighters. 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. 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, 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 employer contributions or any other 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, 2016, there were 1,698 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 employer contributions or any other 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, 2016, there were 97 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, 2016 was 27.21% of covered payroll. This was greater than the actuarially determined contribution of 26.37%. 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, 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 employer contributions or any other 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, 2016, the State's contractually required contribution was 1.8% 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, prior to January 1, 2015, refunds to members with at least five years of service included 4% interest. Effective January 1, 2015, 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 employer contributions or any other benefit provided by LRS.

NOTES TO THE FINANCIAL STATEMENTS**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.

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. 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, 2016, there were 94 sheriffs and two 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 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, 2016, the Clerks remitted \$875 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 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. 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, 2015, there were approximately 257,600 employees enrolled with 996 participating employers. Benefit and contribution provisions are established by Chapter 135, Article 5 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly.

Benefits of the 401(k) 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.

NOTES TO THE FINANCIAL STATEMENTS

The 401(k) Plan is a defined contribution pension plan with direct administration delegated to a third party contractor. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2015, 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 Services (a subsidiary of Prudential) provides third 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 requires state contributions to the 401(k) Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. 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. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2015, 52 state agencies and component units along with 455 local governmental units outside our reporting entity contributed the required 5%. In addition, eight state agencies and 459 local government employers contributed to the 401(k) Plan on a voluntary basis. There were approximately 13,700 LEOs actively contributing to the 401(k) Plan and approximately 24,700 LEOs receiving employer contributions as of December 31, 2015. All LEO benefit and contribution provisions are established by North Carolina General Statutes 143-166.30 and 143-166.50 and may be amended only by the North Carolina General Assembly.

The 401(k) Plan reported total member contributions of \$307.820 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2015, amounted to \$161.531 million for the State, \$25.974 million for universities, and \$6.283 million for community colleges, public schools and other miscellaneous component units. The required 5% employer's contribution was made by the State for \$8.077 million, by universities for \$1.299 million, and by the remaining component units, public schools and community colleges for \$314 thousand. In addition, the State contributed \$350 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. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. 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, 2016, the plan had 19,098 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 \$116 million for the fiscal year ended June 30, 2016. Annual covered payroll was \$1.7 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 \$101.8 million for the fiscal year ended June 30, 2016. The amount of pension expense recognized in the current fiscal year related to ORP was \$110.8 million. Forfeitures reduced the universities' pension expense by \$5.2 million for the fiscal year ended June 30, 2016. 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	201,522	63,110	13,463	96	647	300	4,484
Inactive plan members entitled to but not yet receiving benefits	143,214	59,289	146	-	45	90	5,512
Active plan members	312,822	124,974	42,821	100	561	170	5,756
	<u>657,558</u>	<u>247,373</u>	<u>56,430</u>	<u>196</u>	<u>1,253</u>	<u>560</u>	<u>15,752</u>
Valuation date	12-31-15	12-31-15	12-31-15	12-31-15	12-31-15	12-31-15	12-31-15

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.

The adopted asset allocation policy for the Registers of Deeds' Supplemental Pension Fund is 100% in the Fixed Income asset class as of June 30, 2016. For all plans other than the Registers of Deeds' Supplemental Pension Fund, the following table displays the adopted asset allocation policy as of June 30, 2016:

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

The preceding table reflects an asset allocation policy which became effective July 1, 2014.

NOTES TO THE FINANCIAL STATEMENTS

Rate of return. For the year ended June 30, 2016, 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	0.74%	0.77%	0.75%	8.04%	0.75%	0.66%	0.77%

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

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2016, 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	\$ 72,459,862	\$ 24,882,010	\$ 443,832	\$ 31,072	\$ 623,842	\$ 28,705	\$ 169,210
Plan fiduciary net position	63,268,829	22,759,675	377,013	49,768	528,440	26,472	109,829
Net pension liability (asset)	<u>\$ 9,191,033</u>	<u>\$ 2,122,335</u>	<u>\$ 66,819</u>	<u>\$ (18,696)</u>	<u>\$ 95,402</u>	<u>\$ 2,233</u>	<u>\$ 59,381</u>
Plan fiduciary net position as a percentage of the total pension liability	87.32%	91.47%	84.94%	160.17%	84.71%	92.22%	64.91%

Actuarial assumptions. The total pension liability was determined by actuarial valuations as of December 31, 2015, 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, 2016 utilizing update procedures incorporating the actuarial assumptions.

	Cost-Sharing, Multiple-Employer				Single-Employer		
	Teachers' and State Employees' (Note 1)	Local Governmental (Note 1)	Firefighters' and Rescue Squad	Registers of Deeds' (Note 1)	Consolidated Judicial (Note 1)	Legislative (Note 1)	North Carolina National Guard
Valuation date	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15
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 (Note 2)	7.25%	7.25%	7.25%	3.75%	7.25%	7.25%	7.25%

Note 1 - Salary increases include 3.5% inflation and productivity factor

Note 2 - Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

NOTES TO THE FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2016, retirees in the LGERS received a 0.625% cost of living adjustment if their retirement began on or before July 1, 2014. Members with retirement effective dates between August 1, 2014, and June 1, 2015 received a prorated amount. This cost of living adjustment was granted by the LGERS' Board of Trustees. The NGPF increased the monthly benefit from \$99 to \$105, the monthly additional benefit from \$9.90 to \$10.50 and the maximum monthly benefit from \$198 to \$210. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2015. 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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 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 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, 2016 (see the discussion of the pension plan's investment policy in Section D) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	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.

Discount rate. The discount rate used to measure the total pension liability was 7.25% except for Registers of Deeds' Supplemental Pension Fund which was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the 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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2016 calculated using the discount rate of 7.25% (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 (6.25%; RODSPF 2.75%) or 1-percentage-point higher (8.25%; RODSPF 4.75%) than the current rate (dollars in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>Cost-Sharing, Multiple-Employer</u>			
TSERS' net pension liability	\$ 17,286,557	\$ 9,191,033	\$ 2,383,807
LGERS' net pension liability (asset)	5,037,291	2,122,335	(312,453)
FRSWPF' net pension liability	122,146	66,819	21,335
<u>Single-Employer</u>			
CJRS' net pension liability	\$ 158,863	\$ 95,402	\$ 41,098
LRS' net pension liability	4,827	2,233	5,000
NCNGs' net pension liability	80,176	59,381	42,267
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
<u>Cost-Sharing, Multiple-Employer</u>			
RODs' net pension asset	\$ (15,075)	\$ (18,696)	\$ (21,738)

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, 2016 (dollars in thousands):

	Teachers' and State Employees'	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard	Total
Primary Government	\$ 303,031	\$ 13,900	\$ 18,908	\$ 65	\$ 7,066	\$ 342,970
Component Units						
University of North Carolina System	\$ 193,767	\$ —	\$ —	\$ —	\$ —	\$ 193,767
Community Colleges	79,733	—	—	—	—	79,733
Other Component Units	2,329	—	—	—	—	2,329
Total Contributions	<u>\$ 578,860</u>	<u>\$ 13,900</u>	<u>\$ 18,908</u>	<u>\$ 65</u>	<u>\$ 7,066</u>	<u>\$ 618,799</u>

NOTES TO THE FINANCIAL STATEMENTS**2. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

As of June 30, 2016, 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	Community Colleges	Other Component Units
Proportionate Share of the Net Pension Liability				
Teachers' and State Employees' Retirement System	\$ 828,018	\$ 532,624	\$ 216,890	\$ 6,224
Net Pension Liability				
Firefighters' and Rescue Squad	36,359	—	—	—
Consolidated Judicial	44,232	—	—	—
North Carolina National Guard	40,721	—	—	—
Total Net Pension Liability	<u>\$ 949,330</u>	<u>\$ 532,624</u>	<u>\$ 216,890</u>	<u>\$ 6,224</u>

The primary government also reported a net pension asset of \$4.504 million for the Legislative Retirement System. Each net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate each net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014. Update procedures were used to roll forward the total pension liability to June 30, 2015. 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.

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, 2015 and 2014 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, 2015	22.47%	14.45%	5.89%	0.17%
Proportion – June 30, 2014	22.78%	14.79%	5.87%	0.17%
Change – Increase (Decrease)	(0.31)	(0.34)	0.20	—

For the year ended June 30, 2016, 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	\$ 82,192	\$ 54,349	\$ 23,809	\$ 654
Consolidated Judicial	9,068	—	—	—
Legislative	146	—	—	—
Total Pension Expense	<u>\$ 91,406</u>	<u>\$ 54,349</u>	<u>\$ 23,809</u>	<u>\$ 654</u>

NOTES TO THE FINANCIAL STATEMENTS

As a result of its requirement to contribute, the primary government recognized expense of \$2.91 million for FRSWPF and \$10.85 million for NGPF for the year ended June 30, 2016. 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, 2015 and 2014.

At June 30, 2016, 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	\$ —	\$ 2,202	\$ —	\$ 132	\$ 38	\$ 2,372
Change in proportion and differences between agency's contributions and proportionate share of contributions	21,493	—	—	—	—	21,493
Contributions subsequent to the measurement date	303,031	13,900	18,908	65	7,066	342,970
Total	<u>\$ 324,524</u>	<u>\$ 16,102</u>	<u>\$ 18,908</u>	<u>\$ 197</u>	<u>\$ 7,104</u>	<u>\$ 366,835</u>
Component Units:						
University of North Carolina System						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 19,082					
Contributions subsequent to the measurement date	193,767					
Total	<u>\$ 212,849</u>					
Community Colleges						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 12,439					
Contributions subsequent to the measurement date	79,733					
Total	<u>\$ 92,172</u>					
Other Component Units						
Change in proportion and differences between agency's contributions and proportionate share of contributions	\$ 179					
Contributions subsequent to the measurement date	2,329					
Total	<u>\$ 2,508</u>					

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2016, 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	\$ 94,147	\$ 2,501	\$ 3,293	\$ 334	\$ 121	\$ 100,396
Changes of assumptions	—	13,542	—	—	—	13,542
Net difference between projected and actual earnings on pension plan investments	89,754	2,223	2,972	238	487	95,674
Change in proportion and differences between agency's contributions and proportionate share of contributions	17,282	—	—	—	—	17,282
Total	\$ 201,183	\$ 18,266	\$ 6,265	\$ 572	\$ 608	\$ 226,894
Component Units:						
University of North Carolina System						
Difference between actual and expected experience	\$ 60,559					
Net difference between projected and actual earnings on pension plan investments	57,705					
Change in proportion and differences between agency's contributions and proportionate share of contributions	14,505					
Total	\$ 132,769					
Community Colleges						
Difference between actual and expected experience	\$ 24,660					
Net difference between projected and actual earnings on pension plan investments	23,498					
Change in proportion and differences between agency's contributions and proportionate share of contributions	4,220					
Total	\$ 52,378					
Other Component Units						
Difference between actual and expected experience	\$ 708					
Net difference between projected and actual earnings on pension plan investments	674					
Change in proportion and differences between agency's contributions and proportionate share of contributions	44					
Total	\$ 1,426					

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, 2017. 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):

Year Ending June 30	Component Units			
	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
2017	\$ (106,319)	\$ (66,901)	\$ (25,565)	\$ (763)
2018	(106,319)	(66,901)	(25,565)	(763)
2019	(103,230)	(65,805)	(25,042)	(747)
2020	136,178	85,920	36,233	1,026

Year Ending June 30	Primary Government			
	Firefighters' and Rescue Squad	Consolidated Judicial	Legislative	North Carolina National Guard
2017	\$ (3,630)	\$ (3,733)	\$ (288)	\$ (561)
2018	(3,630)	(3,733)	(264)	(566)
2019	(3,628)	(3,706)	(175)	(522)
2020	2,205	4,907	287	1,079
2021	(1,615)			
Thereafter	(5,766)			

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Teachers' and State Employees' (Note 1)	Firefighters' and Rescue Squad	Consolidated Judicial (Note 1)	Legislative	North Carolina National Guard
Valuation date	12/31/14	12/31/14	12/31/14	12/31/14	12/31/14
Inflation	3%	3.5%	3%	3%	3%
Salary Increases	4.25%-9.10%	N/A	5.00%-5.95%	7.50%	N/A
Investment Rate of Return (Note 2)	7.25%	7.25%	7.25%	7.25%	7.25%

Note 1 - Salary increases include 3.5% inflation and productivity factor

Note 2 - Investment rate of return is net of pension plan investment expense, including inflation

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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29%	2.2%
Global Equity	42%	5.8%
Real Estate	8%	5.2%
Alternatives	8%	9.8%
Credit	7%	6.8%
Inflation Protection	6%	3.4%
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 (Asset)</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	\$ 2,492,105	\$ 828,018	\$ (584,152)
University of North Carolina System	1,603,050	532,624	(375,757)
Community Colleges	652,778	216,890	(153,012)
Other Component Units	18,733	6,224	(4,391)
Firefighters' and Rescue Squad	\$ 86,337	\$ 36,359	\$ (5,502)
Consolidated Judicial	\$ 99,695	\$ 44,232	\$ (3,843)
Legislative	\$ (2,756)	\$ (4,504)	\$ (6,040)
North Carolina National Guard	\$ 58,365	\$ 40,721	\$ 26,090

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, 2016 (dollars in thousands):

	Consolidated	
	Judicial	Legislative
Total pension liability		
Service Cost	\$ 16,812	\$ 844
Interest	40,846	1,742
Differences between expected and actual experience	(2,289)	(579)
Benefit payments, including refunds of member contributions	(38,364)	(2,473)
Net change in total pension liability	<u>17,005</u>	<u>(466)</u>
Total pension liability - beginning (a)	565,761	24,418
Total pension liability - ending (c)	<u>\$ 582,766</u>	<u>\$ 23,952</u>
Plan fiduciary net position		
Contributions-employer	\$ 18,949	\$ -
Contributions-member	6,238	253
Net investment income	12,176	642
Benefit payments, including refunds of member contributions	(38,364)	(2,473)
Administrative expense	(30)	(17)
Other	1	-
Net change in plan fiduciary net position	<u>(1,030)</u>	<u>(1,595)</u>
Plan fiduciary net position - beginning (b)	539,564	30,051
Plan fiduciary net position - ending (d)	<u>\$ 538,534</u>	<u>\$ 28,456</u>
Net pension liability (asset) - beginning (a) - (b)	26,197	(5,633)
Net pension liability (asset) - ending (c) - (d)	<u>\$ 44,232</u>	<u>\$ (4,504)</u>

G. Special Separation and Allowance

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(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and major component units 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. 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. For the fiscal year ended June 30, 2016, the State and its major component units paid \$17 million for 1,037 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit's operations. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

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 Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan which was established as an agency of the State to offer the State's permanent employees, university employees, and the employees of certain other component units, a uniform Deferred Compensation Plan (the 457 Plan) in accordance with Internal Revenue Code (IRC) Section 457. At December 31, 2015, there were approximately 55,600 plan members with 395 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 these independent plans. The 457 Plan permits each participating employee to defer a portion of his or her salary until future years by having the funds invested in various instruments that make up the North Carolina Public Employee Deferred Compensation Trust Fund. This fund is held in trust by the 457 Plan for the exclusive benefit of participating employees and their beneficiaries. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the 457 Plan. The audited statements for the year ended December 31, 2015 are presented in this financial report as a pension and other employee benefit trust fund. All costs of administering and funding the 457 Plan are the responsibility of the plan participants. Prudential Retirement Services (a subsidiary of 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. Through an agreement with the Supplemental Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The 457 Plan's investment risks are described in Note 3.

2. IRC SECTION 403(B) PLANS

Employees of the University of North Carolina System and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of \$200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1, 1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. 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 State sponsored 403(b) Plan (NC 403(b) Plan) is available to all local school Boards of Education across the State. Each individual Board of Education 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), serves as the record keeper. The NC 403(b) Plan is designed to provide a low-cost supplemental retirement savings option to public school employees. At June 30, 2016, there were 50 school districts enrolled in the Plan with 1,172 public school employees participating.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income 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).

A. Summary of Significant Accounting Policies and Plan Asset Matters

BASIS OF ACCOUNTING

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.

INVESTMENTS /SECURITIES LENDING

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 investment balance of the Disability Income Plan and the Retiree Health Benefit Fund are invested in the External Investment Pool.

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

B. Plan Descriptions and Contribution Information

1. HEALTH BENEFITS

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of employees and former 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. At June 30, 2016, the number of participating employers was as follows:

State of North Carolina.....	1
LEAs.....	116
Charter Schools.....	86
Community Colleges.....	58
University of North Carolina System.....	19
Other Component Units.....	4
Local governments.....	<u>80</u>
Total.....	<u><u>364</u></u>

The Plan is reported as a major component unit. It is administered by the State Treasurer, the Board of Trustees, and the Executive Administrator. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees. Plan benefits received by retired employees and disabled employees 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.

NOTES TO THE FINANCIAL STATEMENTS

Those former employees who are eligible to receive medical benefits 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.

The Plan'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. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund 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 the Fund. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to the Fund, 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 5.6% of active employee salaries. The Fund is reported as an employee benefit trust fund. The State's total payments are shown in the table on page 144. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* section of this report.

2. *DISABILITY INCOME*

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 proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. 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

NOTES TO THE FINANCIAL STATEMENTS

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.

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, 2016, the State and the other employers made a statutory contribution of 0.41% of covered payroll. This was equal to the actuarially required contribution. The State's total payments are shown in the table below. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* of this CAFR.

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. 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. The plan does not provide for automatic post-retirement benefit increases.

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

Required Contributions as an Employer
For the Years Ended June 30, 2014 through June 30, 2016
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2016	\$ 185,760	\$ 13,600
2015	182,167	13,604
2014	176,765	14,403
Component units:		
Universities:		
2016	\$ 219,435	\$ 16,066
2015	206,262	15,404
2014	197,870	16,123
Community Colleges:		
2016	\$ 48,905	\$ 3,581
2015	47,511	3,548
2014	46,083	3,755
Other Component Units:		
2016	\$ 441	\$ 32
2015	426	32
2014	415	34
Percentage Contributed:		
2016	100%	100%
2015	100%	100%
2014	100%	100%

For 2016 and the two preceding years, the primary government and component units together contributed 100% of the required contributions for Retiree Health Benefit and Disability Income.

NOTES TO THE FINANCIAL STATEMENTS

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

	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Retirees and beneficiaries currently receiving benefits	207,884	N/A
Disabled members receiving long term disability benefits	N/A	6,709
Terminated employees entitled to benefits but not yet receiving them	37,118	-
Active plan members	<u>342,965</u>	<u>321,718</u>
Total	<u>587,967</u>	<u>328,427</u>
 Date of valuation	 12/31/15	 12/31/15
N/A - Not Applicable		

The funding status of each plan as of the most recent actuarial valuation date is presented below (dollars in thousands):

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
Retiree Health (1)	12/31/15	\$ 960,978	\$ 33,472,004	\$ 32,511,026	2.9%	\$ 15,691,815	207.2%
Disability Income (2)	12/31/15	\$ 439,956	\$ 395,950	\$ (44,006)	111.1%	\$ 14,718,736	(0.3%)

(1) The AAL has been prepared using the projected unit credit cost method.

(2) The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Segal Consulting reported the adjusted, annualized payroll for postemployment health benefits.

Multiyear trend information on funding progress is presented in the *Required Supplementary Information* section of this CAFR. These schedules indicate whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Actuarial Methods and Assumptions

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 latest actuarial valuation for Retiree Health is dated December 31, 2015. The latest actuarial valuation for DIPNC is dated December 31, 2015. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial assumptions used for the Retiree Health Benefit 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 Retiree Health reflects a pay-as-you-go approach.

NOTES TO THE FINANCIAL STATEMENTS

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.

Below are listed the actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

	<u>Retiree Health Benefit</u>	<u>Disability Income</u>
Valuation Date	12/31/15	12/31/15
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percentage of pay	Level percentage of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value	5 year smoothed with 80%/120% corridor
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	3.75%
Medical Cost Trend Rate (2)	6% grading to 5% by 2020	N/A
Drug Cost Trend Rate (2)	10.5% grading to 5% by 2027	N/A
Projected Salary Increases (3)	Vary by group and years of service	3.5% - 8.1%

(1) The aggregate cost method does not identify or separately amortize unfunded liabilities, thus information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method.

(2) For the Retiree Health Benefit, the investment rate of return includes an inflation and productivity rate of 3.5%. The medical and drug cost trend rates include only inflation of 3%. For the DIPNC, the investment rate of return includes an inflation rate of 3%.

(3) For the DIPNC, the projected salary increases include an inflation and productivity rate of 3.5%.

N/A - Not Applicable

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 32 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	
	2016	2015
Unpaid claims at beginning of year	\$ 10,176	\$ 7,161
Incurred claims:		
Provision for insured events		
of the current year	943	10,524
Increases (decreases) in provision		
for insured events of prior years	(337)	(1,899)
Total incurred claims	606	8,625
Payments:		
Claims attributable to insured		
events of the current year	872	1,448
Claims attributable to insured		
events of the prior years	4,116	4,162
Total payments	4,988	5,610
Total unpaid claims at end		
of the year	\$ 5,794	\$ 10,176

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 2016. 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 have the option of selecting one of four fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP). 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 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
2014-15	\$ 232,676	\$ 2,715,826	\$ (2,663,469)	\$ 285,033
2015-16	285,033	2,777,913	(2,798,310)	264,636

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, 2015 to June 30, 2016, 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 2015 to June 2016.

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). Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

NOTES TO THE FINANCIAL STATEMENTS

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2014-15	\$ 3,960	\$ 48,719	\$ (50,119)	\$ 2,560
2015-16	2,560	50,486	(50,187)	2,859

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
2014-15	\$ 1,340	\$ 978	\$ (706)	\$ 1,612
2015-16	1,612	264	(1,083)	793

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.

For the periods ending June 30, 2015 and June 30, 2016, 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,

NOTES TO THE FINANCIAL STATEMENTS

2015 and June 30, 2016, 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, 2016, 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 \$36.846 million and \$39.536 million are the present values of the aggregate actuarially determined claims liabilities of \$56.732 million and \$31.835 million, discounted at 0.5% at June 30, 2015 and 1.5% at June 30, 2016.

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
2014-15	\$ 41,842	\$ (1,188)	\$ (3,808)	\$ 36,846
2015-16	36,846	9,667	(6,977)	39,536

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 \$75,000 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).

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

NOTES TO THE FINANCIAL STATEMENTS

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 (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2014-15	\$ 177,714	\$ 90,929	\$ (66,480)	\$ 202,163
2015-16	202,163	59,180	(59,437)	201,906

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, 2016, the Fund consisted of 1,112 eligible units representing approximately 42,226 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, 2016, there was no reduction for subrogation.

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2016, there are claims recoverable from reinsurers in the amount of \$583 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	
2014-15	\$ 21,550	\$ 7,472	\$ (2,996)	\$ 26,026	(1)
2015-16	26,026	6,762	(7,537)	25,251	

(1) Fiscal year 2014-15 is restated due to understated claims payable.

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, 2016 are presented below.

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Assets						
Cash and cash equivalents.....	\$ 123,278	\$ 1,765	\$ 135	\$ 332	\$ 1,568	\$ 67,953
Investments:						
Collective investment funds.....	—	—	—	—	—	—
Unallocated insurance contracts.....	—	—	—	—	—	—
Synthetic guaranteed investment contracts....	—	—	—	—	—	—
State Treasurer investment pool.....	63,024,077	524,823	26,316	376,646	108,249	22,649,678
Non-State Treasurer pooled investments.....	—	—	—	—	—	—
Securities lending collateral.....	1,917,420	16,001	805	11,437	3,311	690,701
Receivables:						
Accounts receivable.....	3,547	3	—	34	11	3,208
Interest receivable.....	222	2	—	1	1	75
Contributions receivable.....	69,167	—	27	—	—	39,260
Due from other funds.....	43,273	1,920	—	—	—	—
Due from component units.....	12,872	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Total Assets.....	<u>65,193,856</u>	<u>544,514</u>	<u>27,283</u>	<u>388,450</u>	<u>113,140</u>	<u>23,450,875</u>
Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	—	—	—	—	—
Benefits payable.....	567	18	—	—	—	478
Obligations under securities lending.....	1,917,420	16,001	805	11,437	3,311	690,701
Funds held for others.....	7,040	55	6	—	—	21
Total Liabilities.....	<u>1,925,027</u>	<u>16,074</u>	<u>811</u>	<u>11,437</u>	<u>3,311</u>	<u>691,200</u>
Net Position						
Restricted for:						
Pension benefits.....	63,268,829	528,440	26,472	377,013	109,829	22,759,675
Other Postemployment benefits.....	—	—	—	—	—	—
Other employment benefits.....	—	—	—	—	—	—
Total Net Position.....	<u>\$ 63,268,829</u>	<u>\$ 528,440</u>	<u>\$ 26,472</u>	<u>\$ 377,013</u>	<u>\$ 109,829</u>	<u>\$ 22,759,675</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	Totals
\$ —	\$ —	\$ 4,783	\$ 162,151	\$ 4,155	\$ 906	\$ 90	\$ 367,116
199,428	31,757	—	—	—	—	—	231,185
644,273	136,600	—	—	—	—	—	780,873
1,106,024	227,643	—	—	—	—	—	1,333,667
—	—	425,927	860,293	418,400	—	49,597	88,464,006
5,947,914	758,518	—	—	—	—	—	6,706,432
—	—	33,077	35,054	32,463	50	3,825	2,744,144
251	43	—	—	23,029	—	—	30,126
—	—	3	95	4	—	—	403
4,788	437	967	28,375	2,066	—	81	145,168
—	—	457	16,340	1,173	—	—	63,163
—	—	136	6,882	504	—	—	20,394
292,562	19,117	—	—	—	—	—	311,679
<u>8,195,240</u>	<u>1,174,115</u>	<u>465,350</u>	<u>1,109,190</u>	<u>481,794</u>	<u>956</u>	<u>53,593</u>	<u>101,198,356</u>
1,133	228	101	—	—	—	—	1,462
—	—	2,859	—	330	—	—	4,252
—	—	33,077	35,054	32,463	50	3,825	2,744,144
—	—	—	—	181	—	—	7,303
<u>1,133</u>	<u>228</u>	<u>36,037</u>	<u>35,054</u>	<u>32,974</u>	<u>50</u>	<u>3,825</u>	<u>2,757,161</u>
8,194,107	—	—	—	—	906	49,768	95,315,039
—	—	—	1,074,136	448,820	—	—	1,522,956
—	1,173,887	429,313	—	—	—	—	1,603,200
<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>

NOTES TO THE FINANCIAL STATEMENTS**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firefighters' and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System
Additions						
Contributions:						
Employer.....	\$ 1,275,003	\$ 18,908	\$ 65	\$ —	\$ —	\$ 414,168
Members.....	864,151	7,561	253	2,779	—	375,572
Other contributions.....	—	—	—	13,900	7,066	—
Total contributions.....	<u>2,139,154</u>	<u>26,469</u>	<u>318</u>	<u>16,679</u>	<u>7,066</u>	<u>789,740</u>
Investment Income:						
Investment earnings.....	891,399	7,456	358	5,365	1,557	325,204
Less investment expenses.....	(419,225)	(3,484)	(178)	(2,499)	(716)	(150,015)
Net investment income.....	<u>472,174</u>	<u>3,972</u>	<u>180</u>	<u>2,866</u>	<u>841</u>	<u>175,189</u>
Other additions:						
Fees, licenses and fines.....	—	—	—	—	—	3,150
Interest earnings on loans.....	—	—	—	—	—	—
Miscellaneous.....	325	—	—	18	1	97
Total other additions.....	<u>325</u>	<u>—</u>	<u>—</u>	<u>18</u>	<u>1</u>	<u>3,247</u>
Total additions.....	<u>2,611,653</u>	<u>30,441</u>	<u>498</u>	<u>19,563</u>	<u>7,908</u>	<u>968,176</u>
Deductions						
Claims and benefits.....	4,224,275	40,440	2,368	27,053	8,511	1,193,040
Medical insurance premiums.....	—	—	—	—	—	—
Refund of contributions.....	115,362	22	61	945	—	58,878
Administrative expenses.....	10,217	73	53	860	97	3,925
Other deductions.....	—	—	—	—	—	—
Total deductions.....	<u>4,349,854</u>	<u>40,535</u>	<u>2,482</u>	<u>28,858</u>	<u>8,608</u>	<u>1,255,843</u>
Change in net position.....	(1,738,201)	(10,094)	(1,984)	(9,295)	(700)	(287,667)
Net position — July 1.....	65,007,030	538,534	28,456	386,308	110,529	23,047,342
Net position — June 30.....	<u>\$ 63,268,829</u>	<u>\$ 528,440</u>	<u>\$ 26,472</u>	<u>\$ 377,013</u>	<u>\$ 109,829</u>	<u>\$ 22,759,675</u>

NOTES TO THE FINANCIAL STATEMENTS

401(k) Supplemental Retirement Income Plan	457 Deferred Compensation Plan	Death Benefit Plan of N.C.	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
\$ 181,356	\$ 1,278	\$ 26,952	\$ 880,847	\$ 63,963	\$ 875	\$ 817	\$ 2,864,232
307,820	76,418	—	—	—	—	—	1,634,554
—	—	24,627	—	—	—	—	45,593
<u>489,176</u>	<u>77,696</u>	<u>51,579</u>	<u>880,847</u>	<u>63,963</u>	<u>875</u>	<u>817</u>	<u>4,544,379</u>
3,095	2,910	31,928	13,566	31,599	7	3,737	1,318,181
—	—	(127)	(5,686)	(127)	—	(15)	(582,072)
<u>3,095</u>	<u>2,910</u>	<u>31,801</u>	<u>7,880</u>	<u>31,472</u>	<u>7</u>	<u>3,722</u>	<u>736,109</u>
—	—	—	—	—	—	—	3,150
12,104	801	—	—	—	—	—	12,905
1,848	260	—	—	—	—	—	2,549
<u>13,952</u>	<u>1,061</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,604</u>
<u>506,223</u>	<u>81,667</u>	<u>83,380</u>	<u>888,727</u>	<u>95,435</u>	<u>882</u>	<u>4,539</u>	<u>5,299,092</u>
438,245	73,283	50,486	—	75,066	800	1,718	6,135,285
—	—	262	855,686	—	—	—	855,948
—	—	—	—	—	—	—	175,268
2,503	404	583	520	1,018	88	47	20,388
—	—	—	8,397	—	—	—	8,397
<u>440,748</u>	<u>73,687</u>	<u>51,331</u>	<u>864,603</u>	<u>76,084</u>	<u>888</u>	<u>1,765</u>	<u>7,195,286</u>
65,475	7,980	32,049	24,124	19,351	(6)	2,774	(1,896,194)
<u>8,128,632</u>	<u>1,165,907</u>	<u>397,264</u>	<u>1,050,012</u>	<u>429,469</u>	<u>912</u>	<u>46,994</u>	<u>100,337,389</u>
<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>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PLEDGED REVENUES

Primary Government**Governmental Activities**

The State has pledged future federal transportation revenues to repay \$529.755 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2016. These bonds were issued in October 2007, August 2009, 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 10% 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 (including North Carolina Turnpike Authority GARVEE bonds below) 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 \$698.306 million, payable through 2030. For the current fiscal year, principal and interest paid and total federal transportation revenues were \$94.226 million and \$1.031 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 Monroe Connector System Senior Lien Revenue Bonds (\$10 million) and State Annual Appropriation Revenue Bonds (\$214.505 million). In December 2011, NCTA issued Monroe Connector System GARVEE bonds (\$145.535 million). For the Senior Lien 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. For the GARVEE bonds, the State has pledged future federal transportation revenues. 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 the NCTA are expected to require less than 13% of such federal transportation revenues.

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 \$2.175 billion, payable through fiscal year 2042 (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 \$69.528 million and \$66.796 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 6/30/2016
		(1) Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments		
Revenue Bonds							
Housing and Dining	Housing and Dining Revenues	\$ 85,798	16% - 74%	\$ 5,909	\$ 3,812	2035	\$ 55,820
Utilities	Utilities Revenues	56,194	6% - 24%	27,485	9,177	2026	55,610
Health Care Facilities	Patient Service Revenues	416,358	12% - 100%	103,985	16,120	2034	125,150
Total		<u>\$ 558,350</u>		<u>\$ 137,379</u>	<u>\$ 29,109</u>		<u>\$ 236,580</u>
Special Indebtedness							
Student Housing System	Housing Revenues	\$ 87,653	28% - 80%	\$ 6,874	\$ 6,126	2039	\$ 78,110

(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, 2016 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.....	\$ 1,858,177	\$ 297,630	\$ 953,478	\$ 109,486	\$ 3,218,771
Investments.....	2,372,484	74,757	—	939,509	3,386,750
Receivables, net.....	1,261,742	87,039	78,263	71,262	1,498,306
Due from component units.....	1,638	4,734	—	2,401	8,773
Due from primary government.....	7,966	—	—	30,846	38,812
Inventories.....	129,135	19,602	—	717	149,454
Prepaid items.....	54,943	6,859	—	4,193	65,995
Notes receivable, net.....	184,976	227	—	2,697,669	2,882,872
Investment in joint venture.....	134,499	—	—	—	134,499
Restricted/designated cash and cash equivalents.....	1,457,706	97,921	—	970,174	2,525,801
Restricted investments.....	4,327,835	235,268	—	1,911,072	6,474,175
Restricted due from primary government.....	335	14,095	—	—	14,430
Capital assets- nondepreciable.....	1,189,928	338,651	—	124,074	1,652,653
Capital assets- depreciable, net.....	11,822,799	2,558,780	32	521,786	14,903,397
Total Assets.....	24,804,163	3,735,563	1,031,773	7,383,189	36,954,688
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives.....	183,882	—	—	5,174	189,056
Deferred loss on refunding.....	59,084	—	—	—	59,084
Deferred outflows for pensions.....	238,780	92,172	263	2,264	333,479
Other deferred outflows.....	3,779	3,421	—	—	7,200
Total Deferred Outflows of Resources.....	485,525	95,593	263	7,438	588,819
Liabilities					
Accounts payable and accrued liabilities.....	907,302	68,880	34,680	101,790	1,112,652
Medical claims payable.....	—	—	264,636	—	264,636
Interest payable.....	45,430	40	—	15,488	60,958
Short-term debt.....	73,100	—	—	—	73,100
Due to component units.....	—	—	—	8,773	8,773
Due to primary government.....	333	22	6	22	383
Unearned revenue.....	251,780	20,045	35,333	49,650	356,808
Advance from primary government.....	—	—	—	3,645	3,645
Obligations under reverse repurchase agreements.....	15,255	—	—	—	15,255
Deposits payable.....	13,327	—	—	3,583	16,910
Funds held for others.....	899,953	7,461	—	1,814,431	2,721,845
Hedging derivatives liability.....	183,882	—	—	5,174	189,056
Long-term liabilities:					
Due within one year.....	357,724	15,915	32	245,594	619,265
Due in more than one year.....	5,902,580	341,892	1,041	2,202,048	8,447,561
Total Liabilities.....	8,650,666	454,255	335,728	4,450,198	13,890,847
Deferred Inflows of Resources					
Deferred state aid.....	—	—	—	125,968	125,968
Deferred inflows for pensions.....	140,856	52,378	159	1,276	194,669
Other deferred inflows.....	990	156	—	—	1,146
Total Deferred Inflows of Resources.....	141,846	52,534	159	127,244	321,783
Net Position					
Net investment in capital assets.....	8,166,346	2,841,266	32	531,867	11,539,511
Restricted for:					
Nonexpendable:					
Higher education.....	2,295,248	193,363	—	—	2,488,611
Health and human services.....	404	—	—	—	404
Expendable:					
Higher education.....	2,819,389	229,115	—	499,416	3,547,920
Health and human services.....	283,189	—	—	41	283,230
Economic development.....	—	—	—	793,604	793,604
Unrestricted.....	2,932,600	60,623	696,117	988,257	4,677,597
Total Net Position.....	\$ 16,497,176	\$ 3,324,367	\$ 696,149	\$ 2,813,185	\$ 23,330,877

NOTES TO THE FINANCIAL STATEMENTS**Statement of Activities**

	University of North Carolina System	Community Colleges	State Health Plan	Other Component Units	Total
Total expenses.....	\$ 11,370,842	\$ 2,148,114	\$ 3,149,410	\$ 907,907	\$ 17,576,273
Program revenues:					
Charges for services..... [1]	7,895,034	332,843	3,075,791	496,533	11,800,201
Operating grants and contributions:					
State aid - program.....	—	—	—	245,636	245,636
Other operating grants and contributions.....	869,864	801,954	29,318	71,397	1,772,533
Capital grants and contributions:					
State capital aid.....	59,980	55,641	—	6,051	121,672
Other capital grants and contributions.....	57,659	159,060	—	2,808	219,527
Net program expense.....	(2,488,305)	(798,616)	(44,301)	(85,482)	(3,416,704)
Non-tax general revenues:					
Unrestricted investment loss.....	—	—	—	(1,893)	(1,893)
State aid - general.....	2,733,406	970,940	—	102,920	3,807,266
Miscellaneous.....	1,269	—	—	5,961	7,230
Total non-tax general revenues.....	2,734,675	970,940	—	106,988	3,812,603
Contributions to endowments.....	76,520	5,017	—	—	81,537
Special Item: Gain on change in pension plan.....	75,741	—	—	—	75,741
Change in net position.....	398,631	177,341	(44,301)	21,506	553,177
Net position — July 1, as restated	16,098,545	3,147,026	740,450	2,791,679	22,777,700
Net position — June 30.....	\$ 16,497,176	\$ 3,324,367	\$ 696,149	\$ 2,813,185	\$ 23,330,877

[1] The State Health Plan's charges for services include \$1.23 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).....	\$ (301,068)	\$ (82,564)	\$ 385,758	\$ (2,126)	\$ —

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	Other Component Units	Total
Due To Component Units:							
General Fund.....	\$ —	\$ —	\$ —	\$ 7,966	\$ —	\$ 30,846	\$ 38,812
Other Governmental Funds.....	—	—	—	335	14,095	—	14,430
Due To Primary Government:							
University of North Carolina System..	8	325	333	—	—	—	—
Community Colleges.....	—	22	22	—	—	—	—
State Health Plan	—	6	6	—	—	—	—
Other Component Units.....	—	22	22	—	—	—	—
Total.....	\$ 8	\$ 375	\$ 383	\$ 8,301	\$ 14,095	\$ 30,846	\$ 53,242

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 seven members elected by the majority vote of persons then constituting the MCNC Board. 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. 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 Insurance and Annuity Company (Prudential), which is a subsidiary of Prudential Financial, Inc., provides administrative services related to the North Carolina Stable Value Fund and the Pooled Separate Account SA-NC. Prudential is also the provider of record keeping and participant services. The fees to Prudential are deducted from the participants' account balances. Prudential Investment Management is one of the managers in the NC Fixed Income Fund and Stable Value Fund.

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, 2016, this support totaled \$83.49 million for the UNC System and \$2.47 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 2045, the outstanding principal of such bonds and notes as of June 30, 2016, was \$7.1 billion with interest rates varying from 0.2% to 7%.

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, 2016, was \$2.9 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.

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 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

NOTES TO THE FINANCIAL STATEMENTS

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. North Carolina 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 has filed and briefed its motion to dismiss (Rules 12(b) (1), (2) and (6)). After a hearing, the trial court denied the motion to dismiss. The State successfully appealed to the North Carolina Court of Appeals, and the case is now back in superior court.

House Bill 2 Lawsuits - In part in response to a City of Charlotte ordinance, the General Assembly passed, and the Governor signed, House Bill 2 ("HB2") on March 23, 2016. HB2, among other things, states that the regulation of discriminatory practices in places of public accommodation, the wage levels of employees and related labor law matters and the regulation of discriminatory practices in employment are issues of statewide concern and therefore preempts local governments and other political subdivisions from adopting conflicting non-discrimination ordinances, establishing a minimum wage and regulating other employment practices. In addition, HB2 specifies public agency restrooms or changing facilities that are intended to be occupied by multiple occupants must be designated for and only used by persons based on their biological sex. On July 1, 2016, the General Assembly passed a measure to ensure HB2 did not remove the right of workers to sue for employment discrimination under state law.

On March 28, 2016, the ACLU of North Carolina and individual plaintiffs sued, in their official capacities, the Governor, the Board of Governors of the University of North Carolina and others over HB2 seeking a declaratory judgment that HB2 is unconstitutional. On May 4, 2016, the U.S. Department of Justice ("DOJ") notified the State of North Carolina that HB2 violates Title VII of the Civil Rights Act of 1964, Title IX, Education Amendments of 1972 and the Violence Against Women Reauthorization Act of 2013 ("VAWA"), with the potential result that the U.S. Department of Education and other federal agencies would curtail federal funds to the State. On May 9, 2016, the DOJ sued the State, the Governor, the University of North Carolina system and other parties seeking a declaratory judgment that HB2 was in violation of federal law. On May 12, 2016, a spokesperson for the Obama administration indicated that federal funds would not be withdrawn from North Carolina based on HB2 prior to the conclusion of the action filed by the DOJ. On May 16, 2016, the individual plaintiffs in the March 28 lawsuit filed a motion for a preliminary injunction against the enforcement of HB2. On June 9, 2016, a joint motion (agreed to by DOJ) was filed in the DOJ lawsuit mentioned above seeking an injunction against automatic actions allegedly scheduled to occur under VAWA as a result of the court case. This motion was granted on June 23, 2016. On July 5, 2016, in the same court in which a similar motion was filed on June 9, 2016, the DOJ filed a motion for a preliminary injunction against enforcement of HB2. On August 26, 2016, U.S. District Court Judge Thomas Schroeder granted individual plaintiffs May 16, 2016 motion for a preliminary injunction and enjoined the University of North Carolina from enforcing Part I of HB2 against only the individual transgender plaintiffs. The individual plaintiffs have appealed this order to the Fourth Circuit. The trial of both cases is tentatively set to begin in May 2017. The DOJ motion for a preliminary injunction will be heard at the same time. Given that these cases are all in the early discovery stages, the State is unable to give an opinion on the likely outcome of this litigation.

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.

NOTES TO THE FINANCIAL STATEMENTS**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. As of June 30, 2016, the State is unable to estimate what liabilities may result from such audits.

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, 2016, the amount due to CMS was \$52.9 million.

D. Highway Construction

The State has placed on deposit in court \$171.32 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 \$47.2 million in these proceedings. Also, the State is contingently liable for outstanding contractors' claims in the amount of \$34.73 million. These costs have not been included in project-to-date costs.

E. Construction and Other Commitments

At June 30, 2016, the State had commitments of \$4.083 billion for construction of highway infrastructure. Of this amount, \$2.660 billion relates to the Highway Fund, \$205 million relates to the N.C. Turnpike Authority, and \$1.218 billion relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled \$102.56 million (including \$46.44 million for the Division of Mental Health within the Department of Health and Human Services) with \$29.95 million for the Department of Administration. The Department of Environmental Quality has other significant commitments of \$318.14 million for clean water and other cost reimbursement grants.

At June 30, 2016, the University of North Carolina System (component unit) had outstanding construction commitments of \$505.90 million (including \$125.25 million for University of North Carolina at Chapel Hill, \$117.58 million for East Carolina University, \$94.23 million for UNC Healthcare System, and \$56.04 million for North Carolina Agricultural and Technical State University).

At June 30, 2016, community colleges (component units) had outstanding construction commitments of \$96.69 million (including \$19.39 million for Cape Fear Community College, \$17.04 million for Wake Technical Community College, \$15 million for Alamance Community College, and \$11.08 million for Pitt Community College).

The 911 Board (Board), part of the Office 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, 2016, the 911 Fund (special revenue fund) had outstanding commitments on these cost-reimbursement grants and contracts to the PSAPs totaling \$25.63 million.

At June 30, 2016, the Department of Natural and Cultural Resources had outstanding commitments of \$33.31 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, 2016, the UNC Investment Fund had approximately \$886.29 million 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

NOTES TO THE FINANCIAL STATEMENTS

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 \$2.85 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 22: 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, 2015 Fund Equity as Previously Reported	Reporting Entity Change	Other Adjustments	July 1, 2015 Fund Equity as Restated
Primary Government				
Major Governmental Funds:				
General Fund	\$ 2,508,543	\$ —	\$ (1,720)	\$ 2,506,823
Highway Fund	367,091	—	6,685	373,776
Highway Trust Fund	1,128,033	—	(6,685)	1,121,348
Other Governmental Funds:				
Special Revenue Funds	1,107,884	—	7,140	1,115,024
Capital Projects Funds	602,453	—	(592)	601,861
Permanent Funds	124,117	—	—	124,117
Total Governmental Funds	<u>5,838,121</u>	<u>—</u>	<u>4,828</u>	<u>5,842,949</u>
Internal Service Funds	237,172	—	—	237,172
Government-wide adjustments:				
Equity interest in component unit	149,095	—	—	149,095
Capital assets	45,693,677	—	(19,710)	45,673,967
Deferred losses on refundings	118,999	—	—	118,999
Deferred outflows for pensions	366,137	—	(13,808)	352,329
Deferred inflows for pensions	(1,019,797)	—	(8,318)	(1,028,115)
Unavailable revenue	181,470	—	2,718	184,188
Long-term liabilities	(8,657,472)	—	(5,067)	(8,662,539)
Accrued interest payable	(51,581)	—	—	(51,581)
Pension assets	5,633	—	—	5,633
Total Government-wide adjustments	<u>36,786,161</u>	<u>—</u>	<u>(44,185)</u>	<u>36,741,976</u>
Total Governmental Activities	<u>\$ 42,861,454</u>	<u>\$ —</u>	<u>\$ (39,357)</u>	<u>\$ 42,822,097</u>
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	1,137,388	—	—	1,137,388
EPA Revolving Loan Fund	1,500,121	—	—	1,500,121
N.C. Turnpike Authority	335,960	—	—	335,960
Other enterprise funds	192,480	3,181	6,347	202,008
Total Business-type Activities - Enterprise Funds	<u>\$ 3,165,949</u>	<u>\$ 3,181</u>	<u>\$ 6,347</u>	<u>\$ 3,175,477</u>
Component Units				
University of North Carolina System	\$ 16,148,936	\$ —	\$ (50,391)	\$ 16,098,545
Community Colleges	3,146,667	—	359	3,147,026
State Health Plan	740,450	—	—	740,450
Other component units	2,791,958	—	(279)	2,791,679
Total Component Units	<u>\$ 22,828,011</u>	<u>\$ —</u>	<u>\$ (50,311)</u>	<u>\$ 22,777,700</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: SUBSEQUENT EVENTS

Primary Government**A. Disaster Relief***Hurricane Matthew*

On October 8, 2016, Hurricane Matthew hit North Carolina, affecting numerous counties within the state. Hurricane Matthew brought 4 to 18 inches of rain to an area already saturated by Tropical Storm Julia in late September. This disaster met or exceeded the 100-year flood plain for many communities in the eastern part of the state. Hurricane Matthew resulted in 28 confirmed fatalities, flooded more than 70,000 homes, caused massive damage to the state's infrastructure, temporarily closing 635 roads and caused an initial estimate of more than \$600 million in agriculture losses. Early estimates of storm damage to residential and non-residential structures from Hurricane Matthew are in excess of \$1.7 billion. Federal Emergency Management Agency matching requirements are still pending.

B. Bonds and Other Similar Debt*General Obligation Public Improvement (Connect NC) Bonds*

On August 10, 2016, the State of North Carolina sold \$200 million of General Obligation Public Improvement (Connect NC) Bonds, Series 2016B. The bonds are dated August 10, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1 and commenced on December 1, 2016. The bonds will mature from June 1, 2017 to June 1, 2036 and were issued at coupon rates of 2% to 5%. The bonds carry an all-in true interest cost of 2.1%. The bonds maturing on or after June 1, 2027 are subject to redemption prior to maturity. The bonds are being issued pursuant to the provisions of the Connect NC Bond Act of 2015, Session Law 2015-280 of the 2015 Session Laws of the General Assembly of North Carolina (the "Act"), and were later approved by a state-wide voter referendum held on March 15, 2016. A resolution was duly adopted by the Council of State on June 7, 2016. The bonds were issued to provide financing for various capital improvements throughout the State as authorized in the Act and to pay the costs incurred in the issuance and delivery of the bonds.

Component Units*University of North Carolina System – Appalachian State University – General Revenue Bonds Series 2016C and Revenue Refunding Bonds Series 2016D*

The Appalachian State University sold \$25.85 million in Series 2016C tax-exempt General Revenue Bonds (2016C) with an all-in true interest cost of 3.22% and \$10.9 million in Series 2016D tax-exempt General Revenue Refunding Bonds (2016D) with an all-in true interest cost of 2.71%. The bonds are dated November 16, 2016, and bear interest from that date. Interest on the bonds is payable semiannually on each April 1 and October 1, commencing on April 1, 2017. The 2016C bonds mature from October 1, 2019 to October 1, 2046, and were issued at coupon rates ranging from 2% to 5%. The 2016D bond will mature from October 1, 2020 to October 1, 2034.

The 2016C bonds issued to provide funds for construction of a new residence hall to replace Wrinkler Residence Hall and to pay for costs of issuance. The 2016D bonds were issued to advance refund \$11.18 million of the Series 2009B Appalachian State University Pool Revenue Bonds (Series 2009B) with an average rate of interest of 4.93%. The net proceeds of the 2016D 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 will be removed from the statement of net position. Advance refunding the Series 2009B Bonds is expected to reduce total debt service payments by approximately \$1.58 million over the next 19 years and result in an economic gain of approximately \$1.2 million.

University of North Carolina System – University of Wilmington – Refunding Limited Obligation Bonds

On July 6, 2016, the University of Wilmington sold \$57.24 million in Series 2016 Refunding Limited Obligation Bonds with an average interest rate of 3.58%. These bonds are dated July 6, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each June 1 and December 1, commenced on December 1, 2016. The bonds include both serial and term bonds. The serial bonds will mature from June 1, 2021 to June 1, 2034 and were issued at coupon rates ranging from 2% to 5%.

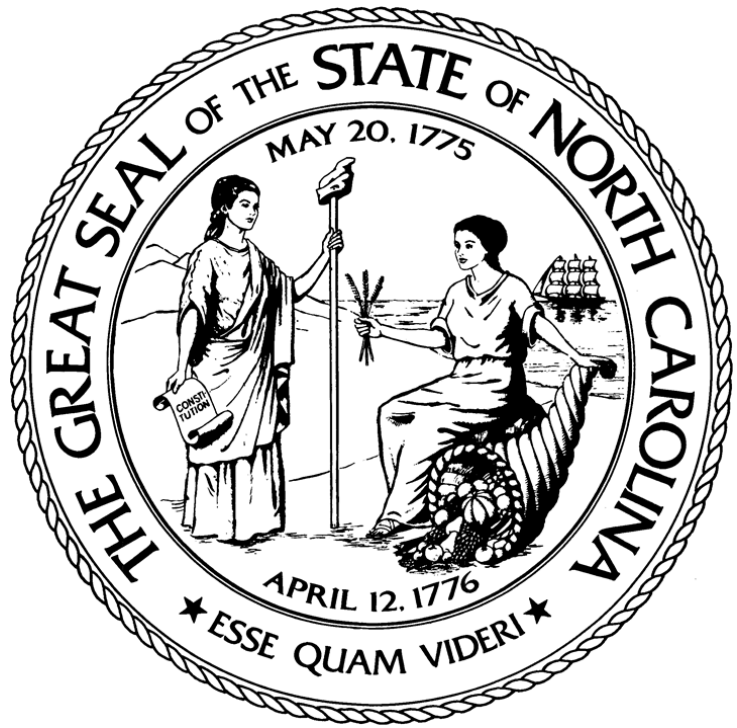
NOTES TO THE FINANCIAL STATEMENTS

The term bonds will mature on June 1, 2036 and June 1, 2038 and were issued at a coupon rate of 3%. The bonds were issued to advance refund \$57.58 million of outstanding Certificates of Participation, 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 will be considered to be defeased and the liability will be removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by \$8.24 million over the next 22 years and resulted in an economic gain of \$7.72 million.

University of North Carolina Health Care System - University of North Carolina Hospitals at Chapel Hill

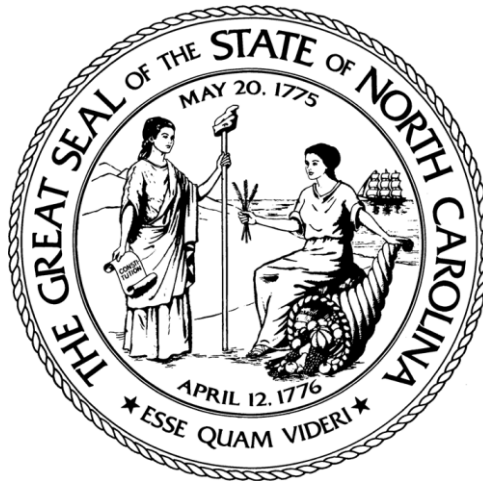
On December 1, 2016, the University of North Carolina Hospitals at Chapel Hill sold \$100 million in Revenue Bonds, Series 2016. These bonds are dated December 1, 2016 and bear interest from that date. Interest on the bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2017. The bonds will mature annually on February 1 from 2042 to 2046 and were issued at coupon rates ranging from 4% to 5%. The bonds carry an all-in true interest cost of 4.25%. The bonds maturing on or after August 1, 2026 are subject to redemption prior to maturity. The bonds are being issued pursuant to the provisions of the General Trust Indenture dated as of January 1, 1992, as supplemented and amended, and the Series Indenture Number 9, dated as of December 1, 2016 between the Board of Governors of the University of North Carolina and the U.S. Bank National Association as bond trustee.

The bonds are being issued to provide funds, together with other available funds and future borrowing, to pay for the construction, acquisition and installation and equipping of certain capital improvements for the University of North Carolina Hospitals and to pay certain costs incurred in connection with the issuance and sale of the bonds. These bonds were issued after the General Assembly approved the self-liquidating bill for capital improvement projects submitted for the University System. The bill approved up to \$250 million for this project, but only \$100 million is being issued at this time. In two or three years, a second bond issue will occur. Subsequent to the approval from the General Assembly, both the Board of University of North Carolina Health Care System and the University of North Carolina Board of Governors approved resolutions for the issuance of these bonds.



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 Three Fiscal Years

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Teachers' and State Employees'			
Total pension liability			
Service Cost	\$ 1,580,544	\$ 1,562,846	\$ 1,556,027
Interest	4,937,464	4,803,766	4,648,995
Changes of benefit terms	35,605	-	355,224
Differences between expected and actual experience	(190,178)	(278,170)	(345,392)
Changes of assumptions	1,743,836	-	-
Benefit payments, including refunds of member contributions	(4,339,637)	(4,184,410)	(3,989,397)
Net change in total pension liability	<u>3,767,634</u>	<u>1,904,032</u>	<u>2,225,457</u>
Total pension liability - beginning	<u>68,692,228</u>	<u>66,788,196</u>	<u>64,562,739</u>
Total pension liability - ending (a)	<u>\$ 72,459,862</u>	<u>\$ 68,692,228</u>	<u>\$ 66,788,196</u>
Plan fiduciary net position			
Contributions-employer	\$ 1,275,003	\$ 1,262,988	\$ 1,177,341
Contributions-member	864,151	854,306	825,548
Net investment income	472,174	1,468,624	9,121,005
Benefit payments, including refunds of member contributions	(4,339,637)	(4,184,410)	(3,989,397)
Administrative expense	(10,217)	(10,646)	(10,762)
Other	325	393	320
Net change in plan fiduciary net position	<u>(1,738,201)</u>	<u>(608,745)</u>	<u>7,124,055</u>
Plan fiduciary net position - beginning	<u>65,007,030</u>	<u>65,615,775</u>	<u>58,491,720</u>
Plan fiduciary net position - ending (b)	<u>\$ 63,268,829</u>	<u>\$ 65,007,030</u>	<u>\$ 65,615,775</u>
TSERS's net pension liability - ending (a) - (b)	<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	87.32%	94.64%	98.24%
Covered-employee payroll	\$ 13,934,459	\$ 13,803,148	\$ 13,548,227
Net pension liability as a percentage of covered-employee payroll	65.96%	26.70%	8.65%
Local Governmental Employees'			
Total pension liability			
Service Cost	\$ 684,288	\$ 670,936	\$ 654,735
Interest	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	50,205	(72,177)	(80,590)
Changes of assumptions	183,019	-	-
Benefit payments, including refunds of member contributions	(1,251,918)	(1,172,578)	(1,106,799)
Net change in total pension liability	<u>1,385,874</u>	<u>1,120,468</u>	<u>1,015,514</u>
Total pension liability - beginning	<u>23,496,136</u>	<u>22,375,668</u>	<u>21,360,154</u>
Total pension liability - ending (a)	<u>\$ 24,882,010</u>	<u>\$ 23,496,136</u>	<u>\$ 22,375,668</u>
Plan fiduciary net position			
Contributions-employer	\$ 414,168	\$ 408,694	\$ 413,175
Contributions-member	375,572	363,863	346,961
Net investment income	175,189	520,578	3,161,964
Benefit payments, including refunds of member contributions	(1,251,918)	(1,172,578)	(1,106,799)
Administrative expense	(3,926)	(4,086)	(3,974)
Other	3,248	3,285	3,297
Net change in plan fiduciary net position	<u>(287,667)</u>	<u>119,756</u>	<u>2,814,624</u>
Plan fiduciary net position - beginning	<u>23,047,342</u>	<u>22,927,586</u>	<u>20,112,962</u>
Plan fiduciary net position - ending (b)	<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>\$ 2,122,335</u>	<u>\$ 448,794</u>	<u>\$ (551,918)</u>
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.47%
Covered-employee payroll	\$ 5,860,574	\$ 5,650,694	\$ 5,553,383
Net pension liability (asset) as a percentage of covered-employee payroll	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 Three Fiscal Years

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Firefighters' and Rescue Squad Workers'			
Total pension liability			
Service Cost	\$ 5,610	\$ 5,884	\$ 5,710
Interest	30,035	29,671	29,394
Changes of benefit terms	118	-	8,770
Differences between expected and actual experience	(2,177)	(2,799)	2,714
Changes of assumptions	15,577	-	(16,688)
Benefit payments, including refunds of member contributions	<u>(27,998)</u>	<u>(26,912)</u>	<u>(25,614)</u>
Net change in total pension liability	21,165	5,844	4,286
Total pension liability - beginning	422,667	416,823	412,537
Total pension liability - ending (a)	<u>\$ 443,832</u>	<u>\$ 422,667</u>	<u>\$ 416,823</u>
Plan fiduciary net position			
Contributions-member	\$ 2,778	\$ 2,822	\$ 2,781
Contributions-nonemployer	13,900	13,900	14,627
Net investment income	2,867	8,711	53,842
Benefit payments, including refunds of member contributions	(27,998)	(26,912)	(25,614)
Administrative expense	(860)	(1,622)	(1,045)
Other	18	4	2
Net change in plan fiduciary net position	<u>(9,295)</u>	<u>(3,097)</u>	<u>44,593</u>
Plan fiduciary net position - beginning	386,308	389,405	344,812
Plan fiduciary net position - ending (b)	<u>\$ 377,013</u>	<u>\$ 386,308</u>	<u>\$ 389,405</u>
FRSWPF's net pension liability - ending (a) - (b)	<u>\$ 66,819</u>	<u>\$ 36,359</u>	<u>\$ 27,418</u>
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%
Covered-employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A
Registers of Deeds'			
Total pension liability			
Service Cost	\$ 579	\$ 578	\$ 563
Interest	1,354	1,372	1,342
Differences between expected and actual experience	(45)	(558)	302
Changes of assumptions	7,082	-	-
Benefit payments, including refunds of member contributions	<u>(1,718)</u>	<u>(1,715)</u>	<u>(1,666)</u>
Net change in total pension liability	7,252	(323)	541
Total pension liability - beginning	23,820	24,143	23,602
Total pension liability - ending (a)	<u>\$ 31,072</u>	<u>\$ 23,820</u>	<u>\$ 24,143</u>
Plan fiduciary net position			
Contributions-employer	\$ 817	\$ 802	\$ 817
Net investment income	3,722	1,114	2,714
Benefit payments, including refunds of member contributions	(1,718)	(1,715)	(1,666)
Administrative expense	(47)	(16)	(18)
Net change in plan fiduciary net position	<u>2,774</u>	<u>185</u>	<u>1,847</u>
Plan fiduciary net position - beginning	46,994	46,809	44,962
Plan fiduciary net position - ending (b)	<u>\$ 49,768</u>	<u>\$ 46,994</u>	<u>\$ 46,809</u>
RODSPF's net pension asset - ending (a) - (b)	<u>\$ (18,696)</u>	<u>\$ (23,174)</u>	<u>\$ (22,666)</u>
Plan fiduciary net position as a percentage of the total pension liability	160.17%	197.29%	193.88%
Covered-employee payroll	N/A	N/A	N/A
Net pension asset as a percentage of covered-employee payroll	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 Three Fiscal Years

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Consolidated			
Judicial			
Total pension liability			
Service Cost	\$ 16,904	\$ 16,812	\$ 16,637
Interest	42,009	40,846	39,405
Changes of benefit terms	332	-	3,031
Differences between expected and actual experience	(4,295)	(2,289)	(2,484)
Changes of assumptions	26,588	-	-
Benefit payments, including refunds of member contributions	<u>(40,462)</u>	<u>(38,364)</u>	<u>(35,428)</u>
Net change in total pension liability	41,076	17,005	21,161
Total pension liability - beginning	582,766	565,761	544,600
Total pension liability - ending (a)	<u>\$ 623,842</u>	<u>\$ 582,766</u>	<u>\$ 565,761</u>
Plan fiduciary net position			
Contributions-employer	\$ 18,908	\$ 18,949	\$ 21,390
Contributions-member	7,561	6,238	5,598
Net investment income	3,972	12,176	74,294
Benefit payments, including refunds of member contributions	(40,462)	(38,364)	(35,428)
Administrative expense	(73)	(30)	(48)
Other	-	1	3
Net change in plan fiduciary net position	<u>(10,094)</u>	<u>(1,030)</u>	<u>65,809</u>
Plan fiduciary net position - beginning	538,534	539,564	473,755
Plan fiduciary net position - ending (b)	<u>\$ 528,440</u>	<u>\$ 538,534</u>	<u>\$ 539,564</u>
CJRS's net pension liability - ending (a) - (b)	<u>\$ 95,402</u>	<u>\$ 44,232</u>	<u>\$ 26,197</u>
Plan fiduciary net position as a percentage of the total pension liability	84.71%	92.41%	95.37%
Covered-employee payroll	\$ 69,489	\$ 69,638	\$ 76,367
Net pension liability as a percentage of covered-employee payroll	137.29%	63.52%	34.30%
Legislative			
Total pension liability			
Service Cost	\$ 822	\$ 844	\$ 747
Interest	1,708	1,742	1,678
Changes of benefit terms	22	-	146
Differences between expected and actual experience	(520)	(579)	762
Changes of assumptions	5,151	-	-
Benefit payments, including refunds of member contributions	<u>(2,430)</u>	<u>(2,473)</u>	<u>(2,614)</u>
Net change in total pension liability	4,753	(466)	719
Total pension liability - beginning	23,952	24,418	23,699
Total pension liability - ending (a)	<u>\$ 28,705</u>	<u>\$ 23,952</u>	<u>\$ 24,418</u>
Plan fiduciary net position			
Contributions-employer	\$ 65	\$ -	\$ -
Contributions-member	253	253	253
Net investment income	181	642	4,293
Benefit payments, including refunds of member contributions	(2,430)	(2,473)	(2,614)
Administrative expense	(53)	(17)	(37)
Net change in plan fiduciary net position	<u>(1,984)</u>	<u>(1,595)</u>	<u>1,895</u>
Plan fiduciary net position - beginning	28,456	30,051	28,156
Plan fiduciary net position - ending (b)	<u>\$ 26,472</u>	<u>\$ 28,456</u>	<u>\$ 30,051</u>
LRS's net pension liability (asset) - ending (a) - (b)	<u>\$ 2,233</u>	<u>\$ (4,504)</u>	<u>\$ (5,633)</u>
Plan fiduciary net position as a percentage of the total pension liability	92.22%	118.80%	123.07%
Covered-employee payroll	\$ 3,616	\$ 3,611	\$ 3,608
Net pension liability (asset) as a percentage of covered-employee payroll	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 Three Fiscal Years

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
North Carolina			
National Guard			
Total pension liability			
Service Cost	\$ 593	\$ 550	\$ 512
Interest	10,700	9,916	9,330
Changes of benefit terms	-	8,734	5,752
Differences between expected and actual experience	30	(198)	192
Changes of assumptions	15,149	-	-
Benefit payments, including refunds of member contributions	(8,512)	(7,958)	(7,502)
Net change in total pension liability	<u>17,960</u>	<u>11,044</u>	<u>8,284</u>
Total pension liability - beginning	151,250	140,206	131,922
Total pension liability - ending (a)	<u>\$ 169,210</u>	<u>\$ 151,250</u>	<u>\$ 140,206</u>
Plan fiduciary net position			
Contributions-nonemployer	\$ 7,066	\$ 6,039	\$ 7,007
Net investment income	842	2,493	14,942
Benefit payments, including refunds of member contributions	(8,512)	(7,958)	(7,502)
Administrative expense	(97)	(75)	(73)
Other	1	-	1
Net change in plan fiduciary net position	<u>(700)</u>	<u>499</u>	<u>14,375</u>
Plan fiduciary net position - beginning	110,529	110,030	95,655
Plan fiduciary net position - ending (b)	<u>\$ 109,829</u>	<u>\$ 110,529</u>	<u>\$ 110,030</u>
NGPF's net pension liability - ending (a) - (b)	<u>\$ 59,381</u>	<u>\$ 40,721</u>	<u>\$ 30,176</u>
Plan fiduciary net position as a percentage of the total pension liability	64.91%	73.08%	78.48%
Covered-employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	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'	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 1,210,904	\$ 1,262,988	\$ 1,177,341	\$ 1,078,783	\$ 1,015,762
Contractually required contribution	1,275,003	1,262,988	1,177,341	1,120,482	1,015,762
Contributions in relation to the actuarially determined contribution	1,275,003	1,262,988	1,177,341	1,120,482	1,015,762
Contribution deficiency (excess)	<u>\$ (64,099)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,699)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 13,934,459	\$ 13,803,148	\$ 13,548,227	\$ 13,451,164	\$ 13,652,715
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%	8.33%	7.44%
Local Governmental Employees'					
Actuarially determined contribution	\$ 393,920	\$ 402,429	\$ 397,462	\$ 370,152	\$ 376,340
Contractually required contribution	414,168	408,694	413,175	383,889	389,399
Contributions in relation to the actuarially determined contribution	414,168	408,694	413,175	383,889	389,399
Contribution excess	<u>\$ (20,248)</u>	<u>\$ (6,265)</u>	<u>\$ (15,713)</u>	<u>\$ (13,737)</u>	<u>\$ (13,059)</u>
Covered-employee payroll	\$ 5,860,574	\$ 5,650,694	\$ 5,553,383	\$ 5,421,364	\$ 5,402,147
Contributions as a percentage of covered-employee payroll	7.07%	7.23%	7.44%	7.08%	7.21%
Firefighters' and Rescue Squad Workers' *					
Actuarially determined contribution	\$ 13,241	\$ 13,900	\$ 14,620	\$ 14,074	\$ 14,389
Contractually required contribution	13,900	13,900	14,627	15,447	14,398
Contributions in relation to the actuarially determined contribution	13,900	13,900	14,627	15,447	14,398
Contribution deficiency (excess)	<u>\$ (659)</u>	<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ (1,373)</u>	<u>\$ (9)</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Registers of Deeds'					
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	817	802	817	937	843
Contributions in relation to the actuarially determined contribution	817	802	817	937	843
Contribution excess	<u>\$ (817)</u>	<u>\$ (802)</u>	<u>\$ (817)</u>	<u>\$ (937)</u>	<u>\$ (843)</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee 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.

2011	2010	2009	2008	2007
\$ 926,429	\$ 492,779	\$ 492,689	\$ 429,064	\$ 341,476
680,670	492,779	492,689	468,669	371,476
680,670	492,779	492,689	468,669	371,476
<u>\$ 245,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,605)</u>	<u>\$ (30,000)</u>
\$ 13,806,691	\$ 13,803,324	\$ 14,663,363	\$ 13,976,026	\$ 14,592,991
4.93%	3.57%	3.36%	3.35%	2.55%

\$ 342,910	\$ 230,121	\$ 257,982	\$ 241,533	\$ 225,950
361,998	273,337	271,363	256,612	241,094
361,998	273,337	271,363	256,612	241,094
<u>\$ (19,088)</u>	<u>\$ (43,216)</u>	<u>\$ (13,381)</u>	<u>\$ (15,079)</u>	<u>\$ (15,144)</u>
\$ 5,329,651	\$ 5,320,927	\$ 5,284,862	\$ 4,948,042	\$ 4,693,423
6.79%	5.14%	5.13%	5.19%	5.14%

\$ 12,243	\$ 10,074	\$ 9,757	\$ 8,734	\$ 8,440
10,110	10,080	9,762	8,734	8,440
10,110	10,080	9,762	8,734	8,440
<u>\$ 2,133</u>	<u>\$ (6)</u>	<u>\$ (5)</u>	<u>\$ -</u>	<u>\$ -</u>
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

\$ -	\$ -	\$ -	\$ -	\$ -
772	736	754	926	3,150
772	736	754	926	3,150
<u>\$ (772)</u>	<u>\$ (736)</u>	<u>\$ (754)</u>	<u>\$ (926)</u>	<u>\$ (3,150)</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	2016	2015	2014	2013	2012
Judicial					
Actuarially determined contribution	\$ 18,324	\$ 18,949	\$ 21,390	\$ 18,992	\$ 18,956
Contractually required contribution	18,908	18,949	21,390	18,992	18,956
Contributions in relation to the actuarially determined contribution	18,908	18,949	21,390	18,992	18,956
Contribution deficiency (excess)	<u>\$ (584)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 69,489	\$ 69,638	\$ 76,367	\$ 71,533	\$ 75,673
Contributions as a percentage of covered-employee payroll	27.21%	27.21%	28.01%	26.55%	25.05%
Legislative					
Actuarially determined contribution	\$ 65	\$ -	\$ -	\$ -	\$ -
Contractually required contribution	65	-	-	-	-
Contributions in relation to the actuarially determined contribution	65	-	-	-	-
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,616	\$ 3,611	\$ 3,608	\$ 3,600	\$ 3,314
Contributions as a percentage of covered-employee payroll	1.80%	0.00%	0.00%	0.00%	0.00%
North Carolina					
National Guard *					
Actuarially determined contribution	\$ 7,066	\$ 6,039	\$ 5,349	\$ 5,667	\$ 6,075
Contractually required contribution	7,066	6,039	7,007	7,007	7,007
Contributions in relation to the actuarially determined contribution	7,066	6,039	7,007	7,007	7,007
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,658)</u>	<u>\$ (1,340)</u>	<u>\$ (932)</u>
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee 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.

2011	2010	2009	2008	2007
\$ 13,322	\$ 10,740	\$ 10,017	\$ 8,214	\$ 7,300
10,457	10,740	10,603	40,844	8,090
10,457	10,740	10,603	10,844	8,090
<u>\$ 2,865</u>	<u>\$ -</u>	<u>\$ (586)</u>	<u>\$ (2,630)</u>	<u>\$ (790)</u>
\$ 69,206	\$ 71,079	\$ 80,265	\$ 64,678	\$ 64,257
15.11%	15.11%	13.21%	16.77%	12.59%

\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	209	-
-	-	-	209	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (209)</u>	<u>\$ -</u>
\$ 4,029	\$ 3,657	\$ 3,686	\$ 3,614	\$ 3,714
0.00%	0.00%	0.00%	5.78%	0.00%

\$ 5,719	\$ 5,682	\$ 6,248	\$ 6,232	\$ 7,324
7,007	7,008	5,892	7,007	7,007
7,007	7,008	5,892	7,007	7,007
<u>\$ (1,288)</u>	<u>\$ (1,326)</u>	<u>\$ 356</u>	<u>\$ (775)</u>	<u>\$ 317</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 Three Fiscal Years

Annual money-weighted rate of return, net of investment expense	2016	2015	2014
<i>Cost-Sharing, Multiple Employer</i>			
Teachers' and State Employees'	0.74%	2.27%	15.88%
Local Governmental Employees'	0.77%	2.27%	15.86%
Firefighters' and Rescue Squad Workers'	0.75%	2.26%	15.62%
Registers of Deeds'	8.04%	2.26%	6.04%
<i>Single-Employer</i>			
Consolidated Judicial	0.75%	2.27%	15.87%
Legislative	0.66%	2.25%	15.91%
North Carolina National Guard	0.77%	2.25%	15.63%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Fiscal Year Ended June 30, 2016

Changes of benefit terms.

	Cost of Living Increase									
	<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>2006</u>
<u>Cost-Sharing, Multiple-Employer</u>										
Teachers' and State Employees'	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
Local Governmental Employees'	0.63%	N/A	N/A	N/A	N/A	0.10%	2.15%	2.20%	2.80%	2.50%
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>										
Consolidated Judicial	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
Legislative	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%
North Carolina National Guard (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) In 2006, the Firefighters' and Rescue Squad Workers' Pension Fund increased retirement benefits from \$161 to \$163. In 2007, retirement benefits were increased 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

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 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 2008, 2012, and 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 and the North Carolina National Guard Pension Fund.

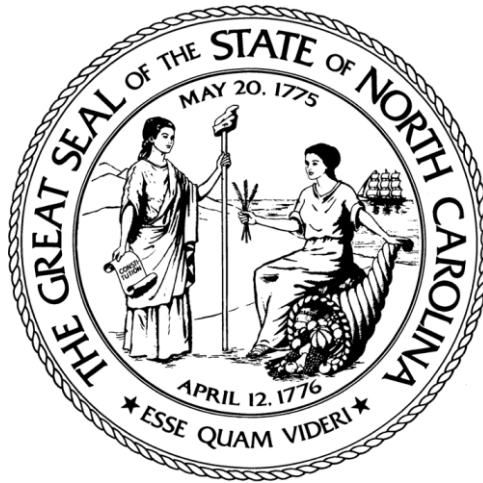
In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and 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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For the Fiscal Year Ended June 30, 2016

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. As a result of current 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 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.



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, 2016. The net pension liabilities of employers were measured as of June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS'
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Three Fiscal Years*

*(Dollars in Thousands)***Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans**

Teachers' and State Employees'	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary Government			
Proportion of the net pension liability	22.47%	22.78%	22.95%
Proportionate share of the net pension liability	\$ 828,018	\$ 267,119	\$ 1,393,385
Covered-employee payroll	\$ 3,498,284	\$ 3,255,443	\$ 3,203,001
Proportionate share of the net pension liability as a percentage of covered-employee payroll	23.67%	8.21%	43.50%
Component Units			
University of North Carolina System			
Proportion of the net pension liability	14.45%	14.79%	14.48%
Proportionate share of the net pension liability	\$ 532,624	\$ 173,441	\$ 878,936
Covered-employee payroll	\$ 2,053,148	\$ 2,089,885	\$ 1,987,497
Proportionate share of the net pension liability as a percentage of covered-employee payroll	25.94%	8.30%	44.22%
Community Colleges			
Proportion of the net pension liability	5.89%	5.87%	5.80%
Proportionate share of the net pension liability	\$ 216,890	\$ 68,803	\$ 352,004
Covered-employee payroll	\$ 861,639	\$ 853,383	\$ 1,165,333
Proportionate share of the net pension liability as a percentage of covered-employee payroll	25.17%	8.06%	30.21%
Other Component Units			
Proportion of the net pension liability	0.17%	0.17%	0.17%
Proportionate share of the net pension liability	\$ 6,224	\$ 2,049	\$ 10,605
Covered-employee payroll	\$ 25,574	\$ 25,673	\$ 39,228
Proportionate share of the net pension liability as a percentage of covered-employee payroll	24.34%	7.98%	27.03%
Plan fiduciary net position as a percentage of the total pension liability	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 Three Fiscal Years*

(Dollars in Thousands)

Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plans

Firefighters' and Rescue Squad Workers'	2016	2015	2014
Primary Government			
Proportion of the net pension liability	100.00%	100.00%	100.00%
Proportionate share of the net pension liability	\$ 36,359	\$ 27,418	\$ 67,725
Plan fiduciary net position as a percentage of the total pension liability	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%
Proportionate share of the net pension liability	\$ 40,721	\$ 30,176	\$ 36,267
Plan fiduciary net position as a percentage of the total pension liability	73.08%	78.48%	72.51%

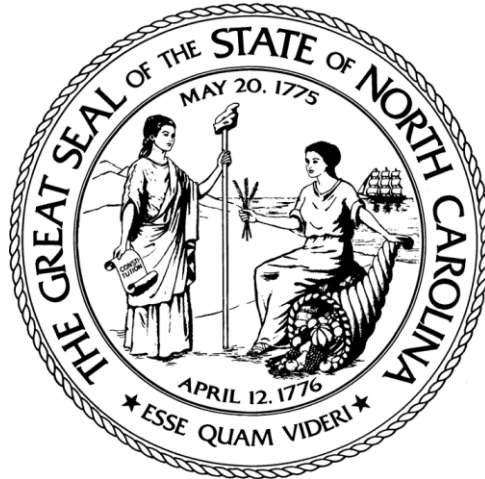
* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PRIMARY GOVERNMENT'S AND COMPONENT UNITS' CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT PENSION PLANS

Last Three Fiscal Years

(Dollars in Thousands)

Teachers' and State Employees'	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary Government			
Contractually required contribution	\$ 303,031	\$ 320,093	\$ 282,898
Contributions in relation to the contractually required contribution	303,031	320,093	282,898
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,311,814	\$ 3,498,284	\$ 3,255,443
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%
Component Units			
University of North Carolina System			
Contractually required contribution	\$ 193,767	\$ 187,863	\$ 181,611
Contributions in relation to the contractually required contribution	193,767	187,863	181,611
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,117,672	\$ 2,053,148	\$ 2,089,885
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%
Community Colleges			
Contractually required contribution	\$ 79,733	\$ 78,840	\$ 74,159
Contributions in relation to the contractually required contribution	79,733	78,840	74,159
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 871,399	\$ 861,639	\$ 853,383
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%
Other Component Units			
Contractually required contribution	\$ 2,329	\$ 2,340	\$ 2,231
Contributions in relation to the contractually required contribution	2,329	2,340	2,231
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 25,454	\$ 25,574	\$ 25,673
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%



REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFITS

Required supplementary information for other postemployment benefits provides information on funding progress and employer contributions.

The following schedules are included in the Required Supplementary Information for Other Postemployment Benefits:

Schedule of Funding Progress: Other Postemployment Benefits

Schedule of Employer Contributions: Other Postemployment Benefits

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS**

June 30, 2016

(Dollars in Thousands)

	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (1)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c) (2)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Retiree Health Benefit	12-31-15	\$ 960,978	\$ 33,472,004	\$ 32,511,026	2.9%	\$ 15,691,815	207.2%
	12-31-14	944,955	27,559,481	26,614,526	3.4%	15,642,890	170.1%
	12-31-13	890,756	26,420,168	25,529,412	3.4%	15,080,627	169.3%
Disability Income	12-31-15	\$ 439,956	\$ 395,950	\$ (44,006)	111.1%	\$ 14,718,736	(0.3%)
	12-31-14	450,599	503,060	52,461	89.6%	14,459,667	0.4%
	12-31-13	442,422	522,940	80,518	84.6%	14,294,017	0.6%

(1) The Retiree Health Benefit AAL has been prepared using the projected unit credit cost method. The Disability Income AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(2) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Segal Consulting reported the adjusted, annualized payroll for the postemployment health benefits.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS**

For the Fiscal Years Ended June 30, 2014-2016

(Dollars in Thousands)

	<u>State Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Retiree Health Benefit	2016	\$ 2,510,817	35%
	2015	2,223,032	36%
	2014	2,223,900	36%
Disability Income	2016	\$ 63,984	100%
	2015	63,219	100%
	2014	65,730	100%

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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, 2016

(Dollars in Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes:				
Individual income.....	\$ 11,303,100	\$ 11,303,100	\$ 11,905,158	\$ 602,058
Corporate income.....	1,085,100	1,085,100	1,058,215	(26,885)
Sales and use.....	6,744,000	6,744,000	6,559,483	(184,517)
Franchise.....	534,300	534,300	524,368	(9,932)
Insurance.....	503,200	503,200	485,088	(18,112)
Beverage.....	330,500	330,500	340,097	9,597
Tobacco products.....	243,000	243,000	257,434	14,434
Other.....	156,400	156,400	162,060	5,660
Non-Tax:				
Fees, licenses and fines.....	227,800	252,800	579,738	326,938
Investment income.....	17,100	17,100	37,141	20,041
Disproportionate share receipts.....	139,000	139,000	147,466	8,466
Other.....	284,692	285,892	282,614	(3,278)
Tobacco settlement.....	137,500	127,500	137,230	9,730
Departmental:				
Federal funds.....	16,180,598	14,646,457	12,949,855	(1,696,602)
Local funds.....	689,971	772,957	744,492	(28,465)
Inter-agency grants and allocations.....	23,197	35,933	26,820	(9,113)
Intra-governmental transactions.....	3,528,130	4,290,221	4,036,979	(253,242)
Sales and services.....	245,791	205,522	168,994	(36,528)
Rental and lease of property.....	15,471	68,458	68,297	(161)
Fees, licenses and fines.....	1,647,130	686,939	702,992	16,053
Contributions, gifts and grants.....	371,092	970,424	933,040	(37,384)
Federal recovery funds.....	—	25,919	34	(25,885)
Miscellaneous.....	243,113	203,019	172,999	(30,020)
Total Revenues.....	44,650,185	43,627,741	42,280,594	(1,347,147)
Expenditures				
Current:				
General government.....	1,153,286	1,120,187	1,071,083	49,104
Primary and secondary education.....	13,043,062	11,482,711	10,849,978	632,733
Higher education.....	4,858,562	4,869,723	4,795,403	74,320
Health and human services.....	20,012,504	20,786,582	19,290,920	1,495,662
Environment and natural resources.....	294,545	777,219	583,959	193,260
Economic development.....	751,748	946,092	539,296	406,796
Public safety, corrections, and regulation.....	2,821,947	3,098,190	2,900,886	197,304
Agriculture.....	188,098	204,920	187,058	17,862
Capital outlay.....	17	16,756	16,756	—
Debt service.....	1,005,088	821,530	733,782	87,748
Total Expenditures.....	44,128,857	44,123,910	40,969,121	3,154,789
Excess (deficiency) of revenues over expenditures.....	521,328	(496,169)	1,311,473	1,807,642
Total Fund Balance at July 1.....	2,532,071	2,532,071	2,532,071	—
Total Fund Balance at June 30.....	\$ 3,053,399	\$ 2,035,902	\$ 3,843,544	\$ 1,807,642
Fund balance reserved:				
Statutory.....			\$ 2,279,567	
Non-reverting purposes.....			983,883	
Fund balance unreserved.....			580,094	
Total Fund Balance at June 30.....			\$ 3,843,544	

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 the authorized carryforward of appropriated funds and any time-restricted appropriations. Session Law 2013-360 restricted the use of funds appropriated to the UNC-Need Based Financial Aid Forward Funding Reserve in the current fiscal year to the subsequent academic year. This time-restriction prevented the revenue/expense from being recognized on GAAP basis, which resulted in the recognition of a deferred inflow of resources (deferred state aid) by

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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, 2016 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, 2016.....	\$ 3,843,544
<u>Reconciling Adjustments</u>	
Basis Differences	
Accrued revenues	
Taxes receivable.....	1,915,514
Less tax refunds payable.....	(989,470)
Accounts receivable and other receivables.....	364,260
Federal funds, net.....	715,268
Unearned revenue.....	(385,480)
Total accrued revenues.....	<u>1,620,092</u>
Accrued expenditures	
Medical claims payable.....	(948,950)
Accounts payable, accrued liabilities, and other payables.....	(940,928)
Total accrued expenditures.....	<u>(1,889,878)</u>
Other Adjustments	
Notes receivable.....	25,504
Inventories.....	78,886
Timing Differences	
Authorized carryforward for specific encumbrances	454
Forward funded state aid.....	<u>83,161</u>
Fund balance (GAAP basis)	
June 30, 2016.....	<u>\$ 3,761,763</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 2015-16, the balance of the Savings Reserve Account was \$851.6 million. In accordance with Session Law 2015-241 Section 2.2(d) \$250 million was transferred from the Reserve for Repairs and Renovations to the Savings Reserve. Also

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

in accordance with Session Law 2016-94, the State Controller was authorized by the General Assembly to transfer \$473.6 million from unreserved fund balance to the Savings Reserve. At the end of the fiscal year 2015-16, the balance of this reserve was \$1.575 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 2015-241 Section 2.2(d) \$250 million was transferred from the Reserve for Repairs and Renovations to the Savings Reserve. Also in accordance with Session Law 2016-94, the State Controller was authorized by the General Assembly to transfer \$81.4 million from unreserved fund balance to the Repairs and Renovations Reserve. At the end of the fiscal year 2015-16, the balance of this reserve was \$92.99 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. At the end of the fiscal year 2015-16, the balance of this reserve was \$3.94 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143C-9-6). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a), Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the JDIG Program established pursuant to General Statute 143B-437.52. The JDIG Reserve Fund was appropriated \$57.82 million for fiscal year 2015-16 by Session Law 2015-241. At the end of the fiscal year 2015-16, the balance of this reserve was \$6.15 million.

One North Carolina Fund Reserve (General Statute 143C-9-8). The Office of State Budget and Management, after consultation with Joint Legislative Commission on Governmental Operations on November 4, 2003, established the One North Carolina Fund Reserve. The One North Carolina fund was appropriated \$6.99 million for fiscal year 2015-16 by Session Law 2015-241. At the end of the fiscal year 2015-16, the balance of this reserve was \$4.95 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 2015-16, 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 \$75 million in nonrecurring funds was reserved for fiscal year 2015-2016. At the end of the fiscal year 2015-16, the balance of this reserve was \$75 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 2016 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 2015-16, the balance of this reserve was \$334.96 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, 2016

Exhibit C-1

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 855,488	\$ —	\$ 875	\$ 856,363
Investments	247,462	—	—	247,462
Securities lending collateral	42,295	2,479	10,003	54,777
Receivables, net:				
Taxes receivable.....	7,181	—	—	7,181
Accounts receivable.....	24,223	19	27	24,269
Intergovernmental receivable.....	1,351	34	—	1,385
Interest receivable.....	372	170	565	1,107
Due from other funds	12,127	—	—	12,127
Inventories.....	21,719	—	—	21,719
Notes receivable, net.....	937	42,444	—	43,381
Securities held in trust.....	43,569	—	—	43,569
Restricted/designated cash and cash equivalents.....	—	291,817	15,147	306,964
Restricted investments.....	—	290,244	118,883	409,127
Total Assets.....	<u>1,256,724</u>	<u>627,207</u>	<u>145,500</u>	<u>2,029,431</u>
Deferred Outflows of Resources				
Forward funded state aid.....	37,287	—	—	37,287
Total Assets and Deferred Outflows.....	<u>\$ 1,294,011</u>	<u>\$ 627,207</u>	<u>\$ 145,500</u>	<u>\$ 2,066,718</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 11,544	\$ 22,438	\$ —	\$ 33,982
Accrued payroll.....	46	—	—	46
Intergovernmental payable.....	6,942	396	—	7,338
Claims payable.....	62,795	—	—	62,795
Medical claims payable.....	125	—	—	125
Obligations under securities lending.....	42,295	2,479	10,003	54,777
Due to other funds	362	40	—	402
Due to component units	1	14,429	—	14,430
Unearned revenue.....	627	425	—	1,052
Deposits payable.....	4	—	—	4
Funds held for others.....	43,660	—	—	43,660
Total Liabilities.....	<u>168,401</u>	<u>40,207</u>	<u>10,003</u>	<u>218,611</u>
Deferred Inflows of Resources				
Unavailable revenue.....	8,395	—	—	8,395
Fund Balances				
Nonspendable.....	21,719	—	110,202	131,921
Restricted.....	644,535	285,146	24,522	954,203
Committed.....	450,961	300,688	773	752,422
Assigned.....	—	1,166	—	1,166
Total Fund Balances.....	<u>1,117,215</u>	<u>587,000</u>	<u>135,497</u>	<u>1,839,712</u>
Total Liabilities, Deferred Inflows and Fund Balances.....	<u>\$ 1,294,011</u>	<u>\$ 627,207</u>	<u>\$ 145,500</u>	<u>\$ 2,066,718</u>

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

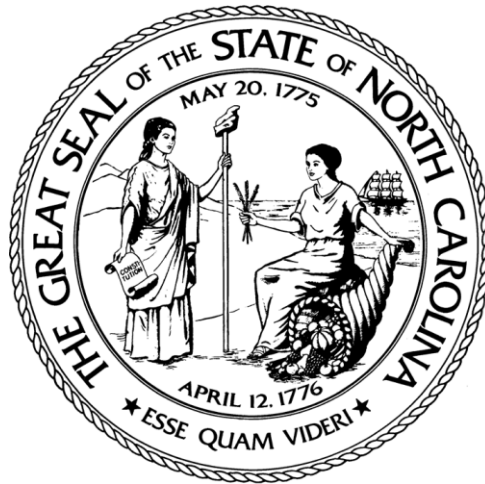
For the Fiscal Year Ended June 30, 2016

Exhibit C-2

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales and use tax.....	\$ 7,929	\$ —	\$ —	\$ 7,929
Gasoline tax.....	27,098	—	—	27,098
Other taxes.....	113,203	—	—	113,203
Federal funds.....	84,670	7,820	—	92,490
Local funds.....	7,931	—	—	7,931
Investment earnings.....	16,664	788	9,264	26,716
Interest earnings on loans.....	2	497	—	499
Sales and services.....	150,114	498	—	150,612
Rental and lease of property.....	2,876	—	—	2,876
Fees, licenses, and fines.....	186,877	761	4,743	192,381
Contributions, gifts, and grants.....	29,185	16,103	16	45,304
Funds escheated.....	75,105	—	—	75,105
Miscellaneous.....	8,308	153	—	8,461
Total revenues.....	<u>709,962</u>	<u>26,620</u>	<u>14,023</u>	<u>750,605</u>
Expenditures				
Current:				
General government.....	40,257	92	—	40,349
Higher education.....	85,414	20,498	26	105,938
Health and human services.....	79,673	—	—	79,673
Economic development.....	13,362	160	—	13,522
Environment and natural resources.....	139,272	8,568	69	147,909
Public safety, corrections, and regulation.....	255,145	—	—	255,145
Agriculture.....	17,202	—	—	17,202
Capital outlay.....	—	144,674	—	144,674
Debt service:				
Principal retirement.....	2,456	—	—	2,456
Interest and fees.....	17	34	—	51
Debt issuance costs.....	—	3	—	3
Total expenditures.....	<u>632,798</u>	<u>174,029</u>	<u>95</u>	<u>806,922</u>
Excess revenues over (under) expenditures.....	<u>77,164</u>	<u>(147,409)</u>	<u>13,928</u>	<u>(56,317)</u>
Other Financing Sources (Uses)				
Sale of capital assets.....	192	2,159	—	2,351
Insurance recoveries.....	—	217	—	217
Transfers in.....	53,660	146,703	—	200,363
Transfers out.....	(128,825)	(16,531)	(2,548)	(147,904)
Total other financing sources (uses).....	<u>(74,973)</u>	<u>132,548</u>	<u>(2,548)</u>	<u>55,027</u>
Net change in fund balances.....	2,191	(14,861)	11,380	(1,290)
Fund balances — July 1, as restated.....	1,115,024	601,861	124,117	1,841,002
Fund balances — June 30.....	<u>\$ 1,117,215</u>	<u>\$ 587,000</u>	<u>\$ 135,497</u>	<u>\$ 1,839,712</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, 2016

(Dollars in Thousands)

	Escheat Fund	Correction Enterprises Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund	911 Fund
Assets				
Cash and cash equivalents	\$ 379,659	\$ 15,266	\$ 35,208	\$ 55,851
Investments	232,830	—	—	—
Securities lending collateral	30,387	—	—	3,033
Receivables, net:				
Taxes receivable.....	—	—	1,503	—
Accounts receivable.....	—	2,548	371	8,634
Intergovernmental receivable.....	—	636	—	—
Interest receivable.....	253	—	—	36
Due from other funds	—	655	—	—
Inventories.....	—	18,383	—	—
Notes receivable.....	—	—	648	—
Securities held in trust.....	—	—	—	—
Restricted investments.....	—	—	—	—
Total Assets.....	<u>643,129</u>	<u>37,488</u>	<u>37,730</u>	<u>67,554</u>
Deferred Outflows of Resources				
Forward funded state aid.....	37,287	—	—	—
Total Assets and Deferred Outflows.....	<u>\$ 680,416</u>	<u>\$ 37,488</u>	<u>\$ 37,730</u>	<u>\$ 67,554</u>
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 189	\$ 2,334	\$ 1,392	\$ 642
Accrued payroll.....	—	12	—	—
Intergovernmental payable.....	—	—	—	5,334
Claims payable.....	62,795	—	—	—
Medical claims payable.....	—	—	—	—
Obligations under securities lending.....	30,387	—	—	3,033
Due to other funds	—	74	—	2
Due to component units	—	—	—	—
Unearned revenue.....	—	72	—	—
Deposits payable.....	—	—	—	—
Funds held for others.....	—	—	—	—
Total Liabilities.....	<u>93,371</u>	<u>2,492</u>	<u>1,392</u>	<u>9,011</u>
Deferred Inflows of Resources				
Unavailable revenue.....	—	—	—	—
Fund Balances				
Nonspendable.....	—	18,383	—	—
Restricted.....	587,045	—	—	—
Committed.....	—	16,613	36,338	58,543
Total Fund Balances.....	<u>587,045</u>	<u>34,996</u>	<u>36,338</u>	<u>58,543</u>
Total Liabilities, Deferred Inflows and Fund Balances...	<u>\$ 680,416</u>	<u>\$ 37,488</u>	<u>\$ 37,730</u>	<u>\$ 67,554</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 150,081	\$ 219,423	\$ 855,488
14,296	336	247,462
4,425	4,450	42,295
683	4,995	7,181
7,719	4,951	24,223
2	713	1,351
39	44	372
6,050	5,422	12,127
—	3,336	21,719
83	206	937
43,569	—	43,569
—	—	—
<u>226,947</u>	<u>243,876</u>	<u>1,256,724</u>
—	—	37,287
<u>\$ 226,947</u>	<u>\$ 243,876</u>	<u>\$ 1,294,011</u>
\$ 1,008	\$ 5,979	\$ 11,544
—	34	46
224	1,384	6,942
—	—	62,795
—	125	125
4,425	4,450	42,295
97	189	362
—	1	1
—	555	627
—	4	4
43,569	91	43,660
<u>49,323</u>	<u>12,812</u>	<u>168,401</u>
<u>2,176</u>	<u>6,219</u>	<u>8,395</u>
—	3,336	21,719
13,613	43,877	644,535
161,835	177,632	450,961
<u>175,448</u>	<u>224,845</u>	<u>1,117,215</u>
<u>\$ 226,947</u>	<u>\$ 243,876</u>	<u>\$ 1,294,011</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2016

(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.....	—	—	18,630	—
Other taxes.....	—	—	—	84,189
Federal funds.....	—	—	—	—
Local funds.....	—	—	—	—
Investment earnings (loss).....	14,875	—	—	369
Interest earnings on loans.....	—	—	—	—
Sales and services.....	—	92,139	—	801
Rental and lease of property.....	—	564	—	—
Fees, licenses, and fines.....	—	—	10,159	—
Contributions, gifts, and grants.....	—	4	—	—
Funds escheated.....	75,105	—	—	—
Miscellaneous.....	—	140	—	—
Total revenues.....	<u>89,980</u>	<u>92,847</u>	<u>28,789</u>	<u>85,359</u>
Expenditures				
Current:				
General government.....	—	—	—	—
Higher education.....	84,621	—	—	—
Health and human services.....	—	—	—	—
Economic development.....	—	—	—	—
Environment and natural resources.....	—	—	28,700	—
Public safety, corrections, and regulation...	—	87,222	—	71,233
Agriculture.....	—	—	—	—
Debt service:				
Principal retirement.....	—	—	—	—
Interest and fees.....	—	—	—	—
Total expenditures.....	<u>84,621</u>	<u>87,222</u>	<u>28,700</u>	<u>71,233</u>
Excess revenues over (under) expenditures..	<u>5,359</u>	<u>5,625</u>	<u>89</u>	<u>14,126</u>
Other Financing Sources (Uses)				
Sale of capital assets.....	—	103	—	—
Transfers in.....	—	202	2,369	—
Transfers out.....	(22,856)	(6,048)	(4,076)	—
Total other financing sources (uses).....	<u>(22,856)</u>	<u>(5,743)</u>	<u>(1,707)</u>	<u>—</u>
Net change in fund balances.....	(17,497)	(118)	(1,618)	14,126
Fund balances — July 1 as restated.....	604,542	35,114	37,956	44,417
Fund balances — June 30.....	<u>\$ 587,045</u>	<u>\$ 34,996</u>	<u>\$ 36,338</u>	<u>\$ 58,543</u>

Environment Management Protection Funds	Departmental Funds	Total Nonmajor Special Revenue Funds
\$ 7,929	\$ —	\$ 7,929
8,468	—	27,098
9,620	19,394	113,203
5,087	79,583	84,670
2,699	5,232	7,931
824	596	16,664
2	—	2
189	56,985	150,114
26	2,286	2,876
74,370	102,348	186,877
19,634	9,547	29,185
—	—	75,105
344	7,824	8,308
<u>129,192</u>	<u>283,795</u>	<u>709,962</u>
—	40,257	40,257
—	793	85,414
—	79,673	79,673
—	13,362	13,362
107,366	3,206	139,272
—	96,690	255,145
—	17,202	17,202
—	2,456	2,456
—	17	17
<u>107,366</u>	<u>253,656</u>	<u>632,798</u>
<u>21,826</u>	<u>30,139</u>	<u>77,164</u>
22	67	192
18,201	32,888	53,660
(16,634)	(79,211)	(128,825)
<u>1,589</u>	<u>(46,256)</u>	<u>(74,973)</u>
23,415	(16,117)	2,191
152,033	240,962	1,115,024
<u>\$ 175,448</u>	<u>\$ 224,845</u>	<u>\$ 1,117,215</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, 2016

(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.....	—	—	—	—	3	3	—	—	—
Intra-governmental transactions.....	—	—	—	202	202	—	17,599	21,206	3,607
Sales and services.....	—	—	—	90,050	91,255	1,205	—	—	—
Sale, rental, and lease of property..	—	—	—	489	356	(133)	—	—	—
Fees, licenses, and fines.....	—	—	—	—	—	—	7,231	10,230	2,999
Contributions, gifts, and grants.....	—	—	—	—	—	—	—	—	—
Miscellaneous.....	202,107	214,135	12,028	164	98	(66)	—	—	—
Total revenues.....	<u>202,107</u>	<u>214,135</u>	<u>12,028</u>	<u>90,905</u>	<u>91,914</u>	<u>1,009</u>	<u>24,830</u>	<u>31,436</u>	<u>6,606</u>
Expenditures									
Current:									
General government.....	—	—	—	—	—	—	—	—	—
Higher education.....	66,431	65,774	657	—	—	—	—	—	—
Health and human services.....	—	—	—	—	—	—	—	—	—
Economic development.....	—	—	—	—	—	—	—	—	—
Environmental and natural resources.....	—	—	—	—	—	—	54,296	32,668	21,628
Public safety and corrections.....	—	—	—	92,177	88,210	3,967	—	—	—
Agriculture.....	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement.....	—	—	—	—	—	—	—	—	—
Interest and fees.....	—	—	—	—	—	—	—	—	—
Total expenditures.....	<u>66,431</u>	<u>65,774</u>	<u>657</u>	<u>92,177</u>	<u>88,210</u>	<u>3,967</u>	<u>54,296</u>	<u>32,668</u>	<u>21,628</u>
Excess revenues over (under) expenditures	<u>\$135,676</u>	148,361	<u>\$ 12,685</u>	<u>\$ (1,272)</u>	3,704	<u>\$ 4,976</u>	<u>\$ (29,466)</u>	(1,232)	<u>\$ 28,234</u>
Fund balances (budgetary basis)									
at July 1, as restated.....		<u>519,979</u>			<u>11,562</u>			<u>36,440</u>	
Fund balances (budgetary basis) at June 30.....		<u>\$ 668,340</u>			<u>\$ 15,266</u>			<u>\$ 35,208</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
\$ —	\$ —	\$ —	\$ 6,427	\$ 5,452	\$ (975)	\$ 96,575	\$ 79,737	\$ (16,838)	\$ 103,002	\$ 85,189	\$ (17,813)
—	—	—	3,509	2,700	(809)	6,719	5,208	(1,511)	10,228	7,908	(2,320)
—	—	—	22,932	19,557	(3,375)	13,013	7,080	(5,933)	35,945	26,640	(9,305)
—	—	—	69,349	58,208	(11,141)	75,798	66,895	(8,903)	162,948	146,511	(16,437)
810	796	(14)	31	224	193	59,941	57,113	(2,828)	150,832	149,388	(1,444)
—	—	—	15	48	33	2,828	2,355	(473)	3,332	2,759	(573)
82,800	82,965	165	114,402	73,664	(40,738)	88,139	97,791	9,652	292,572	264,650	(27,922)
—	—	—	168	125	(43)	6,640	2,838	(3,802)	6,808	2,963	(3,845)
247	341	94	1,051	904	(147)	44,916	24,715	(20,201)	248,485	240,193	(8,292)
<u>83,857</u>	<u>84,102</u>	<u>245</u>	<u>217,884</u>	<u>160,882</u>	<u>(57,002)</u>	<u>394,569</u>	<u>343,732</u>	<u>(50,837)</u>	<u>1,014,152</u>	<u>926,201</u>	<u>(87,951)</u>
—	—	—	—	—	—	77,349	48,769	28,580	77,349	48,769	28,580
—	—	—	—	—	—	1,003	824	179	67,434	66,598	836
—	—	—	—	—	—	115,539	95,135	20,404	115,539	95,135	20,404
—	—	—	—	—	—	17,895	12,980	4,915	17,895	12,980	4,915
—	—	—	227,846	140,894	86,952	6,757	3,485	3,272	288,899	177,047	111,852
111,377	70,815	40,562	—	—	—	208,264	178,516	29,748	411,818	337,541	74,277
—	—	—	—	—	—	26,844	21,686	5,158	26,844	21,686	5,158
—	—	—	—	—	—	4	—	4	4	0	4
—	—	—	—	—	—	6	—	6	6	—	6
<u>111,377</u>	<u>70,815</u>	<u>40,562</u>	<u>227,846</u>	<u>140,894</u>	<u>86,952</u>	<u>453,661</u>	<u>361,395</u>	<u>92,266</u>	<u>1,005,788</u>	<u>759,756</u>	<u>246,032</u>
<u>\$ (27,520)</u>	13,287	<u>\$ 40,807</u>	<u>\$ (9,962)</u>	19,988	<u>\$ 29,950</u>	<u>\$ (59,092)</u>	(17,663)	<u>\$ 41,429</u>	<u>\$ 8,364</u>	166,445	<u>\$ 158,081</u>
	<u>42,564</u>			<u>146,200</u>			<u>236,095</u>			<u>992,840</u>	
	<u>\$ 55,851</u>			<u>\$166,188</u>			<u>\$ 218,432</u>			<u>\$ 1,159,285</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, 2016

Exhibit C-6

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Assets			
Securities lending collateral.....	\$ 2,479	\$ —	\$ 2,479
Receivables, net:			
Accounts receivable.....	18	1	19
Intergovernmental receivable.....	34	—	34
Interest receivable.....	102	68	170
Notes receivable, net.....	42,444	—	42,444
Restricted/designated cash and cash equivalents.....	291,817	—	291,817
Restricted investments.....	—	290,244	290,244
Total Assets.....	<u>\$ 336,894</u>	<u>\$ 290,313</u>	<u>\$ 627,207</u>
Liabilities			
Accounts payable and accrued liabilities:			
Accounts payable.....	\$ 9,610	\$ 12,828	\$ 22,438
Intergovernmental payable.....	396	—	396
Obligations under securities lending.....	2,479	—	2,479
Due to other funds	39	1	40
Due to component units.....	14,095	334	14,429
Unearned revenue.....	425	—	425
Total Liabilities.....	<u>27,044</u>	<u>13,163</u>	<u>40,207</u>
Fund Balances			
Restricted.....	7,996	277,150	285,146
Committed.....	300,688	—	300,688
Assigned.....	1,166	—	1,166
Total Fund Balances.....	<u>309,850</u>	<u>277,150</u>	<u>587,000</u>
Total Liabilities and Fund Balances.....	<u>\$ 336,894</u>	<u>\$ 290,313</u>	<u>\$ 627,207</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS**

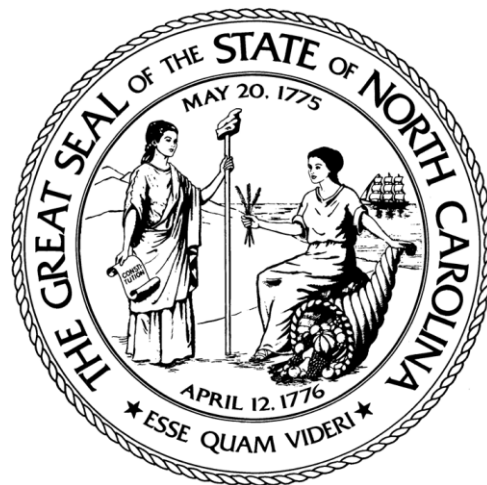
For the Fiscal Year Ended June 30, 2016

Exhibit C-7

(Dollars in Thousands)

	Non-Debt Supported Fund	Debt Supported Fund	Total Nonmajor Capital Projects Funds
Revenues			
Federal funds.....	\$ 7,820	\$ —	\$ 7,820
Investment earnings.....	266	522	788
Interest earnings on loans.....	497	—	497
Sales and services.....	498	—	498
Fees, licenses, and fines.....	761	—	761
Contributions, gifts, and grants.....	16,103	—	16,103
Miscellaneous.....	153	—	153
Total revenues.....	<u>26,098</u>	<u>522</u>	<u>26,620</u>
Expenditures			
Current:			
General government.....	—	92	92
Higher education.....	4,007	16,491	20,498
Economic development.....	—	160	160
Environment and natural resources.....	7,158	1,410	8,568
Capital outlay.....	88,167	56,507	144,674
Debt service:			
Interest and fees.....	—	34	34
Debt issuance costs.....	—	3	3
Total expenditures.....	<u>99,332</u>	<u>74,697</u>	<u>174,029</u>
Excess revenues over (under) expenditures.....	<u>(73,234)</u>	<u>(74,175)</u>	<u>(147,409)</u>
Other Financing Sources (Uses)			
Sale of capital assets.....	2,159	—	2,159
Insurance recoveries.....	217	—	217
Transfers in.....	146,703	—	146,703
Transfers out.....	(6,340)	(10,191)	(16,531)
Total other financing sources (uses).....	<u>142,739</u>	<u>(10,191)</u>	<u>132,548</u>
Net change in fund balances.....	69,505	(84,366)	(14,861)
Fund balances — July 1, as restated.....	240,345	361,516	601,861
Fund balances — June 30.....	<u>\$ 309,850</u>	<u>\$ 277,150</u>	<u>\$ 587,000</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, 2016

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents.....	\$ —	\$ 875	\$ 875
Securities lending collateral.....	9,356	647	10,003
Receivables, net:			
Accounts receivable.....	27	—	27
Interest receivable.....	557	8	565
Restricted/designated cash and cash equivalents.....	4,328	10,819	15,147
Restricted investments.....	118,372	511	118,883
Total Assets.....	<u>\$ 132,640</u>	<u>\$ 12,860</u>	<u>\$ 145,500</u>
Liabilities			
Obligations under securities lending.....	<u>\$ 9,356</u>	<u>\$ 647</u>	<u>\$ 10,003</u>
Fund Balances			
Nonspendable.....	98,876	11,326	110,202
Restricted.....	24,408	114	24,522
Committed.....	—	773	773
Total Fund Balances.....	<u>123,284</u>	<u>12,213</u>	<u>135,497</u>
Total Liabilities and Fund Balances.....	<u>\$ 132,640</u>	<u>\$ 12,860</u>	<u>\$ 145,500</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS**

For the Fiscal Year Ended June 30, 2016

Exhibit C-9

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues			
Investment earnings.....	\$ 9,161	\$ 103	\$ 9,264
Fees, licenses, and fines.....	3,728	1,015	4,743
Contributions, gifts, and grants.....	16	—	16
Total revenues.....	<u>12,905</u>	<u>1,118</u>	<u>14,023</u>
Expenditures			
Current:			
Higher education.....	—	26	26
Environment and natural resources.....	22	47	69
Total expenditures.....	<u>22</u>	<u>73</u>	<u>95</u>
Excess revenues over (under) expenditures.....	<u>12,883</u>	<u>1,045</u>	<u>13,928</u>
Other Financing Sources (Uses)			
Transfers out.....	<u>(2,548)</u>	<u>—</u>	<u>(2,548)</u>
Net change in fund balances.....	10,335	1,045	11,380
Fund balances — July 1.....	112,949	11,168	124,117
Fund balances — June 30.....	<u>\$ 123,284</u>	<u>\$ 12,213</u>	<u>\$ 135,497</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, 2016

(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.....	\$ 2,195	\$ 2,195	\$ —	\$ —	\$ —	\$ —
Fees, licenses, and fines.....	1,773	3,713	1,940	1,409	1,019	(390)
Contributions, gifts, and grants.....	7	16	9	—	—	—
Miscellaneous.....	3,474	—	(3,474)	300	84	(216)
Total revenues.....	<u>7,449</u>	<u>5,924</u>	<u>(1,525)</u>	<u>1,709</u>	<u>1,103</u>	<u>(606)</u>
Expenditures:						
Current:						
Higher education.....	—	—	—	26	17	9
Environmental and natural resources.....	5,483	5,473	10	721	45	676
Total expenditures.....	<u>5,483</u>	<u>5,473</u>	<u>10</u>	<u>747</u>	<u>62</u>	<u>685</u>
Excess revenues over (under) expenditures	<u>\$ 1,966</u>	451	<u>\$ (1,515)</u>	<u>\$ 962</u>	1,041	<u>\$ 79</u>
Fund balances (budgetary basis)						
at July 1, as restated.....		<u>117,976</u>			<u>11,165</u>	
Fund balances (budgetary basis)						
at June 30.....		<u>\$ 118,427</u>			<u>\$ 12,206</u>	

Total Nonmajor Permanent Funds

Final Budget	Actual	Variance with Final Budget
\$ 2,195	\$ 2,195	\$ —
3,182	4,732	1,550
7	16	9
<u>3,774</u>	<u>84</u>	<u>(3,690)</u>
<u>9,158</u>	<u>7,027</u>	<u>(2,131)</u>
26	17	9
<u>6,204</u>	<u>5,518</u>	<u>686</u>
<u>6,230</u>	<u>5,535</u>	<u>695</u>
<u>\$ 2,928</u>	<u>1,492</u>	<u>\$ (1,436)</u>
	<u>129,141</u>	
	<u>\$ 130,633</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, 2016

(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.....	\$ 18,879	\$ 4,478	\$ 5,567	\$ 3,224	\$ 15,642	\$ 7,343
Investments.....	88,966	—	1,464	—	13,139	—
Securities lending collateral.....	7,894	—	300	—	1,878	404
Receivables:						
Accounts receivable, net.....	33	437	361	41	583	9
Intergovernmental receivable.....	—	—	—	—	—	—
Interest receivable.....	12	—	—	—	8	5
Premiums receivable.....	3,894	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Inventories.....	—	101	233	22	—	32
Prepaid items.....	2,478	—	140	—	30	—
Restricted cash and cash equivalents.....	—	—	309	—	—	—
Total current assets.....	<u>122,156</u>	<u>5,016</u>	<u>8,374</u>	<u>3,287</u>	<u>31,280</u>	<u>7,793</u>
Noncurrent Assets						
Investments.....	—	—	—	—	—	—
Notes receivable.....	—	—	—	—	—	—
Prepaid items.....	—	—	—	—	—	—
Capital assets-nondepreciable.....	—	1,379	259	3,740	—	—
Capital assets-depreciable, net.....	—	14,633	2,229	7,280	—	122
Total noncurrent assets.....	<u>—</u>	<u>16,012</u>	<u>2,488</u>	<u>11,020</u>	<u>—</u>	<u>122</u>
Total Assets.....	<u>122,156</u>	<u>21,028</u>	<u>10,862</u>	<u>14,307</u>	<u>31,280</u>	<u>7,915</u>
Deferred Outflows of Resources						
Deferred outflows for pensions.....	44	334	31	101	—	917
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities:						
Accounts payable.....	—	177	83	58	18	35
Accrued payroll.....	—	21	54	4	—	—
Intergovernmental payable.....	—	—	—	—	—	—
Claims payable.....	5,794	—	—	—	25,251	—
Obligations under securities lending.....	7,894	—	300	—	1,878	404
Due to other funds.....	2	7	—	2	—	10
Unearned revenue.....	6,740	1,468	43	—	3,504	—
Deposits payable.....	—	20	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	7	26	12	11	—	123
Total current liabilities.....	<u>20,437</u>	<u>1,719</u>	<u>492</u>	<u>75</u>	<u>30,651</u>	<u>572</u>
Noncurrent Liabilities						
Accounts payable.....	—	—	—	—	—	—
Notes payable.....	—	—	—	—	—	—
Compensated absences.....	82	376	116	165	—	1,348
Net pension liability.....	101	715	300	238	—	2,149
Total noncurrent liabilities.....	<u>183</u>	<u>1,091</u>	<u>416</u>	<u>403</u>	<u>—</u>	<u>3,497</u>
Total Liabilities.....	<u>20,620</u>	<u>2,810</u>	<u>908</u>	<u>478</u>	<u>30,651</u>	<u>4,069</u>
Deferred Inflows of Resources						
Deferred inflows for pensions.....	26	159	51	53	—	623
Net Position						
Net investment in capital assets.....	—	16,012	2,488	11,020	—	122
Restricted for:						
Capital outlay.....	—	—	309	—	—	—
Other purposes.....	—	—	—	—	—	—
Unrestricted.....	101,554	2,381	7,137	2,857	629	4,018
Total Net Position.....	<u>\$ 101,554</u>	<u>\$ 18,393</u>	<u>\$ 9,934</u>	<u>\$ 13,877</u>	<u>\$ 629</u>	<u>\$ 4,140</u>

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 2,863	\$ 6,412	\$ 33,647	\$ 5,487	\$ 103,542
—	—	13,730	—	117,299
—	—	955	225	11,656
91	239	667	106	2,567
—	1,900	—	—	1,900
—	—	289	3	317
—	—	—	—	3,894
—	—	1	—	1
—	18	37	125	568
—	—	555	—	3,203
—	—	1,579	—	1,888
<u>2,954</u>	<u>8,569</u>	<u>51,460</u>	<u>5,946</u>	<u>246,835</u>
—	—	12,253	—	12,253
—	—	184	—	184
—	—	39	—	39
—	550	5,275	339	11,542
63	1,932	38,435	6,441	71,135
<u>63</u>	<u>2,482</u>	<u>56,186</u>	<u>6,780</u>	<u>95,153</u>
<u>3,017</u>	<u>11,051</u>	<u>107,646</u>	<u>12,726</u>	<u>341,988</u>
<u>730</u>	<u>217</u>	<u>147</u>	<u>239</u>	<u>2,760</u>
54	64	4,894	99	5,482
—	—	77	12	168
—	—	—	3	3
—	—	50	—	31,095
—	—	955	225	11,656
—	45	69	1	136
—	—	23,413	131	35,299
—	—	—	—	20
—	—	1,048	—	1,048
110	22	671	33	1,015
<u>164</u>	<u>131</u>	<u>31,177</u>	<u>504</u>	<u>85,922</u>
—	—	247	—	247
—	—	14,902	—	14,902
1,205	280	1,142	413	5,127
<u>1,766</u>	<u>570</u>	<u>221</u>	<u>579</u>	<u>6,639</u>
<u>2,971</u>	<u>850</u>	<u>16,512</u>	<u>992</u>	<u>26,915</u>
<u>3,135</u>	<u>981</u>	<u>47,689</u>	<u>1,496</u>	<u>112,837</u>
<u>512</u>	<u>136</u>	<u>100</u>	<u>142</u>	<u>1,802</u>
63	2,483	27,763	6,781	66,732
—	—	—	—	309
—	—	2,467	—	2,467
37	7,668	29,774	4,546	160,601
<u>\$ 100</u>	<u>\$ 10,151</u>	<u>\$ 60,004</u>	<u>\$ 11,327</u>	<u>\$ 230,109</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS**

For the Fiscal Year Ended June 30, 2016

(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.....	\$ —	\$ 335	\$ 784	\$ 41	\$ —	\$ 5
Student tuition and fees, net.....	—	—	—	—	—	—
Rental and lease earnings.....	—	5,489	254	1,014	—	—
Fees, licenses, and fines.....	—	9,714	2,376	2,285	—	16,307
Insurance premiums.....	12,640	—	4	—	5,988	—
Miscellaneous.....	—	1	—	—	—	95
Total operating revenues.....	<u>12,640</u>	<u>15,539</u>	<u>3,418</u>	<u>3,340</u>	<u>5,988</u>	<u>16,407</u>
Operating Expenses						
Personal services.....	538	6,495	1,576	1,399	—	11,861
Supplies and materials.....	3	1,498	79	134	—	250
Services.....	58	5,549	899	757	845	662
Cost of goods sold.....	—	5	312	—	—	—
Depreciation.....	—	1,089	124	490	—	10
Claims.....	606	78	—	—	6,762	—
Insurance and bonding.....	3,665	154	24	81	—	2
Other.....	—	1,232	210	24	—	1,170
Total operating expenses.....	<u>4,870</u>	<u>16,100</u>	<u>3,224</u>	<u>2,885</u>	<u>7,607</u>	<u>13,955</u>
Operating income (loss).....	<u>7,770</u>	<u>(561)</u>	<u>194</u>	<u>455</u>	<u>(1,619)</u>	<u>2,452</u>
Nonoperating Revenues (Expenses)						
Noncapital grants.....	—	—	—	—	—	515
Noncapital gifts, net.....	—	745	335	—	—	—
Investment earnings.....	6,479	—	(67)	—	1,067	41
Interest and fees.....	—	—	—	—	—	—
Insurance recoveries.....	—	—	—	1	—	2
Loss on sale of equipment.....	—	(83)	—	(7)	—	—
Miscellaneous.....	(12)	23	(333)	8	(4)	14
Total nonoperating revenues (expenses).....	<u>6,467</u>	<u>685</u>	<u>(65)</u>	<u>2</u>	<u>1,063</u>	<u>572</u>
Income (loss) before contributions and transfers.....	14,237	124	129	457	(556)	3,024
Capital contributions.....	—	—	125	—	—	—
Transfers in.....	—	—	—	—	6,099	—
Transfers out.....	—	(2,148)	—	(3)	—	(246)
Change in net position.....	14,237	(2,024)	254	454	5,543	2,778
Net position — July 1, as restated.....	87,317	20,417	9,680	13,423	(4,914)	1,362
Net position — June 30.....	<u>\$ 101,554</u>	<u>\$ 18,393</u>	<u>\$ 9,934</u>	<u>\$ 13,877</u>	<u>\$ 629</u>	<u>\$ 4,140</u>

State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ —	\$ 2	\$ 148	\$ 221	\$ 1,536
—	—	17	—	17
—	—	—	1,474	8,231
13,221	17,514	55,388	3,572	120,377
—	—	—	—	18,632
45	—	695	17	853
<u>13,266</u>	<u>17,516</u>	<u>56,248</u>	<u>5,284</u>	<u>149,646</u>
9,562	2,920	35,686	3,746	73,783
66	77	886	315	3,308
1,686	11,426	11,197	1,511	34,590
—	—	—	48	365
6	116	2,126	214	4,175
—	—	1,034	—	8,480
2	—	123	121	4,172
975	335	2,100	423	6,469
<u>12,297</u>	<u>14,874</u>	<u>53,152</u>	<u>6,378</u>	<u>135,342</u>
<u>969</u>	<u>2,642</u>	<u>3,096</u>	<u>(1,094)</u>	<u>14,304</u>
—	151	—	115	781
—	—	—	689	1,769
—	—	494	31	8,045
—	—	(562)	—	(562)
—	—	—	—	3
—	—	(3)	—	(93)
9	—	(13)	14	(294)
<u>9</u>	<u>151</u>	<u>(84)</u>	<u>849</u>	<u>9,649</u>
978	2,793	3,012	(245)	23,953
—	—	—	—	125
—	—	—	523	6,622
(154)	—	—	(48)	(2,599)
824	2,793	3,012	230	28,101
(724)	7,358	56,992	11,097	202,008
<u>\$ 100</u>	<u>\$ 10,151</u>	<u>\$ 60,004</u>	<u>\$ 11,327</u>	<u>\$ 230,109</u>

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

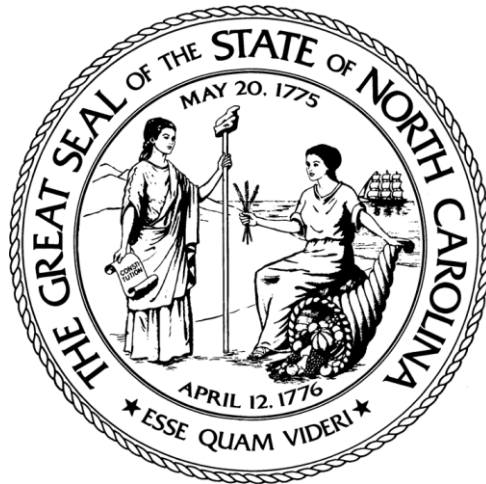
For the Fiscal Year Ended June 30, 2016

(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.....	\$ 13,397	\$ 16,192	\$ 3,437	\$ 3,305	\$ 5,297
Payments to suppliers.....	(3,558)	(7,252)	(1,483)	(981)	(353)
Payments to employees.....	(576)	(6,792)	(1,576)	(1,456)	—
Payments for prizes, benefits, and claims.....	(4,993)	(760)	—	—	(7,537)
Other receipts.....	—	23	—	8	—
Other payments.....	—	(368)	—	(4)	—
Net cash provided by (used for) operating activities.....	4,270	1,043	378	872	(2,593)
Cash Flows From Noncapital Financing Activities					
Grant receipts.....	—	—	—	—	—
Transfers from other funds.....	—	—	—	—	6,099
Transfers to other funds.....	—	(2,147)	—	(3)	—
Gifts.....	—	745	307	—	—
Insurance recoveries.....	—	—	—	—	—
Net cash provided by (used for) noncapital financing activities.....	—	(1,402)	307	(3)	6,099
Cash Flows From Capital and Related Financing Activities					
Acquisition and construction of capital assets.....	—	(212)	(125)	—	—
Proceeds from the sale of capital assets.....	—	—	—	15	—
Capital contributions.....	—	—	125	—	—
Principal paid on capital debt.....	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—
Insurance recoveries.....	—	—	—	1	—
Net cash provided by (used for) capital and related financing activities.....	—	(212)	—	16	—
Cash Flows From Investing Activities					
Proceeds from the sale/maturities of non-State Treasurer investments.....	—	—	—	—	—
Purchase of non-State Treasurer investments.....	—	—	(67)	—	—
Purchase into State Treasurer investment pool.....	(6,000)	—	—	—	—
Investment earnings.....	144	—	81	—	77
Net cash provided by (used for) investment activities.....	(5,856)	—	14	—	77
Net increase (decrease) in cash and cash equivalents.....	(1,586)	(571)	699	885	3,583
Cash and cash equivalents at July 1, as restated.....	20,465	5,049	5,177	2,339	12,059
Cash and cash equivalents at June 30.....	\$ 18,879	\$ 4,478	\$ 5,876	\$ 3,224	\$ 15,642
Reconciliation of Operating Income to Net Cash Provided By Operating Activities					
Operating income (loss).....	\$ 7,770	\$ (562)	\$ 194	\$ 455	\$ (1,619)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation.....	—	1,089	124	491	—
Pension expense.....	11	81	25	27	—
Nonoperating miscellaneous income (expense).....	—	105	—	14	—
Change in assets and deferred outflows:					
Receivables.....	(1,477)	(99)	7	(35)	(244)
Inventories.....	—	4	15	(7)	—
Prepaid items.....	212	—	30	—	474
Deferred outflows for pensions.....	(40)	(300)	(23)	(90)	—
Change in liabilities:					
Accounts payable and accrued liabilities.....	(4,425)	(25)	1	11	(757)
Due to other funds.....	(5)	(1)	—	—	—
Compensated absences.....	(10)	(1)	(8)	6	—
Unearned revenue.....	2,234	753	13	—	(447)
Deposits payable.....	—	(1)	—	—	—
Net cash provided by (used for) operations.....	\$ 4,270	\$ 1,043	\$ 378	\$ 872	\$ (2,593)
Noncash Investing, Capital, and Financing Activities					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ —	\$ —	\$ —	\$ —	\$ 481
Capital asset writeoff.....	—	—	(318)	—	—
Change in fair value of investments.....	—	—	(138)	—	499
Increase in receivables related to nonoperating income.....	—	—	28	—	—
Change in securities lending collateral.....	(865)	—	129	—	(125)

Utilities Commission	State Banking Commission	ABC Commission	Occupational Licensing Boards	Departmental Funds	Total Nonmajor Enterprise Funds
\$ 16,408	\$ 13,130	\$ 17,086	\$ 56,555	\$ 5,295	\$ 150,102
(1,087)	(1,940)	(11,547)	(1,849)	(2,041)	(32,091)
(12,718)	(10,109)	(3,079)	(32,481)	(3,913)	(72,700)
—	—	—	—	(103)	(13,393)
3	45	—	810	14	903
(610)	(541)	(291)	(16,645)	(199)	(18,658)
<u>1,996</u>	<u>585</u>	<u>2,169</u>	<u>6,390</u>	<u>(947)</u>	<u>14,163</u>
514	—	151	—	—	665
—	—	—	—	523	6,622
(246)	(154)	—	—	(48)	(2,598)
—	—	—	—	804	1,856
2	—	—	—	—	2
<u>270</u>	<u>(154)</u>	<u>151</u>	<u>—</u>	<u>1,279</u>	<u>6,547</u>
—	—	—	(757)	(20)	(1,114)
—	—	—	2	—	17
—	—	—	—	—	125
—	—	—	(1,999)	—	(1,999)
—	—	—	(562)	—	(562)
—	—	—	—	—	1
<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,316)</u>	<u>(20)</u>	<u>(3,532)</u>
—	—	—	13,082	—	13,082
—	—	—	(13,947)	—	(14,014)
—	—	—	—	—	(6,000)
41	—	—	334	28	705
<u>41</u>	<u>—</u>	<u>—</u>	<u>(531)</u>	<u>28</u>	<u>(6,227)</u>
2,307	431	2,320	2,543	340	10,951
5,036	2,432	4,092	32,683	5,147	94,479
<u>\$ 7,343</u>	<u>\$ 2,863</u>	<u>\$ 6,412</u>	<u>\$ 35,226</u>	<u>\$ 5,487</u>	<u>\$ 105,430</u>
\$ 2,452	\$ 969	\$ 2,642	\$ 3,096	\$ (1,095)	\$ 14,302
10	6	116	2,126	214	4,176
178	146	55	32	58	613
393	282	8	7	83	892
1	(91)	(429)	(312)	(44)	(2,723)
—	—	(15)	(10)	15	2
—	—	—	19	—	735
(891)	(709)	(208)	(120)	(221)	(2,602)
—	(12)	(7)	520	(1)	(4,695)
(3)	(22)	12	23	(4)	—
(144)	16	(5)	67	(8)	(87)
—	—	—	942	56	3,551
—	—	—	—	—	(1)
<u>\$ 1,996</u>	<u>\$ 585</u>	<u>\$ 2,169</u>	<u>\$ 6,390</u>	<u>\$ (947)</u>	<u>\$ 14,163</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 481
—	—	—	—	—	(318)
—	—	—	164	—	525
—	—	—	—	—	28
(180)	—	—	1	(189)	(1,229)

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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

Office of the Governor:

- Computing Services
- State Telecommunications Services

Department of Insurance:

- State Property Fire Insurance

COMBINING STATEMENT OF NET POSITION INTERNAL SERVICE FUNDS

June 30, 2016

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Assets					
Current Assets					
Cash and cash equivalents.....	\$ 32,468	\$ 39,876	\$ 56	\$ 4,089	\$ 20,569
Investments.....	33,453	—	—	—	—
Securities lending collateral.....	4,374	—	—	—	—
Receivables:					
Accounts receivable, net.....	—	4,260	671	13,450	2,738
Interest receivable.....	20	—	—	—	—
Premiums receivable.....	665	—	—	—	—
Due from other funds.....	—	2,602	—	1,171	7,134
Due from component units.....	—	199	—	—	5
Inventories.....	—	147	43	—	7
Prepaid items.....	—	—	—	—	3,872
Total current assets.....	<u>70,980</u>	<u>47,084</u>	<u>770</u>	<u>18,710</u>	<u>34,325</u>
Noncurrent Assets					
Capital assets-nondepreciable.....	—	288	—	—	3,089
Capital assets-depreciable, net.....	—	65,123	114	—	39,064
Total noncurrent assets.....	<u>—</u>	<u>65,411</u>	<u>114</u>	<u>—</u>	<u>42,153</u>
Total Assets.....	<u>70,980</u>	<u>112,495</u>	<u>884</u>	<u>18,710</u>	<u>76,478</u>
Deferred Outflows of Resources:					
Deferred outflows for pensions.....	<u>124</u>	<u>205</u>	<u>212</u>	<u>88</u>	<u>3,280</u>
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities:					
Accounts payable.....	4,042	4,561	8	8	1,465
Accrued payroll.....	—	—	—	2,165	—
Claims payable.....	793	—	—	—	—
Obligations under securities lending.....	4,374	—	—	—	—
Due to other funds.....	—	8	57	—	6
Unearned revenue.....	7,588	—	—	—	—
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	21	13	26	12	314
Total current liabilities.....	<u>16,818</u>	<u>4,582</u>	<u>91</u>	<u>2,185</u>	<u>1,785</u>
Noncurrent Liabilities					
Capital leases payable.....	—	—	—	—	—
Compensated absences.....	208	113	218	108	3,656
Net pension liability.....	299	328	354	114	6,449
Total noncurrent liabilities.....	<u>507</u>	<u>441</u>	<u>572</u>	<u>222</u>	<u>10,105</u>
Total Liabilities.....	<u>17,325</u>	<u>5,023</u>	<u>663</u>	<u>2,407</u>	<u>11,890</u>
Deferred Inflows of Resources:					
Deferred inflows for pensions.....	<u>69</u>	<u>73</u>	<u>79</u>	<u>25</u>	<u>1,577</u>
Net Position					
Net investment in capital assets.....	—	65,411	114	—	42,153
Unrestricted.....	53,710	42,193	240	16,366	24,138
Total Net Position.....	<u>\$ 53,710</u>	<u>\$ 107,604</u>	<u>\$ 354</u>	<u>\$ 16,366</u>	<u>\$ 66,291</u>

State Telecommu- nications Services	Surplus Property	Totals
\$ 18,914	\$ 2,439	\$ 118,411
—	—	33,453
—	—	4,374
6,269	108	27,496
—	—	20
—	—	665
3,892	1	14,800
171	—	375
—	—	197
532	—	4,404
<u>29,778</u>	<u>2,548</u>	<u>204,195</u>
—	19	3,396
5,176	49	109,526
<u>5,176</u>	<u>68</u>	<u>112,922</u>
<u>34,954</u>	<u>2,616</u>	<u>317,117</u>
811	126	4,846
269	998	11,351
—	—	2,165
—	—	793
—	—	4,374
—	147	218
—	—	7,588
46	—	46
83	9	478
<u>398</u>	<u>1,154</u>	<u>27,013</u>
138	—	138
972	72	5,347
<u>1,575</u>	<u>191</u>	<u>9,310</u>
<u>2,685</u>	<u>263</u>	<u>14,795</u>
<u>3,083</u>	<u>1,417</u>	<u>41,808</u>
385	42	2,250
4,992	68	112,738
27,305	1,215	165,167
<u>\$ 32,297</u>	<u>\$ 1,283</u>	<u>\$ 277,905</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS**

For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions	Computing Services
Operating Revenues					
Sales and services.....	\$ —	\$ 35,825	\$ 3,803	\$ 88,257	\$ 98,612
Rental and lease earnings.....	—	—	—	—	—
Fees, licenses, and fines.....	—	—	—	—	1,165
Insurance premiums.....	22,786	—	—	—	—
Miscellaneous.....	—	116	—	—	401
Total operating revenues.....	<u>22,786</u>	<u>35,941</u>	<u>3,803</u>	<u>88,257</u>	<u>100,178</u>
Operating Expenses					
Personal services.....	1,660	2,502	2,835	77,558	33,357
Supplies and materials.....	8	8,453	91	42	6,850
Services.....	121	1,933	1,103	230	8,477
Cost of goods sold.....	—	440	—	—	—
Depreciation.....	—	13,342	49	—	5,659
Claims.....	264	—	—	—	—
Insurance and bonding.....	16,958	1,344	—	—	137
Other.....	85	15	177	82	40,897
Total operating expenses.....	<u>19,096</u>	<u>28,029</u>	<u>4,255</u>	<u>77,912</u>	<u>95,377</u>
Operating income (loss).....	<u>3,690</u>	<u>7,912</u>	<u>(452)</u>	<u>10,345</u>	<u>4,801</u>
Nonoperating Revenues (Expenses)					
Noncapital grants.....	—	—	—	—	40
Investment earnings.....	2,769	—	—	—	—
Interest and fees.....	—	—	—	—	—
Insurance recoveries.....	—	134	—	—	—
Gain (loss) on sale of equipment.....	—	1,857	—	—	—
Miscellaneous.....	(14)	1,941	101	34	427
Total nonoperating revenues (expenses).....	<u>2,755</u>	<u>3,932</u>	<u>101</u>	<u>34</u>	<u>467</u>
Income (loss) before contributions and transfers.....	6,445	11,844	(351)	10,379	5,268
Capital contributions.....	—	359	—	—	—
Transfers in.....	—	144	665	—	5,759
Transfers out.....	—	(2,486)	—	—	(58)
Change in net position.....	<u>6,445</u>	<u>9,861</u>	<u>314</u>	<u>10,379</u>	<u>10,969</u>
Net position — July 1.....	<u>47,265</u>	<u>97,743</u>	<u>40</u>	<u>5,987</u>	<u>55,322</u>
Net position — June 30.....	<u>\$ 53,710</u>	<u>\$ 107,604</u>	<u>\$ 354</u>	<u>\$ 16,366</u>	<u>\$ 66,291</u>

State Telecommu- nications Services	Surplus Property	Totals
\$ 86,222	\$ 2,231	\$ 314,950
—	48	48
—	21	1,186
—	—	22,786
44	86	647
<u>86,266</u>	<u>2,386</u>	<u>339,617</u>
8,174	1,601	127,687
1,355	45	16,844
61,987	446	74,297
—	—	440
1,881	5	20,936
—	—	264
40	20	18,499
5,099	49	46,404
<u>78,536</u>	<u>2,166</u>	<u>305,371</u>
<u>7,730</u>	<u>220</u>	<u>34,246</u>
—	—	40
—	—	2,769
(2)	—	(2)
—	—	134
—	—	1,857
502	74	3,065
<u>500</u>	<u>74</u>	<u>7,863</u>
8,230	294	42,109
—	—	359
—	—	6,568
(5,759)	—	(8,303)
<u>2,471</u>	<u>294</u>	<u>40,733</u>
<u>29,826</u>	<u>989</u>	<u>237,172</u>
<u>\$ 32,297</u>	<u>\$ 1,283</u>	<u>\$ 277,905</u>

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2016

(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.....	\$ 13,048	\$ 3,357	\$ 611	\$ —	\$ 2,200
Receipts from other funds.....	9,312	29,917	2,985	81,249	96,870
Payments to suppliers.....	(17,556)	(8,734)	(391)	(109)	(43,887)
Payments to employees.....	(1,774)	(2,641)	(2,923)	(76,809)	(35,276)
Payments for benefits and claims.....	(607)	—	—	—	—
Payments to other funds.....	(477)	(85)	(961)	(163)	(10,290)
Other receipts.....	—	1,970	—	—	1
Other payments.....	—	(11)	(29)	(79)	—
Net cash provided by (used for) operating activities.....	<u>1,946</u>	<u>23,773</u>	<u>(708)</u>	<u>4,089</u>	<u>9,618</u>
Cash Flows From Noncapital Financing Activities					
Grant receipts.....	—	—	—	—	40
Transfers from other funds.....	—	144	665	—	5,759
Transfers to other funds.....	—	(2,486)	—	—	(58)
Net cash provided by (used for) noncapital financing activities.....	<u>—</u>	<u>(2,342)</u>	<u>665</u>	<u>—</u>	<u>5,741</u>
Cash Flows From Capital and Related Financing Activities					
Acquisition and construction of capital assets.....	—	(18,130)	—	—	(2,171)
Proceeds from the sale of capital assets.....	—	2,498	—	—	—
Principal paid on capital debt.....	—	—	—	—	—
Interest paid on capital debt.....	—	—	—	—	—
Insurance recoveries.....	—	134	—	—	—
Net cash provided by (used for) capital and related financing activities.....	<u>—</u>	<u>(15,498)</u>	<u>—</u>	<u>—</u>	<u>(2,171)</u>
Cash Flows From Investing Activities					
Investment earnings.....	252	—	—	—	—
Net increase (decrease) in cash and cash equivalents.....	2,198	5,933	(43)	4,089	13,188
Cash and cash equivalents at July 1.....	30,270	33,943	99	—	7,381
Cash and cash equivalents at June 30.....	<u>\$ 32,468</u>	<u>\$ 39,876</u>	<u>\$ 56</u>	<u>\$ 4,089</u>	<u>\$ 20,569</u>
Reconciliation of Operating Income to Net Cash Provided					
By Operating Activities					
Operating income (loss).....	\$ 3,690	\$ 7,912	\$ (452)	\$ 10,345	\$ 4,801
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation.....	—	13,342	49	—	5,659
Pension expense.....	29	53	57	18	811
Nonoperating miscellaneous income (expense).....	6	1,855	—	—	1
Change in assets and deferred outflows:					
Receivables.....	(11)	(3,012)	(205)	(6,931)	2
Due from other funds.....	—	386	—	(78)	(1,108)
Due from component units.....	—	75	—	—	(3)
Inventories.....	—	(19)	(9)	—	—
Prepaid items.....	—	—	—	—	1,975
Deferred outflows for pensions.....	(121)	(139)	(140)	(66)	(2,431)
Change in liabilities:					
Accounts payable and accrued liabilities.....	(1,210)	3,370	2	800	206
Due to other funds.....	—	3	(5)	—	4
Compensated absences.....	(21)	(53)	(5)	1	(299)
Unearned revenue.....	(416)	—	—	—	—
Net cash provided by (used for) operations.....	<u>\$ 1,946</u>	<u>\$ 23,773</u>	<u>\$ (708)</u>	<u>\$ 4,089</u>	<u>\$ 9,618</u>
Noncash Investing, Capital, and Financing Activities					
Noncash distributions from the State Treasurer					
Long-Term Investment Portfolio and/or other agents.....	\$ 1,226	\$ —	\$ —	\$ —	\$ —
Donated or transferred assets.....	—	359	—	—	—
Change in fair value of investments.....	1,269	—	—	—	—
Change in securities lending collateral.....	(696)	—	—	—	—

State Telecommu- nications Services	Surplus Property	Totals
\$ 18,629	\$ 919	\$ 38,764
69,111	1,434	290,878
(67,888)	(192)	(138,757)
(8,675)	(1,687)	(129,785)
—	—	(607)
(1,891)	(293)	(14,160)
—	92	2,063
—	(47)	(166)
<u>9,286</u>	<u>226</u>	<u>48,230</u>
—	—	40
—	—	6,568
<u>(5,759)</u>	<u>—</u>	<u>(8,303)</u>
<u>(5,759)</u>	<u>—</u>	<u>(1,695)</u>
(2,919)	—	(23,220)
—	—	2,498
(212)	—	(212)
(2)	—	(2)
—	—	134
<u>(3,133)</u>	<u>—</u>	<u>(20,802)</u>
—	—	252
394	226	25,985
18,520	2,213	92,426
<u>\$ 18,914</u>	<u>\$ 2,439</u>	<u>\$ 118,411</u>

\$ 7,730	\$ 220	\$ 34,246
1,881	5	20,936
198	31	1,197
—	7	1,869
1,928	51	(8,178)
(527)	(1)	(1,328)
74	—	146
—	—	(28)
(352)	—	1,623
(604)	(88)	(3,589)
(941)	281	2,508
(4)	(253)	(255)
(97)	(27)	(501)
—	—	(416)
<u>\$ 9,286</u>	<u>\$ 226</u>	<u>\$ 48,230</u>

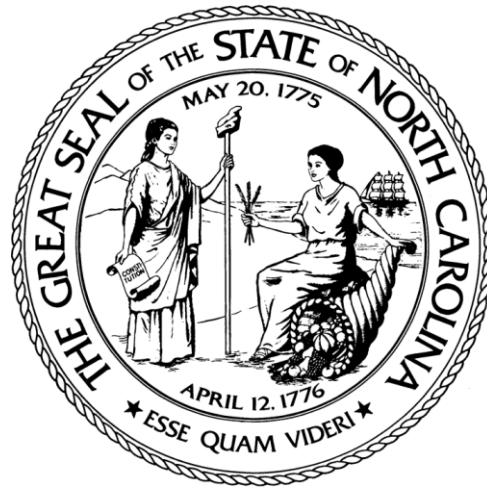
\$ —	\$ —	\$ 1,226
—	—	359
—	—	1,269
—	—	(696)

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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
Public Hospitals Investment Account

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS**

June 30, 2016

Exhibit F-1

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Assets			
Cash and cash equivalents.....	\$ 12,334	\$ —	\$ 12,334
Investments:			
State Treasurer investment pool.....	900,131	228,788	1,128,919
Securities lending collateral.....	42,496	220	42,716
Receivables:			
Interest receivable.....	772	—	772
Total Assets.....	<u>955,733</u>	<u>229,008</u>	<u>1,184,741</u>
Liabilities			
Obligations under securities lending.....	<u>42,496</u>	<u>220</u>	<u>42,716</u>
Net Position			
Restricted for:			
Pool participants.....	913,237	—	913,237
Individuals, organizations, and other governments.....	—	228,788	228,788
Total Net Position.....	<u>\$ 913,237</u>	<u>\$ 228,788</u>	<u>\$ 1,142,025</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS**

For the Fiscal Year Ended June 30, 2016

Exhibit F-2

(Dollars in Thousands)

	State Treasurer Investment Pool	Public Hospitals Investment Account	Totals
Additions			
Investment Income:			
Investment earnings (loss).....	\$ 3,792	\$ (6,423)	\$ (2,631)
Less investment expenses.....	(590)	(772)	(1,362)
Net investment income (loss).....	<u>3,202</u>	<u>(7,195)</u>	<u>(3,993)</u>
Pool share transactions:			
Reinvestment of dividends.....	3,561	(7,195)	(3,634)
Net share purchases/(redemptions).....	29,191	(1,553)	27,638
Net pool share transactions.....	<u>32,752</u>	<u>(8,748)</u>	<u>24,004</u>
Total Additions.....	<u>35,954</u>	<u>(15,943)</u>	<u>20,011</u>
Deductions			
Distributions paid and payable.....	3,561	(7,195)	(3,634)
Change in net position.....	32,393	(8,748)	23,645
Net position — July 1.....	880,844	237,536	1,118,380
Net position — June 30.....	<u>\$ 913,237</u>	<u>\$ 228,788</u>	<u>\$ 1,142,025</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, 2016

Exhibit F-3

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Assets				
Cash and cash equivalents.....	\$ 405	\$ 113,854	\$ 7,097	\$ 121,356
Investments:				
U.S. government securities.....	—	97	—	97
Certificates of deposit.....	—	39,602	—	39,602
State Treasurer investment pool.....	—	—	7,339	7,339
Securities lending collateral.....	22	—	958	980
Receivables:				
Interest receivable.....	—	—	5	5
Sureties.....	859,026	—	—	859,026
Total Assets.....	<u>859,453</u>	<u>153,553</u>	<u>15,399</u>	<u>1,028,405</u>
Liabilities				
Obligations under securities lending.....	<u>22</u>	<u>—</u>	<u>958</u>	<u>980</u>
Net Position				
Restricted for:				
Individuals, organizations, and other governments.....	859,431	153,553	14,441	1,027,425
Total Net Position.....	<u>\$ 859,431</u>	<u>\$ 153,553</u>	<u>\$ 14,441</u>	<u>\$ 1,027,425</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS**

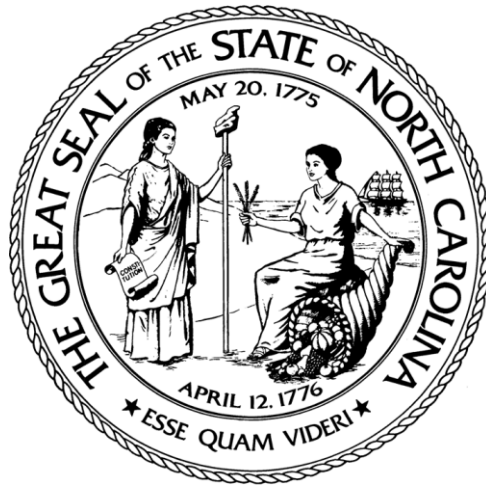
For the Fiscal Year Ended June 30, 2016

Exhibit F-4

(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>
Additions				
Contributions:				
Trustee deposits.....	\$ 19,317	\$ 111,388	\$ 4	\$ 130,709
Investment Income:				
Investment earnings.....	3	1,696	603	2,302
Less investment expenses.....	—	—	(4)	(4)
Net investment income.....	3	1,696	599	2,298
Total Additions.....	<u>19,320</u>	<u>113,084</u>	<u>603</u>	<u>133,007</u>
Deductions				
Payments in accordance with trust arrangements.....	31,336	119,719	350	151,405
Change in net position.....	(12,016)	(6,635)	253	(18,398)
Net position — July 1.....	871,447	160,188	14,188	1,045,823
Net position — June 30.....	<u>\$ 859,431</u>	<u>\$ 153,553</u>	<u>\$ 14,441</u>	<u>\$ 1,027,425</u>

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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, 2016

(Dollars in Thousands)

	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016
Local Sales Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 469,084	\$ 2,906,137	\$ (2,865,796)	\$ 509,425
Receivables:				
Taxes receivable.....	158,800	173,475	(158,800)	173,475
Due from other funds.....	26,987	26,613	(26,987)	26,613
Total Assets.....	<u>\$ 654,871</u>	<u>\$ 3,106,225</u>	<u>\$ (3,051,583)</u>	<u>\$ 709,513</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 654,871	\$ 3,310,571	\$ (3,255,929)	\$ 709,513
Total Liabilities.....	<u>\$ 654,871</u>	<u>\$ 3,310,571</u>	<u>\$ (3,255,929)</u>	<u>\$ 709,513</u>
Clerks of Court				
Assets				
Cash and cash equivalents.....	\$ 88,148	\$ 1,673,061	\$ (1,668,303)	\$ 92,906
Receivables:				
Accounts receivable.....	412	4,483	(4,489)	406
Sureties.....	98,625	36,965	(44,265)	91,325
Total Assets.....	<u>\$ 187,185</u>	<u>\$ 1,714,509</u>	<u>\$ (1,717,057)</u>	<u>\$ 184,637</u>
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 4,970	\$ 102,630	\$ (103,103)	\$ 4,497
Funds held for others.....	182,215	532,514	(534,589)	180,140
Total Liabilities.....	<u>\$ 187,185</u>	<u>\$ 635,144</u>	<u>\$ (637,692)</u>	<u>\$ 184,637</u>
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents.....	\$ 3,791,830	\$ 451,442	\$ —	\$ 4,243,272
Investments:				
State Treasurer investment pool.....	44,197	3,488	—	47,685
Securities lending collateral.....	264,669	—	(26,256)	238,413
Total Assets.....	<u>\$ 4,100,696</u>	<u>\$ 454,930</u>	<u>\$ (26,256)</u>	<u>\$ 4,529,370</u>
Liabilities				
Obligations under securities lending.....	\$ 264,669	\$ —	\$ (26,256)	\$ 238,413
Funds held for others.....	3,836,027	454,930	—	4,290,957
Total Liabilities.....	<u>\$ 4,100,696</u>	<u>\$ 454,930</u>	<u>\$ (26,256)</u>	<u>\$ 4,529,370</u>
Insurers in Receivership				
Assets				
Cash and cash equivalents.....	\$ 50,074	\$ —	\$ (47,673)	\$ 2,401
Investments:				
Corporate bonds.....	1,692	—	(306)	1,386
Receivables:				
Accounts receivable.....	1,101	416	—	1,517
Total Assets.....	<u>\$ 52,867</u>	<u>\$ 416</u>	<u>\$ (47,979)</u>	<u>\$ 5,304</u>
Liabilities				
Funds held for others.....	\$ 52,867	\$ 416	\$ (47,979)	\$ 5,304
Total Liabilities.....	<u>\$ 52,867</u>	<u>\$ 416</u>	<u>\$ (47,979)</u>	<u>\$ 5,304</u>

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2016

Exhibit F-5

(Dollars in Thousands)

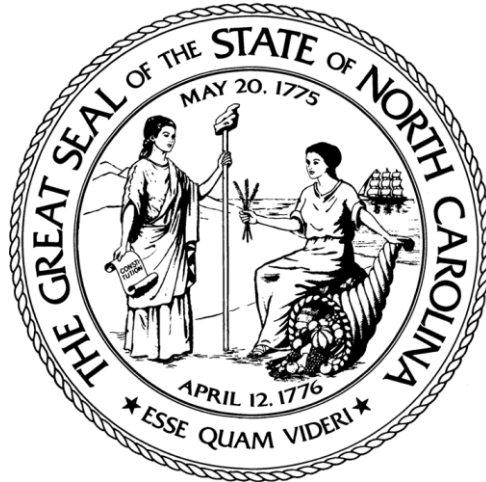
	Balance, July 1, 2015	Additions	Deductions	Balance, June 30, 2016
Vehicle Property Tax Collections				
Assets				
Cash and cash equivalents.....	\$ 70,167	\$ 861,093	\$ (851,013)	\$ 80,247
Securities lending collateral.....	4,498	—	(365)	4,133
Receivables:				
Interest receivable.....	25	47	(25)	47
Total Assets.....	\$ 74,690	\$ 861,140	\$ (851,403)	\$ 84,427
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable.....	\$ 70,192	\$ 1,006,365	\$ (996,263)	\$ 80,294
Obligations under securities lending.....	4,498	—	(365)	4,133
Total Liabilities.....	\$ 74,690	\$ 1,006,365	\$ (996,628)	\$ 84,427
 Departmental Funds				
Assets				
Cash and cash equivalents.....	\$ 30,328	\$ 447,020	\$ (419,817)	\$ 57,531
Investments:				
Certificates of deposit.....	525	—	—	525
Securities lending collateral.....	1,531	—	(358)	1,173
Receivables:				
Accounts receivable.....	4,141	11,579	(11,553)	4,167
Due from other funds.....	22,943	478	(11,463)	11,958
Total Assets.....	\$ 59,468	\$ 459,077	\$ (443,191)	\$ 75,354
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 5	\$ 1,400	\$ (1,400)	\$ 5
Intergovernmental payable.....	30,964	352,678	(338,561)	45,081
Obligations under securities lending.....	1,531	—	(358)	1,173
Deposits payable.....	1,854	3,329	(3,400)	1,783
Funds held for others.....	25,114	66,739	(64,541)	27,312
Total Liabilities.....	\$ 59,468	\$ 424,146	\$ (408,260)	\$ 75,354
 Total Agency Funds				
Assets				
Cash and cash equivalents.....	\$ 4,499,631	\$ 6,338,753	\$ (5,852,602)	\$ 4,985,782
Investments:				
Corporate bonds.....	1,692	—	(306)	1,386
Certificates of deposit.....	525	—	—	525
State Treasurer investment pool.....	44,197	3,488	—	47,685
Securities lending collateral.....	270,698	—	(26,979)	243,719
Receivables:				
Taxes receivable.....	158,800	173,475	(158,800)	173,475
Accounts receivable.....	5,654	16,478	(16,042)	6,090
Interest receivable.....	25	47	(25)	47
Due from other funds.....	49,930	27,091	(38,450)	38,571
Sureties.....	98,625	36,965	(44,265)	91,325
Total Assets.....	\$ 5,129,777	\$ 6,596,297	\$ (6,137,469)	\$ 5,588,605
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable.....	\$ 5	\$ 1,400	\$ (1,400)	\$ 5
Intergovernmental payable.....	760,997	4,772,244	(4,693,856)	839,385
Obligations under securities lending.....	270,698	—	(26,979)	243,719
Deposits payable.....	1,854	3,329	(3,400)	1,783
Funds held for others.....	4,096,223	1,054,599	(647,109)	4,503,713
Total Liabilities.....	\$ 5,129,777	\$ 5,831,572	\$ (5,372,744)	\$ 5,588,605

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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, 2016

(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.....	\$ 52,865	\$ 8,873	\$ 869	\$ 9,812	\$ 7,013
Investments.....	—	3,139	915,283	15,705	—
Receivables, net.....	37,295	15,369	—	8,547	29
Due from component units.....	2,401	—	—	—	—
Due from primary government.....	—	30,846	—	—	—
Inventories.....	—	—	—	717	—
Prepaid items.....	25	—	99	2,917	—
Notes receivable, net.....	1,871,504	821,975	174	—	—
Restricted/designated cash and cash equivalents.....	455,933	410,139	—	3,216	—
Restricted investments.....	1,796,060	91,144	—	19,232	—
Capital assets-nondepreciable.....	5,000	223	904	76,852	22,564
Capital assets-depreciable, net.....	126	3,418	2,609	204,695	135,166
Total Assets.....	<u>4,221,209</u>	<u>1,385,126</u>	<u>919,938</u>	<u>341,693</u>	<u>164,772</u>
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives..	—	5,174	—	—	—
Deferred outflows for pensions.....	201	788	—	1,211	45
Total Deferred Outflows of Resources.....	<u>201</u>	<u>5,962</u>	<u>—</u>	<u>1,211</u>	<u>45</u>
Liabilities					
Accounts payable and accrued liabilities.....	16,004	3,816	59,184	4,308	249
Interest payable.....	2,805	11,388	—	1,278	17
Due to component units.....	—	—	8,773	—	—
Due to primary government.....	3	—	—	18	1
Unearned revenue.....	—	36,804	—	259	72
Advance from primary government.....	—	—	—	954	2,691
Deposits payable.....	—	3,535	—	—	—
Funds held for others.....	1,814,429	—	—	—	2
Hedging derivatives liability.....	—	5,174	—	—	—
Long-term liabilities:					
Due within one year.....	211,170	26,405	27	2,711	309
Due in more than one year.....	1,478,831	615,937	12	88,670	3,362
Total Liabilities.....	<u>3,523,242</u>	<u>703,059</u>	<u>67,996</u>	<u>98,198</u>	<u>6,703</u>
Deferred Inflows of Resources					
Deferred state aid.....	120,448	5,520	—	—	—
Deferred inflows for pensions.....	111	423	—	699	34
Total Deferred Inflows of Resources.....	<u>120,559</u>	<u>5,943</u>	<u>—</u>	<u>699</u>	<u>34</u>
Net Position					
Net investment in capital assets.....	5,126	3,641	3,513	193,613	151,571
Restricted for:					
Expendable:					
Higher education.....	499,416	—	—	—	—
Health and human services.....	—	—	—	—	—
Economic development.....	—	664,330	1,726	22,448	—
Unrestricted.....	73,067	14,115	846,703	27,946	6,509
Total Net Position.....	<u>\$ 577,609</u>	<u>\$ 682,086</u>	<u>\$ 851,942</u>	<u>\$ 244,007</u>	<u>\$ 158,080</u>

	North Carolina Railroad Company	North Carolina Biotechnology Center	N.C. Partnership for Children, Inc.	Centennial Authority	Economic Development Partnership of N.C.	Total
\$	5,805	\$ 16,793	\$ 2,431	\$ 3,348	\$ 1,677	\$ 109,486
	—	5,382	—	—	—	939,509
	4,676	1,051	777	3,212	306	71,262
	—	—	—	—	—	2,401
	—	—	—	—	—	30,846
	—	—	—	—	—	717
	19	212	159	—	762	4,193
	—	4,016	—	—	—	2,697,669
	82,459	—	24	18,403	—	970,174
	—	—	31	4,605	—	1,911,072
	15,830	—	—	2,701	—	124,074
	57,667	9,587	132	108,119	267	521,786
	<u>166,456</u>	<u>37,041</u>	<u>3,554</u>	<u>140,388</u>	<u>3,012</u>	<u>7,383,189</u>
	—	—	—	—	—	5,174
	—	—	—	19	—	2,264
	—	—	—	19	—	7,438
	6,520	8,901	955	1,592	261	101,790
	—	—	—	—	—	15,488
	—	—	—	—	—	8,773
	—	—	—	—	—	22
	11,137	—	794	538	46	49,650
	—	—	—	—	—	3,645
	48	—	—	—	—	3,583
	—	—	—	—	—	1,814,431
	—	—	—	—	—	5,174
	—	3	33	4,691	245	245,594
	—	—	100	14,956	180	2,202,048
	<u>17,705</u>	<u>8,904</u>	<u>1,882</u>	<u>21,777</u>	<u>732</u>	<u>4,450,198</u>
	—	—	—	—	—	125,968
	—	—	—	9	—	1,276
	—	—	—	9	—	127,244
	73,497	9,584	132	91,190	—	531,867
	—	—	—	—	—	499,416
	—	—	41	—	—	41
	82,451	507	—	22,142	—	793,604
	(7,197)	18,046	1,499	5,289	2,280	988,257
\$	<u>148,751</u>	<u>28,137</u>	<u>1,672</u>	<u>118,621</u>	<u>2,280</u>	<u>2,813,185</u>

COMBINING STATEMENT OF ACTIVITIES NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2016

(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.....	\$ 253,358	\$ 389,017	\$ 30,311	\$ 49,265	\$ 8,170
Program revenues:					
Charges for services.....	67,666	357,083	3	46,512	1,771
Operating grants and contributions:					
State aid - program.....	141,971	9,814	—	—	—
Other operating grants and contributions...	54,775	—	1,212	237	120
Capital grants and contributions:					
State capital aid.....	—	—	—	186	—
Other capital grants and contributions.....	—	—	—	832	—
Net program (expense) revenue.....	11,054	(22,120)	(29,096)	(1,498)	(6,279)
Non-tax general revenues:					
Unrestricted investment earnings (loss).....	—	—	(4,208)	—	—
State aid - general.....	—	21,619	10,000	35,000	750
Miscellaneous.....	—	—	—	5,120	—
Total non-tax general revenues.....	—	21,619	5,792	40,120	750
Change in net position.....	11,054	(501)	(23,304)	38,622	(5,529)
Net position — July 1, as restated.....	566,555	682,587	875,246	205,385	163,609
Net position — June 30.....	<u>\$ 577,609</u>	<u>\$ 682,086</u>	<u>\$ 851,942</u>	<u>\$ 244,007</u>	<u>\$ 158,080</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>
\$ 26,173	\$ 16,974	\$ 102,972	\$ 12,999	\$ 18,668	\$ 907,907
17,648	484	—	5,201	165	496,533
—	—	93,851	—	—	245,636
—	996	4,159	8,064	1,834	71,397
5,865	—	—	—	—	6,051
—	—	—	1,976	—	2,808
<u>(2,660)</u>	<u>(15,494)</u>	<u>(4,962)</u>	<u>2,242</u>	<u>(16,669)</u>	<u>(85,482)</u>
2,315	—	—	—	—	(1,893)
—	13,600	4,956	—	16,995	102,920
—	468	208	165	—	5,961
<u>2,315</u>	<u>14,068</u>	<u>5,164</u>	<u>165</u>	<u>16,995</u>	<u>106,988</u>
<u>(345)</u>	<u>(1,426)</u>	<u>202</u>	<u>2,407</u>	<u>326</u>	<u>21,506</u>
<u>149,096</u>	<u>29,563</u>	<u>1,470</u>	<u>116,214</u>	<u>1,954</u>	<u>2,791,679</u>
<u>\$ 148,751</u>	<u>\$ 28,137</u>	<u>\$ 1,672</u>	<u>\$ 118,621</u>	<u>\$ 2,280</u>	<u>\$ 2,813,185</u>

STATEMENT OF CASH FLOWS
MAJOR COMPONENT UNIT

June 30, 2016

Exhibit G-3

(Dollars in Thousands)

	State Health Plan
Cash Flows From Operating Activities	
Receipts from customers.....	\$ 3,084,117
Payments to suppliers.....	(359,989)
Payments to employees.....	(3,575)
Payments for claims.....	(2,816,695)
Other payments.....	(118)
Net cash used for operating activities.....	<u>(96,260)</u>
Cash Flows From Noncapital Financing Activities	
Grant receipts	<u>18,225</u>
Cash Flows From Investing Activities	
Investment earnings.....	<u>7,393</u>
Net decrease in cash and cash equivalents.....	(70,642)
Cash and cash equivalents at July 1.....	1,024,120
Cash and cash equivalents at June 30.....	<u>\$ 953,478</u>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating loss.....	\$ (73,619)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Pension expense.....	68
Miscellaneous pension adjustments.....	31
Change in assets and deferred outflows:	
Receivables.....	(23,940)
Deferred outflows for pensions.....	(251)
Change in liabilities:	
Accounts payable and accrued liabilities.....	7,977
Due to primary government.....	(2)
Compensated absences.....	(7)
Unearned revenue.....	13,881
Medical claims payable.....	(20,398)
Net cash used for operating activities.....	<u>\$ (96,260)</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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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 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Governmental Activities:					
Net investment in capital assets.....	\$ 45,300,168	\$ 43,589,998	\$ 42,139,297	\$ 40,394,260	\$ 38,705,712
Restricted.....	1,039,066	1,061,817	861,988	852,901	703,781
Unrestricted.....	549,152	(1,829,718)	(3,398,663)	(3,042,454)	(3,594,082)
Total Governmental Activities Net Position	<u>\$ 46,888,386</u>	<u>\$ 42,822,097</u>	<u>\$ 39,602,622</u>	<u>\$ 38,204,707</u>	<u>\$ 35,815,411</u>
Business-type Activities:					
Net investment in capital assets.....	\$ 652,725	\$ 535,344	\$ 442,100	\$ 410,031	\$ 391,831
Restricted.....	7,043	1,256	1,940	995	1,468
Unrestricted.....	3,826,708	2,638,877	1,032,581	(250,294)	(661,669)
Total Business-type Activities Net Position.....	<u>\$ 4,486,476</u>	<u>\$ 3,175,477</u>	<u>\$ 1,476,621</u>	<u>\$ 160,732</u>	<u>\$ (268,370)</u>
Primary Government:					
Net investment in capital assets.....	\$ 45,952,893	\$ 44,125,342	\$ 42,581,397	\$ 40,804,291	\$ 39,097,543
Restricted.....	1,046,109	1,063,073	863,928	853,896	705,249
Unrestricted.....	4,375,860	809,159	(2,366,082)	(3,292,748)	(4,255,751)
Total Primary Government Net Position.....	<u>\$ 51,374,862</u>	<u>\$ 45,997,574</u>	<u>\$ 41,079,243</u>	<u>\$ 38,365,439</u>	<u>\$ 35,547,041</u>

Table 1

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 37,338,472	\$ 35,658,528	\$ 34,101,091	\$ 30,984,578	\$ 29,715,168
730,021	704,715	714,014	877,915	1,094,352
(3,792,148)	(4,160,273)	(4,427,748)	(1,856,140)	(993,478)
<u>\$ 34,276,345</u>	<u>\$ 32,202,970</u>	<u>\$ 30,387,357</u>	<u>\$ 30,006,353</u>	<u>\$ 29,816,042</u>
\$ 294,172	\$ 173,375	\$ 73,924	\$ 32,063	\$ 26,673
3,131	1,081,220	1,003,613	1,773,018	1,612,943
(766,888)	(1,626,663)	(201,590)	91,219	74,860
<u>\$ (469,585)</u>	<u>\$ (372,068)</u>	<u>\$ 875,947</u>	<u>\$ 1,896,300</u>	<u>\$ 1,714,476</u>
\$ 37,632,644	\$ 35,831,903	\$ 34,175,015	\$ 31,016,641	\$ 29,741,841
733,152	1,785,935	1,717,627	2,650,933	2,707,295
(4,559,036)	(5,786,936)	(4,629,338)	(1,764,921)	(918,618)
<u>\$ 33,806,760</u>	<u>\$ 31,830,902</u>	<u>\$ 31,263,304</u>	<u>\$ 31,902,653</u>	<u>\$ 31,530,518</u>

CHANGES IN NET POSITION

For the Fiscal Years 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expenses					
Governmental Activities:					
General government.....	\$ 1,064,299	\$ 1,158,892	\$ 1,080,982	\$ 1,034,277	\$ 937,353
Primary and secondary education.....	10,372,787	10,224,967	9,772,994	9,830,464	9,760,909
Higher education.....	4,003,154	3,859,549	3,901,543	3,986,465	4,238,695
Health and human services.....	18,422,804	18,705,192	17,812,888	18,313,335	17,752,493
Economic development.....	402,773	408,289	420,464	595,248	667,106
Environment and natural resources.....	547,540	490,185	484,718	515,496	470,965
Public safety, corrections, and regulation.....	2,946,206	2,896,088	2,911,146	2,907,980	2,976,448
Transportation.....	2,767,006	2,673,649	2,607,663	2,490,991	2,400,599
Agriculture.....	179,152	165,735	191,242	187,608	188,985
Interest on long-term debt.....	199,516	216,519	216,521	233,606	282,542
Total Governmental Activities Expenses.....	<u>40,905,237</u>	<u>40,799,065</u>	<u>39,400,161</u>	<u>40,095,470</u>	<u>39,676,095</u>
Business-type Activities:					
Unemployment Compensation.....	255,851	349,069	700,190	2,496,445	3,283,900
N.C. State Lottery.....	1,752,837	1,450,494	1,341,219	1,215,944	1,141,941
EPA Revolving Loan.....	19,047	22,965	27,789	23,711	14,026
N.C. Turnpike Authority..... [1]	87,467	89,004	88,278	95,897	17,565
Regulatory programs.....	94,857	90,397	86,253	76,447	69,980
Insurance programs.....	12,502	21,632	18,427	17,591	38,701
North Carolina State Fair.....	16,183	14,975	13,957	13,441	13,030
Other business-type activities.....	12,828	16,269	12,917	13,400	12,084
Total Business-type Activities Expenses.....	<u>2,251,572</u>	<u>2,054,805</u>	<u>2,289,030</u>	<u>3,952,876</u>	<u>4,591,227</u>
Total Primary Government Expenses.....	<u>\$ 43,156,809</u>	<u>\$ 42,853,870</u>	<u>\$ 41,689,191</u>	<u>\$ 44,048,346</u>	<u>\$ 44,267,322</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
Transportation.....	\$ 875,603	\$ 742,586	\$ 730,048	\$ 706,231	\$ 685,596
Public safety, corrections, and regulation.....	623,269	601,407	580,817	604,447	594,377
General government.....	264,708	253,506	242,809	228,054	218,011
Other activities.....	656,866	705,181	648,411	662,172	598,279
Operating grants and contributions.....	15,924,934	16,152,680	15,261,306	15,767,596	15,605,227
Capital grants and contributions.....	940,448	942,238	1,260,306	1,010,889	977,961
Total Governmental Activities Program Revenues.....	<u>19,285,828</u>	<u>19,397,598</u>	<u>18,723,697</u>	<u>18,979,389</u>	<u>18,679,451</u>
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,309,907	1,552,934	1,651,108	1,535,068	1,473,576
N.C. State Lottery.....	2,388,977	1,977,486	1,844,636	1,695,009	1,601,837
EPA Revolving Loan.....	21,908	23,955	22,603	19,490	23,366
N.C. Turnpike Authority..... [1]	39,147	30,710	24,725	13,499	664
Regulatory programs.....	103,437	96,155	90,938	78,557	70,732
Insurance programs.....	18,628	18,641	10,780	19,275	17,547
North Carolina State Fair.....	15,539	14,985	14,828	14,506	14,470
Other business-type activities.....	12,042	11,239	10,781	10,681	10,578
Operating grants and contributions.....	156,515	409,351	347,108	1,423,525	1,966,023
Capital grants and contributions.....	14,932	21,251	11,942	21,109	15,436
Miscellaneous.....	—	4	—	—	—
Total Business-type Activities Program Revenues.....	<u>4,081,032</u>	<u>4,156,711</u>	<u>4,029,449</u>	<u>4,830,719</u>	<u>5,194,229</u>
Total Primary Government Program Revenues.....	<u>\$ 23,366,860</u>	<u>\$ 23,554,309</u>	<u>\$ 22,753,146</u>	<u>\$ 23,810,108</u>	<u>\$ 23,873,680</u>
Net (Expense) Revenue					
Governmental Activities.....	\$ (21,619,409)	\$ (21,401,467)	\$ (20,676,464)	\$ (21,116,081)	\$ (20,996,644)
Business-type Activities.....	1,829,460	2,101,906	1,740,419	877,843	603,002
Total Primary Government Net Expense.....	<u>\$ (19,789,949)</u>	<u>\$ (19,299,561)</u>	<u>\$ (18,936,045)</u>	<u>\$ (20,238,238)</u>	<u>\$ (20,393,642)</u>

Table 2

2011	2010	2009	2008	2007
\$ 1,209,923	\$ 1,065,584	\$ 1,429,407	\$ 1,232,088	\$ 1,264,132
10,024,775	9,830,183	10,079,691	10,631,920	9,126,169
4,350,475	4,232,266	3,951,862	4,207,410	4,500,010
16,859,438	16,762,910	16,172,213	14,951,585	14,117,426
744,703	916,224	636,431	746,471	624,106
596,227	526,178	717,666	753,909	672,726
2,729,418	2,616,888	2,741,308	2,627,007	2,465,974
2,177,062	1,998,234	138,007	1,941,207	2,019,942
114,275	118,847	110,268	119,297	88,970
306,696	281,058	289,211	304,020	273,123
<u>39,112,992</u>	<u>38,348,372</u>	<u>36,266,064</u>	<u>37,514,914</u>	<u>35,152,578</u>
4,420,762	5,568,561	3,255,448	1,002,866	864,981
1,028,536	994,168	877,403	712,718	559,373
42,897	30,940	7,868	12,454	14,228
4,940	4,990	3,847	—	—
80,454	67,330	37,644	34,791	31,144
36,885	13,118	14,986	17,556	23,892
13,595	12,794	13,803	12,828	11,433
9,148	9,563	7,324	6,364	5,686
<u>5,637,217</u>	<u>6,701,464</u>	<u>4,218,323</u>	<u>1,799,577</u>	<u>1,510,737</u>
<u>\$ 44,750,209</u>	<u>\$ 45,049,836</u>	<u>\$ 40,484,387</u>	<u>\$ 39,314,491</u>	<u>\$ 36,663,315</u>
\$ 709,064	\$ 705,025	\$ 740,353	\$ 777,059	\$ 782,405
540,280	511,912	510,159	501,837	429,824
195,286	356,602	329,507	365,920	480,378
631,464	502,204	535,100	536,419	467,769
15,632,256	15,837,802	14,005,529	12,301,356	12,026,012
1,198,549	711,433	1,035,742	826,646	758,910
<u>18,906,899</u>	<u>18,624,978</u>	<u>17,156,390</u>	<u>15,309,237</u>	<u>14,945,298</u>
1,294,104	1,045,288	1,076,294	1,091,856	1,099,959
1,464,639	1,424,458	1,288,102	1,053,131	866,195
20,388	19,874	17,370	17,297	16,400
—	—	—	—	—
80,008	71,355	33,982	37,163	29,347
16,046	16,320	17,208	16,991	13,901
14,915	12,639	12,520	15,029	11,617
10,771	8,678	8,365	6,498	5,887
2,998,116	3,251,109	1,110,849	83,695	106,000
11,687	7,771	41,398	6,589	142
—	—	—	—	—
<u>5,910,674</u>	<u>5,857,492</u>	<u>3,606,088</u>	<u>2,328,249</u>	<u>2,149,448</u>
<u>\$ 24,817,573</u>	<u>\$ 24,482,470</u>	<u>\$ 20,762,478</u>	<u>\$ 17,637,486</u>	<u>\$ 17,094,746</u>
\$ (20,206,093)	\$ (19,723,394)	\$ (19,109,674)	\$ (22,205,677)	\$ (20,207,280)
273,457	(843,972)	(612,235)	528,672	638,711
<u>\$ (19,932,636)</u>	<u>\$ (20,567,366)</u>	<u>\$ (19,721,909)</u>	<u>\$ (21,677,005)</u>	<u>\$ (19,568,569)</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 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Revenues and Other Changes in Net Position					
Governmental Activities:					
Taxes:					
Individual income tax.....	\$ 11,980,791	\$ 11,288,542	\$ 10,576,575	\$ 11,113,597	\$ 10,459,307
Corporate income tax.....	1,120,553	1,272,879	1,318,091	1,194,850	1,233,989
Sales and use tax.....	7,184,788	6,869,090	5,839,362	5,556,484	5,530,046
Gasoline tax.....	1,938,849	1,945,462	1,907,803	1,889,439	1,892,163
Franchise tax.....	521,628	556,786	888,815	845,130	804,973
Highway use tax.....	728,580	653,931	596,801	555,581	506,211
Insurance tax.....	503,621	529,927	476,402	540,844	479,755
Beverage tax.....	380,065	360,280	342,784	330,918	322,190
Inheritance tax.....	—	—	—	113,721	57,839
Tobacco products tax.....	291,841	279,795	273,426	287,340	293,597
Other taxes.....	296,595	292,535	348,938	305,726	294,516
Tobacco settlement.....	136,561	137,910	139,169	213,078	146,135
Unrestricted investment earnings (loss).....	43,551	20,139	19,452	13,621	(56,055)
Miscellaneous.....	35,096	42,167	192,002	44,837	41,960
Contributions to permanent funds.....	4,718	4,382	3,861	2,834	3,297
Transfers.....	518,461	416,483	429,810	448,733	401,740
Total Governmental Activities.....	<u>25,685,698</u>	<u>24,670,308</u>	<u>23,353,291</u>	<u>23,456,733</u>	<u>22,411,663</u>
Business-type Activities:					
Miscellaneous.....	—	—	3	7	—
Transfers.....	(518,461)	(416,483)	(429,810)	(448,733)	(401,740)
Total Business-type Activities.....	<u>(518,461)</u>	<u>(416,483)</u>	<u>(429,807)</u>	<u>(448,726)</u>	<u>(401,740)</u>
Total Primary Government.....	<u>\$ 25,167,237</u>	<u>\$ 24,253,825</u>	<u>\$ 22,923,484</u>	<u>\$ 23,008,007</u>	<u>\$ 22,009,923</u>
Change in Net Position					
Governmental Activities.....	\$ 4,066,289	\$ 3,268,841	\$ 2,676,827	\$ 2,340,652	\$ 1,415,019
Business-type Activities.....	1,310,999	1,685,423	1,310,612	429,117	201,262
Total Primary Government.....	<u>\$ 5,377,288</u>	<u>\$ 4,954,264</u>	<u>\$ 3,987,439</u>	<u>\$ 2,769,769</u>	<u>\$ 1,616,281</u>

Table 2

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 10,020,535	\$ 9,345,441	\$ 8,661,565	\$ 10,676,156	\$ 10,739,562
1,132,931	1,252,800	997,206	1,357,670	1,466,148
6,172,377	5,916,119	4,911,656	5,159,453	5,108,456
1,675,476	1,557,430	1,523,496	1,579,847	1,601,764
794,091	904,651	799,113	738,741	671,151
469,811	439,506	440,749	566,132	607,511
501,032	506,990	500,438	505,936	487,081
311,809	295,383	263,553	258,193	245,990
24,184	71,731	103,811	158,178	162,746
291,699	278,406	242,071	249,664	241,687
301,217	321,945	316,819	339,109	330,888
131,318	145,539	175,838	168,583	144,075
32,980	28,645	66,863	238,239	211,663
45,014	37,253	62,799	49,345	47,015
3,188	—	3,248	3,894	3,928
371,424	434,067	422,399	346,848	312,810
<u>22,279,086</u>	<u>21,535,906</u>	<u>19,491,624</u>	<u>22,395,988</u>	<u>22,382,475</u>
3	—	—	—	15
<u>(371,424)</u>	<u>(434,067)</u>	<u>(422,399)</u>	<u>(346,848)</u>	<u>(312,810)</u>
<u>(371,421)</u>	<u>(434,067)</u>	<u>(422,399)</u>	<u>(346,848)</u>	<u>(312,795)</u>
<u>\$ 21,907,665</u>	<u>\$ 21,101,839</u>	<u>\$ 19,069,225</u>	<u>\$ 22,049,140</u>	<u>\$ 22,069,680</u>
\$ 2,072,993	\$ 1,812,512	\$ 381,950	\$ 190,311	\$ 2,175,195
(97,964)	(1,278,039)	(1,034,634)	181,824	325,916
<u>\$ 1,975,029</u>	<u>\$ 534,473</u>	<u>\$ (652,684)</u>	<u>\$ 372,135</u>	<u>\$ 2,501,111</u>

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
						[1]
General Fund						
Reserved.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Unreserved.....	—	—	—	—	—	—
Nonspendable.....	84,122	83,079	81,458	75,153	81,395	93,482
Restricted.....	162,418	173,575	83,885	130,411	140,032	81,815
Committed.....	1,518,439	1,447,011	911,720	910,629	889,584	1,115,156
Assigned.....	376,677	116,705	283,280	30,957	—	—
Unassigned.....	1,620,107	686,453	193,482	150,713	(62,042)	(107,348)
Total General Fund.....	<u>\$ 3,761,763</u>	<u>\$ 2,506,823</u>	<u>\$ 1,553,825</u>	<u>\$ 1,297,863</u>	<u>\$ 1,048,969</u>	<u>\$ 1,183,105</u>
All Other Governmental Funds						
Reserved.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Unreserved, reported in:						
Special revenue funds.....	—	—	—	—	—	—
Capital projects funds.....	—	—	—	—	—	—
Permanent funds.....	—	—	—	—	—	—
Nonspendable.....	218,575	211,883	216,528	210,307	218,674	198,830
Restricted.....	1,067,534	1,252,733	768,448	923,253	807,205	896,515
Committed.....	2,295,562	1,870,499	1,713,790	1,409,097	1,402,286	1,343,103
Assigned.....	1,166	1,011	—	778	496	—
Unassigned.....	—	—	—	—	(1,311)	(1,627)
Total all other governmental funds....	<u>\$ 3,582,837</u>	<u>\$ 3,336,126</u>	<u>\$ 2,698,766</u>	<u>\$ 2,543,435</u>	<u>\$ 2,427,350</u>	<u>\$ 2,436,821</u>

Table 3

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 224,358	\$ 189,288	\$ 172,909	\$ 208,932
(338,738)	(966,861)	1,505,230	2,397,786
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ (114,380)</u>	<u>\$ (777,573)</u>	<u>\$ 1,678,139</u>	<u>\$ 2,606,718</u>
\$ 994,418	\$ 1,209,650	\$ 1,182,723	\$ 1,014,757
2,321,665	2,337,370	2,517,529	2,524,643
10,311	(2,738)	280,939	224,991
7,141	1,907	2,312	1,598
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
<u>\$ 3,333,535</u>	<u>\$ 3,546,189</u>	<u>\$ 3,983,503</u>	<u>\$ 3,765,989</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 2007-2016

(Dollars in Thousands)

	2016	2015	2014	2013	2012
<u>Revenues</u>					
Taxes.....	\$ 24,942,287	\$ 24,032,552	\$ 22,605,977	\$ 22,769,317	\$ 21,816,945
Federal funds.....	16,325,844	16,509,242	15,967,504	16,161,532	15,626,696
Local funds.....	189,786	195,962	173,727	186,327	188,405
Investment earnings.....	88,114	43,574	76,144	41,259	50,612
Interest earnings on loans.....	1,094	2,864	1,797	3,684	3,347
Sales and services.....	325,883	318,411	312,872	304,179	292,705
Rental and lease of property.....	20,906	22,400	23,791	27,559	26,574
Fees, licenses and fines.....	1,813,402	1,644,450	1,597,517	1,574,727	1,547,973
Tobacco settlement.....	137,230	138,622	139,937	211,162	140,979
Contributions, gifts, and grants.....	102,217	121,750	99,672	74,857	65,954
Funds escheated.....	75,105	165,062	106,760	112,671	68,207
Federal recovery funds.....	196,752	209,492	236,869	273,192	658,570
Miscellaneous.....	176,697	182,507	328,781	184,763	146,204
Total revenues.....	<u>44,395,317</u>	<u>43,586,888</u>	<u>41,671,348</u>	<u>41,925,229</u>	<u>40,633,171</u>
<u>Expenditures</u>					
Current:					
General government.....	1,136,781	1,142,043	1,036,518	986,897	901,654
Primary and secondary education.....	10,381,474	10,213,160	9,749,844	9,818,572	9,738,102
Higher education.....	4,002,167	3,850,111	3,900,386	3,986,575	4,237,649
Health and human services.....	18,501,376	18,781,793	17,901,879	18,416,229	17,854,993
Economic development.....	407,575	412,783	442,364	571,037	667,057
Environment and natural resources.....	527,448	454,602	456,099	455,894	429,882
Public safety, corrections, and regulation.....	3,015,160	2,932,540	2,896,879	2,899,287	2,937,742
Transportation.....	4,313,225	4,044,532	4,152,663	3,992,200	3,801,196
Agriculture.....	183,389	178,282	179,848	171,196	181,387
Capital outlay.....	144,674	113,689	127,634	182,107	231,688
Debt service:					
Principal retirement.....	[1] 587,628	562,820	553,016	1,261,685	514,195
Interest and fees.....	[1] 293,503	303,433	331,451	461,739	346,540
Debt issuance costs.....	1,398	3,048	1,193	6,605	7,074
Total expenditures.....	<u>43,495,798</u>	<u>42,992,836</u>	<u>41,729,774</u>	<u>43,210,023</u>	<u>41,849,159</u>
Excess revenues over (under) expenditures.....	<u>899,519</u>	<u>594,052</u>	<u>(58,426)</u>	<u>(1,284,794)</u>	<u>(1,215,988)</u>
<u>Other Financing Sources (Uses)</u>					
Bonds issued.....	—	231,360	—	—	—
Special Indebtedness issued.....	—	—	—	250,000	400,000
GARVEE bonds issued.....	—	264,930	—	—	179,540
Refunding bonds issued.....	329,360	299,020	506,255	1,320,970	367,350
Other debt issued.....	1,875	1,622	6,733	9,380	15,825
Premium on debt issued.....	88,066	117,506	98,789	284,428	131,892
Payments to refunded bond escrow agent.....	(416,509)	(349,828)	(603,550)	(748,022)	(428,830)
Capital leases.....	—	—	—	—	—
Sale of capital assets.....	70,263	13,432	14,939	12,939	12,889
Insurance recoveries.....	8,881	9,039	15,975	9,925	16,444
Transfers in.....	1,036,161	1,044,348	1,233,471	1,112,704	1,115,417
Transfers out.....	(515,965)	(632,660)	(805,682)	(651,195)	(715,002)
Total other financing sources (uses).....	<u>602,132</u>	<u>998,769</u>	<u>466,930</u>	<u>1,601,129</u>	<u>1,095,525</u>
Net change in fund balances.....	<u>\$ 1,501,651</u>	<u>\$ 1,592,821</u>	<u>\$ 408,504</u>	<u>\$ 316,335</u>	<u>\$ (120,463)</u>
Debt service as a percentage of noncapital expenditures..	2.15%	2.13%	2.25%	4.24%	2.18%

All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds.

Table 4

2011	2010	2009	2008	2007
\$ 21,689,379	\$ 20,866,244	\$ 18,752,674	\$ 21,583,521	\$ 21,660,719
14,215,501	13,688,504	13,387,611	12,096,354	11,519,927
186,944	218,162	349,303	527,325	725,542
100,104	198,633	95,288	620,829	669,297
4,104	4,543	4,989	5,156	5,639
276,663	263,010	279,025	285,848	264,081
25,165	22,122	25,398	27,737	28,722
1,496,606	1,553,923	1,602,471	1,593,893	1,525,928
138,256	146,358	175,187	159,954	142,825
109,170	85,868	137,537	140,575	155,958
111,481	70,381	27,399	74,743	214,500
2,265,393	2,391,851	1,164,674	N/A	N/A
158,945	164,685	184,839	167,449	122,161
<u>40,777,711</u>	<u>39,674,284</u>	<u>36,186,395</u>	<u>37,283,384</u>	<u>37,035,299</u>
1,000,101	962,187	1,299,637	1,167,090	1,102,512
10,000,438	9,850,462	10,111,797	9,879,602	9,087,905
4,350,683	4,225,806	3,951,689	4,207,164	4,405,767
16,914,978	16,816,099	16,222,160	14,918,068	14,203,474
741,447	915,038	634,369	747,728	623,038
603,112	554,628	699,273	689,119	662,296
2,751,665	2,659,683	2,681,833	2,629,567	2,467,763
3,660,069	3,253,258	3,266,494	3,473,718	3,296,301
113,153	112,902	111,506	117,380	92,062
364,121	341,058	369,326	346,764	451,716
1,026,602	498,563	474,323	427,550	417,807
393,432	322,287	326,287	329,813	306,410
4,178	1,310	3,031	2,141	2,456
<u>41,923,979</u>	<u>40,513,281</u>	<u>40,151,725</u>	<u>38,935,704</u>	<u>37,119,507</u>
<u>(1,146,268)</u>	<u>(838,997)</u>	<u>(3,965,330)</u>	<u>(1,652,320)</u>	<u>(84,208)</u>
—	487,700	—	—	502,745
500,000	—	600,000	275,000	300,000
—	242,250	—	287,565	—
774,745	371,920	—	—	84,385
—	9,098	1,533	7,425	2,897
191,035	140,876	31,371	21,843	40,867
(370,982)	(435,870)	—	—	(85,519)
—	—	—	—	799
12,118	11,994	13,079	29,570	15,898
7,319	7,414	8,568	7,317	5,700
1,131,568	2,330,816	2,727,741	2,567,141	2,340,937
<u>(698,321)</u>	<u>(1,876,502)</u>	<u>(2,309,101)</u>	<u>(2,223,438)</u>	<u>(2,030,162)</u>
<u>1,547,482</u>	<u>1,289,696</u>	<u>1,073,191</u>	<u>972,423</u>	<u>1,178,547</u>
<u>\$ 401,214</u>	<u>\$ 450,699</u>	<u>\$ (2,892,139)</u>	<u>\$ (679,897)</u>	<u>\$ 1,094,339</u>
3.61%	2.14%	2.12%	2.07%	2.06%

[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 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
TAX REVENUES					
Individual income tax.....	\$ 11,980,791	\$ 11,288,542	\$ 10,576,575	\$ 11,111,462	\$ 10,457,217
Corporate income tax.....	1,117,999	1,270,985	1,331,934	1,224,702	1,194,865
Sales and use tax.....	7,177,819	6,858,523	5,838,079	5,554,065	5,516,304
Franchise tax.....	524,967	552,221	890,692	857,867	797,596
Beverage tax.....	379,986	360,138	342,955	330,711	322,194
Insurance tax.....	503,413	529,927	476,402	521,510	463,574
Tobacco products tax.....	286,968	277,830	277,736	283,629	293,286
License tax.....	30,785	46,265	47,612	44,378	45,577
Real estate conveyance tax.....	62,250	56,028	50,424	—	—
Gift tax.....	27	212	526	829	181
Manufacturing tax.....	47,435	40,611	36,743	36,447	36,321
Other taxes.....	[3] 41,496	37,707	111,347	186,653	128,684
Total tax revenues.....	<u>22,153,936</u>	<u>21,318,989</u>	<u>19,981,025</u>	<u>20,152,253</u>	<u>19,255,799</u>
NON-TAX REVENUES					
Federal Funds:					
Departmental revenues.....	15,138,975	15,293,459	14,526,468	14,878,307	14,433,383
Federal recovery funds.....	45,220	84,429	151,757	182,756	421,815
	<u>15,184,195</u>	<u>15,377,888</u>	<u>14,678,225</u>	<u>15,061,063</u>	<u>14,855,198</u>
Local Funds:					
Departmental revenues.....	155,486	161,514	144,826	158,413	164,679
Investment Earnings:					
Income from General Fund investments.....	40,795	19,282	17,458	12,991	13,533
Income from securities lending.....	[1] 1,354	554	6,853	9,125	(1,590)
Departmental revenues.....	3,684	2,045	2,481	2,597	4,014
Other investment earnings.....	—	—	—	—	—
	<u>45,833</u>	<u>21,881</u>	<u>26,792</u>	<u>24,713</u>	<u>15,957</u>
Interest Earnings on Loans:					
Departmental revenues.....	442	2,192	1,098	2,883	2,445
Sales and Services:					
Departmental revenues.....	171,318	164,521	158,684	140,603	137,527
Other non-tax revenues.....	109	75	87	80	92
	<u>171,427</u>	<u>164,596</u>	<u>158,771</u>	<u>140,683</u>	<u>137,619</u>
Rental and Lease of Property:					
Proceeds from rental and lease of property.....	51	103	117	94	85
Departmental revenues.....	11,161	10,383	9,966	10,210	10,348
	<u>11,212</u>	<u>10,486</u>	<u>10,083</u>	<u>10,304</u>	<u>10,433</u>
Fees, Licenses and Fines:					
Court fines and fees.....	244,724	234,510	236,790	250,789	258,968
Secretary of State service fees.....	108,208	101,792	94,923	89,994	85,062
Banking and investment fees.....	4,595	7,684	7,568	6,107	6,690
Permits (ABC Commission).....	24,025	24,065	15,151	15,138	15,169
Probation supervision fees.....	13,626	14,231	14,579	15,566	16,134
Department of Insurance fees.....	44,461	43,392	40,603	39,224	39,100
DWI service and restoration fees.....	6,490	7,594	8,033	8,590	8,946
Departmental revenues.....	307,282	304,463	287,233	288,922	252,398
Fines from tax collection activity.....	—	—	—	—	—
Other non-tax revenues.....	8,667	7,940	8,895	9,696	8,086
	<u>762,078</u>	<u>745,671</u>	<u>713,775</u>	<u>724,026</u>	<u>690,553</u>
Tobacco settlement:					
Tobacco settlement.....	137,230	138,622	139,937	211,162	140,979
Contributions, Gifts and Grants:					
Departmental revenues.....	39,755	39,088	26,441	21,487	20,452
Miscellaneous:					
Local sales and use tax administration.....	11,374	10,519	9,388	8,942	12,177
Sales tax refunds.....	2,189	2,452	3,716	2,826	3,555
Departmental revenues.....	143,690	112,647	214,371	104,432	103,317
Other non-tax revenue.....	236	3,072	66,643	9,865	306
	<u>157,489</u>	<u>128,690</u>	<u>294,118</u>	<u>126,065</u>	<u>119,355</u>
Total non-tax revenues.....	<u>16,665,147</u>	<u>16,790,628</u>	<u>16,194,066</u>	<u>16,480,799</u>	<u>16,157,670</u>
Total Revenues.....	<u>[1] \$ 38,819,083</u>	<u>\$ 38,109,617</u>	<u>\$ 36,175,091</u>	<u>\$ 36,633,052</u>	<u>\$ 35,413,469</u>

Table 5

2011	2010	2009	2008	2007
[2]				
\$ 10,018,039	\$ 9,343,303	\$ 8,658,635	\$ 10,672,362	\$ 10,737,494
1,139,584	1,245,515	941,509	1,265,654	1,357,454
6,133,915	5,871,166	4,872,318	5,125,674	5,078,997
793,094	904,959	797,079	739,947	669,235
311,814	295,349	263,553	257,393	245,430
485,989	495,059	483,756	492,699	475,546
290,743	278,296	242,071	249,664	241,687
48,924	41,338	37,716	55,293	48,137
—	—	—	—	—
2,973	12,036	12,294	17,361	15,669
33,013	32,125	32,044	37,661	39,132
105,570	155,537	185,381	233,825	239,589
<u>19,363,658</u>	<u>18,674,683</u>	<u>16,526,356</u>	<u>19,147,533</u>	<u>19,148,370</u>
12,828,192	12,825,403	11,970,322	10,843,765	10,312,318
1,791,264	1,961,425	1,155,174	—	—
<u>14,619,456</u>	<u>14,786,828</u>	<u>13,125,496</u>	<u>10,843,765</u>	<u>10,312,318</u>
149,545	153,234	304,270	486,536	665,532
30,925	36,877	103,703	234,478	208,955
9,527	49,733	(46,275)	143,487	216,072
7,295	3,264	4,788	7,829	8,059
—	—	3	39	66
<u>47,747</u>	<u>89,874</u>	<u>62,219</u>	<u>385,833</u>	<u>433,152</u>
3,133	202	261	113	399
130,166	97,323	104,925	102,307	94,664
112	116	143	138	171
<u>130,278</u>	<u>97,439</u>	<u>105,068</u>	<u>102,445</u>	<u>94,835</u>
88	67	83	98	41
11,523	8,810	8,773	7,908	8,392
<u>11,611</u>	<u>8,877</u>	<u>8,856</u>	<u>8,006</u>	<u>8,433</u>
225,710	216,772	190,995	198,520	159,583
76,451	81,221	64,202	62,035	58,046
6,092	5,955	5,709	5,862	5,466
15,176	15,497	15,230	14,791	14,292
15,000	11,892	16,758	16,892	16,629
38,174	38,271	43,965	42,872	27,991
8,928	7,638	9,310	9,441	8,782
217,191	212,260	184,952	164,813	160,006
—	78,090	85,135	93,181	69,758
4,750	6,912	5,340	6,583	4,944
<u>607,472</u>	<u>674,508</u>	<u>621,596</u>	<u>614,990</u>	<u>525,497</u>
138,256	146,358	175,187	159,954	142,825
22,591	20,391	16,179	16,054	17,207
13,692	14,603	15,613	16,982	16,979
2,432	2,134	1,906	3,303	4,124
101,336	117,511	119,107	106,517	56,733
4,871	6,517	22,220	1,566	1,508
<u>122,331</u>	<u>140,765</u>	<u>158,846</u>	<u>128,368</u>	<u>79,344</u>
15,852,420	16,118,476	14,577,978	12,746,064	12,279,542
<u>\$ 35,216,078</u>	<u>\$ 34,793,159</u>	<u>\$ 31,104,334</u>	<u>\$ 31,893,597</u>	<u>\$ 31,427,912</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.

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 2005-2014

(Dollars in thousands)

	2014	2013	2012	2011	2010
Manufacturing.....	\$ 33,263,815	\$ 31,889,902	\$ 31,256,629	\$ 30,377,710	\$ 29,699,873
Retail trade.....	17,784,618	16,909,003	16,344,738	15,637,115	15,496,982
Services.....	98,887,229	92,819,468	91,149,971	85,329,679	81,552,070
Agricultural, forestry, fishing, etc.....	878,402	797,934	793,870	703,780	732,517
Government.....	54,140,776	53,749,094	53,884,205	53,417,784	53,156,680
Construction.....	15,018,100	13,863,980	13,500,186	12,654,192	12,643,117
Wholesale trade.....	15,136,704	14,179,766	13,753,464	12,950,067	12,263,722
Transportation and warehousing.....	7,697,728	7,217,070	7,015,673	6,735,033	6,326,792
Finance and insurance.....	18,635,146	17,397,673	24,374,772	16,915,755	19,713,104
Mining.....	256,608	248,067	240,137	227,390	194,672
Utilities.....	1,906,855	1,709,020	1,559,889	1,538,070	1,480,571
Information.....	7,069,381	6,338,843	6,184,847	5,852,702	5,692,149
Real estate and rental and leasing.....	4,192,389	3,899,231	3,598,146	3,534,859	2,965,822
Other.....	114,644,820	111,012,152	113,160,910	107,587,603	98,099,696
Total.....	\$ 389,512,571	\$ 372,031,203	\$ 376,817,437	\$ 353,461,739	\$ 340,017,767
Average effective rate [1]:					
Individual income tax.....	2.7%	3%	2.8%	2.8%	2.7%

[1] Average effective rate equals individual income tax revenues divided by personal income.

Source: Bureau of Economic Analysis (Data for 2015 & 2016 is not available)

Table 6

2009	2008	2007	2006	2005
\$ 29,510,122	\$ 32,871,445	\$ 33,708,253	\$ 32,834,516	\$ 32,230,784
15,147,025	15,816,828	16,307,937	15,769,397	14,978,714
78,866,548	79,687,058	75,790,896	70,970,420	64,362,719
643,137	612,047	625,342	637,685	577,021
51,845,777	49,804,142	46,508,345	43,134,827	41,072,772
13,365,127	15,732,450	17,059,426	16,656,992	14,876,447
11,905,593	12,734,618	12,778,232	11,873,345	11,071,737
6,309,515	6,709,856	6,829,257	6,668,829	6,445,132
16,301,355	15,362,333	14,842,766	14,514,774	12,845,416
242,908	302,581	366,744	365,034	301,933
1,390,025	1,441,884	1,343,177	1,342,778	1,246,787
5,885,198	6,040,454	5,674,593	5,421,774	5,376,878
3,017,823	3,199,748	2,973,927	3,930,473	3,483,860
95,772,205	94,049,911	85,193,982	77,061,609	71,831,911
\$ 330,202,358	\$ 334,365,355	\$ 320,002,877	\$ 301,182,453	\$ 280,702,111
2.6%	3.2%	3.4%	3.2%	2.9%

INDIVIDUAL INCOME TAX FILERS AND LIABILITY - CALENDAR YEARS 2005 AND 2014
INDIVIDUAL INCOME TAX RATES- CALENDAR YEARS 2006-2015

North Carolina Taxable Income	Calendar Year 2014				Calendar Year 2005			
	Number of Returns	% of Total	Tax Liability	% of Total	Number of Returns	% of Total	Tax Liability	% of Total
0 to \$15,000.....	2,090,573	46.9%	\$ 419,387,922	4.1%	1,955,376	51.3%	\$ 438,892,867	5.2%
\$15,001 to \$25,000.....	549,876	12.4%	591,394,984	5.7%	514,930	13.5%	585,357,062	7.0%
\$25,001 to \$50,000.....	792,670	17.8%	1,589,772,575	15.5%	694,238	18.2%	1,541,020,371	18.3%
\$50,001 to \$75,000.....	398,408	8.9%	1,368,749,607	13.3%	311,340	8.1%	1,220,935,516	14.5%
\$75,001 to \$100,000.....	226,544	5.1%	1,103,914,737	10.7%	136,413	3.6%	778,913,320	9.3%
\$100,001 to \$200,000.....	279,910	6.3%	2,134,506,360	20.8%	140,037	3.7%	1,288,851,509	15.3%
\$200,001 and up.....	116,173	2.6%	3,072,818,040	29.9%	62,132	1.6%	2,555,930,408	30.4%
	<u>4,454,154</u>	<u>100.0%</u>	<u>\$ 10,280,544,225</u>	<u>100.0%</u>	<u>3,814,466</u>	<u>100.0%</u>	<u>\$ 8,409,901,053</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 2014 is the most recent year for which data are available.

Individual Income Tax Rates - Last 10 Years

Calendar Years 2006				
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%	8.25%
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	\$50,001-\$100,000	> \$100,000
Tax rate	6%	7%	7.75%	8.25%
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	\$80,001-\$160,000	> \$160,000
Tax rate	6%	7%	7.75%	8.25%
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	\$60,001-\$120,000	> \$120,000
Tax rate	6%	7%	7.75%	8.25%
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%

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.

Source: North Carolina Department of Revenue

Individual Income Tax Rates - Last 10 Years

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%	
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 up to \$250,000	7.75%
Tax rate	6%	7%	> 250,000	2% 3%
Married - Separate:				
Taxable income	\$1-\$10,625	\$10,626-\$50,000	> \$50,000 up to \$125,000	7.75%
Tax rate	6%	7%	>125,000	2% 3%
Head of Household:				
Taxable income	\$1-\$17,000	\$17,001-\$80,000	> \$80,000 up to \$200,000	7.75%
Tax rate	6%	7%	>200,000	2% 3%
Single:				
Taxable income	\$1-\$12,750	\$12,751-\$60,000	> \$60,000 up to \$150,000	7.75%
Tax rate	6%	7%	>150,000	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				
Married - Joint, Married - Separate, Head of Household, and Single:				
Taxable income	\$0			
Tax rate	5.75%			

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."

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 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General merchandise.....	\$ 35,258,344	\$ 33,018,301	\$ 30,122,560	\$ 29,092,064	\$ 28,488,712
Food.....	26,204,343	24,663,183	22,892,242	21,961,810	21,188,038
Lumber & building material.....	13,635,227	12,711,938	11,754,511	11,034,483	10,936,526
Automotive.....	7,667,914	6,920,644	6,272,460	5,855,515	5,798,630
3% and 4.75% tax group.....	479,938	448,267	456,127	460,461	447,963
Furniture.....	4,372,666	4,160,558	3,887,077	3,739,815	3,599,804
Apparel.....	5,414,102	5,140,968	4,707,181	4,554,679	4,343,728
Unclassified.....	35,124,312	33,241,081	30,258,424	28,668,485	28,026,651
Total.....	<u>\$ 128,156,846</u>	<u>\$ 120,304,940</u>	<u>\$ 110,350,582</u>	<u>\$ 105,367,312</u>	<u>\$ 102,830,052</u>
Direct 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 an additional 1% tax in this group that included farm, mill, laundry machinery, fuel to farmers, manufacturers, and laundries.

Source: North Carolina Department of Revenue

Table 8

2011	2010	2009	2008	2007
\$ 26,997,731	\$ 26,700,373	\$ 27,281,044	\$ 27,545,474	\$ 27,814,179
20,063,710	19,986,254	19,982,767	20,427,943	18,856,362
9,980,618	9,896,788	11,728,029	15,125,717	15,625,168
5,592,481	5,371,476	5,365,726	5,782,027	6,138,450
429,092	411,092	653,686	878,522	1,350,932
3,416,656	3,442,183	3,854,662	4,746,011	4,733,484
3,962,251	3,756,305	3,628,009	3,901,540	3,753,902
26,316,563	25,056,266	27,197,294	29,529,959	28,314,743
\$ 96,759,102	\$ 94,620,737	\$ 99,691,217	\$ 107,937,193	\$ 106,587,220
5.75%	5.75%	4.50%	4.25%	4.25%

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2007 & 2016

	2016		2007	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
General merchandise.....	\$ 1,678,832	22.42%	\$ 1,221,613	22.39%
Food.....	1,252,561	16.73%	831,453	15.24%
Utilities.....	1,381,869	18.45%	855,902	15.69%
Lumber & building material.....	648,854	8.66%	686,415	12.58%
Automotive.....	384,592	5.14%	294,971	5.40%
Furniture.....	208,798	2.79%	208,499	3.82%
Apparel.....	257,974	3.44%	164,582	3.02%
Farming.....	—	0.00%	2,795	0.05%
Unclassified.....	1,675,179	22.37%	1,190,113	21.81%
Total.....	<u>\$ 7,488,659</u>	<u>100.00%</u>	<u>\$ 5,456,343</u>	<u>100.00%</u>
General state sales tax rate.....	4.75%		4.25%	

Recent Significant Sales Tax Rate and Base Changes

2006-07	<p>Effective <u>June 29, 2007</u>, the combined rate is the State's general rate 4.25% plus the sum of the rates of local tax authorized for every county in the State 2.5%.</p> <p>Effective <u>January 1, 2007</u>, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroad intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted.</p> <p>Effective <u>June 29, 2007</u>, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.</p>
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%.</p> <p>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.</p> <p>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%.</p> <p>Effective <u>October 1, 2007</u>, tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%.</p> <p>Effective <u>October 1, 2007</u>, tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%.</p> <p>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.</p> <p>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.</p> <p>Effective <u>July 1, 2008</u>, tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%.</p> <p>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%.</p> <p>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).</p> <p>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.</p> <p>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%.</p> <p>Effective <u>January 1, 2009</u>, exemption for bakery items sold without eating utensils by an artisan bakery.</p>

Source: North Carolina Department of Revenue

Recent Significant Sales Tax Rate and Base Changes

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%.</p> <p>Effective <u>August 7, 2009</u>, online sales- remote sales: certain click-through transactions subject to tax.</p> <p>Effective <u>August 27, 2009</u>, authorizing legislation for regional transportation authorities and counties to impose a local government sales and use tax rate of 0.25% or 0.5% for public transportation.</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).</p> <p>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.</p> <p>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>
2010-11	<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).</p> <p>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.</p> <p>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.</p> <p>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>
2011-12	<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%.</p> <p>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>
2013-14	<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.</p> <p>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).</p>

Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>2013-14 continued</p>	<p>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>
<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. <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). 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. 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). 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. <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>

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>2015-16 continued</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> <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>
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Continued

SALES TAX REVENUE PAYERS BY BUSINESS GROUP (continued)

Table 9

Recent Significant Sales Tax Rate and Base Changes

<p>2015-16 continued</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> <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>
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RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Governmental activities:					
General obligation bonds.....	\$ 3,038,665	\$ 3,469,220	\$ 3,607,100	\$ 3,999,580	\$ 4,470,500
Lease-purchase revenue bonds.....	—	2,000	4,125	20,915	30,915
Certificates of participation.....	124,820	151,745	247,615	508,500	557,895
Limited obligation bonds.....	1,997,070	2,095,550	2,132,085	1,993,740	1,795,090
GARVEE bonds.....	529,755	598,165	395,275	454,820	512,085
Issuance premium.....	505,737	550,393	558,928	623,105	485,615
Issuance discount.....	—	—	—	—	—
Notes payable.....	27,198	34,095	39,738	39,312	35,691
Capital leases payable.....	19,830	20,712	17,869	19,375	21,282
Total Governmental Activities.....	<u>6,243,075</u>	<u>6,921,880</u>	<u>7,002,735</u>	<u>7,659,347</u>	<u>7,909,073</u>
Business-type activities:					
Revenue bonds..... (1), (2)	1,011,388	1,019,588	1,039,308	1,058,458	1,081,183
GARVEE bonds..... (2)	145,535	145,535	145,535	145,535	145,535
Issuance discount.....	(1,548)	(1,664)	(1,780)	(1,896)	(2,012)
Issuance premium.....	20,753	23,326	25,932	28,661	31,507
Notes payable..... (1), (2)	<u>388,827</u>	<u>390,818</u>	<u>376,869</u>	<u>377,466</u>	<u>286,818</u>
Total Business-type Activities.....	<u>1,564,955</u>	<u>1,577,603</u>	<u>1,585,864</u>	<u>1,608,224</u>	<u>1,543,031</u>
Total Primary Government.....	<u>\$ 7,808,030</u>	<u>\$ 8,499,483</u>	<u>\$ 8,588,599</u>	<u>\$ 9,267,571</u>	<u>\$ 9,452,104</u>
Debt as a Percentage of Personal Income....	1.82%	2.08%	2.19%	2.49%	2.51%
Amount of Debt per Capita.....	\$ 770	\$ 846	\$ 864	941	\$ 970

Notes:

(1) The Town of Butner's Enterprise Funds related to water and sewer was sold in 2007.

(2) North Carolina Turnpike Authority is a major enterprise fund. Prior to 2010, it was a component unit.

2011	2010	2009	2008	2007
\$ 4,846,205	\$ 5,270,660	\$ 5,169,265	\$ 5,533,760	\$ 5,902,330
205,045	215,045	225,045	235,045	245,045
824,860	872,600	919,585	965,880	727,640
1,060,745	580,705	600,000	—	—
373,080	434,825	241,820	287,565	—
441,218	353,147	275,131	287,272	309,261
—	—	—	(126)	(369)
25,038	30,642	27,663	33,187	37,276
22,669	22,815	23,833	24,659	25,740
<u>7,798,860</u>	<u>7,780,439</u>	<u>7,482,342</u>	<u>7,367,242</u>	<u>7,246,923</u>
856,678	622,758	—	—	—
—	—	—	—	—
(2,128)	(2,244)	—	—	—
—	—	—	—	—
<u>269,030</u>	<u>68,800</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>1,123,580</u>	<u>689,314</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>\$ 8,922,440</u>	<u>\$ 8,469,753</u>	<u>\$ 7,482,342</u>	<u>\$ 7,367,242</u>	<u>\$ 7,246,923</u>
2.53%	2.51%	2.23%	2.11%	2.22%
\$ 925	\$ 888	\$ 798	\$ 797	\$ 800

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2007-2016

(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
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)
2007	5,902,330	245,045	727,640	—	—	309,261	(369)

Note: Population data can be found in table 15.

<u>Total</u>	<u>Per Capita</u>
\$ 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	792
7,309,396	790
7,183,907	793

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2016

(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 2005A 1-12-05 5%	Refunding Series 2005B 6-29-05 5%	Public Improvement Series 2007A 3-1-07 5%	Refunding Series 2007B 5-9-07 4%-4.5%
Bonds Authorized and Issued:							
Ch. 132, 1998 session law.....	\$ 18,800	\$ 18,800	\$ 18,800	\$ —	\$ —	\$ —	\$ —
2004 session law.....	4,967,684	4,651,120	—	106,895	470,510	502,745	84,385
Total bonds authorized and issued.....	4,986,484	4,669,920	18,800	106,895	470,510	502,745	84,385
Bonds retired.....	1,481,544	1,363,362	10,195	59,340	391,970	225,000	2,475
Partial defeasances.....	466,275	466,275	—	—	—	252,745	—
Bonds outstanding— June 30, 2016.....	<u>\$ 3,038,665</u>	<u>\$ 2,840,283</u>	<u>\$ 8,605</u>	<u>\$ 47,555</u>	<u>\$ 78,540</u>	<u>\$ 25,000</u>	<u>\$ 81,910</u>
Bond Maturity As Follows:							
2016-17.....	376,970	325,184	510	47,555	71,925	25,000	240
2017-18.....	387,904	342,573	4,915	—	6,615	—	250
2018-19.....	390,351	344,963	3,180	—	—	—	260
2019-20.....	358,970	303,093	—	—	—	—	275
2020-21.....	279,880	279,880	—	—	—	—	285
2021-22.....	261,625	261,625	—	—	—	—	295
2022-23.....	257,025	257,025	—	—	—	—	80,305
2023-24.....	230,880	230,880	—	—	—	—	—
2024-25.....	152,420	152,420	—	—	—	—	—
2025-26.....	93,320	93,320	—	—	—	—	—
2026-27.....	76,620	76,620	—	—	—	—	—
2027-28.....	49,230	49,230	—	—	—	—	—
2028-29.....	32,900	32,900	—	—	—	—	—
2029-30.....	32,745	32,745	—	—	—	—	—
2030-31.....	11,565	11,565	—	—	—	—	—
2031-32.....	11,565	11,565	—	—	—	—	—
2032-33.....	11,565	11,565	—	—	—	—	—
2033-34.....	11,565	11,565	—	—	—	—	—
2034-35.....	11,565	11,565	—	—	—	—	—
2035-36.....	—	—	—	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 3,038,665</u>	<u>\$ 2,840,283</u>	<u>\$ 8,605</u>	<u>\$ 47,555</u>	<u>\$ 78,540</u>	<u>\$ 25,000</u>	<u>\$ 81,910</u>

Source: Compiled by the Department of State Treasurer

Payable from General Fund Revenues

Refunding Series 2009A 10-20-09 5%	Public Improvement Series 2010A 4-14-10 5%	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%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
169,297	487,700	472,595	236,095	271,373	351,970	349,955
169,297	487,700	472,595	236,095	271,373	351,970	349,955
74,249	146,310	230,340	—	35,298	43,475	5,230
—	213,530	—	—	—	—	—
<u>\$ 95,048</u>	<u>\$ 127,860</u>	<u>\$ 242,255</u>	<u>\$ 236,095</u>	<u>\$ 236,075</u>	<u>\$ 308,495</u>	<u>\$ 344,725</u>
43,269	24,385	15,210	—	23,170	14,850	27,735
22,448	24,385	137,430	21,735	455	27,720	27,315
22,503	24,385	89,615	21,725	390	35,960	26,885
6,828	24,385	—	48,745	—	47,585	66,445
—	24,385	—	72,030	450	47,160	65,850
—	5,935	—	71,860	400	46,870	65,560
—	—	—	—	13,595	39,470	64,935
—	—	—	—	143,180	16,225	—
—	—	—	—	54,435	16,290	—
—	—	—	—	—	16,365	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>\$ 95,048</u>	<u>\$ 127,860</u>	<u>\$ 242,255</u>	<u>\$ 236,095</u>	<u>\$ 236,075</u>	<u>\$ 308,495</u>	<u>\$ 344,725</u>

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE (Continued)

June 30, 2016

(Dollars in Thousands)

	<u>Payable from General Fund Revenues</u>			
	Refunding	Refunding	General	Refunding
	Series 2013E	Series 2014A	Obligation	Series 2016A
	3-21-13	4-30-14	Series 2015A	Series 2016A
5%	5%	4-22-15	3-9-16	
3%-5%	3%-5%			
Bonds Authorized and Issued:				
Ch. 132, 1998 session law.....	\$ —	\$ —	\$ —	\$ —
2004 session law.....	299,785	287,095	231,360	329,360
Total bonds authorized and issued.....	299,785	287,095	231,360	329,360
Bonds retired.....	72,850	55,060	11,570	—
Partial defeasances.....	—	—	—	—
Bonds outstanding— June 30, 2016.....	<u>\$ 226,935</u>	<u>\$ 232,035</u>	<u>\$ 219,790</u>	<u>\$ 329,360</u>
Bond Maturity As Follows:				
2016-17.....	16,870	2,630	11,570	265
2017-18.....	35,280	22,345	11,570	110
2018-19.....	86,255	22,225	11,570	10
2019-20.....	71,065	25,535	11,570	660
2020-21.....	17,465	40,165	11,570	520
2021-22.....	—	40,310	11,570	18,825
2022-23.....	—	22,540	11,570	24,610
2023-24.....	—	35,450	11,570	24,455
2024-25.....	—	20,835	11,570	49,290
2025-26.....	—	—	11,570	65,385
2026-27.....	—	—	11,570	65,050
2027-28.....	—	—	11,565	37,665
2028-29.....	—	—	11,565	21,335
2029-30.....	—	—	11,565	21,180
2030-31.....	—	—	11,565	—
2031-32.....	—	—	11,565	—
2032-33.....	—	—	11,565	—
2033-34.....	—	—	11,565	—
2034-35.....	—	—	11,565	—
2035-36.....	—	—	—	—
Total Bonds Outstanding.....	<u>\$ 226,935</u>	<u>\$ 232,035</u>	<u>\$ 219,790</u>	<u>\$ 329,360</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.....	118,182	88,865	—	29,317
Partial defeasances.....	—	—	—	—
Bonds outstanding— June 30, 2016.....	<u>\$ 198,382</u>	<u>\$ 113,757</u>	<u>\$ 66,055</u>	<u>\$ 18,570</u>
Bond Maturity As Follows:				
2016-17.....	51,786	51,786	—	—
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>\$ 198,382</u>	<u>\$ 113,757</u>	<u>\$ 66,055</u>	<u>\$ 18,570</u>

SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2016

(Dollars in Thousands)

	Total Special Indebtedness Debt	<i>Certificates of Participation</i>			
		<i>Total Certificates of Participation</i>	<i>Capital Improvements Series 2006A 10-18-06 5%</i>	<i>Capital Improvements Series 2007A 10-3-07 4% - 5%</i>	<i>Repair and Renovation Projects Series 2007B 10-24-07 4% - 5%</i>
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.....	536,970	173,815	90,000	53,815	30,000
Partial defeasances.....	432,080	176,365	80,000	96,365	—
Bonds outstanding— June 30, 2016.....	<u>\$ 2,121,890</u>	<u>\$ 124,820</u>	<u>\$ 30,000</u>	<u>\$ 49,820</u>	<u>\$ 45,000</u>
Bond Maturity As Follows:					
2016-17.....	131,115	22,415	10,000	8,665	3,750
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>\$ 2,121,890</u>	<u>\$ 124,820</u>	<u>\$ 30,000</u>	<u>\$ 49,820</u>	<u>\$ 45,000</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
363,155	49,245	102,580	85,395	37,640	53,245	24,790	—	10,260
255,715	98,785	156,930	—	—	—	—	—	—
<u>\$ 1,997,070</u>	<u>\$ 51,970</u>	<u>\$ 140,490</u>	<u>\$ 414,605</u>	<u>\$ 329,710</u>	<u>\$ 346,755</u>	<u>\$ 225,210</u>	<u>\$ 199,570</u>	<u>\$ 288,760</u>
108,700	8,510	17,060	20,000	33,735	15,015	9,105	420	4,855
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>\$ 1,997,070</u>	<u>\$ 51,970</u>	<u>\$ 140,490</u>	<u>\$ 414,605</u>	<u>\$ 329,710</u>	<u>\$ 346,755</u>	<u>\$ 225,210</u>	<u>\$ 199,570</u>	<u>\$ 288,760</u>

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues.....	\$ 1,031,454	\$ 1,064,575	\$ 1,311,264	\$ 1,137,807	\$ 1,139,303
Net available revenue.....	<u>\$ 1,031,454</u>	<u>\$ 1,064,575</u>	<u>\$ 1,311,264</u>	<u>\$ 1,137,807</u>	<u>\$ 1,139,303</u>
Debt service					
Principal.....	\$ 68,410	\$ 62,040	\$ 59,545	\$ 57,265	\$ 40,535
Interest.....	25,816	18,574	21,006	23,288	18,298
Coverage ratio.....	10.95	13.21	16.28	14.12	19.37
North Carolina Turnpike Authority					
Revenue Bonds (including GARVEE bonds)					
Pledged Revenue-					
Toll revenues..... [2] \$	33,999	\$ 26,265	\$ 18,980	\$ 10,416	\$ 398
Fees, licenses and fines..... [3]	4,460	3,922	5,203	2,557	97
Federal transportation revenues.....	14,807	9,733	11,677	12,365	12,400
Federal interest subsidy on debt.....	11,387	11,375	11,338	11,686	12,218
Interest on investments.....	2,143	1,768	1,272	2,372	2,911
Net available revenue.....	<u>\$ 66,796</u>	<u>\$ 53,063</u>	<u>\$ 48,470</u>	<u>\$ 39,396</u>	<u>\$ 28,024</u>
Debt service					
Principal.....	\$ 8,200	\$ 19,720	\$ 19,150	\$ 22,725	\$ —
Interest.....	61,328	61,912	62,585	63,076	49,753
Coverage ratio..... [1]	0.96	0.65	0.59	0.46	0.56

[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.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,296,856	\$ 763,579	\$ 1,119,259	\$ 904,400	\$ —
<u>\$ 1,296,856</u>	<u>\$ 763,579</u>	<u>\$ 1,119,259</u>	<u>\$ 904,400</u>	<u>\$ —</u>
\$ 61,745	\$ 49,515	\$ 45,745	\$ —	\$ —
20,082	17,652	13,585	5,056	—
15.85	11.37	18.87	178.87	—
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
—	—	—	—	—
10,843	7,298	—	—	—
5,235	4,121	—	—	—
<u>\$ 16,078</u>	<u>\$ 11,419</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$ —	\$ —	\$ —	\$ —	\$ —
37,869	15,052	—	—	—
0.42	0.76	—	—	—

Continued

PLEDGED REVENUE COVERAGE (Continued)

For the Fiscal Years 2007-2016

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services.....	\$ 199,685	\$ 231,306	\$ 239,267	\$ 237,607	\$ 279,287
Student tuition and fees.....	4,552	5,214	6,673	6,624	6,903
Patient Services.....	934,687	842,845	737,984	666,238	635,434
Contracts and grants.....	—	—	—	—	—
State appropriations.....	—	—	—	—	—
Fees, licenses and fines.....	—	—	—	—	270
Rental lease earnings.....	3,098	3,998	3,866	73	258
Investment income.....	326	820	522	533	612
Federal interest subsidy on debt.....	371	362	368	400	436
Other operating revenues.....	32,859	—	3	—	1,072
Net incr (decr) in fair value of investments.....	—	—	571	362	74
Non-operating revenues.....	—	18	9,619	92	66
Less: Operating expenses.....	(1,038,199)	(1,035,252)	(915,827)	(797,205)	(744,162)
Net available revenue.....	<u>\$ 137,379</u>	<u>\$ 49,311</u>	<u>\$ 83,046</u>	<u>\$ 114,724</u>	<u>\$ 180,250</u>
Debt service					
Principal.....	\$ 17,025	\$ 16,720	\$ 16,645	\$ 17,110	\$ 21,035
Interest.....	12,084	8,298	8,668	9,137	13,226
Coverage ratio.....	4.72	1.97	3.28	4.37	5.26
Special Indebtedness					
Pledged Revenue-					
Sales and services.....	\$ 8,144	\$ 1,007	\$ 3,695	\$ 6,283	\$ 5,998
Student tuition and fees.....	—	—	—	1,350	1,307
Rental lease earnings.....	849	3,129	3,035	—	62
Investment income.....	16	(1)	9	—	4
Other operating revenues.....	240	—	—	—	17
Less: Operating expenses.....	(2,375)	(2,021)	(2,560)	(2,127)	(2,144)
Net available revenue.....	<u>\$ 6,874</u>	<u>\$ 2,114</u>	<u>\$ 4,179</u>	<u>\$ 5,506</u>	<u>\$ 5,244</u>
Debt service					
Principal.....	\$ 2,535	\$ 730	\$ 1,110	\$ 1,788	\$ 1,728
Interest.....	3,591	1,107	1,824	1,923	1,997
Coverage ratio.....	1.12	1.15	1.42	1.48	1.41

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 321,229	\$ 319,513	\$ 412,186	\$ 658,628	\$ 614,244
13,859	13,503	15,405	29,221	37,088
592,061	561,392	502,062	1,447,635	1,367,363
—	—	—	123,469	120,657
3	—	—	53,010	45,674
565	89	1,643	10,506	19,814
6,787	5,809	5,989	7,690	29,587
944	1,405	5,190	(31,687)	99,337
1,559	—	—	—	—
563	538	708	13,407	20,318
—	—	—	—	—
—	—	—	53,231	50,929
(773,796)	(749,788)	(805,531)	(2,047,904)	(1,919,133)
<u>\$ 163,774</u>	<u>\$ 152,461</u>	<u>\$ 137,652</u>	<u>\$ 317,206</u>	<u>\$ 485,878</u>
\$ 10,305	\$ 20,754	\$ 19,375	\$ 51,272	\$ 51,995
12,245	9,472	15,793	69,315	66,764
7.26	5.04	3.91	2.63	4.09
\$ 5,896	\$ 5,688	\$ 5,969	\$ 2,446	\$ —
1,294	1,286	1,329	1,147	1,114
31	26	77	118	—
2	3	8	45	44
33	32	96	—	—
(2,026)	(2,244)	(2,076)	(895)	(60)
<u>\$ 5,230</u>	<u>\$ 4,791</u>	<u>\$ 5,403</u>	<u>\$ 2,861</u>	<u>\$ 1,098</u>
\$ 1,630	\$ 1,555	\$ 1,485	\$ 1,075	\$ 905
2,052	2,142	1,947	1,209	573
1.42	1.30	1.57	1.25	0.74

SCHEDULE OF DEMOGRAPHIC DATA

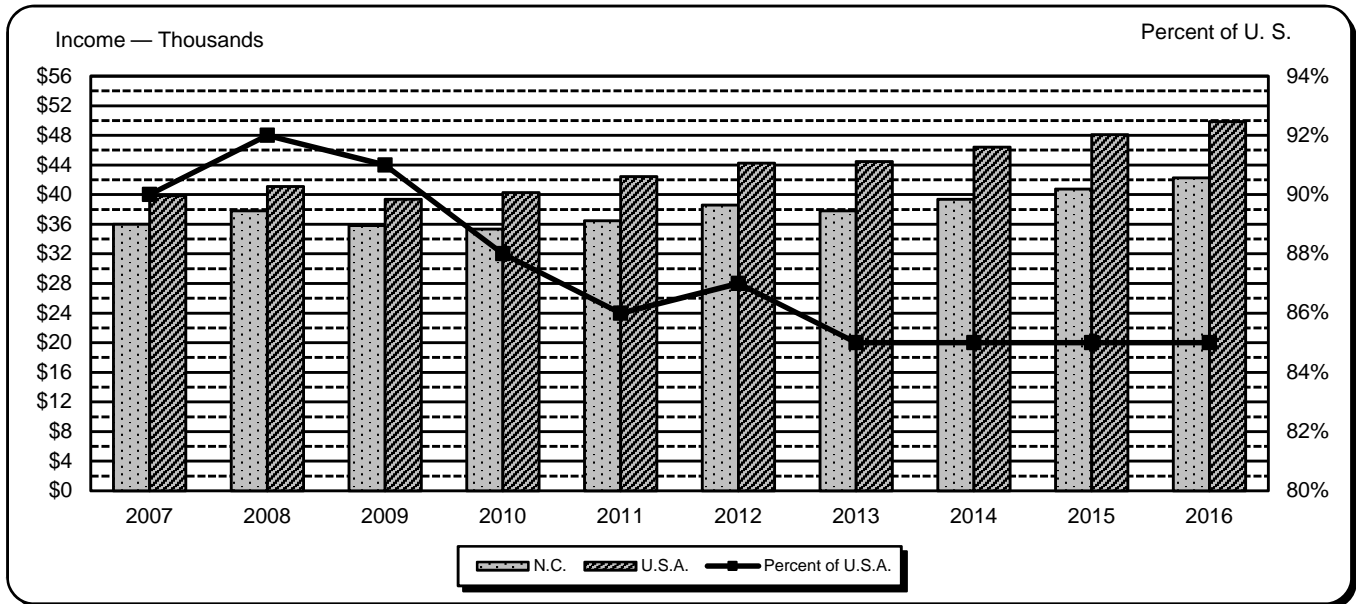
For the Years 2007-2016

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
2016	323,958,029	0.79%	10,146,243	1.03%	\$49,872	\$ 42,250	84.72%	\$16,156,435	\$428,679
2015	321,418,820	0.79%	10,042,802	1.03%	48,112	40,759	84.72%	15,464,102	409,335
2014	318,907,401	0.78%	9,940,837	0.96%	46,414	39,365	84.81%	14,801,768	391,321
2013	316,427,395	0.74%	9,845,832	1.01%	44,462	37,798	85.01%	14,068,995	372,153
2012	314,102,623	0.76%	9,747,021	0.99%	44,267	38,596	87.19%	13,904,381	376,196
2011	311,718,857	0.96%	9,651,025	1.21%	42,453	36,474	85.92%	13,233,401	352,011
2010	308,745,538	0.57%	9,535,483	1.65%	40,277	35,331	87.72%	12,435,344	336,898
2009	307,006,550	0.86%	9,380,884	1.45%	39,376	35,840	91.02%	12,088,690	336,211
2008	304,374,846	0.93%	9,247,134	2.02%	41,082	37,810	92.04%	12,504,327	349,634
2007	301,579,895	1.00%	9,064,074	2.22%	39,821	36,013	90.44%	12,009,213	326,424

[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 - 2015; and year 2016 is an Office of the State Controller estimate.

[2] - Bureau of Economic Analysis estimate for years 2007 - 2015. Since the 2016 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 2016 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2016 Per Capita Income for North Carolina".

**Per Capita Income
North Carolina Compared to United States
2007 to 2016**



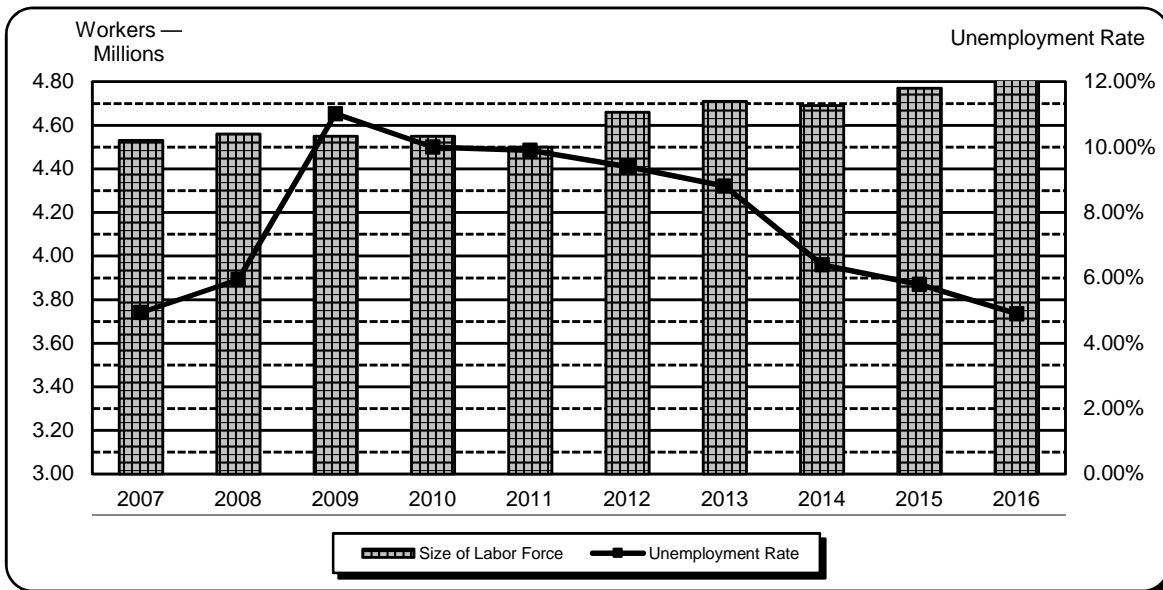
Sources: [3] Population
[4] Per Capita Income
[5] Personal Income

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	
	Total	Employed	Unemployed	Unemployed Percentage Rate	[7] Motor Vehicles Registered	[8] Residential Construction Authorized
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
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140

**Civilian Labor Force Trends
With Unemployment Percentages
2007 to 2016**



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 2007 & 2016

Table 16

<u>Employer</u>	<u>2016</u>			<u>2007</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total State Employment</u>
State of North Carolina.....	185,000-189,999	1	4.06%	175,000-179,999	1	4.12%
Federal Government.....	70,000-74,999	2	1.57%	60,000-64,999	2	1.45%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.14%	50,000-54,999	3	1.22%
Food Lion LLC.....	30,000-34,999	4	0.70%	25,000-29,999	5	0.64%
Duke University.....	30,000-34,999	5	0.70%	25,000-29,999	4	0.64%
Wells Fargo Bank NA.....	25,000-29,999	6	0.60%	—		—
Lowe's Home Centers, Inc.....	20,000-24,999	7	0.49%	15,000-19,999	10	0.41%
Bank of America NA.....	15,000-19,999	8	0.38%	—		—
Harris Teeter LLC.....	15,000-19,999	9	0.38%	—		—
Branch Banking & Trust Company.....	10,000-14,999	10	0.27%	—		—
Charlotte Board of Ed.....	—		—	20,000-24,999	6	0.52%
Wachovia Bank NA.....	—		—	20,000-24,999	7	0.52%
Wake Public Schools.....	—		—	15,000-19,999	8	0.41%
Charlotte Hospital Authority.....	—		—	15,000-19,999	9	0.41%
Total.....	445,000-504,990		10.29%	420,000-469,990		10.34%

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 2007-2016

Functions	2016	2015	2014	2013	2012
General government (3).....	4,857	5,270	5,357	5,450	5,425
Primary and secondary education.....	154,079	153,165	157,205	165,167	162,124
Higher education:					
Universities.....	62,194	62,152	61,720	60,665	61,317
Community colleges.....	18,129	18,471	18,588	19,518	19,702
Health and human services (1).....	17,552	17,620	17,801	17,786	17,958
Economic development.....	3,365	2,893	3,003	2,722	2,415
Environment and natural resources (2) (3).....	4,148	3,471	3,566	3,549	3,561
Public safety, corrections and regulation (1).....	33,966	33,558	33,635	34,668	34,650
Transportation.....	12,591	12,758	13,309	13,170	13,175
Agriculture (2).....	2,066	2,080	2,081	2,110	2,064
Totals.....	312,947	311,438	316,265	324,805	322,391

- (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 2016 are projected from prior year data.

Table 17

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
5,835	5,941	5,898	5,774	5,656
157,380	154,107	163,322	163,113	160,086
62,716	61,505	61,063	58,856	56,751
19,958	18,948	17,263	16,708	16,148
20,382	20,919	22,094	21,276	21,128
2,767	2,524	2,474	2,558	2,623
4,582	4,607	4,740	4,709	4,653
34,045	33,140	33,895	33,014	32,360
13,550	13,902	14,767	14,752	14,664
1,349	1,366	1,393	1,385	1,405
<u>322,564</u>	<u>316,959</u>	<u>326,909</u>	<u>322,145</u>	<u>315,474</u>

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2007-2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Government					
Department of Revenue					
Number of tax returns filed electronically.....	5,936,872	5,678,572	5,427,355	5,139,849	4,801,446
Number of tax returns processed.....	11,823,470	11,154,706	10,994,901	10,772,255	10,888,330
Number of individual refunds direct deposited.....	1,453,984	1,412,624	1,934,344	1,821,767	1,702,620
Number of individual refunds processed.....	2,308,133	2,311,764	3,127,317	3,123,326	3,083,401
Number of pieces of incoming mail.....	5,219,418	5,090,535	5,129,271	5,514,005	5,827,530
Number of pieces of outgoing mail.....	9,083,964	9,219,001	8,417,904	8,172,888	8,525,983
Department of Administration					
Construction projects administered.....	8	8	7	7	6
Construction value excluding design fee (thousands).....	\$ 72,824	\$ 63,552	\$ 63,460	\$ 62,729	\$ 54,378
USS North Carolina Battleship Commission					
Visitation to USS North Carolina Battleship.....	212,369	202,447	210,969	216,438	193,150
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment.....	1,538,310	1,520,985	1,510,664	1,493,474	1,481,671
Total high school graduates.....	99,183	96,477	95,580	94,869	92,031
Graduate intention to pursue further education.....	83.8%	83.8%	84.5%	85%	100%
Higher Education					
Community Colleges					
Number of students (annualized FTE).....	220,312	225,135	229,924	238,092	240,338
Number of certificates and degrees awarded.....	48,591	49,592	45,392	40,224	56,140
Universities					
Number of regular term students (FTE).....	205,119	202,447	200,716	201,251	200,386
Number of certificates and degrees awarded.....	51,799	51,850	51,086	49,791	48,045
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients.....	2,198,496	2,054,975	2,073,166	1,781,096	1,872,279
Food stamp recipients.....	1,609,669	1,649,754	1,620,115	1,670,428	2,113,648
Clients served by mental health facilities.....	3,146	3,301	3,593	3,463	4,102
Clients served by developmental disabilities facilities.....	1,161	1,199	1,212	1,289	1,283
Clients served by substance abuse facilities.....	3,512	3,698	4,047	4,181	3,901
Clients served by neuro-meds facilities.....	683	721	744	567	830
Children served through subsidized child care.....	112,545	120,471	121,112	121,303	129,752
Participation in Special Supplemental Nutrition Program.....	244,652	248,575	257,582	265,616	268,872
Clients served through Work First.....	31,015	33,598	37,256	45,201	102,367
NC Health Choice annual enrollment.....	81,897	78,407	98,537	192,044	154,927

Table 18

2011	2010	2009	2008	2007
4,078,310	4,089,267	3,502,141	3,246,333	2,799,979
10,596,928	10,898,544	11,336,722	11,258,489	10,386,112
1,556,340	1,376,997	1,294,894	1,119,403	925,321
3,026,035	3,021,379	3,081,986	3,005,539	2,832,152
6,012,977	7,219,907	6,897,757	8,636,219	8,092,899
8,972,129	8,201,770	8,443,945	9,194,775	7,844,614
6	16	135	117	61
\$ 35,403	\$ 79,906	\$ 110,674	\$ 52,660	\$ 60,028
208,994	206,965	191,206	198,378	190,048
1,476,348	1,465,562	1,466,803	1,462,374	1,435,275
89,027	89,968	83,618	80,606	88,691
86.12%	85.19%	85.09%	84.86%	84.63%
249,934	246,656	215,915	200,000	193,410
39,255	33,922	31,203	28,173	27,117
201,147	199,717	193,219	187,791	181,886
45,821	43,459	41,924	39,592	38,260
1,670,912	1,721,439	1,686,515	1,721,488	1,667,354
1,567,572	1,294,732	1,077,914	924,265	874,426
4,423	6,199	8,465	11,729	14,897
1,334	1,323	1,351	1,376	1,390
4,200	4,103	3,922	4,052	3,463
827	829	858	854	874
136,564	151,363	150,813	159,457	167,568
272,806	271,980	273,845	254,120	239,441
47,166	56,186	54,911	53,082	59,340
208,563	198,613	194,611	181,685	171,580

Continued

OPERATING INDICATORS BY FUNCTION (Continued)

For the Fiscal Years 2007-2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Economic Development</u>					
Economic Development Partnership of North Carolina					
Jobs generated company recruitment/expansion.....	14,806	14,812	14,094	16,939	15,634
Capital investment (thousands).....	\$ 4,245,981	\$ 2,388,677	\$ 2,787,447	\$ 2,139,346	\$ 3,600,000
Department of Commerce					
Total employed.....	4,614,694	4,493,898	4,389,480	4,292,251	4,216,014
Percentage of unemployment.....	4.9%	5.8%	6.4%	8.8%	9.4%
<u>Environment and Natural Resources</u>					
Department of Environmental Quality					
Public drinking water systems in compliance.....	97%	96%	96%	96%	95%
Department of Natural and Cultural Resources					
Visitation to state parks.....	18,053,654	16,293,380	14,751,051	13,918,725	14,247,295
Visitation to historical sites and museums.....	5,480,871	4,627,997	4,161,452	4,243,249	3,880,172
Visitation to state aquariums (4).....	1,233,070	1,268,467	1,123,756	1,193,252	1,104,200
Visitation to N.C. Zoo.....	755,567	721,432	728,531	732,310	738,072
Wildlife Resources Commission					
Hunting licenses sold.....	145,029	145,729	126,524	117,473	115,420
Fishing licenses sold (inland and coastal).....	789,049	795,878	823,712	772,197	791,044
Combination hunting/fishing licenses sold.....	161,847	191,244	204,179	199,280	198,689
Vessels registered.....	179,485	146,305	144,316	149,311	143,535
<u>Public Safety, Corrections and Regulation (3)</u>					
Department of Public Safety					
Incarcerated adult offenders.....	37,440	37,793	37,529	37,619	38,385
Supervised adult offenders.....	100,881	102,790	103,399	105,763	103,163
Juvenile offenders.....	7,170	8,037	8,141	8,625	9,090
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).....	91,525	95,811	96,880	110,730	104,666
Rejection rate.....	13%	16%	16.36%	12.84%	9.2%
Retail scales tested (2).....	33,270	26,091	30,220	27,995	28,074
Rejection rate.....	9.4%	8.8%	8.96%	9.65%	8.14%

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

2011	2010	2009	2008	2007
22,409	18,326	15,077	11,636	19,259
\$ 4,151,293	\$ 2,653,795	\$ 3,433,657	\$ 3,600,000	\$ 3,336,864
4,055,793	4,089,199	4,052,943	4,288,621	4,309,833
9.9%	10%	11.02%	5.95%	4.94%
96%	96%	95%	95%	95%
14,660,154	14,023,959	13,378,421	12,871,661	13,292,706
3,641,960	2,981,952	2,843,103	3,354,987	3,415,469
1,083,967	1,125,096	991,430	—	—
741,119	749,627	729,615	729,500	746,650
119,347	114,677	110,198	106,337	106,691
797,897	787,113	794,132	778,014	625,672
198,102	198,045	204,327	210,887	219,358
147,964	151,348	143,071	140,573	142,808
41,030	40,102	40,824	39,112	38,218
109,326	111,743	114,367	116,927	117,164
9,332	9,867	10,701	10,592	10,844
100%	100%	97.4%	98.5%	98.5%
100%	100%	100%	98.28%	98.7%
99,273	121,897	99,461	98,736	100,928
9.93%	10.77%	10.29%	12.73%	13.8%
28,925	33,331	33,329	24,640	20,051
7.63%	11.1%	11.11%	10.51%	10.7%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2007-2016

	2016	2015	2014	2013	2012
Primary Government					
General Government					
Department of Administration					
Buildings.....	87	107	105	127	120
Parking lots.....	25	25	25	25	25
Parking spaces.....	8,423	8,526	8,528	8,597	7,877
Motor Fleet vehicles	7,465	7,602	8,136	7,620	7,538
Health and Human Services					
Mental Health Institutions.....	13	13	13	12	11
Number of certified beds.....	4,087	4,111	4,245	4,402	4,314
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.....	160,891	157,856	155,556	153,959	152,578
Number of state recreation areas.....	4	4	4	4	4
Acres of state recreation areas.....	13,256	13,256	13,256	12,240	12,240
Number of state natural areas.....	24	20	20	20	20
Acres of state natural areas.....	26,000	24,662	23,896	22,519	22,254
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.....	1,341	1,767	1,816	1,622	1,593
Vehicles (6).....	863	—	—	—	—
Boats/trailers (6).....	316	—	—	—	—
Scientific equipment (6).....	49	—	—	—	—
Department of Environmental Quality					
Vehicles (5),(7).....	178	889	883	896	856
Boats/trailers (5),(7).....	443	519	508	489	468
Aircraft (5).....	3	3	3	3	3
Scientific equipment (7).....	743	749	774	689	663
Wildlife Resources Commission					
Number of game lands.....	66	64	64	57	62
Acres of game lands.....	488,589	481,665	496,134	492,440	480,257
Vehicles	563	463	463	458	422
Boats/trailers	870	796	779	793	825
Aircraft	3	3	3	4	4
Public Safety, Corrections and Regulation (4)					
Department of Public Safety					
Close security prisons.....	15	14	13	13	14
Medium security prisons.....	17	18	22	23	23
Minimum security prisons.....	26	26	24	29	29
Youth facilities.....	10	10	10	13	15
Adult Correction Vehicles:					
Passenger/cargo vans.....	129	127	122	120	152
Inmate transfer vans/buses.....	497	490	486	492	506
Inmate work crew vans/buses.....	208	218	223	222	239
Pickup trucks.....	361	376	348	338	381
Roving patrol pickups.....	100	95	97	98	91
One ton maintenance trucks.....	104	106	106	107	123
Specialty/other trucks (1).....	114	108	108	113	105

Table 19

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
117	129	129	129	135
25	76	23	49	49
8,314	8,813	7,408	8,477	8,215
8,145	8,341	8,784	9,090	9,506
11	12	13	12	12
4,331	4,688	4,346	4,932	4,961
35	35	35	34	33
150,807	148,897	144,806	140,254	119,664
4	4	4	4	4
12,240	12,240	12,240	12,240	12,240
20	19	19	17	18
22,145	20,833	20,910	20,281	34,288
7	7	7	7	7
29,135	29,135	29,135	29,135	29,135
1,355	1,569	1,565	1,723	1,786
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
1,889	1,764	1,745	1,744	1,708
633	606	585	597	573
26	32	32	31	30
789	762	737	780	748
62	61	59	58	54
480,257	475,212	468,570	471,248	431,449
370	307	291	302	300
814	749	753	710	699
4	4	4	4	4
14	14	14	13	13
23	23	26	26	26
33	33	39	39	39
16	17	17	14	14
106	108	118	131	172
493	608	511	541	487
243	276	291	306	274
349	353	351	361	353
92	103	89	100	80
95	115	108	104	106
129	119	114	129	113

Continued

CAPITAL ASSET STATISTICS BY FUNCTION (Continued)

For the Fiscal Years 2007-2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Department of Public Safety					
Enterprise Vehicles:					
Passenger/cargo vans.....	16	16	16	14	14
Inmate workcrew buses.....	19	18	19	15	20
Pickup trucks.....	53	52	52	44	49
One ton maintenance trucks.....	19	21	21	24	24
Specialty/other trucks.....	114	117	106	126	110
Alcohol Law Enforcement Vehicles					
Cars/SUV's.....	178	225	162	172	202
State Highway Patrol Vehicles					
Cars.....	1,738	1,805	1,925	1,766	2,214
Trucks/vans.....	418	525	506	486	124
Motorcycles.....	41	46	40	28	26
State Bureau of Investigation Vehicles					
Cars/SUV's.....	257	308	349	333	356
Trucks/vans.....	74	78	74	78	75
State Highway Patrol Aircraft					
Helicopters.....	6	6	6	9	9
Transportation					
Department of Transportation					
Pavement in lane-miles:					
Primary subsystem (2).....	—	15,062	15,062	15,064	15,052
Secondary subsystem (2).....	—	64,522	64,522	64,514	64,440
Bridges:					
Number of bridges (2).....	—	13,519	13,552	13,557	13,583
Number of culverts (2).....	—	4,520	4,496	4,547	4,710
Vehicles.....	8,720	9,191	9,463	9,484	8,997
Heavy equipment.....	14,799	15,237	14,808	14,221	13,827
Component Units					
Higher Education					
Community Colleges					
Buildings.....	1,234	1,199	1,182	1,178	1,174
Universities					
Academic/administrative buildings.....	1,044	1,070	1,010	1,003	1,011
Dormitories/auxiliary buildings.....	744	721	684	692	680
Medical (3).....	36	49	39	36	34
University System Hospitals					
Administration.....	16	18	18	18	11
Clinical.....	52	51	52	52	14
Facility services.....	10	10	10	9	6
Hospital.....	9	8	7	8	6

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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
17	18	22	23	22
23	25	26	28	24
49	54	59	52	51
21	22	22	20	18
103	101	103	104	98
174	156	156	150	151
2,422	2,692	2,692	2,722	2,530
126	128	128	111	115
25	19	19	16	16
344	339	279	247	176
75	72	64	57	46
7	8	8	8	8
15,002	14,952	14,919	14,885	14,871
64,413	64,378	64,267	64,553	64,390
13,531	13,251	13,222	13,152	13,053
4,730	5,056	5,007	5,004	4,979
8,337	8,422	9,349	8,850	8,850
12,703	12,647	13,216	12,116	8,920
1,161	1,134	1,097	1,046	1,024
993	962	933	911	971
654	640	560	523	613
31	37	39	58	58
4	4	4	4	4
12	11	12	11	11
6	6	6	6	6
6	6	5	4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2007-2016

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, 2007-2016

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.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1) Required contribution and investment revenue:										
Earned.....	\$ 14,509	\$ 18,430	\$ 18,054	\$ 20,337	\$ 16,257	\$ 20,699	\$ 13,978	\$ 9,814	\$ 14,732	\$ 19,119
Ceded.....	3,077	2,371	3,642	3,852	3,576	3,717	4,502	4,313	3,545	3,665
Net earned.....	11,432	16,059	14,412	16,485	12,681	16,982	9,476	5,501	11,187	15,454
2) Unallocated expenses	3,672	664	680	659	666	701	714	695	635	600
3) Estimated claims and expenses, end of policy year:										
Incurred.....	14,915	1,718	2,253	1,783	20,340	19,304	6,386	8,585	10,524	943
Ceded.....	(7,450)	—	—	—	(6,761)	—	—	—	—	—
Net incurred.....	7,465	1,718	2,253	1,783	13,579	19,304	6,386	8,585	10,524	943
4) Paid (cumulative) as of:										
End of policy year.....	15,174	1,426	1,746	1,502	5,505	6,992	1,975	1,845	1,448	872
One year later.....	19,270	2,016	2,149	2,082	13,090	9,389	3,465	4,053	5,389	
Two years later.....	19,270	2,016	2,149	2,082	13,090	9,389	3,465	4,053		
Three years later.....	19,270	2,016	2,149	2,082	13,090	9,389	3,465			
Four years later.....	19,270	2,016	2,149	2,082	13,090	9,389				
Five years later.....	19,270	2,016	2,149	2,082	13,090					
Six years later.....	19,270	2,016	2,149	2,082						
Seven years later.....	19,270	2,016	2,149							
Eight years later.....	19,270	2,016								
Nine years later.....	19,270									
5) Reestimated ceded claims and expenses.....	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year.....	7,465	1,718	2,253	1,783	13,579	19,304	6,386	8,585	10,524	943
One year later.....	3,898	1,653	2,276	1,846	20,481	13,159	4,985	5,189	10,669	
Two years later.....	3,898	1,979	2,269	1,846	20,481	13,159	4,985	5,189		
Three years later.....	3,898	1,979	2,269	1,846	20,481	13,159	4,985			
Four years later.....	3,898	1,979	2,269	1,846	20,481	13,159				
Five years later.....	3,898	1,979	2,269	1,846	20,481					
Six years later.....	3,898	1,979	2,269	1,846						
Seven years later.....	3,898	1,979	2,269							
Eight years later.....	3,898	1,979								
Nine years later.....	3,898									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year.....	(3,567)	261	16	63	6,902	(6,145)	(1,401)	(3,396)	145	—

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